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ORTHODOX AND HETERODOX STABILIZATION POLICIES IN BOLIVIA AND PERU : 1985 - 1988

by

Arthur J. Mann*

and

Manuel Pastor, Jr.**

*Full Professor of Economics at the University of Puerto Rico, Río Piedras, Puerto Rico.

**Assistant Professor of Economics at Occidental College in Los Angeles, California.

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UNIVERSIDAD DE PUERTO RICO
FACULTAD DE CIENCIAS SOCIALES
RIO PIEDRAS, PUERTO RICO

ABSTRACT

From 1985 through 1988 Bolivia and Perú carried out different types of macroeconomic stabilization policies. On the one hand, Bolivia followed a "traditional" orthodox policy, which included the policy elements of:

1. Currency devaluation to generate expenditure switching and expenditure reduction;

2. Reduction of the non-financial sector's fiscal deficit;

3. A tight monetary policy, drastically reducing the monetization of the fiscal deficit;

4. An opening of the economy via tariff reduction and the elimination of import quotas and export taxes.

On the other hand, the government of Perú adopted a decidedly heterodox economic policy whose key elements were:

1. The freezing of most prices, including the exchange rate;

2. The driving up of real wages and real aggregate demand via the use of increased fiscal deficits, subsidies, and exchange reserves;

3. The limiting of external debt service payments;

4. The proposal of a new accumulation model for the country, increasing public investment but leaving capital in private hands.

This paper provides a description and critique of the experiences in both countries, analyzing the implementation of the policies and paying special attention to the issue of sequencing, or the time sequence with which policies are implemented. As is shown, the Peruvian experience terminated in disaster, whereas the jury is still out regarding the Bolivian stabilization model.

Despite the two dissimilar models and applications, there are definite policy lessons to be drawn from these two cases. Among these policy lessons are that the rigid application of either orthodox or heterodox nostrums will most likely end in failure in either case. Policymakers must avoid a type of "policyeuphoria" which locks them into policies that, although successful in the past, will produce adverse results in the future.

Prof. Alicia Rodríguez Castro
Directora Interina
Unidad de Investigaciones Económicas

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I. Introduction

With the outbreak of the Latin America debt crisis in late 1982, nervous bankers and hard-pressed debtors turned to the International Monetary Fund (IMF) for both short-term finance and macroeconomic advice. By 1985, however, steadily increasing inflation and stagnant output reduced what little appeal such orthodox IMF programs had ever enjoyed. In late 1985 and early 1986, Argentina and Brazil adopted new "heterodox" stabilization programs whose essential elements included incomes policies to break inflationary inertia, monetary reform (especially the creation of new currencies), and a spoken commitment to fiscal restraint.

In 1985, macroeconomic experiments also began in two smaller countries, Bolivia and Peru. Bolivia, staggering from hyperinflation, adopted a program steeped in the sort of orthodoxy dear to the IMF. Peru, fresh from macroeconomic failures under the orthodox policy regime of Fernando Belaunde Terry, adopted what was perhaps the most heterodox of all the recent experiments in the region: an attempt to reduce inflation through limiting external debt service, raising wages and domestic growth, and allowing increases in public deficits and monetary emission. The successes and failures of each program offer insight into both the relative merits of each approach and the dangers that accompany any such stabilization efforts.

In this paper, we compare orthodox and heterodox stabilization policy measures in Bolivia and Peru. After reviewing the theoretical debate and issues of policy sequencing, we review each case in detail. We suggest that despite seemingly different outcomes -- a Bolivia rescued from hyperinflation and a Peru driven to the very same phenomenon -- each experience illustrates issues central to any stabilization experience: the need for policy-makers to shift policy once stabilization is achieved, the importance of net external resource flows, the need to coordinate short- and long-run policies, and the difficulties of achieving and maintaining social consensus on the distribution of adjustment burdens.

II. Macroeconomic Stabilization: Orthodoxy vs. Heterodoxy

The debate between orthodoxy and heterodoxy parallels the earlier set of arguments between monetarist economists and their structuralist critics. Orthodoxy, like its monetarist cousin, views socioeconomic structures as flexible and inflation as the result of overly expansive monetary and fiscal policies; in this view, tight fiscal policy and free markets should produce optimal long-and short-run outcomes. Heterodoxy sees economic, social and political structures as rigid and inflexible; prices, in this view, are set by predetermined rules (at least in the economy's formal sector), and the battle over income shares combines with these fix-price rules to produce cost-push inflation. Heterodox policy solutions thus give short shrift to the free market and rely instead on government intervention and direct management of the distributional conflict through incomes policies (i.e., wage-price controls).

A. The Orthodox Paradigm

The principal elements in an orthodox stabilization package are familiar since they have been part and parcel of IMF programs over the years. They include: (1) currency devaluation to positively shift the external balance (perhaps accompanied by a unification of previous multiple rates); (2) reduction of the public sector's fiscal deficit by modifying existing taxes, instituting new ones, adjusting public sector prices, and reducing consumer and producer subsidies; (3) tighter monetary policy, particularly a reduction in the monetization of the fiscal deficit; (4) reduction of real wages through market mechanisms; (5) an opening of the economy by reducing tariffs and eliminating quotas and export taxes; and (6) rapid decontrol of internal prices.

This last policy of "liberalizing" prices--i.e., "getting the prices right"-- is also seen as essential to long-term economic development. While there is recognition of market failure, and therefore a role for, say, government infrastructural investment and the regulation of monopolies, the general idea is to rein in public sector intervention. The liberalization strategy thus includes the stabilization policies above as well as: (1) financial reform designed to let

credit markets determine interest rates at real positive levels; (2) trade reform, especially the maintenance of near equilibrium exchange rates, the development of public/private institutions to promote exports, the implementation of drawbacks for non-traditional exports, and the reduction and simplification of import duties; (3) opening up the economy to greater foreign investment; (4) privatization of some government services and parastatal enterprises; (5) "rationalization" of government activities, i.e., improved budget techniques and reduced public employment levels.

B. The Heterodox Paradigm

The heterodox/structuralist approach emphasizes the key role of rigidities typically present in underdeveloped economies: price setting in the oligopolistic industrial sector via a mark-up on unit costs (including interest costs), wage indexation to inflation for formal sector workers, sluggish export volume responses to devaluation, relatively fixed import coefficients (for capital goods and intermediates) and an underdeveloped domestic financial sector. These characteristics imply that inflation results less from demand pressures than cost pressures which are passed into the economy by price-setting firms and then fed into an inflationary spiral through wage indexation.

