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Melvin Burke The Stabilization Programs Of The International Monetary Fund: The Case Of Bolivia

The ubiquitous, much studied but little understood, stabilization programs of the International Monetary Fund (IMF) exist today throughout the so-called Third World. The IMF's stated objective is to facilitate the expansion of international trade as a step toward the promotion and maintenance of high levels of employment and real income and the development of the productive resources of all members.[1] It employs vast financial resources and political power to promote the free flow of international trade and finance.

The IMF never encourages its members to make major institutional or structural changes such as land redistribution or to nationalize foreign-owned industry. Rather, it directs them to their traditional foreign sources of investment funds and markets, which it still considers vehicles of growth. Eventually, but not inevitably, in most of the Third-World countries, increasing foreign exchange expenditures for imports, for payment of investment and amortization, and for repatriation of direct investment profits combine to exceed foreign exchange inflows from slackened exports and investments from abroad. When this occurs, the resulting balance of payments deficits can no longer be financed internally.[2] At this point, the IMF intercedes.

Its program for stabilization is always the same: 1. eliminate controls on trade, finance, and private enterprise; 2. reduce the role of the public sector in the economy; 3. restrict credit and spending, above all public; and 4. eventually devalue and redistribute income from laborers to property owners. Typically, these are the conditions that a member nation must accept if it desires emergency loans from the IMF and other international organizations.

> The International Monetary Fund is the chief exponent of traditional monetary policy in Latin America and elsewhere, and a borrowing country must conform to certain IMF guidelines to be eligible for loans not only from the IMF but often from other international and United States government agencies.[3]

The acceptance of this remedial package invariably results in an increased foreign dependency; a restricted, although perhaps slightly larger, domestic market; a more unequal distribution of income; increased poverty and unemployment; and a state of perpetual economic crisis. The IMF stabilization programs provide the basic instruments that perpetuate economic world order without equity, efficiency, or development. The IMF supports the fundamental permanence that exists in the peripheral economies of the world, in their dual economies (uneven development), in their monoproduction of raw materials for export, and above all in their widespread poverty and excessive dependency.

In Bolivia the IMF has had a long-standing stabilization program. Prior to 1952 all "modern" economic activity revolved around the mines. On April 11, 1952, after three days of street fighting in the capital city of La Paz, the *Movimiento Nacionalista Revolucionario* (MNR), a new reform-oriented political party in coalition with organized labor, seized power. The MNR government immediately decreed universal suffrage, instituted numerous labor and social reforms, redistributed the highlands to the Indian laborers, and nationalized the principal tin mines. The Bolivian revolutionaries desperately wanted to break the vicious circle of the historic underdevelopment originating from foreign-dominated mining. Unfortunately, they did not succeed. In no small measure their failure can be traced directly to the IMF, which first appeared in Bolivia shortly after the social revolution of 1952. The hyperinflation, multiple exchange rates, exchange control, and widespread black market activity that followed in the footsteps of the revolution caused havoc throughout Bolivia. By 1955 consumer prices had risen by over 1,000%, and the black (free) market rate of the *Boliviano* per United States dollar had depreciated by more than 2,000%.[4] In addition, the revolutionaries and militant labor unions were apparently redistributing income in their favor.

The IMF admittedly wanted to return Bolivia to "a free market economy,"[5] but it had to impose this obviously counterrevolutionary program on a people who had just thrown off the shackles of foreign imperialism in mining and domestic feudalism in agriculture. Initially therefore, the IMF astutely refrained from advocating denationalization or a return of the land to the former owners. Taking advantage of the early postrevolutionary chaos, the IMF, along with the United States Treasury and the International Cooperation Administration, offered the Bolivian government a $25 million "tied" loan ostensibly to check inflation and stabilize prices, including the foreign exchange rate. In return, the Bolivian government agreed to reduce its economic subsidies and controls; its

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borrowing, especially from the central bank; its aggregate spending, including investment; and its budget deficits.

Bolivia achieved price stability as early as 1958. It fixed the exchange rate and adopted a policy of free trade and international finance. In 1959 Bolivia nevertheless entered into yet another agreement with the IMF in order to continue receiving international and bilateral financial assistance. On the surface it appeared that the IMF stabilization programs failed. But, paradoxically, budget deficits, balance of payments' problems, a rising foreign debt, and devaluation indicated not failure but a kind of success. Among other things, this continuing need for public external financial assistance assured the IMF a permanent and prominant place in the economic affairs of Bolivia until such time that its task is accomplished.

