

*A church in Potosí  
Courtesy Inter-American  
Foundation*



*An Aymara woman praying  
Courtesy Inter-American  
Foundation*



operations for two years. The reconstituted commission operated under tighter episcopal controls than did its predecessor.

The return of democracy in the 1980s presented the church with a new set of challenges. Although the CEB recognized that the economic crisis of the early and mid-1980s required strong measures, it publicly questioned the wisdom of the stabilization policies adopted in 1985 by President Víctor Paz Estenssoro. Endorsing the position adopted at the Latin American Bishops Conference in Puebla, Mexico, in 1979, the CEB suggested that Paz Estenssoro's New Economic Policy (Nueva Política Económica—NPE) would generate increasing levels of inequality in society. The bishops followed up this pastoral letter by mediating negotiations in 1986 between the government and the Bolivian Labor Federation (Central Obrera Boliviana—COB; see *Political Forces and Interest Groups*, ch. 4).

In 1986 the Roman Catholic Church was organized into four archdioceses (La Paz, Santa Cruz, Cochabamba, and Sucre), four dioceses, two territorial prelatures, and six apostolic vicariates. The bishops had at their disposal approximately 750 priests, most of whom were foreigners. The paucity of priests significantly hampered church activities. For example, the archdiocese of Sucre only had sixty-two priests to attend to the needs of an estimated 532,000 Catholics dispersed over 50,000 square kilometers.

Because of the church's weak rural presence, the vast majority of Indians followed their own brand of folk-Catholicism far removed from orthodoxy. Indians saw no inconsistency in mixing modern technology and medicine with folk curers or indigenous ritual with professed Roman Catholicism. Indigenous rituals and fragments of Roman Catholic worship were interwoven in the elaborate fiestas that were the focus of social life.

The Quechua and Aymara pantheon was a mix of Christian and pre-conquest spirits and beings. A deity like the virginal daughter of the Inca sun god was transmuted into a Christian figure, in this case the Virgin Mary. Many of the supernaturals were linked to a specific place, such as lake and mountain spirits. The earth mother, Pachamama, and fertility rituals played a prominent role.

In the 1980s, Mormons, Jehovah's Witnesses, Seventh-Day Adventists, and members of a variety of Pentecostal denominations gained increasing numbers of adherents among the rural and urban squatter populations. Because these denominations tended to emphasize individual salvation and to deemphasize social and political issues, many leftists charged that they were agents of the United States government. In May 1989, left-wing terrorists murdered two Mormon missionaries from the United States who had been working

in a squatter community near La Paz (see *Subversive Groups*, ch. 5).

Other denominations represented in Bolivia included Methodists and Mennonites. The Bahai faith had members in over 5,500 localities. Bolivia also had a small Jewish community, which had not reported any discrimination. In 1988 the government stated that numerous religious groups were operating in Bolivia illegally, but its attempt to expel some foreign members of the Hari Krishna sect in 1986 was overturned by the Supreme Court of Justice.

## **Education**

Chronic political instability hindered the development of general education throughout Bolivia's history. In the colonial era, education was limited to a few clergy acting as tutors for the sons of elite families. Little effort was made to teach the Indians beyond the bare necessity to convert them. Independence brought a series of ambitious decrees calling for universal, compulsory primary education and a public school system; nonetheless, little was accomplished. By 1900 schools existed primarily to serve urban elites. No vocational or agricultural institutes existed in the country. Only 17 percent of the adult population was literate.

A teaching mission from Belgium arrived in the early 1900s and, over a thirty-year period, established a foundation for rural primary education. In 1931 Elizardo Pérez founded a large nuclear school (a central school with five to eight grades) near Lake Titicaca. Smaller satellite schools in nearby settlements supplemented the nuclear school's offerings. This arrangement became the prototype for rural education in the Andes.

Overall, however, little real expansion of educational opportunities occurred. A 1947 law calling for an end to illiteracy drew attention to the government's limited capacity for action in this area. It required that every literate Bolivian teach at least one other to read and write and levied fines for adult illiteracy. On the eve of the 1952 Revolution, less than one-third of the adult population was literate.

Legislation in 1956 laid the foundation for the public education system in force in the late 1980s. The government established a six-year primary cycle followed by four years of intermediate schooling and two years of secondary school ending with the baccalaureate degree. Laws in 1969 and 1973 revised the curricula and instituted a five-year primary cycle, theoretically compulsory between the ages of seven and fourteen, followed by three years of intermediate school and four years of secondary education. The first two years of secondary instruction consisted of an integrated

program that all students followed; the second two-year cycle permitted students to specialize in the humanities or one of several technical fields. All courses led to the baccalaureate degree, which was a prerequisite for entering the university.

Higher education consisted of the University of Bolivia and a variety of public and private institutes. The University of Bolivia—a consortium of eight public universities and one private university (the 1,500-student Bolivian Catholic University)—was the only post-secondary school that awarded degrees. At least four other private institutions were operating without legal authorization in 1989. Other schools offered technical training in the fine arts, commercial arts, and technical fields, as well as in teacher training.

The University of Bolivia, which enrolled more than 100,000 students in 1989, was embroiled in a bitter conflict with the Paz Estenssoro government over what academic leaders feared were government plans to make drastic cuts in publicly financed higher education. The government acknowledged its plans to promote private institutions in an attempt to reverse a general decline in academic standards resulting from wide-open admission policies. The impasse over university finances led to student protests in 1988, with police intervening in the country's largest university, the 37,000-student San Andrés University in La Paz.

The Ministry of Education and Culture organized adult literacy classes. By the mid-1980s, approximately 350 centers and more than 2,000 teachers were dedicated to adult literacy programs. More than half were in the department of La Paz, where less than one-third of the population lived. The program had little impact, however; improvements in the adult literacy rate, which stood at 75 percent in the mid-1980s, primarily resulted from increased primary school enrollment. From 1973 to 1987, the percentage of school-aged children enrolled in primary schools climbed from 76 to 87 percent (see table 4, Appendix).

Most educational expenditures went for operating budgets, especially personnel costs, leaving little for capital programs and expansion. Spending remained skewed in favor of the urban areas. Approximately 60 percent of Bolivia's 59,000 teachers were employed in urban schools. The economic crisis that beset the country in the early to mid-1980s had a severe impact on educational spending. Analysts estimated that real education expenditures in 1985 were less than 40 percent of the total recorded in 1980. Over the same period, the percentage of the gross domestic product (GDP—see Glossary) devoted to education dropped from 3 percent to less than 2 percent.



*An Aymara woman participating in informal education training  
Courtesy Inter-American Foundation (Kevin Healy)*



*A literacy class in the El Alto section of La Paz  
Courtesy Inter-American Foundation (Kevin Healy)*

Although the education system recorded some progress in enrollments in the 1970s and 1980s, serious problems remained. The number of secondary school students grew twice as fast as the population of that age-group; the university student population grew more than four times faster than the total population of eighteen- to twenty-four-year olds. Still, secondary education remained beyond the grasp of most Bolivians; only 35 percent of the eligible age-group attended secondary school. Significant disparities also existed between male and female enrollment rates. Efforts to increase female attendance ran up against the harsh economic realities faced by poorer families who relied on their daughters' help with chores and child care.

Dropout rates also remained extremely high. Only one-third of first graders completed the fifth grade, 20 percent started secondary school, 5 percent began their postsecondary studies, and just 1 percent received a university degree. Dropout rates were higher among girls and rural children. Only about 40 percent of rural youngsters continued their education beyond the third grade.

Finally, Quechua- and Aymara-speaking children faced special problems. Bolivia had no national program of bilingual education. There were a few moderately successful pilot programs; in addition, Indian teachers often translated lessons while instructing their classes. In general, however, Spanish was the language of instruction at every level. Critics blamed the absence of bilingual education for the high dropout rates among rural Indian schoolchildren.

## **Health and Social Security**

From the mid-1970s to the mid-1980s, Bolivia made slow but steady progress in improving the health conditions of its population. Life expectancy rose from forty-seven years in 1975 to nearly fifty-one years in 1985. During the same period, the mortality rate dropped from 18.4 to 15.9 per 1,000 population, while the infant mortality rate dropped from 147.3 to 124.4 per 1,000 live births. The mortality rate in children one to four years of age dropped from 14.6 per 1,000 population in 1975 to 10.9 per 1,000 by 1980. Despite these improvements, however, in the mid-1980s Bolivia's health indicators were among the worst in the Western Hemisphere. Its life expectancy was the lowest in the Western Hemisphere, and its infant mortality rate was third after that of Peru and Haiti. An estimated 70 percent of the population suffered nutritional deficiencies. Only 43 percent had access to a safe water supply. Barely 24 percent could avail themselves of adequate sanitary facilities.