In this view, the typical orthodox policies of devaluation and monetary restriction are stagflationary. Devaluation, it is argued, will generate few new exports and raises the cost of required imported intermediates without altering the import coefficient; trade balance may be restored, but almost entirely via expenditure reduction. Monetary restriction can deepen the recession but may actually raise prices as firms pass along interest rate hikes. A careful study of IMF programs in Latin America in the period 1965-81[1] and a review of Latin American performance in the 1980s[2] does indeed associate orthodox policies with accelerating rather than decelerating inflation.

Through the 1970s, the critics of orthodoxy were content to argue that inflationary problems should be deemphasized since the structural rigidities that caused them would eventually be eroded by economic development. With the onset of the debt crisis in the 1980s

and rising inflation in most of Latin America, heterodox theorists dropped this passive stance and began to develop new short-run stabilization programs. As practiced in Argentina and Brazil, these heterodox programs focused on breaking inertial inflation through the use of incomes policies (i.e., a temporary freeze on wages and prices), altering inflationary expectations by adopting new currencies (a procedure which invalidates old contracts that embody past inflationary expectations), and reducing whatever demand pressures existed by practicing fiscal restraint.

Such programs are, in theory, balanced and coherent; controls to reduce inertial inflation are coupled with fiscal reform to relieve excess demand. Such an "ideal" policy mix was pursued in neither Argentina nor Brazil; in Argentina, fiscal restraint failed while in Brazil, incomes policies were used to pursue unsustainable increases in real wages and demand Peru, meanwhile, followed an especially "poetic" version of heterodoxy: wage and price controls were used not to stabilize income shares but to redistribute downward, and the government embraced not fiscal restraint but fiscal expansion. The Peruvian program was different in two other key ways: (1) the explicit attempt to relieve external constraints by foregoing debt service, and (2) the attempt to encourage investment from large capitalists via a social contracting process called <u>concertación</u>. The hope was that debt service limits would provide the space for growth, fiscal deficits and higher wages would provide the demand, and local capitalists would eventually respond to the booming economy with an investment boom that would alleviate cost pressures and thus inflation. This risky strategy, as we will see, resulted in macroeconomic disaster.

C. *Sequencing Stabilization Policy Measures*

Economic policy reforms are conventionally discussed in terms of comparing one position of the economy (the pre-reform, disequilibrium state) with the "more efficient" equilibrium state that results from the application of the stabilization package. But how does the economy get from one position to another, and how do policy-makers sequence the required policy measures? While "theory tells us virtually nothing about (such) optimal transition paths,"[5]

poorly sequenced policy can easily shipwreck any reform process and must therefore be explicitly considered.

1. Orthodox Sequencing

Orthodox policy reform generally starts in an economy with large relative price distortions, high inflation rates, high tariffs and quotas, controls on external capital flows, large public sector fiscal deficits financed by money creation, and controlled (negative real) interest rates.[4] One of the first steps usually taken is liberalization of labor and credit markets. A rapid liberalization of the labor market may result in politically unsustainable real wage declines; while the experiences of the East Asian NICs may demonstrate the positive effects of flexible labor markets, the short-run transition costs can be quite high. Credit market liberalization is also difficult, for if lenders anticipate further inflationary pressures, real interest rates might skyrocket, thereby reducing access to working capital and choking off much needed private sector investment. If external capital controls are relaxed at the same time, the higher interest rates will attract capital inflows. Unfortunately, these will normally be short-term flows that can exit as rapidly as they arrived and may, in the meantime, add to the domestic money supply and inflationary pressures.

One may wish to postpone capital account liberalization for other reasons.[5] Opening the economy and promoting exports requires a real devaluation of the domestic currency, particularly to slow imports induced by a reduction of tariffs and the elimination of import quotas. Since capital inflows work on the real exchange rate in the opposite direction, the trade-creating effects of an initial real devaluation may be substantially wiped out, prompting a "squeeze on tradeables."[6] Consequently, it follows that the current account should be liberalized before the capital account.

In applying orthodox policy, then, the first steps should include exchange rate devaluation, substantially lower budget deficits, and tighter controls on the money supply. These measures should be followed by (or carried out almost simultaneously with) the freeing of domestic labor and (perhaps) credit markets. Current account opening should then proceed, with the liberalization of the capital account occurring thereafter. The amount of time that

should pass between the implementation of each policy is unclear, and may depend on the reaction of various political actors; since a more drawn out liberalization process makes it easier for the opposition to marshal its forces against the reforms, policy makers may be tempted to rapidly sequence reform measures even though the socioeconomic structures have been unable to absorb or accommodate the requisite prior steps.

2. Heterodox Sequencing

The proper sequencing of heterodox policies is also important. From the few experiences available, we can cull at least four important issues: the proper way to freeze wages and prices, the correct degree (and timing) of remonetization, the precise moment and method for lifting incomes policy, and the proper use of the enhanced political support that stabilization can bring.

The issue in the initial wage-price freeze is the following: given different adjustment periods in different contracts, one sector's real wages may be at a periodic peak while another sector's real wages are at a periodic low. Freezing at these levels would misalign relative prices; Brazil resolved this problem by using period averages and doing an initial readjustment prior to the freeze.

Once stabilization is achieved, the economy must be remonetized to prevent excessively high real interest rates; unfortunately, too much new money will risk a collapse in public faith in the program and trigger capital flight. If remonetization is successful, policy makers must then decide when and how to free wages and prices. Releasing too early (i.e., prior to reducing demand pressures) will trigger a new round of inflation in which real dislocations will be even worse, given the previous abandonment of indexation. Releasing too late poses other problems; because non-controlled prices (in, say, the informal sector) continue to rise, an overly long freeze on those sectors under government control will simply build up pressures for an immediate inflationary burst to make up for squeezed profits and wages. Finally, a one-shot release of all prices will bring back the defensive strategy of the inflationary period as, anticipating the worst from other economic actors, firms drive prices as fast and high as

possible. Dornbusch thus suggests "removing wage-price controls gradually, at successive sectoral steps."[7]

The most important issue is political: policymakers must recognize that the political support achieved by stabilization is ephemeral and must be used to make long-term corrections while the "honeymoon" persists. The temptation, as in Brazil and Peru, is to continue controls, reflation, and other popular moves in order to maintain support; the real task is to use that support to push through hard decisions.

As tricky as these sequencing issues may be for heterodox policy in general, they were even trickier for the Peruvian heterodox team. They were, after all, risking a war with international creditors with their explicit limits on debt service as well as financial disaster through their increase in the public deficit. The hope was that the ensuing growth would so swell private savings that it would replace the one-shot increase in foreign savings achieved through debt service restrictions; this was coupled with a supply-side vision that tax revenues would rise despite a reduction in tax ratios. While we explore these and other timing issues in detail below, the political gamble must also be emphasized. It was hoped to incorporate local capital into a social democratic project which raised real wages and increased government intrusion. This gamble, like the other more technical gambles, failed.