In all, Bolivia entered into eleven stand-by agreements[6] with the IMF during the years 1959-1969 and, after a three year hiatus, another one in 1973. Bolivia agreed to pursue an extraordinarily tight monetary and fiscal policy in return for the loans approximating $20 million per agreement. More specifically, the government agreed to limit borrowing from the central bank and the drawdown of its counterpart accounts[7] and to place a global ceiling on total central bank credit. (See Table 1.)

The official goals of these later stand-by agreements were to improve Bolivia's balance of payments and to maintain "reasonable" price stability.

Table 1: Domestic Credit Limitations Of The IMF-Bolivia Stand-By Agreements ($b millions)[a]

Subject to Ceilings	1965	1966	1967	1968	1969	1973[b]
Central Bank Global Credit Expansion	122	161	109	193.6	108.2	136
Governmental Borrowing from Central Bank	116	110	60	125.6	85.8	–90
Drawndown on Counterpart Accounts	6	40	40	59.4	18.4	50
Domestic Credit to Public Corporations	—	—	—	47.9	21.3	10
Domestic Credit to Private Sector	—	11	6	–39.3	–17.3	130

aThese figures are only approximate. In addition, the time periods of the agreements vary. The 1968 agreement lasted, for example, 13½ months.

bBolivian Peso devalued in October of 1972: $U.S. 1 = $b.20. All prior years $U.S. 1 equals $b.12. The new Peso Boliviano was established during the earlier stabilization program in 1962 to substitute for the devalued Boliviano at a rate of 1 peso to 1000 old Bolivianos.

Sources: Bolivia, Departamento Monetario del Banco Central (La Paz), as provided to the USAID Economics Section by telephone; and "International Monetary Fund Staff Reports on Bolivia for 1968 and 1972."

The apparent IMF interpretation of deficits, inflation, and development is as follows: 1. Balance of payments deficits are caused by inflation and excessive government participation in the directly productive sector of the economy; 2. a reduction of governmental controls, borrowing, and spending will reduce inflation; 3. less inflation and less government are the means to balanced budgets and international accounts as private direct investment, increased exports, and increased public social overhead investments materialize; and 4. economic development automatically follows at a rate commensurate with the decisions of private individuals to work, consume, save, and invest in accordance with the dictates of neoclassical economic behavioral principles.

The IMF's understanding of Bolivia's economic problems has not only been theoretically incorrect but factually erroneous as well. To begin with, Bolivia's prices were not increasing at the earlier hyperinflationary rates. The IMF, in its obsession with price stability, supported noncompetitive price rigidity. With respect to the dollar, for example, the Bolivian peso remained fixed from 1959 to 1972 at a rate of approximately $b. 12/$1. With respect to the currencies of Bolivia's other trading partners, however, the peso appreciated in value over the years. The value of the Bolivian peso increased by 35% relative to Peru's sol, 82% relative to Argentina's peso, and nearly 100% relative to the currencies of Brazil and Chile.[8] If, in fact, the Bolivian peso was optimally related to the currencies of her trading partners, including the United States in 1959, it is unlikely that it remained so during the years of the stand-by agreements in light of the many devaluations, internal price changes and income, and structural changes that have taken place within these countries since then. Yet, throughout the years, the IMF was the major opponent of a Bolivian peso devaluation.

A statistical comparison of Bolivia's inflationary rates[9] with the same South American trading partners reveals a similar pattern. Bolivia's official inflationary rate of 65% during the decade of 1963-1972 was only a fraction of Brazil's 1,273%, Chile's 1,178%, or Argentina's 711%. Indeed, Bolivia's inflation during this period was only slightly higher than that of her industrialized trading partners such as the United States (37%), West Germany (34%), Great Britain (59%), and Japan (60%).[10]

More important, the Bolivian inflation was repressed, not eliminated, by restricting aggregate spending. Official fixed prices,[11] a restricted government and foreign assistance program, and a fully loaned-up banking

Table 2: Bolivia's Central Government Total Budget, Balance Of Payments, & Rate Of Inflation, 1964-1974[a]