Health conditions varied significantly across regions and, within regions, by urban or rural residence. For example, disaggregated infant and childhood mortality rates for the mid-1970s revealed significant regional and urban/rural disparities (see table 5, Appendix). Infants in the rural parts of the Altiplano, valleys, and Yungas had a far greater probability of dying than those in the urban lowlands. Mortality rates for children up to the age of five in the departments of Potosí and Chuquisaca were nearly double those found in the departments of Santa Cruz and Beni. Analysts also noted disparities in rates among ethnic groups. Rates were highest among children of mothers who spoke only an indigenous language, intermediate among bilingual mothers, and lowest among monolingual Spanish-speaking mothers.

Gastrointestinal diseases, measles, and respiratory infections caused 80 percent of infant mortality. An ambitious vaccination program in the early 1980s brought a significant decline in the number of cases of poliomyelitis, whooping cough, tetanus, and measles. The number of cases of diphtheria climbed, however, during the early 1980s.

Bolivian health specialists also confronted a variety of diseases that affected the general population. A national survey in the early 1980s revealed the presence of the vector responsible for Chagas' disease in the homes of 26 percent of the population. The number of cases of malaria—primarily found in Beni, Santa Cruz, Tarija, and Chuquisaca departments—rose from 9,800 in 1981 to 16,400 in 1984. In 1984 the government organized a mass campaign in an effort to deal with a malaria epidemic in Beni Department. In 1983 the government also organized a major yellow fever vaccination program; the number of cases of jungle yellow fever declined from 102 in 1981 to 5 in 1984. Pulmonary tuberculosis remained a serious concern; over 9,400 cases were reported in 1981. In addition, during the 1970s over 360 miners per year died from silicosis. Finally, as of 1987 Bolivia reported six cases of acquired immune deficiency syndrome (AIDS).

In the mid-1980s, the government was restructuring its health care system to allow for a more effective delivery of services. Bolivia's health network traditionally had been characterized by a high degree of fragmentation and duplication of services. Although the Ministry of Social Services and Public Health had overall responsibility for the system, ten separate social security funds offered health services to members insured through their place of employment. In addition to wasting scarce resources, this approach had a heavy urban bias. The new approach called for a unified system under the control of the Ministry of Social Services and Public Health, with emphasis on preventive rather than curative medicine.

The total fertility rate (the number of children a woman expected to bear during her reproductive life) was 6.0, and the crude birth rate (per 1,000 population) was 43 in the late 1980s. Both had declined but remained higher than those of neighboring countries. Fertility was highest among rural women, non-Spanish speakers, and women with little or no education. Roughly one-quarter of all married couples were using some form of family planning.

Bolivia's booming cocaine industry was also spawning serious health problems for Bolivian youth. In the 1980s, Bolivia became a drug-consuming country, as well as a principal exporter of cocaine (see *Narcotics Trafficking*, ch. 5). Addiction to coca paste, a cocaine by-product in the form of a cigarette called *pitillo*, was spreading rapidly among city youths. *Pitillos* were abundantly available in schools and at social gatherings. Other youths who worked as coca-leaf stompers (*pisadores*), dancing all night on kerosene and acid-soaked leaves, also commonly became addicted. The *pitillo* addict suffered from serious physical and psychological side-effects

caused by highly toxic impurities contained in the unrefined coca paste. Coca-paste addiction statistics were unavailable, and drug treatment centers were practically nonexistent.

Social security coverage began in the early twentieth century when legislation created pension funds for teachers, the military, bank employees, and civil servants. The prototype for modern coverage came in the late 1940s and early 1950s with laws covering such benefits as disability insurance, maternity care, medical care, pensions, and funeral benefits. The Social Security Code of 1956 provided assistance for sickness, maternity, occupational risks, long- and short-term disability, pensions, and survivors' benefits.

In the late 1980s, social security programs only covered roughly 20 percent of the population (counting families of insured workers). Agricultural workers and the self-employed—a significant portion of the working class—were excluded. The percentage of the population covered was highest in the mining department of Oruro (43 percent) and lowest in the departments of eastern Bolivia.

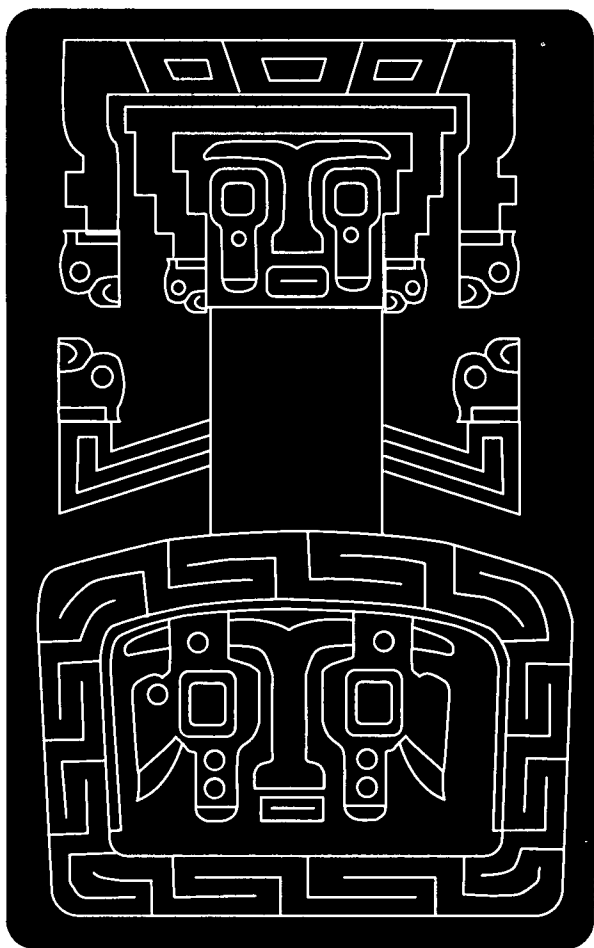
Worker and employer contributions financed most benefits. Taxes provided additional money for some of the smaller funds. Since the mid-1960s, retired workers in many industries had established complementary pension funds to help protect their retirement benefits from the effects of inflation.

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The works of William E. Carter and those of Hans C. Buechler and Judith-Maria Buechler offer useful analyses of Aymara culture. Harold C. Osborne's *Indians of the Andes* has a thorough, if dated, description of the Quechua and Aymara Indians. M.J. Hardman's *The Aymara Language in Its Social and Cultural Context* and articles by Dwight B. Heath, William Léons, and Madeline Barbara Léons describe ethnic relations in postrevolutionary Bolivia. Tristan Platt, Olivia Harris, and Inge Maria Harman all present detailed studies of contemporary community dynamics among Quechua speakers. Lesley Gill's *Peasants, Entrepreneurs, and Social Change* and Connie Weil's "Migration among Land Holdings by Bolivian Campesinos" both detail colonization of the eastern lowlands. The works of Doris E. Widerkehr and June Nash describe conditions among miners. Brooke Larson traces the evolution of agrarian society in the Cochabamba region between the sixteenth and nineteenth centuries in *Colonialism and Agrarian Transformation in Bolivia*. For analyses of the impact of the cocaine industry on rural society in Bolivia, Kevin Healy's "The Boom Within the Crisis" and "Coca, the State, and the Peasantry in Bolivia, 1982-1988" are informative. (For further information and complete citations, see Bibliography.)



## Chapter 3. The Economy



*Symbolism on the front of the Great Idol of Tiwanaku*

**BOLIVIA, A RICHLY ENDOWED** country, contained a mostly poor population. Despite abundant and diverse metal and mineral deposits, substantial hydrocarbon reserves, vast untapped fertile plains, dense virgin forests, and numerous swift rivers with great hydroelectric potential, the country's gross domestic product (GDP—see Glossary) in 1987 was only approximately US\$4.35 billion. Its per capita income of US\$640 made Bolivia the second poorest nation in South America after Guyana. The economy's slow development stemmed in part from the country's rugged and varied terrain, inadequate infrastructure, lack of direct access to international markets, and underpopulation. In addition, an endemic and debilitating political instability often corrupted and derailed the economic development process.