III. Orthodoxy in Bolivia

A. The Pre-Reform Macroeconomic Context

Subsequent to the 1952 nationalization of the mining sector and the agrarian reforms, and up until 1985, Bolivia pursued a policy of state capitalism which was justified as a response to the private sector's perceived inability to generate the investment required for economic growth. The resulting policy picture was one common to Latin America in the 1950s and 1960s: import substitution behind high tariff walls, subsidized and managed credit, public sector expansion, currency overvaluation, monopolistic rents, price controls and subsidies, and a constant distributive battle for a piece of the state-directed pie. Propelled by the exploitation of petroleum and natural gas resources as well as external credits, the Bolivian economy did

grow at an average annual rate of some 4.5% between 1965 and 1980. By the end of the 1970s, however, Bolivia's debt servicing capacity came into question and new international lending ceased soon thereafter.

The early 1980s brought falling commodity prices, rising external interest rates, and changing and weak governments. As net resource transfers from the rest of the world turned negative after 1981, the government increasingly resorted to the printing press to finance spending; the resulting inflation eroded fiscal revenues via the Olivera-Tanzi effect. The deficit of the non-financial public sector as a percentage of GDP rose from 9.1% in 1980 to 29.5% in 1984, accompanied by a tax ratio drop in the same years from 8.8% to 2.9%. Despite six stabilization packages launched by the democratically-elected government that ruled between 1982 and 1985, inflation skyrocketed, reaching annual rates of 1281% in 1984 and 11,750% in 1985. True hyperinflation (defined as price increases of 50% or more per month) was reached by May, 1984, and lasted through September of 1985. Given lagging adjustments in the official exchange rate, the ratio of the parallel market exchange rate to the official rate rose from an average of 2.97 in 1984 to 15.76 in August of 1985. This official overvaluation also affected the public sector as about 60% of public fisc revenues were linked to the official exchange rate. With real tax/fiscal revenues dropping, the government attempted to decrease spending, particularly in the area of capital outlays. Nevertheless, revenues declined much faster than did spending, leading the government to increasingly recur to central bank credits.

B. The 1985 Orthodox Stabilization Package[8]

By mid-1985, the annualized inflation rate was running at over 20,000%, real per capita GDP had fallen some 22% since 1980, the dollar value of exports had fallen by over a third, less than one percent of GDP was flowing into the public coffers, and international reserves were severely depleted. Against this backdrop, the government called elections one year earlier than originally planned and a new center-right government took power. Within three weeks, the new government spelled out its New Economic Policy (NEP) in Supreme Decree 21060 of August 29, 1985. Embodying a series of liberalizing measures very much in the mold of the

Southern Cone liberalization experiments of the 1970s, the NEP sought to open the economy to international competition and capital and trade flows, free internal prices and interest rates, eliminate credit controls in the domestic capital market, and reduce the scope of public sector activities. The NEP, in short, attempted to encompass both short-run stabilization measures and longer-run structural changes designed to seriously modify the historic statist model and shift to a vision of market-oriented economic growth.

In terms of short-run policy, the government's first steps included the unification of the foreign exchange market, a move which generated a strong de facto peso devaluation. The Central Bank began what was effectively a managed float, permitting free access to foreign exchange via a system of daily bids at prices above a base rate fixed by the Bank. All import quotas were eliminated, and import tariffs were initially established at a uniform 10% plus 10% of the previous tariff; in August, 1986 all tariff rates were set at a uniform 20%, in early 1988 the tariff rate for capital goods was reduced to 10%, and by late 1988, tariffs on all other imports (non-capital) were fixed at a uniform 17% rate. In the financial sector, interest rates were freed and regulatory controls were loosened. Most price controls were eliminated, and public sector prices were set in accordance with the "equilibrium" exchange rate and international prices. Public enterprise reform initially targeted COMIBOL, the state mining enterprise, where the bulk of the workers were dismissed. Public sector wages were initially frozen, and wage indexation in the private sector was abolished. Wage rates were henceforth to be set at the firm level via bargaining between the employer and the union/employee, and regulations were loosened to permit easier dismissal. This last set of labor policies (as well as the overall recessionary thrust) induced protest, and the government demonstrated its new orthodox resolve by arresting union leaders and suppressing labor demonstrations. The anti-labor tone, we would suggest, was key in obtaining political support from both local capital and from international lending agencies.

Central to the stabilization plan was exchange rate stability and fiscal reform and control. During the hyperinflationary period the exchange rate had become the principal variable pushing up the price level, so that exchange rate stability became the key policy instrument

in the attack on inflation.[9] The other basic cause of the inflationary process had been uncontrolled monetary growth as fed by the public sector deficit. To close the fiscal deficit, nominal government spending was frozen and public enterprises were required to deposit their revenues in custody accounts with the Central Bank, with the use of these funds dependent on the approval of the Minister of Finance. On the revenue side, the prices of gasoline and derivatives were raised to international levels, creating a de facto gasoline tax which in the last quarter of 1985 reached some 6% of GDP. With about 60% of public fisc revenues linked to the exchange rate, devaluation and exchange rate unification had decided revenue-increasing consequences. In mid-1986 a tax reform package was legislated which placed a value-added tax at the heart of a new internal revenue tax system (the other principal taxes remained those on imports and hydrocarbons). Implementation of this reform package, which did not actually begin until April of 1987, succeeded in raising the tax ratio to some 17% of GDP by 1988.[10] Hand in hand with this restrictive fiscal policy was a restrictive monetary policy, which essentially eliminated Central Bank domestic credits for financing the fiscal deficit.

The Bolivian stabilization effort thus included all the principal elements of an orthodox stabilization package as set forth in Section II of this paper: currency devaluation and unification, restrictive fiscal and monetary policy, a public sector wage freeze, decontrol of markets and prices, external opening of the economy, financial and trade reform, and budget rationalization. There were but two significant deviations from orthodoxy: the unwillingness to free the exchange rate and continued non-payment of the external commercial debt. The consequences of the former will be dealt with subsequently. As for the latter, it is important to note that less than one-fifth of Bolivia's external debt is owed to private financial institutions, with the largest portion therefore owed to multilateral and bilateral creditors. By the end of 1988, external debt outstanding amounted to around 100% of GDP and 700% of recorded exports, while debt service payments actually made during 1988 took up over one-half of official export revenues. The government's debt strategy is to reschedule the bilateral debt while staying reasonably current on the multilateral debt. On the other hand, the

commercial debt has not been serviced since 1984, and there is presently underway a complicated (and IMF-supported) debt buyback scheme and debt-equity conversion mechanism (at 11 cents on the dollar) which actually reduced Bolivia's outstanding commercial debt during 1988.