Rate of Growth	Total Central Government Budget Deficit ($b. millions)	Budget Deficits Financing by Central Bank ($b. millions)	Rate of Inflation (La Paz)	Balance of Payments (US $ millions)
1964	–95.0	56.0	10.2	17.6
1965	–228.5	145.4	2.9	14.2
1966	–224.8	111.9	6.9	3.2
1967	–445.7	128.6	11.2	–9.0
1968	–587.8	51.3	5.5	–0.2
1969	–494.0	95.9	2.2	–0.1
1970	–320.1	48.2	3.8	0.8
1971	–555.3	260.2	3.7	–15.0
1972	595.2	600.1	6.5	13.4
1973	872.7	435.8	31.5	–13.7
1974	455.0	295.4	62.8	—

a Deficit (–)

Sources: "The International Monetary Fund Staff Reports on Bolivia for 1968, 1972"; USAID/Bolivia, *Estadísticas Económicas*, No. 13, 1972; Banco Central de Bolivia, *Boletín Estadístico*, No. 220 (La Paz, 1976).

system[12] were necessary components of the new stability. In no way can the results of this policy be interpreted as the elimination of Bolivia's inflationary forces.

Inflation repressed in this manner invariably resurfaces once the policy of stimulating economic development by increasing aggregate demand is reinstated. To eliminate Bolivian inflation, appropriate policy should have been to increase supply selectively, i.e., to remove bottlenecks, structural lags, and institutional frictions.

This policy of selectively increasing supply, not decreasing aggregate demand, is the correct one since Bolivia's developmental inflation can best be described as one of monopoly supply-lag.[13] The traditional agricultural sector of the Bolivian economy, the embryonic construction industry, and the almost nonexistent manufacturing industry could not increase supply in adequate response to the autonomous and induced changes in demand. Among other things, this lag in domestic supply gave rise to increased imports at inflated

prices as well as increased domestic prices in general.[14] Joseph Grunwald has best summarized this "structuralist" argument:

> The basic forces of inflation are structural in nature. Financial factors might be important, but only as forces propagating inflation and not originating it. It is admitted that monetary policy can be easily managed and has relatively quick effects, but it attacks only symptoms and therefore cannot cure.[15]

Furthermore, any relationship between money supply and the level of prices in Bolivia proves little[16] and certainly not what the monetarists of the IMF would have us believe—namely, that the price level is determined by the quantity of money in circulation. Rather, "the quantity of the medium of circulation is determined by the sum of the prices to be realized" and not the other way around. As Marx demonstrated more than a century ago:

> The illusion that it is, on the contrary, prices which are determined by the quantity of the circulating medium, and that the latter for its part depends on the amount of monetary material which happens to be present in a country, had its roots in the absurd hypothesis adopted by the original representatives of this view that commodities enter into the process of circulation without a price, and money enters without a value . . . .[17]

Not surprisingly, Bolivia's inflation did not markedly increase during 1971-1972—years during which there were no stand-by agreement credit restrictions and years of record high budget deficits largely financed by the central bank. Eventually, the long repressed Bolivian inflation surfaced in full force after the 1972 devaluation, and it continues to this day.

The impact of the IMF stabilization programs in Bolivia does not end here. As mentioned earlier, a number of imperfections remained in the renewed stability. For one, the Bolivian government continued to expand and incur substantial budget deficits. For another, the balance of payments did not materially improve. (See Table 3.) And finally, such vestiges of the 1952 social revolution as nationalized industries and income redistributions remained despite the efforts of the IMF.

The government's deficit financing is associated with the nation's chronic balance of payments problems, but not in the manner envisioned by the IMF.

Table 3: Balance Of Payments Accounts: 1964-1973[a] (US $ millions)