Bolivia experienced two major revolutions in economic policy during the second half of the twentieth century, both of which were led by Víctor Paz Estenssoro (1952–56, 1960–64, and 1985–89). In 1952 Paz Estenssoro's Nationalist Revolutionary Movement rose to power and supplanted a political system dominated by the narrow interests of three tin-mining families and a landed oligarchy. The Nationalist Revolutionary Movement attempted to reverse the gross inequities that had evolved under the previous order. The central economic tenets of the revolution were land reform, the nationalization of the tin mines, labor rights, and a leading role for the public sector.

In the ensuing decades, however, Bolivia's public sector swelled far beyond the economy's ability to sustain it. Although external development financing reached an unprecedented level in the 1970s, it was sharply curtailed by the end of the decade. Servicing this debt severely strained the economy in the 1980s and contributed to a decline in total output of over 4 percent a year between 1980 and 1986. Hyperinflation made the currency worthless by the mid-1980s. When Paz Estenssoro again assumed the presidency in 1985, he introduced a stabilization plan, backed by the International Monetary Fund (IMF—see Glossary), that was unmatched in its austerity and in its attempt to totally restructure a Latin American economy toward market mechanisms.

Mining dominated the economy from colonial times until the 1985 crash of the international tin market. Natural gas replaced tin and other minerals in the 1980s as the leading export and was the hub of future development strategies. Agriculture employed

nearly half of the official labor force, and government policies favored increased diversification toward manufactured agricultural products. In the late 1980s, an underground economy based on contraband, coca production, and other commercial trading in the informal sector (see Glossary) also thrived. These unregistered activities, employing two-thirds of the work force, totaled more than the official international trade.

Bolivia's economic upheavals in the 1980s were costly to workers, producers, institutions, the national currency, and the economy at large. Although a moderate recovery of 2 percent in real growth in 1987 and 3 percent in 1988 had begun, both medium-term challenges and long-term structural obstacles faced economic policymakers. Debt was particularly well managed but remained one of Latin America's highest on a per capita basis. Foreign investment, an important component of the stabilization plan, had still not materialized, and political stability remained tenuous. In the late 1980s, many Bolivians remained skeptical of government, which they viewed as tied to a history of corruption, high salaries, and incompetence.

## **Growth and Structure of the Economy**

The Spanish arrived in what is present-day Bolivia in 1532 and replaced an Inca economic system based on collective agriculture, the *ayllu* (see Glossary), and economic tributes to a socio-religious hierarchy with a system dominated by the conquistadors and the Spanish crown. They organized the Indians into an *encomienda* (see Glossary) system in which they again paid tributes, now to conquistadors, and toiled in the silver mines of Potosí under a compulsory labor system called the *mita* (see Glossary). Through the exploitation of Indian labor, the Spanish by the mid-1600s had converted Potosí into South America's most populated metropolis (see The Economy of Upper Peru, ch. 1).

Independence in 1825 did little to improve the economic lot of Bolivia's Indian majority. Indeed, the already unfair distribution of land, a legacy of the *encomienda* system, was worsened when the government abolished the land tenure system of the Indian communities in 1866. The system that emerged was dominated by nearly feudal peonage rather than wage labor.

By the late 1800s, the silver industry had suffered a sharp decline and was replaced by tin mining. The tin industry benefited from the new rail access linking the country's mines to Pacific Ocean ports for the first time. The rail access to ocean ports had become crucial to the Bolivian economy by the early 1880s because Chile had seized the country's outlets to the sea during the War of the

Pacific, 1879–83 (see *From the War of the Pacific to the Chaco War, 1879–1935*, ch. 1).

Bolivia's tin industry boomed in the early twentieth century as the invention of the vacuum-packed tin can and the assembly of the automobile raised world demand for tin. By the end of World War I, the country was the world's second-leading producer, mining a fifth of global output. The unprecedented international demand for tin, the high concentrations of easily accessed tin in the new mines, low taxation, and cheap labor made the industry highly lucrative. The nation's tin industry and the economy at large became completely dominated during the 1920s by the Patiño, Hochschild, and Aramayo tin-mining families, who, along with the lawyers who defended them, were collectively known as the *rosca* (see Glossary). The *rosca* dominated not only economic affairs but politics as well, and it constituted a formidable elite in conjunction with the landed oligarchy that had developed since 1866. This class contrasted sharply with most of the country's poor citizenry who worked the marginal agricultural plots of the highlands or labored under appalling conditions in underground tin mines.

The Great Depression in 1929 and the devastating Chaco War (1932–35) with Paraguay marked the beginning of a period of growing disdain for the country's elite. The Great Depression caused tin prices to plunge, thereby hardening the plight of miners and lowering the profits of the *rosca*. During the Chaco War, highland Indians were enlisted to defend Bolivia's vast Chaco lowlands, with its rumored oil reserves (see *The Chaco War*, ch. 1). The war exposed highlanders for the first time to their nation's vast tracts of land. As Indians and organized labor began to play a more prominent role in national life after the Chaco War, mining and landed interests could no longer stop the momentum for social, economic, and political reforms.

The principal economic goals of the 1952 Revolution were land reform and the nationalization of the tin mines, both of which were swiftly enacted. Even before the Nationalist Revolutionary Movement (Movimiento Nacionalista Revolucionario—MNR) could implement its Agrarian Reform Law on August 2, 1953, the long-oppressed Indians began to seize the latifundios. Two years into the reform program, the government accommodated 49 percent of all farming families who had claimed their traditional land.

The state also expropriated underutilized arable land. On October 31, 1952, the government nationalized most of the tin mines and legally transferred them to the Mining Corporation of Bolivia (Corporación Minera de Bolivia—Comibol), which dominated

mining activity until 1985. Much of the elite fled the country or resettled in the underpopulated department of Santa Cruz.

The MNR's postrevolutionary economic policies focused on the public sector, especially Comibol and the Bolivian State Petroleum Company (Yacimientos Petrolíferos Fiscales Bolivianos—YPFB), as the spearhead of economic growth. The MNR also promoted cooperatives, particularly in mining and agriculture, as an alternative to the latifundios. The government enacted social reforms, such as universal suffrage, and forged a greater role for organized labor in society. Although most of its economic policies were not conventional, the revolutionary government did accept a stabilization plan backed by the IMF in 1956 and 1957 in an effort to reverse negative growth and serious inflation.

Economic growth averaged 4.5 percent from 1965 to 1980, lower than the growth rate in most Latin American economies. Minerals still dominated the nation's economy, however; tin accounted for 40 percent of exports and 15 percent of government revenues as late as 1980. Natural gas and oil reduced that dependency somewhat beginning in the early 1970s, but not enough to insulate the economy from commodity price swings. Protracted disputes between the government and labor also characterized this period.

Economic growth accelerated during the 1970s, averaging 5.5 percent a year, one of the fastest rates of expansion in Bolivian history. This expansion resulted primarily from higher export commodity prices. Large public sector spending also spurred economic output as external financing cushioned budget deficits. The brisk rise in output also occurred in part because of sharp restrictions on organized labor imposed by the military government of Hugo Banzer Suárez (1971-78). Political stability and higher commodity prices in turn favored greater foreign investment, which also improved national accounts. Moreover, the government announced large reserves of oil during the 1970s. Although revised downward years later, the oil discoveries improved Bolivia's creditworthiness with foreign commercial banks.

The economic expansion of the 1970s also contributed to rapid growth of the Santa Cruz area. Partly because the government favored that region, but also because of increased colonization, higher cotton and soybean prices, and infrastructure developments, the area flourished. For a time, the city of Santa Cruz threatened to overtake La Paz as the nation's most important financial center.

By the 1980s, the public sector had ballooned to encompass 520 agencies, including 120 federal agencies and 50 state-owned enterprises or financial institutions. Comibol accounted for 65 percent of all mineral production, YPFB produced 80 percent of all oil and

natural gas, and the government owned over half of the banking system's assets. The government also controlled the manufacture of glass, textiles, cement, dairy products, oils, and sugar, mostly through the Bolivian Development Corporation (Corporación Boliviana de Fomento—CBF), then the nation's principal development bank. Public sector corruption had become common, and certain government agencies increased their scope solely to expand their influence in the bureaucracy.

