Preserving Bolivia's Impressive Reduction in Poverty and Inequality

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January 13, 2016

Bolivia—one of the poorest countries in Latin America—has registered an impressive reduction in inequality and poverty during the past 15 years. A combination of sustained economic growth fueled by the commodity supercycle and targeted public policies contributed to these outstanding results. But not all sectors in the economy benefited during this process and further progress will be hampered by the end of the commodity boom.

Between 2000 and 2014, Bolivia's Gini coefficient (the most common measure of income inequality, it equals zero if all income is equally shared within a country and 1 if one person has all the income) dropped from 0.62 to 0.49, while moderate and extreme poverty rates were reduced from 66 and 45 percent to 39 and 17 percent, respectively. Despite these dramatic results, Bolivia's inequality and poverty levels are currently just around the average of Latin America and the Caribbean.

In our recent paper, Santiago Garriga and I analyzed the factors behind these reductions. We specifically looked at sustained economic growth, favorable terms of trade, conditional transfer schemes, and remittances. Furthermore, by using microeconomic data, we identified which sectors of the economy and groups of workers were impacted the most (positively and negatively).

Impact of the commodity supercycle

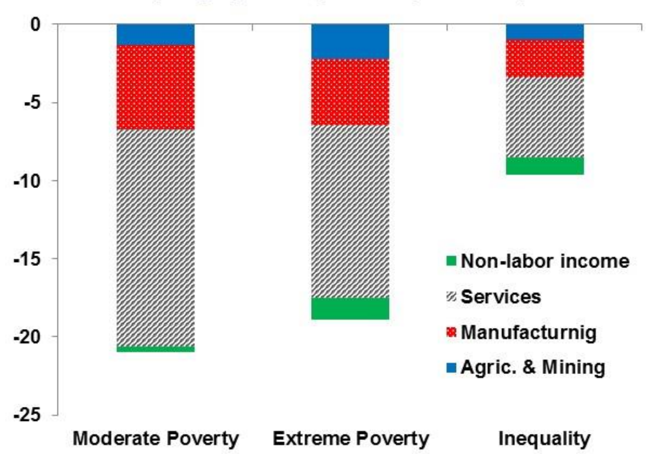
Bolivia's real GDP grew by 80 percent and by 42 percent in real per capita purchasing power parity terms during 2000–2014. Much of this is attributable to high international prices of its main export products, which grew by 800 percent in nominal U.S. dollar terms. As a result, Bolivia is more dependent on exports than it was 15 years ago. In 2000, Bolivia's exports represented just 18 percent of GDP, while they reached a peak of 47 percent in 2012, and were highly concentrated in minerals and hydrocarbons (81 percent of total exports in 2014).

This large flow of external resources was transferred to the rest of the economy through public investment (the share of public investment as percent of total investment increased from 30 percent to 56 percent during the same period) and social transfers (which were about 3 percent of GDP in 2013). Remittances were also quite important until 2007 (almost 8 percent of GDP), but its effect dwindled in the more recent years (3½ percent of GDP in 2014). Additionally, economic growth reflected higher salaries, which were boosted by explicit economic policies to reduce salary gaps between workers. For example, the real minimum wage grew by 122 percent during 2000–2015, while real average labor income grew by 36 percent from 2000–2013.

Higher wages are key

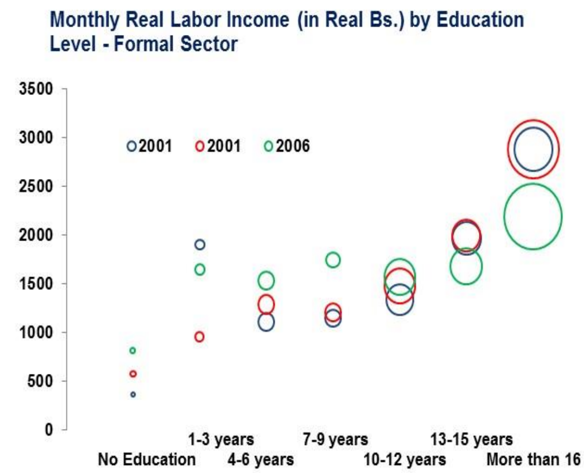
By analyzing sectoral data (using household survey data), we found that changes in labor income contributed the most to the reduction in inequality and poverty in Bolivia. The role of nonlabor income (which includes rents, transfers, and remittances) played a smaller role but is significant for some groups, mainly elderly people who receive the largest transfer from the government—Renta Dignidad—a non-contributory social security program for all people over 60.

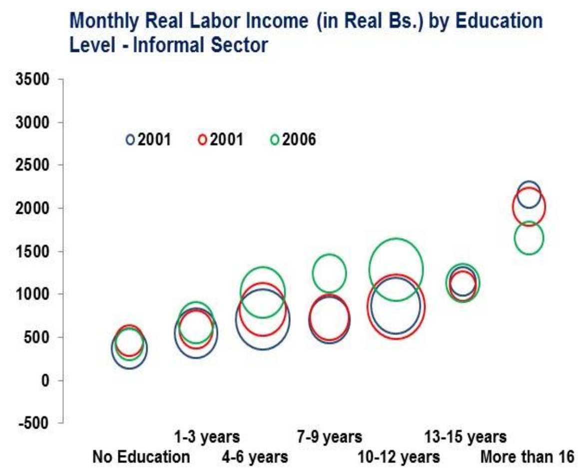
Decomposition of Reductions in Poverty and Inequality by Activity Sector (2007-2013)



Source: IMF staff calculations based on Household Survey data.

While higher salaries explain most of the inequality and poverty improvements, not all sectors are better off now than 15 years ago. Certainly, real labor income gaps between unskilled and skilled workers dropped, thus reducing the skills premium (skilled workers' real labor income was lower in 2013 than in 2001). However, we can also see a potentially undesirable result based on employment status: most increases in labor income happened in the informal sector, particularly for those workers with non-tertiary education, while average labor income in the formal sector dropped in real terms.





Source: IMF staff calculations based on Household Survey data. Size of bubbles represents share of workers in each category.

Preserving the gains

All the above evidence suggests that Bolivia's inequality and poverty reduction was fueled by very favorable external conditions, which was used to improve households' labor and nonlabor income, the former being more important than the latter. A high proportion of these new resources were allocated to vulnerable jobs concentrated in low-skilled and informal activities. As the gains from the commodity boom go into reverse, and the fiscal envelope becomes tighter, it will be essential that labor and social policies are well designed and targeted to preserve and build on the poverty and inequality reduction of the past 15 years.

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