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
Exports FOB	100.1	115.5	133.1	153.4	149.6	176.3	197.0	178.9	202.3	269.9
Imports FOB	–98.1	–126.6	–138.8	–151.8	–155.0	–178.7	–164.9	–178.0	–195.8	–235.7
Balance of Trade	2.0	–11.1	–5.7	1.6	–5.4	–2.4	32.1	0.9	6.5	34.2
Transportation (net)	–16.4	–21.1	–23.0	–24.7	–24.9	–30.8	–43.7	–46.5	–32.5	–36.7
Travel (net)	–1.5	–1.7	–1.6	–1.2	–0.6	–0.8	–1.4	–2.3	–1.9	–2.0
Investment Income (net)	–3.0	–1.0	–1.0	–12.1	–22.2	–24.4	–14.6	–15.0	–21.8	–22.9
Government n.i.e. (net)	–2.9	–1.1	–0.2	–0.2	–1.0	0.4	0.–	0.5	–4.8	–5.7
Other Services (net)	–2.0	–0.9	–1.7	–1.3	–1.8	–2.9	–3.5	0.8	–4.3	–3.1
Transfer Payments (net)	25.8	16.2	12.7	7.7	6.2	6.7	7.1	6.9	13.4	15.4
Balance on Current Account	2.0	–20.7	–18.5	–30.2	–49.7	–54.2	–23.2	–54.7	–44.3	–19.5
Private Loans & Investments (net)	1.3	13.7	3.6	–0.3	17.4	22.2	–85.9[d]	–4.7	51.3	15.0
Public Loans (net)[b]	21.0	17.4	14.1	24.9	51.4	39.6	114.2[d]	53.6	41.7	20.5
Balance on Capital Account	22.3	31.1	17.7	24.6	68.8	61.8	28.3	48.9	93.0	35.5
Errors & Omissions[c]	–6.7	3.8	4.0	–3.4	–18.5	–7.7	–5.6	–9.2	–35.3	–29.7
Balance of Payments	17.6	14.2	3.2	–9.0	0.6	–0.1	–0.5	–15.0	13.4	–13.7
Foreign Exchange Reserves (net)	21.3	33.8	38.5	32.5	32.4	32.3	36.3	31.3	26.7	21.1
(SDR)							(4.9)	(4.0)	(4.3)	(–)

a Earnings of foreign exchange (+); expenditures of foreign exchange (–).
b Includes contributions to international organizations.
c Includes short-term capital.
d Private capital includes a reduction of $88.6 million in direct investment associated with the expropriation of the Bolivian Gulf Oil Co. This offset in the Public Capital Account by an increase of $88.6 million of long-term liabilities to the Bolivian government for the same expropriation.

Sources: "International Monetary Fund Staff Reports on Bolivia for 1964-1967 and 1972"; Banco Central de Bolivia, *Boletín Estadístico*, No. 220 (La Paz), 1976.

A deficiency of tax revenue, reduced United States grant aid, and restricted central bank borrowing did not deter the Bolivian government from increasing its investment spending. Indeed, it appears that the programed public capital expenditures originated from a government commitment to maintain an ever increasing level of national investment. Thus, when private investment decreased, the government immediately undertook offsetting investments. For example, privately financed gross investment decreased by $b. 520 between 1966 and 1971—an amount more than offset by the $b. 1,089 million increase in public investment. (See Table 4.) The stabilization loans, in part, financed this increased public investment spending. They comprised, in other

words, the cushion upon which the Bolivian government built its stringent monetary and fiscal policy. Consequently, the IMF must share responsibility for Bolivia's increased government deficits during the years of the

Table 4: Total Investment & Savings: Bolivia, 1964-1972 ($b. millions)

	1964	1965	1966	1967	1968	1969	1970	1971est.
Total Gross Investment	1,009	1,218	1,291	1,344	1,836	2,156	1,841	1,860
Financed from:								
Domestic Sources	893	920	1,002	907	1,164	1,446	1,501	1,147
Foreign Sources	116	298	289	437	672	710	340	713
Public	588	433	490	643	931	995	1,053	1,579
Private	421	785	801	701	905	1,165	788	281
Domestic Savings								
Personal	98	99	175	169	233	241	81	–50
Business	795	821	827	738	931	1,205	1,420	1,197

Sources: Secretaría de Planificación, Cuentas Nacionales de Banco Central, *Boletín Estadístico* No. 188; and "International Monetary Fund Staff Report for Bolivia, 1972."

Table 5: **External Financing Of Central Government Budget Deficits & Changes In Foreign Debt: Bolivia, 1965-1974**

	1965	1966	1967	1968	1969	1970[b]	1971[b]	1972	1973	1974[a]
Percent of Budget Deficit Financed Externally	37	53	48	71	67	69	45	53	49	70
Amount of Budget Deficit Financed Externally ($ millions)	7.0	10.0[b]	17.9	34.8	27.5	18.3	21.0	23.5	21.4	69.9
Increase in the Foreign Debt of the Bolivian Government ($ millions)	14.2	7.9[b]	22.0	37.6	42.8	20.7	−11.2	21.9	17.0	56.8
External Debt ($ millions)										
Central Government	197.4	205.3[c]	227.3	264.9	307.7	337.4	326.2	348.1	365.1	421.9
Other Public & Private	83.3	87.3	94.8	106.5	128.2	215.7	223.5	333.1	342.7	364.3
Total	280.7	292.6	322.1	371.4	435.9	553.1	549.7	681.2	707.8	786.2

a est.

b Years of no stand-by agreements.

c $9 million in interest to Eximbank cancelled.