Bolivia's minor "economic miracle" of the 1970s began to weaken in 1978 when political instability returned in force. Several foreign commercial banks reassessed Bolivia's ability to service its nearly US\$3 billion debt, most of which had been acquired by the Banzer government. External financing from private sources came to a complete halt by the early 1980s; in the absence of external financing to cover increasingly large budget deficits, the government opted for the inflationary policy of printing more money. The value of the peso dropped rapidly, and high international interest rates multiplied the debt.

By 1985 the nation's per capita income had fallen below 1965 levels, and rampant hyperinflation ravaged the Bolivian economy. Prices escalated so rapidly that inflation reached over 24,000 percent by 1985. Barter flourished as money was seen as virtually worthless. The coca and cocaine industry propped up the economy and flooded the financial system with United States dollars. In order to restore public confidence in the national currency, the Hernán Siles Zuazo government (1982–85) announced a "dedollarization" decree that outlawed the dollar deposits and loans used by 90 percent of the economy. The policy caused massive capital flight, burdened the banking system by forcing it to convert into greatly overvalued and essentially worthless pesos, and destroyed the nation's deposit base. From 1979 to 1985, successive Bolivian heads of state negotiated six tentative stabilization programs (*paquetes económicos*) with the IMF, but none was implemented because of the lack of political continuity and the strength of the political opposition (see Political Dynamics, ch. 4).

In August 1985, President Paz Estenssoro promulgated Bolivia's New Economic Policy (Nueva Política Económica—NPE). The NPE's main feature was the floating of the peso with the United States dollar (see Monetary and Exchange Rate Policies, this ch.). The plan also liberalized import policies by introducing a uniform tariff of 20 percent. In addition, the NPE called for a radical restructuring of the public sector, including the dismantling of the CBF, the laying off of 20,000 of Comibol's 27,000 employees, the partial privatization of the Mining Bank of Bolivia (Banco Minero

de Bolivia—Bamin), the reduction by one-third of YPFB's work force, and a virtual spending freeze for all state-owned enterprises. The policy also deregulated the economy, legalized dollars, eliminated subsidies, and lifted price controls. Although drastic, the NPE succeeded in suffocating rampant hyperinflation; within a few months, inflation had dropped to an annual rate of 10 to 20 percent.

The international tin market collapsed in October 1985, adding to Bolivia's problems with hyperinflation, recession, and austere stabilization. Declaring an end to the tin era, the government further encouraged the diversification and privatization of the economy. It also enacted a major tax reform measure in May 1986 that lowered the country's highest tax bracket from 30 to 10 percent and simultaneously instituted a general value-added tax (VAT—see Glossary). Economists generally perceived the 1986 tax reform as an important policy tool in continuing to stabilize the economy.

The crash of the tin market and the NPE's austerity program led to an estimated unemployment rate of 21.5 percent by 1987 (the unemployment rate had risen steadily from 5.5 percent in 1978 to 10.9 percent in 1982, 15.5 percent in 1984, and 20 percent in 1986.) In response, the government promulgated the Reactivation Decree in July 1987. Under the decree, the government created the Emergency Social Fund—financed in part by West European and Latin American governments as well as the World Bank (see Glossary)—to develop public works projects to activate the unemployed. The decree also fostered export activity by introducing tax rebates for exporters and by establishing the National Institute for Export Promotion. In addition, the 1987 reactivation measures included sophisticated financing schemes aimed at eliminating the country's debt with commercial banks (see Balance of Payments; Debt, this ch.).

## **Economic Policy**

### **Fiscal Policy**

Bolivia's fiscal policies in the 1970s contributed to the hyperinflation of the early 1980s. Fiscal deficits grew as the public sector took advantage of windfalls from high commodity prices, easy access to deficit financing in international markets, and robust economic growth to increase its activities. As external financing slowed in 1978 and debt payments outgrew new financing, budget deficits began to directly influence the economy. With the onset of the international recession of 1982, the economy began an inflationary spiral both caused and accelerated in large part by fiscal mismanagement. Because Bolivia had no bond market in the early 1980s and lacked



external financing, fiscal deficits could be paid for only by the highly inflationary practice of printing more money. Combined with a series of other trends in the economy, inflation and deficits fueled more of the same. As hyperinflation raged in 1984 and 1985, government revenues as a percentage of GDP dropped to as low as 1 percent. Tax rates, most of which were not indexed, became completely distorted; even worse, by the time the government received the revenues, they were virtually worthless.

NPE reforms drastically affected fiscal policy on both the expenditure and the revenue sides. In an effort to reduce government spending, the government liquidated the CBF and restructured the two largest and most costly state-owned operations, Comibol and YPFB. It also imposed spending controls on the public sector and froze its wages. On the revenue side, it unified import tariffs and hired a Swiss company to collect import receipts. The government raised the price of oil by a factor of ten, which immediately contributed badly needed revenue. In 1986 the government also adopted an aggressive policy toward tax collections, with dramatic results. The public sector deficit dropped from 28 percent of GDP in 1984 to 3.8 percent in 1986. Deficits increased to 10.5 percent in 1987 because of Argentina's failure to make its payments for natural gas but again fell to 6 percent by 1988.

### ***Expenditures***

As a result of the profound changes in fiscal policy during the late 1980s, government spending was greatly curtailed and was directly budgeted according to projected revenues and external financing. Moreover, government expenditures, including systemic review processes for investment, became more responsible and targeted. In 1987 public sector expenditures equaled about 30 percent of GDP, and the budget deficit of nearly 11 percent was financed almost completely with official external finance. The budget was typically divided into four spending components: central government, financial and nonfinancial state-owned enterprises, departmental budgets, and municipalities. Over 60 percent of expenditures went toward government salaries and debt payments. Debt payments, which were as high as 30 to 40 percent of expenditures in the early 1980s, were below 20 percent by the late 1980s because of the rescheduling of Bolivia's debt terms. Capital expenditures had reached dangerously low levels as a consequence of the fiscal crisis. Although budgeted at 13 percent of GDP in 1987, actual capital expenditures were approximately 5 percent of GDP, indicating that long-term development projects lacked financing. Over

half of all government capital expenditure in the 1987-90 fiscal plan was destined for investment in transportation and hydrocarbons.

### **Revenues**

Until the mid-1980s, two state agencies, Comibol and YPFB, accounted for the overwhelming share of government revenues. Besides tin and hydrocarbons, few domestic taxes, such as income taxes or sales taxes, contributed to the national treasury. Tax evasion was widespread, and many businesses were reputed to maintain two sets of accounting books, one authentic and one for government tax collectors. Furthermore, the tax system was extremely complex and involved thousands of different taxes that frequently skewed incentives for producers.

The adoption of a comprehensive tax reform package in May 1986 signaled a radical change in government revenue policy. The government established the Ministry of Taxation, computerized the tax system, collected taxes aggressively, and made jail sentences compulsory for evasion and fraud. In great contrast to the previous tax schedule, the 1986 package established only six taxes. The crux of the new tax system was a 10 percent VAT on the production of all goods and services. The VAT was accompanied by a complementary tax, which essentially functioned as an income tax, exacting 10 percent of income, rents, royalties, dividends, and other sources of income. This cut the top income tax bracket from 30 to 10 percent. The VAT tax, however, was deductible from the income tax, and with both taxes equal to 10 percent, there was little incentive to cheat on the other tax. On the contrary, after 1985 the private sector's concern with receipts began to rectify the tax system.

### **Monetary and Exchange Rate Policies**

The Central Bank (Banco Central) managed monetary policy and regulated the nation's financial system. Established in 1928, the Central Bank controlled the money supply, restrained inflation, regulated credit, issued currency, and auctioned foreign exchange. In 1985, however, the Central Bank helped to create hyperinflation as it circulated unprecedented quantities of pesos. Hyperinflation ravaged the financial sector, virtually wiping out the country's deposit base and leaving many of the country's financial institutions insolvent by the end of the 1980s. Under Paz Estenssoro's leadership, the Central Bank deregulated the financial sector beginning in 1985 by legalizing deposits in United States dollars, freeing up interest rates, and adjusting reserve ratio requirements. In the late 1980s, the Central Bank's activities focused

on keeping inflation in check, improving the financial viability of government banks and enterprises, and resuscitating and improving the ailing commercial banking system.