C. *Stabilization Results Through 1988*

Perusal of the selected macroeconomic data in Table 1 permits one to conclude that stabilization was achieved, but not without cost (tables are at the end of the paper). Inflation receded rapidly, falling to 276.3% in 1986, 14.6% in 1987, and 16.0% in 1988. By the end of 1988, however, the annual rate of price rises had risen to slightly over 20%. This acceleration in inflation reflects the continuing struggle to control the public sector's fiscal deficit; the deficit of the non-financial public sector had been drastically reduced to 4.0% of GDP in 1986, but in 1987 and 1988 weighed in at 9.8% and 8.8% of GDP. Moreover, the government continues to use the exchange rate as an inflation control instrument, running the risk of serious overvaluation. While during 1987 and the first part of 1988,the rate of currency devaluation was substantially higher than the rate of domestic price inflation, precisely the opposite occurred during the latter half of 1988, and there is widespread consensus that the currency is overvalued by at least 20%. In the face of this overvaluation, international reserves in 1988 remained surprisingly intact; a partial explanation for this lies in the government's tapping of the coca-dollar well.

The costs of the stabilization program were not insignificant. Real per capita GDP fell by 5.6% in 1986, 0.6% in 1987, and 0.1% in 1988; this latter year figure is more than 30% below Bolivia's historical high achieved in 1978. The locus of productive activities continues to shift toward the informal and non-tradeables sectors, and open unemployment and underemployment rates rose appreciably after 1985. The trend in real wages is not as clear, but may have been downward (see Section III.D.2). Real money stocks and banking system deposits have increased substantially, but the deposits are mostly short-term and dollar-denominated. Market interest rates remain extremely high; at the end of 1988 they were in the

range of 24% per annum on dollar-denominated loans and 37% on boliviano-denominated loans (extraordinarily high in light of the 20% domestic inflation rate). Moreover, the financial sector exhibits serious liquidity and solvency problems.

In an effort to spur growth the NEP team promulgated the so-called Economic Reactivation Decree in July, 1987. This decree seeks to increase public and private investment, extend working capital to productive sectors, strengthen the financial system, and mobilize international resources. To promote exports, for example, the government has offered tax rebates of up to 10% for non-traditional exports. These efforts come within the context of a stagnant value of exports (FOB in U.S. dollars) and highly negative current account balance during the 1986-88 period. To be fair, factors exogenous to Bolivia have been important, particularly the sharp declines in tin and hydrocarbons prices in late 1985 and early 1986 (minerals and natural gas comprise about four-fifths of Bolivia's exports).

In sum, although real GDP did grow by 2.1% in 1987 and by 2.8% in 1988 (after a contraction of 2.9% in 1986), it is clear that stabilization has not led to a significant burst in output and investment. While the drops in world prices of tin and natural gas have certainly created weaknesses in externally-driven aggregate demand, the NEP itself has generated internal recessionary effects via tight fiscal and monetary policies and the ensuing high level of real interest rates. Moreover, the preoccupation with inflation has led to overvaluation of the exchange rate, a factor which creates not only current problems but future difficulties, especially on the export promotion front.

D. *The Quandaries of the Liberal cum Orthodox Model*

1. Sequencing

Very little, if any heed was paid to sequencing issues in the Bolivian stabilization program. This is not surprising since the Bolivian socioeconomic and political structures were quickly dissolving in August, 1985 and there was little time for such considerations. Nevertheless, a look at the sequencing issues can be useful, if only to point out why the NEP had not been very successful by the end of 1988.

Although there were certain gaps in the implementation of policy, Bolivia's NEP progenitors really did try to do everything at once. Exchange rate devaluation was accompanied by fiscal and monetary controls, the freeing of the labor and credit markets, and the simultaneous and immediate liberalization of current and capital accounts. The latter was especially important, as the subsequent capital inflows have apparently had the effect of causing a real appreciation of the boliviano, thereby generating an export-biased exchange rate overvaluation. Given the rapid opening of the current account via tariff reductions, potential exporters in the tradeables sector are being squeezed from above by international competition.

Financial sector liberalization was also too rapid, kicking in while the economy was still in severe disequilibrium and without any concomitant modifications in the auditing, accounting, and supervision practices of the banks themselves. Bank spreads remain large due to bad loan portfolios, inflated overheads, and high loss rates, and deposit rates are high due to both the large number of banks competing for deposits and depositor expectations regarding future inflation and the duration of capital flow freedom. The resulting high real rates on loans and liberalization in the absence of serious reform measures may well prove ultimately prejudicial to attempts at economic reactivation.

2. Market disequilibria

There appear to be disequilibrium situations in at least four of Bolivia's principal markets: foreign exchange, labor, goods, and credit. While orthodox stabilization promises to "get the prices right", it would seem that either some of Bolivia's key prices -- the exchange rate, wages, goods, and interest rates -- are out of whack or that simply "getting the prices right" is not the panacea orthodox enthusiasts make it out to be.

The "disequilibrium" in the foreign exchange market results from the use of the exchange rate as one of the principal instruments of inflation control. While in 1987 and the first half of 1988 slight real depreciation did occur, the base from which it commenced is suspect. Estimates made by both international organizations and private sector economists place the magnitude of overvaluation at anywhere from 20% to 40% at the end of 1988. Such

overvaluation has been "sustainable" due to capital inflows from three distinct sources: short-term private capital repatriation, laundered dollars from the cocaine trade, and multilateral loans and grants. Only the latter source can be considered a long-run inflow, and its long-run sustainability is questionable. Naturally, the disequilibrium situation in this market has serious spillover effects in the goods and labor markets.

Weak internal and external demand has produced significant excess capacity in Bolivian industry. Exports have declined due to falling traditional export prices as well as the currency overvaluation which is more directly attributable to the NEP. Combining these contractionary impulses with the NEP's tight fiscal and monetary policies and the inflows of contraband due to exchange rate differentials with neighboring countries, it is not surprising that the economy remains somewhat stagnant. Product markets are not being cleared by falling prices as, despite orthodox theory, producer mark-ups and costs seem to resist the supposed downward pressures produced by excess capacity. This price stubbornness may be partly a result of expectations of future devaluation (given the current pattern of overvaluation) and a more general fear that the NEP will eventually go the way of previous stabilization efforts and produce a new round of inflation.