Sources: *Estadísticas Económicas*, No. 11, 1970, and in No. 13, 1972; "International Monetary Fund Staff Reports on Bolivia for 1967, 1968 and 1972"; Banco Central de Bolivia, *Boletín Estadístico*, No. 220 (La Paz), 1976.

agreements. To be exact, Bolivia's deficit spending increased from $b. 95 million in 1964 to $b. 228.5 million in 1965, to $b. 449.4 million in 1969, and to the astonishing figure of $b. 882.9 million in 1972. Table 5 provides a breakdown of Bolivia's government budget balances for the years 1964-1972.

It appears that the IMF is not opposed to massive government indebtedness so long as the creditors are international financiers. Initially, this trend from private to public and from domestic to foreign borrowing did render short-run benefits to Bolivia. Not only were large budget deficits financed, but the capital inflows also contributed to a temporary accounting balance in the nation's international accounts during the early years of the stand-by agreements.

Despite these temporary benefits, the IMF's restoration of massive borrowing from abroad had the clearly undesirable effect of enormously increasing Bolivia's foreign debt. For Bolivia's counterdevelopment foreign debt, as for its massive budget deficits, the IMF must be held at least partly accountable. In 1965 only 37% of the government budget deficit, $7 million, was financed externally; the total public foreign debt was equal to $273.2

million. By 1969, however, 67% of a budget deficit equal to $27.5 million was financed externally, so that the foreign public debt increased to $435.9 million. (See Table 5 for a breakdown of Bolivia's deficit financing and foreign debt.) The United States Agency for International Development (AID) estimated that the volume of these foreign payments exceeded net capital inflow by 1970 and equalled 15.7% of exports in value. In the process, Bolivia became a net exporter of loanable funds. In short, as seen in Table 6, a vast amount of government revenue and foreign exchange earnings were not

Table 6: **Debt Service Ratios: Bolivia, 1967-1973**

Year	Value of Exports ($ millions) (a)	Amortization & Interest Payments ($ millions) (b)	Debt Service Ratio (Percent) (b/a)
1967	153.4	14.0	9.1
1968	149.6	16.3	10.9
1969	176.3	18.8	10.7
1970	197.0	31.0	15.7
1971	178.9	37.4	20.9
1972	202.3	47.9	24.7
1973 est.	269.9	55.0	20.0

Note: Technically, debt service ratio includes nonfactor services along with exports. The debt service ratio takes into account only merchandise exports. It is, however, a close approximation since Bolivia exports few services.

Sources: "International Monetary Fund Staff Report on Bolivia for 1972"; Banco Central de Bolivia, *Boletín Estadístico*, No. 220 (La Paz, 1976).

available for capital imports before 1972 and will continue to constitute a drain upon Bolivia's real resources in the future.[18]

The supreme irony is that the IMF was indirectly responsible for Bolivia's persistent balance of payments problems during the years of the stand-by agreements. In the process of indebting Bolivia to international financiers, the IMF actively encouraged increased foreign economic dependency. For Bolivia fluctuating world mineral prices and ''lumpy'' foreign loans, donations, and investments superimposed on larger, fixed financial charges and transportation costs provide the very ingredients of recurring balance of payments crises. For example, an estimated 1¢ change in the world price of tin increases or decreases Bolivia's foreign exchange earnings by more than $500,000. During the period of the stand-by agreements the price of tin decreased from $1.75 per fine pound in 1965 to $1.46 in 1968, only to rise again to $2.11 in 1973.[19]

Similarly, Bolivian Gulf Oil Company invested an average of more than $10 million a year during the early years of the stand-by agreements in extraction, refining, and pipeline construction. With the advent of oil exports of $22.9 million in 1967, Gulf began to repatriate profits in excess of net investment and continued to do so until October of 1969, when the Bolivian government nationalized the Gulf Oil subsidary.[20] Net investment income outflows increased from an annual average of $1 million for 1964-1966 to an average of $17.6 million for 1967-1972. Since 1967, investment income outflows have exceeded private long-term loans and investment inflows every year. In addition, net public foreign transfers (donations) decreased from more than $25 million in 1964 to less than $4 million in 1972, only to rise again to $15.4 million in 1973. Finally, since Bolivia is a landlocked country, every increase in foreign trade necessitates greater expenditures for transportation, the costs of which increased from $16.4 million in 1964 to $42 million in 1972.