The peso, which replaced the boliviano in January 1963, was a stable currency until it was devalued in 1972 and remained at \$b20 = US\$1 throughout the 1970s. As the economy deteriorated in the early 1980s, the value of the peso slid drastically from \$b25 = US\$1 in 1980-81 to \$b64 = US\$1 in 1982, \$b230 = US\$1 in 1983, \$b2,178 = US\$1 in 1984, and finally \$b75,000 = US\$1 by 1985. That rate, however, was the enormously overvalued official rate; the black market demanded a rate of over \$b1 million = US\$1.

The NPE's decision to float the peso against the dollar caused an immediate devaluation to \$b1.5 million = US\$1 in August 1985. Furthermore, the black market was legalized as the government expected to keep the national currency at market rates. In January 1987, the new boliviano replaced the peso as the official currency. The new currency effectively slashed off the last six zeros of the old peso to redress the damage done to the currency by hyperinflation. By 1988 the currency was relatively stable at B2.3 = US\$1, and the difference between the official rate and the black market, or parallel rate, did not exceed 1 percent. The floating of the boliviano was administered by the Central Bank, whose Committee for Exchange and Reserves held a daily auction of foreign exchange called the *bolsín*. The new system also removed all taxes and commissions on the purchase of foreign exchange.

Exchange rate policies were an important element in Paz Estensoro's stabilization and reactivation policies. The initially drastic devaluation of the peso in 1985 helped restore confidence in the national currency after it had lost most of its value. The stabilized currency and the end of speculation were leading factors in the overall economic stability that emerged after 1985. On the one hand, the lower exchange rate constrained imports by making them more expensive, which hurt the poor and the manufacturers the most; on the other hand, the exchange rate functioned as an incentive for exporters, whose products became cheaper and more competitive in international markets. Although nontraditional exports responded positively and helped to reactivate the economy, lower prices for natural gas and tin prevented the floating exchange rate policy from improving the country's balance of payments, at least in the late 1980s (see Foreign Trade, this ch.).

## Labor

### Formal Sector

Bolivia's official labor force reached 1.6 million in 1986, roughly

half of the economically active population or about a quarter of the total population. Labor statistics varied widely because of methodological reasons and because of the large role of the informal economy, which contained both legal and illegal components (see Informal Sector, this ch.). Men made up approximately 75 percent of the official labor force and 64 percent of the economically active population. In actuality, however, women played a greater role than suggested by official statistics, particularly in rural areas and in the urban informal sector. During the 1980s, the growth rate of the female labor force was nearly double that of males. The labor force as a whole grew 2.7 percent annually in the 1980s. In the late 1980s, nearly half of all workers were in agriculture (46 percent), followed by services (34 percent) and industry (20 percent). Although services had grown since 1950 at the expense of agriculture, Bolivia still contained the second most agricultural economy in South America in the late 1980s, behind Paraguay, and the second least industrial economy, after Peru. The nation's unemployment rate, which averaged just under 6 percent during the 1970s, climbed to 10.9 percent in 1982, 13 percent in 1983, 15.5 percent in 1984, and 18 percent in 1986. It was estimated at 21.5 percent in 1987. Unemployment in the highlands tended to be about double that of the eastern plains (llanos) or lowlands (Oriente).

Workers were concentrated in the cities of La Paz (40 percent), Santa Cruz (20 percent), and Cochabamba (20 percent). Salaries varied considerably by location and sector. Urban incomes were much greater than those in rural areas, and the lowest official salaries occurred in the southern highlands. Workers in the banking and hydrocarbon sectors were among the best paid, whereas those in mining, education, and services received among the lowest wages, depending on shifts in the economy and wage negotiations. The average real wage declined throughout the economy during the 1980s. Skilled and semiskilled labor was scarce, and inadequate training persisted.

Organized labor had been the most important interest group in the Bolivian economy since 1952. The country's labor unions were some of the strongest in Latin America and were characterized by their activism, militancy, discipline, violence, and political influence. One knowledgeable analyst estimated that Bolivia had as many labor strikes, protests, and demonstrations in proportion to its population as any country in the world. The Bolivian Labor Federation (Central Obrera Boliviana—COB), an umbrella organization for the country's more than 150,000 union members, dominated the nation's labor unions. The COB routinely mobilized



*Labor marchers in La Paz  
Building a sheep-breeding facility at Lake Titicaca  
Courtesy Inter-American Foundation (Kevin Healy)*

member unions to stage roadblocks, marches, hunger strikes, demonstrations, and work stoppages over wage demands, working conditions, political issues, and job benefits. The COB's most powerful affiliate was traditionally the Trade Union Federation of Bolivian Mineworkers (Federación Sindical de Trabajadores Mineros de Bolivia—FSTMB). Despite the power of organized labor in the mining industry, working conditions in the mines remained deplorable, and the average miner died of silicosis after ten years of working underground.

NPE policies, particularly the Comibol layoffs, weakened the FSTMB. As a result, the General Trade Union Confederation of Peasant Workers of Bolivia (Confederación Sindical Única de Trabajadores Campesinos de Bolivia—CSUTCB) was challenging the FSTMB's traditional dominance in the late 1980s. Approximately 90 percent of all small farmers were members of organizations affiliated with the CSUTCB. The Túpac Katari National Federation of Bolivian Peasant Women (Federación Nacional de Mujeres Campesinas de Bolivia Túpac Katari) was also widespread (see Political Forces and Interest Groups, ch. 4). Most nonunionized labor was in the informal sector.

### **Informal Sector**

Definitions of Bolivia's informal sector varied in the late 1980s but generally included nonprofessional, self-employed, unpaid family workers, domestic servants, and businesses with five or fewer employees. Although primarily associated with La Paz, the informal sector also included a rural component and an illegal component linked to the coca industry. The urban and legal informal sector was estimated to contribute about 12 percent of GDP and employ as much as 60 percent of the labor force in the mid-1980s. Most analysts believed that the sector increased in the late 1980s because of public sector layoffs and the depressed mining industry.

The informal sector was characterized by ease of entry, the family nature of work, the informal uses of credit, and the evasion of certain government regulations, especially regarding the sale of smuggled goods. Two household surveys of La Paz in the 1980s found that the income of small proprietors in the informal sector averaged as much as twelve times the minimum wage (which was equivalent to US\$425 per month in 1988); the income of the self-employed, who made up about half of the informal sector, was twice the minimum wage. By contrast, salaried workers, unpaid family workers, and domestic servants typically made only one-half of the minimum wage. Workers in the informal sector, however, generally

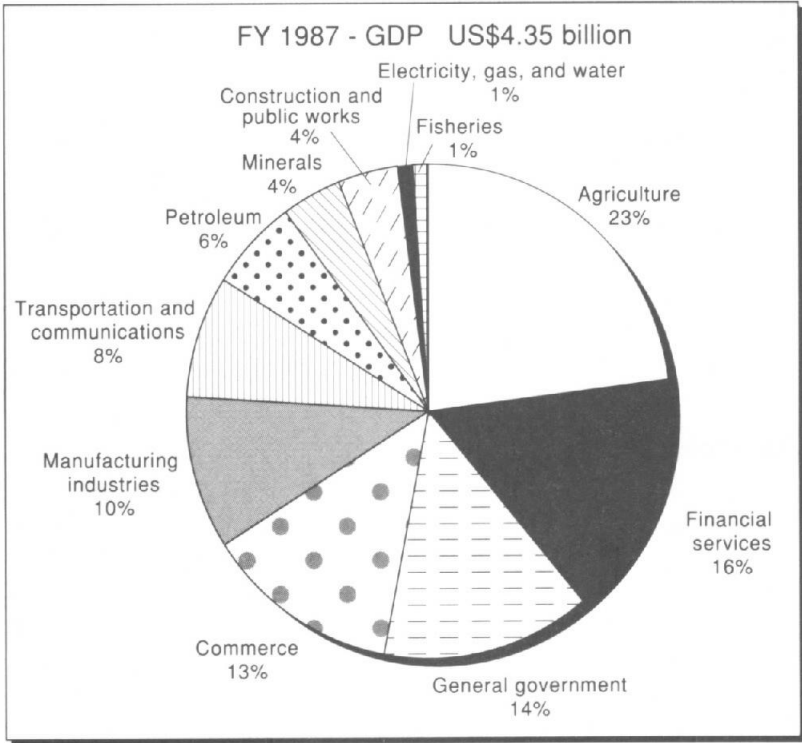
endured the recession of the 1980s better than their formal sector counterparts, and there was a trend toward a convergence of incomes.

