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New Constitution Pushes Bolivian Economy into Socialism

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The new Bolivian constitution—written by President Evo Morales and approved by voters in late January—is an assault upon the universal ideals of individual and economic freedom. Fortunately, Morales was forced to scale back the most radical land-grabbing elements of the constitution after the first draft was met with massive protests. Nevertheless, as the *Daily Telegraph* of London noted, the new constitution marks another step in Morales's campaign to “enhance his own powers and turn the country into a quasi-Socialist state.”¹

An analysis of some of the most radical provisions in the new 100-page constitution concerning the economic structure and organization of the economy provides a good indication of where Bolivia is heading under Morales's leadership.

A Threat to Private Property Rights. The new constitution (Article 308) purports to respect “private initiative and the freedom to operate a firm.” However, Articles 312 and 56 seem to contradict this notion, with the former warning that “the private accumulation of economic power” will not be permitted to “endanger the economic sovereignty of the State” and the latter asserting that “the right to own private property either individually or collectively [must] fulfill a social function” and “not harm the collective interest.”²

These conflicting articles raise a number of questions:

- Under what criteria will the Morales government decide whether the economic sovereignty of the state is being endangered?

- How much private economic power “accumulation” will be enough to “endanger” the state?
- Who defines a “social function”?
- What is the definition of economic power?
- How is the collective interest going to be determined, and by whom?

Morales and his fellow socialists apparently do not realize that the firms' growth can be choked off if taxes are too high. At a certain point, these over-taxed firms will die. And with them will die good jobs and a part of Bolivia's economic vitality. What incentives are left for entrepreneurs to open a business when they might be prosecuted under the constitution if they end up being “too successful” or accumulating “too much” economic power?

That the drafters of the new constitution did not take into consideration the possibility that the government can destroy private companies indicates either their paucity of understanding of how a market economy functions or their devotion to Marxist beliefs and desire to kill the private market entirely. The new constitution's provisions for exceptions to the “social function” rule when failing industries (presumably state-owned) are allowed to subsist

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with the help of government subsidies or protectionist measures is another sign of the statist orientation of the new constitution.

The constitution also contains too much authority and discretion for courts to interpret its provisions with regard to the fundamental principles of property rights. Given the ability of the Morales government to pressure judges or otherwise sway judicial opinion and rulings from the bench, it appears that defenders of private property and genuine rule of law will not fare well under the new national charter.

Re-Nationalization of State-Owned Monopolies.

Article 316 of the new constitution addresses the government's responsibilities toward the economy, the most relevant of which is to "determine the state monopoly of the productive and commercial activities that are considered non-rescindable in case of public necessity."³ This provision is another threat to property rights, since the new constitution, for all of its verbiage, fails to establish a clear boundary to judge what constitutes a public necessity. The very ambiguity of this term might permit the government to define "public necessity" in whatever way it desires so that it can appropriate a specific firm's means of production, whether it is privately owned or not.

In recent years, the "public necessity" argument has been used by the Morales government to justify the re-nationalization of several private or semi-private firms, including landline telecommunications carrier Entel⁴ and Bolivia's oil and natural gas sector.⁵ Article 316 raises the possibility that any remaining private economic activity can fall under the scope of government control.

This expansion of government control over the private sector is aggravated by Article 339, which gives the President the authority to declare an emergency and spend government funds that have not been appropriated by the legislature in the budget. With this additional "power of the purse," Morales can create additional public monopolies with very deep pockets, a situation ripe for financial mismanagement and corruption.

Hostility to Foreign Direct Private Investment.

Article 320 raises the possibility of blocking private foreign investors, since "Bolivian investment will be prioritized over foreign investment."⁶ Bolivia is a country rich in natural gas reserves, minerals such as lithium (needed for hybrid vehicle batteries), and other natural resources. It has and would continue to benefit from diverse sources of private financing for new projects in these areas, either domestic or foreign, but such investment will be stymied by Article 320.

Central Bank Loses Autonomy. Aping his Venezuelan mentor, would-be President for life Hugo Chavez, Morales also used the new constitution to gain control over his nation's central bank through Articles 326 ("The State, through its executive branch, will determine the monetary and exchange rate policy objectives in the country, in coordination with the Central Bank of Bolivia") and 329 ("The president of the Central Bank of Bolivia is required to submit reports and balances [to]...the Plurinational Legislative Assembly...and is under a system of fiscal and governmental control by the State").⁷

These two articles do not allow for the independence of the central bank from the executive

1. Gareth Rubin, "Bolivia Faces Crisis as Evo Morales Wins Referendum," *The Telegraph*, January 27, 2009, at <http://www.telegraph.co.uk/news/worldnews/southamerica/bolivia/4346584/Bolivia-faces-crisis-as-Evo-Morales-wins-referendum.html> (March 4, 2009).
2. New Political Constitution of the State, National Congress, Constitutional Assembly of Bolivia, October 2008, at http://www.samuel.bo/wp-content/uploads/2008/12/cp-congreso_final-21-octubre-r1.doc (March 4, 2009).
3. *Ibid.*
4. International Telecommunication Union, "Government to Nationalise Entel Bolivia," June 20, 2006, at <http://www.itu.int/ituweblogs/treg/Government+To+Nationalise+Entel+Bolivia+.aspx> (March 20, 2009).
5. Carin Zissis, "Bolivia's Nationalization of Oil and Gas," Council on Foreign Relations, May 12, 2006, at <http://www.cfr.org/publication/10682> (March 20, 2009).
6. New Political Constitution of the State, National Congress, Constitutional Assembly of Bolivia.
7. *Ibid.*

branch. This lack of autonomy could allow Morales to pursue the dangerous practice of financing public debt by monetizing it through the central bank, which can have serious inflationary consequences.

Zimbabwe Redux? Many in Morales's political base of support are indigenous Bolivians from the western highlands who have been mired in poverty for generations. Improving these indigenous people's living conditions is certainly a laudable goal, but Morales's methodology for realizing such improvement—attempting to control all Bolivian mineral and gas exports and using legal subterfuge to grab farm land from the relatively wealthier eastern lowlands and give it to his followers—will end in disaster for all Bolivians. The poor will be poorer, and those whose lands they occupy will be newly impoverished and vengeful. When Robert Mugabe tried a similar scheme in Zimbabwe, it resulted in horrific internecine violence and the worst hyperinflation in world history.⁸ Bolivians can do better

than following Mugabe's blueprint of economic and social disaster.

The Obama Administration Must Act. Given the likelihood that Morales will use the new constitution to drive Bolivia's economy into ruin, the possibility of future political violence cannot be ruled out. The Obama Administration must take steps quickly to work with other Latin American countries to contain the damage from Morales's reckless and thoughtless actions. If not stopped, the upheaval in Bolivia could threaten the stability of the rest of the continent.

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8. U.S. Department of State, "Background Notes: Zimbabwe," January 2009, at <http://www.state.gov/r/pa/ei/bgn/5479.htm> (March 23, 2009).