The disequilibria in the labor market reflect insufficient demand in the goods market. Although the data are inconsistent and poor, trends since late 1985 appear clear: increasing open unemployment and underemployment rates, an expansion of the urban informal sector, and falling participation rates.[11] With respect to real wage trends, a Ministry of Labor series reveals constant drops in the average national wage between 1984 and 1987, while a National Statistical Institute series demonstrates a steady rise in real wages between March of 1986 and March of 1988, albeit to levels slightly below those reached in 1982 and 1983. These conflicting wage series reflect trends only in the economy's formal urban sector; given real per capita GDP declines since 1985, it is likely that real incomes in the urban and rural informal sectors have also declined. According to Bolivia's orthodox *cum* open monetarist model, initial real wage falls are expected but should be transitory. While they do reduce pressure on demand they should also lead to export and investment-led expansion; real wages and private

consumption can then grow upon the heels of the output expansion. Bolivia has not yet reached this latter stage, and does not appear likely to do so any time soon, a trend which suggests that either the theory or Bolivian policy is misplaced.

We have already commented on the disequilibria in the financial markets. High real interest rates reflect both spillovers from the past performances of banks and pessimistic expectations regarding the permanency of the orthodox stabilization model. The dilemma is that these high real interest rates seriously impede efforts to reactivate the goods and subsequently the labor markets, and thus may trigger the erosion of stability that "hot money" fears.

3. Some Reactivation Trade-offs

The ultimate goal of both the orthodox and heterodox approaches to macroeconomic stabilization is long-term economic growth and development. As often happens in economic theory and practice, the stabilization and the adjustment goals may well conflict, at least in the short- to medium-term.

In Bolivia, for example, the currency appreciation that has resulted from using the exchange rate as an anti-inflationary instrument conflicts with external opening and export promotion efforts and can generate goods and labor market disequilibria via recessionary consequences. While stabilization may require a stable exchange rate, reactivation likely requires a real exchange rate devaluation. Stabilization may also require real wage cuts in order to make exports competitive; yet, this strategy may generate social and political problems, especially when the real wage is low to begin with, and the resulting lack of consensus could damage growth.[12] Distributional conflict may also be caused by the need for fiscal discipline; stabilization clearly requires a reduction of the public sector's deficit, but falls in public expenditures on social needs can create social pressures on a fragile political structure. At the outset, Bolivian stabilization was "easy" both because hyperinflation had bred a weariness that convinced various social sectors to absorb adjustment burdens and because the government actively repressed trade union challenges. However, with inflation slowed,

output stagnant, and wages low, Bolivia's stabilization-induced political "honeymoon" may soon be over.

Conflicts between stabilization and reactivation occur on other fronts as well. Stabilization probably requires a drop in public spending, while reactivation requires more investment spending on the infrastructure. Stabilization requires a rise in external trade taxes to close the budget deficit, but reactivation requires tax rebates and export subsidies. In an ideal world, the requirements of stabilization should be phased in before the implementation of policies that seek growth. This period may take several years, at a minimum. But the debility of political and social structures does not afford the optimum amount of time. There are compromises, trade-offs, and failures.

IV. Heterodoxy in Peru

A. The Pre-Reform Macroeconomic Context

Peruvian heterodoxy arose because of both the continuing economic crisis and the perception that orthodox policies had failed to address and resolve the underlying problems. Like Bolivia, many of Perú's problems are structural: it is highly dependent on both traditional exports (particularly minerals) and imported intermediates and is marked by a maldistribution of income which has produced social tension and conflict over burden-sharing. These structural difficulties were exacerbated (as elsewhere in Latin America) by a variety of negative phenomena in the early 1980s, especially a nearly 25% slip in export revenues between 1980 and 1983. The effects on GDP were particularly striking in 1982 and 1983: after posting a minimal 1% increase in 1982, GDP plunged by 12% in 1983 (see Table 2 at the end of the paper for macroeconomic data for Peru).

The burden of managing the crisis fell to the conservative government of President Fernando Belaunde Terry. Belaunde had ruled since 1980, being the first democratically elected President since he himself had been deposed by the military in 1968. In the intervening years, the military had shifted from a highly interventionist ISI strategy to a liberalization trend, the latter partly the result of IMF pressures during a series of stabilization and debt

crises in the late 1970s. Belaunde continued and extended many of the orthodox policies (including an import opening, more hospitality to foreign investors, and a commitment to privatizing state companies), but also launched a contradictory expansion in public investment The mix was dangerous. Liberalization insured an import flood and increasing debt, while the willingness to increase public sector fiscal deficits (from around 4% of GDP in 1980 to over 7% in 1982) risked both inflation and fiscal fragility.

The 12% fall of GDP in 1983 led the Belaunde government to shift away from public sector expansion and back toward straightforward orthodoxy. From mid-1982 on, Peru operated under various IMF facilities and applied the typical orthodox medicine of real devaluation and deficit reduction. The yearly average nominal exchange rate rose, for example, by almost 1500% between 1982 and 1985, outpacing a nearly 1100% increase in the average price level during the same period. Public sector deficits fell from a peak of nearly 10% of GDP in 1983 to 2.4% in 1985. The results were, however, less than appealing: 1985 GDP remained over 6% below its 1982 level; 1985 inflation was 158.3%, twice the level of 1982; and 1985 real wages were fully 40% below the 1982 figure.

Indeed, the only major success came on the external front. The balance of trade was taken from a deficit of $429 million in 1982 to a surplus of $1172 million in 1985. This net figure, however, hides the fact that devaluation failed to raise real export volume between 1982 and 1985; given the continuing deterioration in export prices, the bulk of the trade improvement came from a growth-choking 51% decrease in import expenditures.

Taken together, the results of orthodox policy -- stagnant exports and GDP amidst rising inflation -- squared less with the expansionary scenarios of IMF theorists than with the stagflationary outcomes predicted by structuralists. The perception grew that orthodoxy was merely exacerbating the crisis -- and that a structuralist/ heterodox critique of such policy was accurate. With the election of Alan Garcia in 1985, the heterodox economists got their chance to move beyond critique to policy formation.

B. The 1985 Heterodox Stabilization Package[13]

The heterodox policy mix adopted in late 1985 and early 1986 involved at least five distinct initiatives. The first was a freeze on most prices, particularly the exchange rate (with the latter preceded by a sharp devaluation to preserve international competitiveness). Interest rates were also forced downward to lower inflationary pressures from working capital costs, protect profit margins soon to be squeezed by rising wages and controlled prices, and force inflationary expectations downward. In addition, the economy was "dedollarized" by freezing local dollar accounts and making them transferable into local currency at the official exchange rate plus a slight premium. This latter policy was designed to simulate the sort of movement to local currency typical of deflation; as with the price freeze and interest rate reductions, the heterodox team sought to obtain the results of disinflation without the usual recessionary costs.