The most lucrative informal activity was in transportation, usually unregistered buses or taxis. Other informal services included laundry, mechanical repair, electrical services, black market currency transactions, and money lending. The most common activities were makeshift family grocery stores and the sale of food, clothing, and smuggled consumer items. Seamstresses, weavers, carpenters, and butchers performed the bulk of informal industrial work. The government's VAT was in part aimed at netting more revenues from small producers who remained outside government regulation.

## **Agriculture**

Agriculture's role in the economy in the late 1980s expanded as the collapse of the tin industry forced the country to diversify its productive and export base. Agricultural production as a share of GDP was approximately 23 percent in 1987, compared with 30 percent in 1960 and a low of just under 17 percent in 1979 (see fig. 8). The recession of the 1980s and unfavorable weather conditions, particularly droughts and floods, however, hampered output. Agriculture employed about 46 percent of the country's labor force in 1987. Most production, with the exception of coca, focused on the domestic market and self-sufficiency in food. Agricultural exports accounted for only about 15 percent of total exports in the late 1980s, depending on weather conditions and commodity prices for agricultural goods, hydrocarbons, and minerals.

Like the economy at large, agriculture faced major structural obstacles that kept it from reaching its vast potential. The lack of roads and easy access to ports hindered farmers from getting their produce to domestic markets and to the export markets that provided the most potential for the sector's growth. A lack of credit for farmers was another long-standing problem, caused by government policies, the use of credit for political ends, and the strict lending procedures of the commercial banking sector. Bolivia also suffered from the worst farming technology in South America and an insufficient network of research and extension institutions to reverse that trend. The combined lack of infrastructure and technology made farmers vulnerable to almost yearly droughts and floods. The traditional use of pricing policies ensuring lower food prices for urban residents also lessened incentives for farmers. In addition, farmers increasingly had to compete with contraband imports in a wide range of agricultural products. Beyond these



Source: Based on information from Gary C. Groves, "Bolivia: Agricultural Situation Report," Washington, March 30, 1988, 19.

*Figure 8. Gross Domestic Product (GDP) by Sector, FY 1987*

specific obstacles, agriculture, like all sectors of the economy, also suffered from the country's periodic political instability, economic mismanagement, and slow economic growth.

### **Land Tenure**

Before the 1952 Revolution, Bolivia's land distribution was the worst in Latin America; some 4 percent of all landowners possessed more than 82 percent of the land. A major success of the land reform program was the redistribution of nearly 50 percent of peasant lands within its first two years. Although greatly improved from the prerevolutionary period, broad disparities in land tenure remained in the 1980s. Analysts estimated that over 90 percent of the farms in the highlands and valleys remained under twenty hectares in the 1980s. These farms typically were one to three hectares in size and were worked by nearly 80 percent of Bolivia's more



than 700,000 farmers. The majority of farmers in the highlands were also members of agricultural cooperatives. Only 40 percent of the farms in the eastern and northern lowlands were under twenty hectares; the most common size in that region was fifty to seventy-five hectares, but subsistence farming existed as well.

Nearly 60 percent of all farmers lived in the highlands in the late 1980s. Highland parcels were the smallest in the country, had the least fertile soils, and had been worked for the longest period of time. Highland farmers received under 40 percent of all rural income, although they represented about 60 percent of the rural population.

Twenty percent of the country's farmers were located in the relatively fertile valleys. These farmers fared much better than their counterparts on the high plateau (Altiplano) between the two mountain ranges in western Bolivia. Plots averaged between five and ten hectares, and because of the more fertile and less exhausted soils, a larger share of that land was in use compared with the Altiplano. Farmers in the valleys were frequently able to harvest two crops annually, as opposed to the one crop a year on the Altiplano.

The largest farms were found on the sprawling and often isolated eastern lowlands, where about 20 percent of the country's farmers worked 65 percent of the country's land. The lowlands produced the bulk of all agricultural output and virtually all of the sector's exports. Although about 16 percent of the lowland farms were of subsistence size (five hectares or fewer), the great majority of the region's land was owned by medium-to-large landowners actively engaged in commercial agriculture. The power center of the agricultural sector was located in the southeastern department of Santa Cruz, where landholdings often exceeded 5,000 hectares.

### **Land Reform and Land Policy**

Bolivia's land reform policies of the early 1950s were implemented much more rapidly and completely than those of other Latin American countries. The land reform essentially allowed peasants to claim the land that they had traditionally worked. For this reason, however, the size of many peasant plots did not increase as a result of the reform.

In retrospect, land reform was more of a social success than an economic one. Although the reform improved income distribution, its main contribution was to transform a feudal society into a market society. Land reform has remained a goal of successive governments since 1952, but the pace and scope of reform slowed. The original Agrarian Reform Law was amended in 1963 and 1968.

By 1986 the government claimed to have redistributed 33 million hectares through the reform process. But although peasants ate better, agricultural production did not increase in the way most government officials expected. In addition, the reform process was hampered by price controls, a lack of extension services, inadequate credit, insufficient infrastructure, and regional conflicts between the highlands and lowlands. The growth of the agricultural sector was barely positive during the 1950s, and annual growth, especially among food crops, did not keep pace with population growth, thus requiring increased imports of foodstuffs.

Land policy since 1952 also has been marked by the colonization of the lowlands. Although government policy has encouraged colonization of these isolated areas since the 1940s, the process did not accelerate until the 1950s, when a major highway connected Cochabamba with Santa Cruz and a rail system linked Santa Cruz with São Paulo, Brazil (see Transportation, this ch.). The settlers included members of the former ruling oligarchy who had lost land in the reform, as well as more risk-taking highlanders, or Kollas (see Glossary), who came as wage laborers or who bought land. In order to facilitate the colonization process, the government created the National Colonization Institute (Instituto Nacional de Colonización—INC), which typically helped highland families move to newly established government colonies, sometimes completely isolated from other towns. From 1952 to the mid-1970s, the government helped 46,000 families (190,000 people) colonize the lowlands. Government-sponsored colonization, however, accounted for just 15 percent of all the pioneers who ventured east. Furthermore, INC colonies suffered a high dropout rate among participants, many of whom faulted the INC for providing insufficient support services and too few roads. Other settlers included members of North American Mennonite and Japanese communities who were establishing colonies in neighboring Paraguay.

Land policy and government agricultural policy in general shifted dramatically when orthodox economic policies were implemented in 1985. The government, which had once monopolized the production of many key crops, set prices, marketed goods, and closely controlled credit, now effectively withdrew from the sector. As a result, farmers in the late 1980s were in transition from a period characterized by import protection and close cooperation with the government to one of free competition with highly advanced international markets and contraband.

## **Land Use**

Bolivia contains slightly over 108 million hectares of land. Forest or woodland comprised 40 percent of all land, or 56 million hectares,



*An adult education class in the Altiplano region  
Courtesy Inter-American Foundation (Jane Regan)  
An urban greenhouse on the outskirts of La Paz  
Courtesy Inter-American Foundation (Robin Bowman)*

in the late 1980s. Pasture accounted for a quarter of total land, or about 27 million hectares. Crops covered only 2 percent of all land, or over 1 million hectares. The remaining 30 percent of the land was destined for "other uses," including 8 percent of all land that was arable but not in use. Of the land deemed suitable for agricultural use, only about 10 percent was in use.

As with land tenure, the country's land use was best explained in terms of its geography. Most highland farmers worked *minifundios* (see Glossary) plots of staples and vegetables, such as potatoes, corn, *haba* (beans), and quinoa (a native cereal), selling only 30 percent of their output. Produce usually was marketed to truckers, the most common marketing outlet for Bolivian farmers, or was sold at large agricultural fairs, an Inca custom. Although Indians in the highlands terraced their steep fields in the Inca style, traditional farming techniques also made farmers vulnerable to frost, irregular rainfall, and erosion. Farm animals plowed the soil, and the abundance of sheep, llamas, and alpacas, used as a form of insurance income against bad weather, made overgrazing common, thus further eroding the soil and lessening soil fertility.