I do not imply that any number of international transactions isolated and compared should balance. Rather, this pattern simply demonstrates that recurring balance of payments crises are an integral part of historic foreign economic dependency of the type perpetuated by the IMF. By consciously restoring the role of foreign capital to a position of dominance, the IMF inadvertently worsens precisely those economic problems its programs purport to resolve. In no small measure, this apparent paradox stems from the

developing countries' perceived need for loanable funds for investment regardless of their origin. When domestic investment is restricted and private direct foreign investment is not forthcoming to fill the gap, an appropriate developmental as well as anti-inflationary policy is to selectively increase public investment—even at the high cost of larger deficits, foreign debts, and the like. This policy further assures the IMF a longevity sufficient to accomplish their objective since any temporary termination of the agreements immediately results in a withholding of loans and yet another major financial crisis.

In Bolivia during the ''national left'' governments of General Alfredo Ovando Candía (September 1969-October 1970) and Juan José Torres (October 1970-August 1971), the IMF did not enter into any stand-by agreements for three years and, together with other international lenders, withheld badly needed financial assistance from Bolivia. In no small measure this action was responsible for the record $15 million balance of payments deficit in 1971. Economic and financial crises during these years undoubtedly helped precipitate the ''rightist'' military coup of General Hugo Banzer Suárez in August of 1971. Not until the devaluation of the Bolivian peso in October of 1972 and a government concession to fully compensate Gulf Oil Company for its expropriated properties did the IMF and others resume financial support. In 1973 both partners signed yet another stand-by agreement for approximately $27 million, again with the ubiquitous credit and spending restrictions.

Among the nonspecious objectives of the IMF in Bolivia must be counted a denationalization of public industries and a redistribution of income from wage earners to recipients of surplus-value. Tremendous strides have been made in this direction, and the future looks even more promising. Appearances notwithstanding, the nationalization of Gulf Oil in 1969 marked no more than a hiatus in the denationalization of Bolivian industry actively promoted and supported by the stabilization programs. For example, the Bolivian government recently let out numerous oil concessions to private multinational corporations in order to attract needed high-risk exploration capital.[21] There is every reason to expect that the Bolivian petroleum industry will be denationalized in the near future, as the mineral industry was. Shortly after the 1952 social revolution, the publicly owned Corporación Minera de Bolivian (COMIBOL) reigned supreme. During the two decades of the

IMF-Bolivian stabilization programs, the private mines returned to a dominant position. By 1970 the private mines of Bolivia produced twice the volume of minerals and exported a greater value than COMIBOL.[22] These gains were accomplished by actively promoting private mining while simultaneously restricting the expansion of the public mines. Restricted credit to public corporations (Table 1), one of the conditions for stand-by loans, contributed to the denationalization of the Bolivian mining industry.

Not even denationalization of Bolivian mining, however, can compare to the inflationary redistribution initiated by the 1972 devaluation of the Bolivian peso. Prices in La Paz increased by more than 30% during 1973, while wages increased by less than half as much. The following year an even greater redistribution in favor of property owners occurred.[23] Although the data are unreliable and politically explosive, no one seriously denies that the peasants and factory workers of Bolivia have suffered real income decreases since the devaluation.

The IMF cannot fairly be accused of encouraging inflation, but it has revealed a high level of tolerance for an inflation that resulted in a redistribution of income in the desired direction. In the 1973 stand-by agreement it condoned the Stabilization and Economic Development Program of the Bolivian government, which included a programed inflation of 30%, combined with wage and salary increases of 15%. This conscious policy of tolerating if not promoting profit inflation is simply the latest monetarist tactic.[24] Inflationary high profits, incomes, and savings are intended to expand the domestic capitalist class,[25] which, along with the multinational corporations and the IMF, is ultimately expected to return the Bolivian economy to its "free," dependent, and peripheral position within the greater "capitalistic world" community.