The second major policy initiative concentrated on distributional concerns: real wages were driven upward and agricultural income was enhanced by allowing price hikes in this sector and providing low-interest rate loans to small producers. This distributional component had two rationales: to fortify the political base for the program and to provide a reflationary spurt in private demand.

Peruvian policymakers' third initiative also sought to reactivate demand by increasing fiscal deficits, particularly by reducing taxes, enhancing subsidies, and widening parastatal losses by holding public enterprise prices constant.

Fourth, Garcia announced his now-famous limits on debt service. The goal was to constrain debt payments to 10% of export revenues while maintaining payments on short-term trade credit and concessionary official loans. The argument was straightforward: reducing debt service would allow the importation of intermediate goods to fuel reactivation and would involve few costs since Peru had already been rationed out of long-term international capital markets. In fact, however, debt service had already been substantially reduced under Belaunde (from 45.4% of exports in 1982 to 20.7% in 1985) through a quieter refusal to pay; despite the proclaimed 10 %, the debt service ratio remained essentially unchanged during the Garcia period, and the 1985-87 import boom was achieved mostly by draining reserves. It was true that

capital markets were relatively closed. After Peru's total external debt grew by nearly 40% between 1980 and 1984 (reflecting banker faith in Belaunde's orthodoxy), 1985 saw an especially modest 2.9% increase. But it is clear that Garcia's debt limits, and particularly the public splash that accompanied them, cut off new capital to the dollar-hungry country.

The fifth initiative was the most complex and most related to Peru's medium-term development needs. Garcia and his party essentially proposed a new accumulation model for Peru, a social democracy in which real wages rose and government intervention increased but investment remained largely in private hands. This surprising (and often forgotten) pro-business stance of the government was evidenced in a variety of ways: the attempt to protect wage-squeezed profit margins by lowering interest costs and the price of parastatal inputs; the reduction in public investment (from 6.6% of GDP in 1985 to 4.2% in 1987) to make room for the private sector; and the pursuit of <u>concertación</u>, a social contracting process in which the government met openly with the country's largest capitalists to coordinate investment (even as the government shunned meetings with labor officials).

This last initiative was key to the heterodox plan. The heterodox team felt that coupling price controls with high levels of idle capacity would allow reactivation without inflation. In the longer-run, price pressures could only be relieved by investment in breaking domestic structural bottlenecks and enhancing the export capacity that could pay for import-reliant growth. Given the poor performance of state firms in accomplishing these tasks, the government would rely on domestic capitalists, using incentives to steer investment to the critical bottleneck sectors.

Peruvian heterodoxy was a complicated proposition. Real wage hikes and a widening government deficit were to expand demand while debt service limits provided the space to import and grow. Inflationary pressures would rise as international reserves dwindled -- but just in the nick of time, investment would enhance exports and expand domestic capacity, allowing the Peruvian economy to import and grow as inflation subsided and the government finally raised taxes to close its deficit. Success therefore relied on superb timing, a supportive private sector, and a governmental willingness to switch policies as the expansion proceeded.

Heterodoxy, in short, was an enormous and risky gamble.

C. The Results

The data found in Table 2 indicate that the first results of the Peruvian experiment seemed to vindicate the heterodox enthusiasts. Despite predictions of an early disaster by orthodox circles in Peru and IMF economists in Washington, Peru closed 1986 by achieving the highest growth rate in Latin America (8.5%) and more than halving the inflation rate (down from 158.3% in 1985 to 62.9%). Along the way, real wages posted a more than 30% gain, the terms of trade between agriculture and industry rose around 45%, and real private investment rose almost 20%.

The negative news was on two fronts. First, the public sector fiscal deficit nearly doubled as a percentage of GDP. Second, external accounts deteriorated, with exports slipping by $447 million while imports rose by $790, a pattern which drove the 1985 trade balance from a $1172 million surplus to a $65 million deficit. The effect on net international reserves was sharp, although somewhat cushioned by limits on debt service and profit remittances: from a comfortable level of $1383 million in 1985, reserves fell to $866 million.

While the growing public sector deficit and worsening reserves position were deemed part of the complex heterodox plan, the public was not reassured. Through early 1987, worries about inflation and draining reserves led to a steadily growing divergence between official and parallel market exchange rates. Meanwhile, negotiations with private sector investors bogged down and government officials (particularly Garcia himself) became concerned that investment was lagging behind the heterodox requirements.

Concerns about the parallel exchange market and lagging private investment led to the July 1987 announcement that the banking system would be nationalized. The official rationale was to "democratize credit"; the real goal seems to have been to curb the parallel market (by forcing all exchange operations into the newly nationalized financial system) and divert credit away from the large capitalists that had frustrated Garcia. Nationalizing the banking system, however, was no way to court investment from those same capitalists, and since July, 1987

Peru has been marked by open and severe antagonism between the government and capital.

Despite the deteriorating parallel exchange rate and worsening political conflict, GDP growth for 1987 was an impressive 6.9% and real wages posted another 10% gain. Unfortunately, inflation doubled to 114.5%, the fiscal deficit rose by over 2% of GDP (as real tax revenues fell by another 20%), the trade balance slipped further to a deficit of $463 million (driven by continually increasing imports), and net international reserves dwindled to $60 million. The one surprising success was a boom in private investment: as a percentage of GDP, private fixed investment rose from 6.2% in 1986 to 15.5% in 1987. The latter implies that private investors may have been "behaving" better than Garcia believed when he nationalized the banking system.

By 1988, the situation had become nearly as chaotic as Bolivia in 1984. A series of austerity packages were designed and implemented with no apparent positive effects and the year closed with fiscal accounts out of control (as the budget deficit reached 13.7% of GDP), the parallel exchange rate far out of line with the official rate, accumulated inflation topping 1500%, and GDP down some 4% -- with the consensus prediction that large falls would also occur in 1989. As a result, Garcia's popularity slipped to all-time lows, and Peru seemed poised to ride out a hyperinflationary spiral until a new government could assume power.

D. *Policy errors and alternatives*

The Peruvian program was plagued by three major problems: the reserve-consuming process of a relatively uncontrolled reactivation, the failure of concertación, and a policy euphoria that prevented necessary policy shifts.