Farmers in the valleys used their farmland for a mixture of traditional and nontraditional purposes, producing both food and cash crops. The primary food crops were tubers, barley, corn, wheat, fruits, and vegetables. Export crops such as cocoa, tea, and coffee were also grown, the latter because of the ideal altitude. Livestock activity also was common. Although yields were not always high, the valleys usually produced two crops a year and were less vulnerable to weather fluctuations than on the Altiplano. Nevertheless, farmers in the valleys also relied on truckers for their marketing and suffered greater isolation than those on the Altiplano, particularly during the rainy season, October to April. Although farmers in the valleys took more risks than those on the Altiplano, they still suffered from a low technological level and the lack of direct access to markets.

The country's most productive farmers were those who cultivated the fertile plains of the lowlands, especially in the department of Santa Cruz. Santa Cruz's rise to prominence was the consequence of infrastructure improvements in the 1950s, land reform, and colonization. By the 1960s, Santa Cruz was responsible for the import-substitution industrialization (see Glossary) of sugar, rice, cotton, and oilseeds. With the rapid increase in commodity prices in the early 1970s, *cruceña* (Santa Cruz region) lands were increasingly sown with cash crops, especially cotton and soybeans. For political reasons, Santa Cruz also received a disproportionate share of the sector's credit in the 1970s, which also accelerated

growth. In contrast to the rest of the country, farmers in Santa Cruz were actively engaged in all aspects of the market economy, such as harvesting, processing, marketing, and even research and development. These farmers were organized into powerful producer organizations that traditionally negotiated prices with the government and provided technical assistance to members. Small farmers also continued to occupy Santa Cruz; many were responsible for the growing problems of deforestation because of slash-and-burn approaches to rice farming. An estimated 100,000 landless wage earners in the agricultural sector cut sugarcane or picked cotton in Santa Cruz or performed seasonal labor in Argentina.

The northern lowland departments of Pando and Beni were much more isolated than Santa Cruz, thus limiting their ability to be major agricultural producers. They were originally settled in the late 1800s during a boom in rubber exports from the Amazon region. As colonization proceeded, larger-scale commercial agriculture developed in coffee, rice, and especially cattle. By the 1960s, large cattle ranches of 500 hectares and more flourished in the Beni, making it the country's leading cattle producer. In the 1980s, Beni Department also became an important producer of commercial timber.

## **Crops**

### *Food Crops*

Potatoes, the basic staple of highland Indians since pre-Inca times, remained the most important food crop in the late 1980s. In 1988 approximately 190,000 hectares, mostly in the highlands, produced 700,000 tons of potatoes (see table 6; table 7, Appendix). These figures compared unfavorably, however, with 1975, when 127,680 hectares provided 834,000 tons of potatoes, indicating that yields were dwindling. Bolivia was generally self-sufficient in potatoes (over 200 varieties were grown), but imports were needed during occasional periods of drought or freezing. Bolivia also exported some of its harvest to Brazil. The lack of new seed varieties, chemical fertilizers, and irrigation systems, together with the continued exhaustion of the highland soils, was responsible for the low yields. In the late 1980s, the lack of financial credit at planting time represented the greatest impediment facing potato growers.

Corn was the second major food crop, and its importance was growing. Corn covered more hectares than any other crop. In the late 1980s, approximately 300,000 hectares provided more than 475,000 tons of white corn, the traditional corn of Bolivia. Yellow Cuban corn, grown in the tropical areas of Santa Cruz, was becoming more common; 160,000 hectares produced 350,000 tons

of yellow corn in 1988. Sixty percent of the corn (both white and yellow) was grown by small farmers in the valleys, with the remaining 40 percent planted by medium-to-large farmers in Santa Cruz. Small farmers used at least half of their corn for human consumption, as animal feed, or for brewing *chicha*, the primary intoxicating beverage consumed by Bolivian Indians. The other half of their production and most of the commercially farmed corn were sold to Bolivia's forty private animal-feed plants, which bought 50 percent of the country's annual corn output. Many corn farmers were members of the Corn and Sorghum Producers Association (Productores de Maíz y Sorgo—Promasor). Promasor was particularly active in Santa Cruz, where its members also produced 20,000 tons a year of sorghum, a drought-resistant crop, from some 6,000 hectares of land.

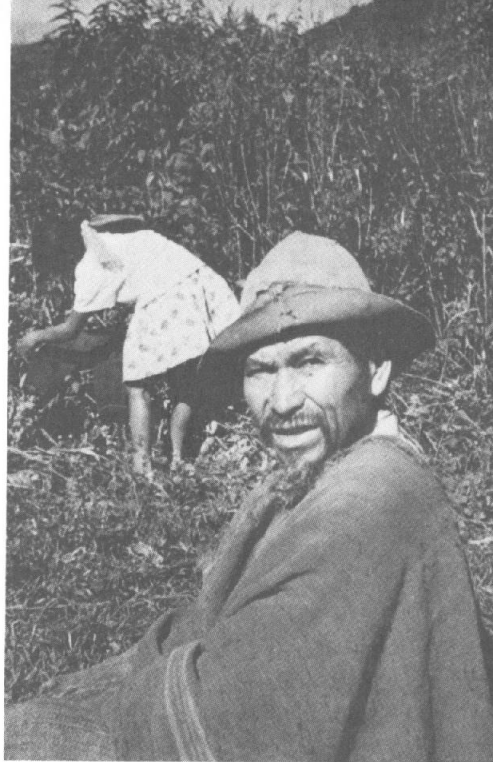
Rice was an increasingly popular crop in Bolivia. Eaten by people in the lowlands and valleys since the 1950s, rice became the focus of government import-substitution policies beginning in the 1960s. In the late 1980s, the country was generally self-sufficient in rice, some years importing and other years exporting. Bolivia's rice, however, was not of high quality by international standards, thus limiting export markets. In 1988 some 90,000 hectares of land, mostly in Santa Cruz and Beni departments, produced 140,000 tons of rice. Bolivia imported one-fifth of its total consumption of rice in 1988. Approximately 20,000 small farmers produced the bulk of the country's paddy rice and, in turn, sold it via truckers to thirty private rice mills.

Barley was a common crop in the highlands and was particularly well suited for the high altitudes. In 1988 the cultivation of 80,000 hectares by 300,000 highland farmers produced 75,000 tons of barley, which was used primarily in the country's robust beer industry. About 10 percent of the barley was consumed on the farm as fodder. Bolivia imported about one-quarter of its total consumption of barley in 1988.

Quinoa, the "mother grain" of the Incas, was the only food crop in the highlands that experienced sustained growth during the 1970s and 1980s. Cultivation of quinoa, which grows only above 2,000 meters, jumped from 15,640 hectares producing 9,000 tons in 1980 to 45,800 hectares producing 21,140 tons in 1984, and production continued to expand in the late 1980s. High in fiber and rich in protein, quinoa was a health food in industrialized countries.

Despite repeated attempts by the government's National Wheat Institute (Instituto Nacional del Trigo) to make the nation self-sufficient in wheat production, Bolivia produced only about 20

*Harvesting corn in  
Azurduy Province,  
Chquisaca Department  
Courtesy Inter-American  
Foundation (Wilhelm Kenning)*



*An El Ceibo farmer  
harvesting cocoa in the Alto Beni  
area of Nor Yungas Province,  
La Paz Department  
Courtesy Inter-American  
Foundation  
(Wilhelm Kenning)*



percent of the wheat that it consumed in the late 1980s. In 1988 about 88,000 hectares produced 60,000 tons of wheat. In the same year, 280,000 tons of wheat were imported. In 1988 the United States Agency for International Development (AID) provided 180,000 tons of wheat through its Public Law 480 (PL-480) Food for Peace Program. Western Europe and Canada operated programs similar to the AID program but on a smaller scale. Argentina provided wheat in exchange for Bolivian natural gas. Smuggled wheat flour from Peru and Argentina represented a serious menace to domestic wheat production. In 1988 analysts estimated that 60,000 tons of smuggled wheat had entered Bolivia annually. Small traditional farmers in the highlands and large soybean farmers in Santa Cruz provided most of the country's 1988 wheat harvest, which was roughly equivalent to output in 1978, but only wheat from the Santa Cruz area was used for commercial milling. Analysts believed that wheat would produce higher yields when the proper tropical seeds, fertilizer, and irrigation methods were used.