Economists, cognizant of most of these economic and political events, still view the IMF-Bolivian stabilization programs as exemplary:

> Nevertheless the 1956 Bolivian stabilization program was successful in halting the inflationary spiral and reasonable price stability was maintained during the first half of the 1960's. The exchange rate has remained stable since 1958 and the per capita rate of growth in GNP was one of the highest in Latin America during the 1960's.[26]

The curtain has yet to fall on the final act of the IMF's stabilization programs in Bolivia. In the absence of another social revolution like that of 1952, however, there is every indication that the IMF stabilization programs will eventually be successful. Bolivia will become increasingly dependent upon foreign finance and trade, private enterprise will dominate, and the revolutionary gains of 1952 will be eliminated. The IMF, meanwhile, will remain on the scene to ensure success—all the while continuing to proclaim loudly its official opposition to deficits and inflation.

The IMF does encourage the expansion of international trade and finance, and it does "promote and maintain high levels of income, employment and development for its members"—its more affluent members. In the process, it perpetuates a historically determined capitalistic world order of rich and poor nations. This new imperialism differs from the old only in the subtle use of international organizations. Harry Magdoff astutely pointed out some years ago that the IMF acts "only to enforce the rules of the game that govern the existing power relations among countries—rules that evolved in the very process by which some nations become the rich nations and other nations become the poor.[27]

Notes

1. "Introduction to the Fund," Staff of the IMF, *Finance and Development*, I (June 1964), 3-14.

2. Since colonial times, foreign demand for agricultural and mineral exports has given rise to a dominance of plantation and mining over manufacturing production in most of the peripheral economies of the world. Viewed one way, plantations and mining enterprises constitute classic vehicles of economic efficiency and development. Viewed another way, these same foreign sector enclaves originate and perpetuate steadfast dependency. Their external orientation, and often foreign ownership, combined with excessive wealth and income concentration retards the creation of a domestic market and an internally financed, viable, public sector.

3. Joseph Grunwald, "The 'Structuralist' School on Price Stability and Economic Development: The Chilean Case," in Albert O. Hirschman, ed., *Latin American Issues: Essays and Comments* (New York, 1961), 108, n. 31.

4. *Central Bank Bulletin* (various issues) as reprinted in George Jackson Eder, *Inflation and Development in Latin America* (Ann Arbor, 1968), 111.

5. Ibid., 220.

6. Stand-by agreements are arrangements of the IMF with individual countries whereby it furnishes the country with international reserves (gold, dollars, etc.) in excess of its "drawing

rights," provided it undertakes certain corrective measures to balance its international accounts. A country has "drawing rights" up to 25% of its IMF quota and must enter into a stand-by agreement if it desires additional international reserves. For additional information see George P. Nicoletopoulos, "Stand-by Agreements," *Finance and Development*, I (Dec. 1964), 192-197.

Since these confidential agreements are not accessible to the public, all the data and other information pertaining to them were obtained from secondary sources such as the AID Mission to Bolivia, the Banco Central de Bolivia, and the Ministerio de Hacienda de Bolivia.

7. The term "counterpart" is used to designate foreign currencies deposited abroad in special accounts but either owned or controlled by the United States government. These funds were generated from the sale of PL 480 (now PL 808) surplus agriculture products or from the conversion of dollar loans or grants. United States owned and/or controlled local currencies in Bolivia totaled $b. 92 million or approximately $7.7 million in August of 1972.

8. Banco Central de Bolivia, *Memorias Anuales*, 1966 and 1970, and *Boletín Estadístico* (La Paz, 1972).

9. The only price index available is that for the city of La Paz, which constitutes only 10% of the nation's population and not a representative 10% at that. Since the La Paz population is more urbanized, has a higher income, and consumes more imports, this price index is probably not typical of that of Bolivia as a whole. Using the La Paz index as a proxy for the nonexistent national price index, therefore, probably reflects an upward bias. Were this not enough, each estimate of Bolivia's price indices differs.

10. United Nations, *Statistical Yearbook 1973* (New York, 1974).

11. Among Bolivia's items with fixed prices are the following: meat, flour, and other staple foods; intercity bus and taxi transportation; water, electricity, and other utilities; gas, kerosene, and other petroleum products; interest rates on loanable funds. In addition to being an incomplete list, most of these prices were fixed for a number of years below what they undoubtedly would have been in the absence of controls. Compliance with these official prices was, however, incomplete and enforcement lax.