The key to the Peruvian economy and the heterodox program was the external sector. Domestic growth in Peru is limited by the capacity to import, which is in turn limited by export revenues and payment drains (such as debt service). With the debt service limitations announced by Garcia, Peru opened up some temporary space to grow. However, the initial focus on debt flows paradoxically made the trade balance even more important, for restrictions on debt service lowered new lending, Peru had to live from reserves generated by

either enhanced exports or decreased imports (by, say, enhancing domestic agricultural production). In the policy context of 1985-87, increased investment in exports or domestic agriculture was limited by both an overvalued currency and political difficulties with private investors. Meanwhile, reserves fell due to increasing imports of intermediate goods for the booming domestic sector and food for newly employed workers. Devaluation became widely expected and capital flight stepped up, constituting yet another drain on resources. Thus, a strategy which embraced government control of the economy strangely let its one-shot increase in foreign savings to be directed by market signals to booming but inessential areas; a strategy more in line with the policy's structuralist roots would have slowed down domestic growth and redirected resources to exports and domestic agriculture.

The second major problem for Peruvian heterodoxy was the failure of concertación. Whether such a social democratic model could have worked in Peru is debatable, but once pursued it would have been better to stick with the strategy and not antagonize the large economic groups by nationalizing the banking system. By late 1988 private investment had collapsed and the public sector -- which reduced public investment as a positive signal to private investors -- was so cash-strapped by its own deficit that it could not make up the shortfall.

The final key problem was a sort of euphoria which prevented policy shifts as the macroeconomic situation changed. This euphoria was connected to the program's successes, particularly those achieved in 1986. Having pushed growth, reduced inflation, and increased both real wages and private investment, the heterodox team felt that they had proved the orthodox pessimists wrong and did not therefore need to pay heed to traditional orthodox concerns about the exchange rate, overall demand, the fiscal deficit, and interest rates.

Devaluation, for example, was rejected as stagflationary -- but the resultant real overvaluation discouraged non-traditional exports and promoted capital flight, exacerbating the reserve loss from the reactivation-induced import boom. Worries about excess demand were dismissed because of idle capacity of around 30% throughout 1987. In an open economy like Peru's, however, the relevant inflation barrier is not full capacity output but that level of

output associated with trade and payments equilibrium. When the reactivation-induced import boom lowered net international reserves from $1383 million in 1985 to $60 million in 1987, supply became import-constrained and producers reacted by raising mark-ups.[14]

The heterodox team also downplayed the importance of the widening public sector deficit. Rising deficits, however, produced widespread expectations of inflation and devaluation. Moreover, the growing deficits -- particularly since they were mostly the result of falling government income -- indicated an important contradiction in the heterodox plan: a program which required a strong and effective state left this sector starved of resources and under pressure to trim its own borrowing even as the failure of concertación presented a need to enhance public investment in priority sectors. Interest rate policy was equally perverse. Reducing working capital cost-push was a worthy goal, but allowing domestic real interest rates to fall to -26% in 1986 and -42% in 1987 had predictable effects: reserves drained due to dollarization, capital flight, and the acquisition of imported consumer durables by higher income groups and imported input stocks by firms.

In short, sustaining heterodoxy in the medium term necessitated some return to the orthodox attention to exchange rates, budget deficits, and interest rates (see the warnings issued by Thorp in 1987).[15] Such attention to these areas did not imply a wholesale adoption of orthodox theory. Structuralism had, after all, long stressed that Third World economies suffer from a variety of endogenous difficulties: external bottlenecks which generate inflation and constrain growth; the limited taxing capacity of the state which in turn limits required investments in public infrastructure; and the underdeveloped nature of financial intermediation which exacerbates the risks of dollarization. Policy euphoria and divisions within the government let these structuralist lessons slip to one side. Hyperinflation and economic collapse have been the result.

V. What Have We Learned?

This paper has reviewed the logic of orthodox and heterodox stabilization policies and explored their implementation in Bolivia and Peru. The temptation is, of course, to declare one

set of policies "better" and suggest that they be adopted by the "misbehaving" comparison country. Such a declaration is especially inviting given the inflation success of orthodoxy in Bolivia and the emerging debacle in Peru.

The reality is more complex. Peru is now suffering a recessionary adjustment -- but from a 1987 GDP plateau some 17 % higher than its 1985 level. Bolivia may have temporarily licked inflation -- but its 1988 real per capita GDP was 6.3% below that in 1985, and the country is plagued by problems that limit long-term growth. In what follows, we resist the temptation to simply pronounce approval or disapproval and instead draw some policy lessons from both experiences.

There are at least six lessons. First, the _rigid_ application of either orthodox or heterodox nostrums will most likely terminate in failure. Each dosage of stabilization medicine must take into account the peculiarities of each socio-economic and political situation, and policy-makers must be flexible and willing to change directions as the situation warrants.

Second, such policy flexibility is often limited by the "euphoria" produced by initial success. In Peru, the exchange rate, interest rate, government deficit, wage, and external policies that produced the 1986 boom should have been reversed in 1987 in order to sustain the medium-term viability of the program; intoxicated by their success and under political pressure to continue growth, Peruvian policy-makers choose to stick with the same strategy, and hyperinflation resulted. In Bolivia, stabilizing the exchange rate stopped the 1984-85 hyperinflation, but policy rigidity on this issue has since prompted a currency overvaluation which maintains dollarization, fuels non-essential imports, and slows non-traditional exports.

Third, external constraints are key for small countries attempting stabilization. Draining reserves doomed the Peruvian program; from day one, domestic growth should have been slowed in order to shore up the export base needed to fund imports and reactivation. In addition, a less public stance on debt service limits would have been preferable; Garcia's speeches simply attracted negative attention from bankers and the IMF. Bolivia, meanwhile, has been blessed by new loans from international organizations and significant support from advanced capitalist countries. It has quietly refused to pay its commercial debt and has used

its influence with multilateral institutions to force commercial lenders to grant Bolivia the highly unusual privilege of repurchasing the debt at deep discounts on secondary markets. Such favors result from Bolivia's adoption of the orthodoxy the IMF, the U.S., and bankers prize; until these actors shift their own attitudes, small debtors should realize that heterodox policies (particularly debt service limits) may force them to live from their own export revenues.

Fourth, policy makers should pay early attention to contradictions between short- and long-run policy. Stabilization, it seems, may involve policies that need to be reversed in order to promote long-term development. A particular problem is the use of the exchange rate as an anti-inflation tool. In both Peru and Bolivia, the real exchange rate drifted downward, exports declined, and imports initially boomed, a pattern which merely worsens long-run constraints. Bolivian orthodoxy did allow this country to finance its current account deficit with external funds, but neither the Peruvian nor the Bolivian performance evinces much concern over the external issues described above, and both experiences seem to indict the exchange rate.

Fifth, neither orthodox nor heterodox stabilization programs can ignore certain economic fundamentals. In the long-run, fiscal deficits, overvalued exchange rates, excessive real (positive or negative) interest rates, and the external accounts do matter, and sustained disequilibria in any one of these areas will destabilize the most well-intentioned attempts at adjustment.