12. To comply with these restrictions, the government in 1968 raised the legal reserve ratios for private commercial banks from 35% to 40% and that of savings deposits from 25% to 30%. At no time during the decade did excess reserves exceed $3 million, and credit was so tight that the banks had no loanable funds at the end of 1968 and 1969. AID/Bolivia, *Estadísticas económicas*, No. 11, 1970, and in No. 13, 1972.

13. For a brief introduction to the "monetarist-structuralist" debate, see Roberto de Cliveria Campos, "Two Views of Inflation in Latin America," David Flex, "An Alternative View of the 'Monetarist-Structuralist' Controversy," and Joseph Grunwald, "The 'Structuralist' School on Price Stabilization and Economic Development: The Chilean Case," in Hirschman ed., *Latin American Issues*.

14. The lesson yet to be learned by many economists is that although Say's Law functions imperfectly in the less developed nations, as it does in the more developed, it does so for different reasons. Just as aggregate supply does not always create an equivalent demand, neither does aggregate demand always generate a corresponding supply.

15. Joseph Grunwald, in Hirschman, ed., *Latin American Issues*, 96.

16. Robert C. Vogel uses regression analysis to show the high correlation between inflation and changes in the money supply for a number of Latin American republics. Bolivia, a country with probably the least reliable data, had the best statistical results (highest R^2). "The Dynamics of Inflation in Latin America, 1950-69," *American Economic Review*, LXIV (1974), 102-114.

17. Karl Marx, *Capital* (Vintage ed., New York, 1977), I, 219-220.

18. By 1978, according to official sources, the less developed countries had accumulated a $200 billion debt, $80 billion of which is owed to private banks. This amount is more than four times what it was only a decade earlier. In no small measure, the IMF is responsible for both the size and composition of the high debt. The irony of the current situation is a current IMF proposal to obtain a $10 billion public fund from its more affluent "contributors" to provide additional loans to those indebted countries so that they might repay their private creditors—again subjecting them to yet another austerity program. Howard M. Wachtel and Michael Moffitt, "Bailing Out Banks that Straightjacket the Third World," *Washington Star*, Feb. 12, 1978.

19. Banco Central de Bolivia, *Memoria Anual*, 1966 (La Paz, 1967), and *Boletín Estadístico* No. 207 (La Paz, 1972).

20. An AID Mission to Bolivia report on the effect of the Gulf Oil activities on Bolivia's balance of payments supports this assertion in one respect. This report claims that Gulf investment income outflow from Bolivia equaled its capital inflow for 1968 and exceeded it by $4 million in 1969. Unfortunately, no figures were given for 1967. The report does, however, attempt to prove that Bolivia Gulf Oil Company activities in both years had a net positive effect upon Bolivia's balance of payments: a net increase in foreign exchange of $19.5 million in 1968 and $13.6 million in 1969. USAID, "Bolivia Gulf Oil Company Effect on the Balance of Payments of Bolivia" (La Paz, 1970), unpublished.

21. "International Monetary Fund Staff Report on Bolivia for 1972," Appendix 1.

22. Corporación Minera de Bolivia, "Exportaciones de minerales por grupos mineros en T.M.F. y valor en $U.S. durante los años, 1952-1970" (La Paz, 1971).

23. CONEPIA, "Indice de Precios al Consumidor: Grupos y Sub-Grupos de Artículos" (La Paz, 1973), and "Decretos Económicos del 20 de Enero," *Presencia* (La Paz), Jan. 29, 1974.

24. The mechanism is called "indexation," and it has been successfully applied in Brazil for more than a decade. For a summary of the concept and U.S. monetary authority interest, see: "Indexation, a Way Out," Research Department, Federal Reserve Bank of San Francisco, *Business and Financial Letter*, Sept. 20, 1974.

25. Profit inflation is not new to capitalism. Economic historians have amply documented the influence of the discovery and exploitation of America upon the rise of commercial capitalism in the sixteenth century. See, for example, Maurice Dobb, *Studies in the Development of Capitalism* (New York, 1976), 236-237.

26. Raymond F. Mikesell, "Inflation in Latin America," in *Survey of The Alliance For Progress, Compilation of Studies and Hearings of The Subcommittee on American Republics Affairs of the Committee on Foreign Relations, United States Senate* (U.S. Govt. Printing Office, Washington, 1969), 71.

27. Harry Magdoff, *The Age of Imperialism* (New York, 1969), 146.