Finally, stabilization programs have a class character and distributional consequences. Peruvian authorities explicitly considered these issues, but eventually alienated both the investors they courted and the workers they sought to keep as junior partners in their social democratic project. The Bolivian orthodox program was more straightforward. It took a firm line against labor in order to obtain the support of local and international capital. Weary of hyperinflation, the populace was willing to tolerate general austerity and regressive redistribution; political support for orthodoxy, however, seems to be vanishing as the memories of hyperinflation recede, and the program will have to deliver benefits to larger groups or its political base will vanish along with the memories. Stabilization and reactivation, in short, are

profoundly political process -- and policy-makers who ignore this will soon cease to make policy.

NOTES

[1]See Pastor (1987).

[2]See Pastor (1989a).

[3]See Bruno (1985).

[4]The contents of this and the subsequent paragraph draw heavily on Edwards (1987).

[5]Numerous examples are cited in Edwards (1987).

[6]This "squeeze on tradeables" concept as applied to Argentina in the late 1970s and early 1980s is analyzed in Mann and Sanchez (1984).

[7]See Dornbusch (1988).

[8]What appears here is a much abbreviated version more extensively described and analyzed in Morales Anaya (1987) and Sachs (1987a).

[9]This relationship is econometrically tested and validated in Pastor (1989b).

[10]The Bolivian tax reform is described from a political economy point of view in Mann (1988).

[11]These trends are very similar to those that occurred in the Southern Cone countries of Argentina, Chile, and Uruguay under their stabilization and liberalization programs of the 1970s. The labor market consequences of these policies are analyzed in Mann and Sanchez (1985).

[12]For more on the positive growth effects of a more equitable income distribution and the need for a prolonged period of stabilization prior to the implementation of growth-oriented reforms, see Sachs (1987b).

[13]The Peruvian stabilization package is more extensively described in Webb (1987).

[14]Indirect evidence that this mark-up adjustment actually occurred comes from two sources: (1) the widening gap between consumer and wholesale price inflation in 1987 (the ratio of year-average consumer to wholesale inflation went from .98 in 1985 to 1.29 in 1986 to 1.67 in 1987); and (2) the increase by 14% in 1987 (from 0.36 to 0.41) in the share of national income going to employers and owners.

[15]Thorp issued her warnings while giving a series of important lectures in Lima in early 1987. Her basic message is summarized in Thorp (1987).

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TABLE 1

Bolivia: Selected Macroeconomic Indicators, 1980 - 1988

Year	Percentage Change in Real GDP (annual average)	Consumer Price Inflation (annual average)	Index-Real GDP per Capita (1980=100)
1980	-1.4	47.2	100.0
1981	0.9	32.1	98.2
1982	-4.4	123.5	91.3
1983	-6.5	275.6	83.0
1984	-0.3	1281.3	80.6
1985	-0.2	11749.6	78.3
1986	-2.9	276.3	73.9
1987	2.1	14.6	73.4
1988	2.8	16.0	73.4

Year	Public Sector Budget Balance	Central Government Current Income	Gross Fixed Investment Total	Gross Fixed Investment Public	Gross Fixed Investment Private
	(all figures as a % of GDP)				
1980	-9.1	9.6	14.2	---	---
1981	-7.7	9.2	13.9	---	---
1982	-15.5	4.8	13.0	---	---
1983	-18.7	2.8	11.7	---	---
1984	-29.5	3.3	12.2	---	---
1985	-9.9	10.1	10.9	---	---
1986	-4.0	13.2	6.1	---	---
1987	-9.8	17.4	5.9	---	---
1988	-8.8	17.5	5.7	---	---

Year	Exports (FOB)	Imports (CIF)	Trade Balance	External Debt	Net Int'l. Reserves
	(millions of US$)				
1980	942.2	665.4	276.8	2312	-102
1981	912.4	917.1	-4.7	2653	-264
1982	827.7	554.1	273.6	2803	-327
1983	755.1	576.7	178.4	3176	-45
1984	759.6	488.5	271.1	3208	104
1985	655.4	690.9	-35.5	3294	136
1986	620.4	674.0	-53.6	3536	247
1987	553.1	766.3	-213.2	4162	189
1988	580.6	578.6	2.0	3993	161

All data from Central Bank of Bolivia, National Statistical Institute, and Ministry of Finance. Because wage data is unreliable, we proxy this series with real GDP per capita. A breakdown between public and private investments is also unavailable.

TABLE 2

Peru: Selected Macroeconomic Indicators, 1980 - 1988

Year	Percentage Change in Real GDP (annual average)	Consumer Price Inflation (Jan-Dec)	Real Wage Index (1980=100)
1980	2.9	60.8	100.0
1981	3.1	72.7	98.1
1982	0.9	72.9	99.1
1983	-12.0	125.1	82.8
1984	4.7	111.5	70.2
1985	1.9	158.3	60.6
1986	8.5	62.9	80.8
1987	6.9	114.5	88.5
1988	-4.1	1568.6	62.0

(all figures as a % of GDP)

Year	Public Sector Budget Balance	Central Government Current Income	Gross Fixed Investment Total	Gross Fixed Investment Public	Gross Fixed Investment Private
1980	-3.9	17.1	16.3	7.4	8.9
1981	-6.7	14.3	19.2	8.9	10.3
1982	-7.3	13.8	19.1	9.4	9.7
1983	-9.8	11.5	16.2	9.4	6.8
1984	-6.2	13.1	14.9	8.8	6.1
1985	-2.4	14.0	12.3	6.6	5.7
1986	-4.7	11.9	11.6	5.5	6.2
1987	-7.1	8.7	19.7	4.2	15.5
1988	-13.7	---	---	---	---

(millions of US$)

Year	Exports (FOB)	Imports (FOB)	Trade Balance	External Debt	Net Int'l. Reserves
1980	3916	-3090	826	9595	1276
1981	3249	-3802	-553	9606	771
1982	3293	-3722	-429	11465	896
1983	3015	-2722	293	12445	856
1984	3147	-2140	1007	13338	1103
1985	2978	-1806	1172	13721	1383
1986	2531	-2596	-65	14477	866
1987	2605	-3068	-463	15441	60
1988	2710	-2925	-215	16320	-275

All data from Peru's National Statistical Institute and the Centro de Investigacion, Universidad del Pacifico, Lima, Peru. 1988 figures are author's estimates and subject to revision; no reliable estimates of certain fiscal and investment measures could be calculated. The public sector budget balance is for the economic deficit and thus excludes debt amortization.