Bolivians produced a wide range of vegetables, fruits, and other food crops, mostly for local consumption. The principal vegetable crops included kidney beans, green beans, chick peas, green peas, lettuce, cabbage, tomatoes, carrots, onions, garlic, and chili peppers. Also common were alfalfa, rye, cassava, and sweet potatoes. Some of the most popular fruits were oranges, limes, grapes, apples, quince, papayas, peaches, plums, cherries, figs, avocados, pineapples, strawberries, bananas, and plantains. Fruits increasingly competed with coca cultivation in the 1980s.

### *Cash Crops*

Soybeans were the most lucrative legal cash crop in Bolivia in the 1980s. Soybean production began in earnest in the early 1970s, following a substantial increase in the crop's world price. By the late 1980s, soybeans represented the country's most important oil-seed crop. In 1988 soybeans covered 65,000 hectares, and annual production amounted to about 150,000 tons, compared with 19,430 hectares producing 26,000 tons a decade earlier. About one-third of the soybean harvest was used domestically in the form of soybean meal for the poultry industry. Other soybean meal was shipped to Peru and Western Europe, and raw soybeans were exported via rail to Brazil. In order to process soybean oil for the local market, the country maintained a crushing capacity of 150,000 tons in 1988. Locally manufactured soybean oil also competed with contraband products from neighboring countries. Most of Santa Cruz's soybean farmers were members of the well-organized and powerful National Association of Soybean Producers (Asociación Nacional



de Productores de Soya—Anapo). Anapo, with assistance from AID, built new storage facilities that permitted continued expansion of the crop. Because of the dynamism of their crop, soybean farmers enjoyed the best availability of credit for all legal cash-crop producers.

Coffee, another principal cash crop, was the second most important agricultural export after timber. As the primary substitute crop offered to coca growers under the eradication program, coffee was of particular importance. Coffee production reached 13,000 tons in 1988, nearly double the 1987 output, which was damaged by disease in western Bolivia. Over 20,000 hectares were devoted to coffee. Bolivia consumed 25 percent of its coffee crop locally in 1988, with the balance exported both legally and clandestinely. Legal exports of 102,000 bags, sixty kilograms each as measured by the International Coffee Organization (ICO), were equivalent to Bolivia's export quota for 1988, which was over US\$15 million. An ICO member since 1968, Bolivia was permitted to export 170,000 of the sixty-kilogram bags in 1989. Approximately 25 percent of coffee exports left the country illegally in the late 1980s. Most coffee was grown by small farmers in the valleys or by large farmers in the lowlands. Most commercial farmers were members of the Bolivian Coffee Committee (Comité Boliviano del Café—Cobolca), which allocated ICO quotas. The coffee industry also received technical assistance from the Bolivian Institute of Coffee (Instituto Boliviano de Café), an autonomous government agency established in 1965 to run model farms and help control disease.

Bolivia had been self-sufficient in sugar production since 1963, although sugarcane had been grown since the colonial era. Sugarcane in the 1980s was a cash crop of significance for both the domestic and the export markets. In 1988 cultivation of sugarcane on 62,000 hectares produced 140,000 tons of sugar. These figures represented a sharp decline from 1986 figures. The price of sugar had skyrocketed in the mid-1970s, doubling the number of hectares under sugarcane cultivation in a few years. As sugar prices declined, however, farmers opted for more lucrative crops, such as soybeans. The decline in the sugar industry also was caused by poor management, dwindling yields, and poor quality control. In 1988 the country's six sugar mills operated at only 37 percent capacity. Sugarcane also was processed into methanol for the domestic and export markets. Continued controls on imports of sugar constituted one of the few exceptions to the import liberalization policies of the late 1980s.

Although cotton was a boom crop in the early 1970s, production had waned since 1975. Grown mostly in Santa Cruz, cotton

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covered 54,000 hectares in 1975 but only 9,000 hectares in 1988. Production declined from 22,000 tons to 3,700 tons over the same period. Price was the primary reason for the decline, but insect problems, disease, and the lack of credit also contributed. Because Santa Cruz cotton farmers represented an important constituency, they had traditionally received highly favorable terms of credit. When cotton growing was no longer profitable, however, many cotton farmers defaulted on their loans, leaving the government's Agricultural Bank of Bolivia (Banco Agrícola de Bolivia—BAB) in a poor financial position in the late 1980s. Because of the precipitous decline in the industry, the country's ten cotton mills were operating at under one-half of their capacity by the late 1980s.

Cash crops of lesser importance included tobacco, tea, cocoa, and oilseeds, such as sesame, peanuts, castor beans, and sunflowers. Approximately 1,000 tons of tobacco for the Bolivian market were grown on about 1,000 hectares. Tea was grown as a secondary crop in the Yungas, Alto Beni (Upper Beni), and Santa Cruz areas. Eighty percent of the country's cacao trees, from which cocoa is derived, were grown in the Alto Beni by a network of cooperatives that were increasingly involved in processing cocoa and exporting chocolate products. Oilseeds were an important part of both the agricultural and the manufacturing sectors. The growing dominance of soybeans, however, diminished the role of other oilseeds in the economy.

### *Coca*

Bolivia's most lucrative crop and economic activity in the 1980s was coca, whose leaves were processed clandestinely into cocaine. The country was the second largest grower of coca in the world, supplying approximately 15 percent of the United States cocaine market in the late 1980s. Analysts believed that exports of coca paste or cocaine generated from US\$600 million to US\$1 billion annually in the 1980s, depending on prices and output. Based on these estimates, coca-related exports equaled or surpassed the country's legal exports.

Coca has been grown in Bolivia for centuries. The coca plant, a tea-like shrub, was cultivated mostly by small farmers in the Chapare and Yungas regions. About 65 percent of all Bolivian coca was grown in the Chapare region of Cochabamba Department; other significant coca-growing areas consisted of the Yungas of La Paz Department and various areas of Santa Cruz and Tarija departments.

Bolivian farmers rushed to grow coca in the 1980s as its price climbed and the economy collapsed. Soaring unemployment also

contributed to the boom. In addition, farmers turned to coca for its quick economic return, its light weight, its yield of four crops a year, and the abundance of United States dollars available in the trade, a valuable resource in a hyperinflated economy. The Bolivian government estimated that coca production had expanded from 1.63 million kilograms of leaves covering 4,100 hectares in 1977 to a minimum of 45 million kilograms over an area of at least 48,000 hectares in 1987. The number of growers expanded from 7,600 to at least 40,000 over the same period. Besides growers, the coca networks employed numerous Bolivians, including carriers, manufacturers of coca paste and cocaine, security personnel, and a wide range of more nefarious positions. The unparalleled revenues made the risk worthwhile for many.

Government efforts to eradicate the rampant expansion of coca cultivation in Bolivia began in 1983, when Bolivia committed itself to a five-year program to reduce coca production and created the Coca Eradication Directorate (Dirección de la Reconversión de la Coca—Direco) under the Ministry of Agriculture, Campesino Affairs, and Livestock Affairs. Bolivia's National Directorate for the Control of Dangerous Substances (Dirección Nacional para el Control de Sustancias Peligrosas—DNCSP) was able to eradicate several thousand hectares of coca. These efforts, however, put only a small dent in the coca industry and were highly controversial among thousands of peasants. Under the joint agreement signed by the United States and Bolivia in 1987, which created DNCSP, Bolivia allocated US\$72.2 million for the 1988 to 1991 period to eradication programs, including a wide-ranging rural development program for the Chapare region. The program was aided by an 88 percent drop in the local price of coca caused by the fall in cocaine prices in the United States.

The economics of eradication were particularly frustrating. As more coca was destroyed, the local price increased, making it more attractive to other growers. Bolivia, however, was seeking additional funds from the United States and Western Europe to proceed with an eradication plan that was supposed to provide peasants US\$2,000 per hectare eradicated. In 1988 coca growing became technically illegal outside a specially mandated 12,000-hectare area in the Yungas. A four-year government eradication campaign begun in 1989 sought to convert 55 percent of coca areas into legal crops. Coffee and citrus fruits were offered as alternative crops to coca despite the fact that their return was a fraction of that of coca.

The cocaine industry had a generally deleterious effect on the Bolivian economy. The cocaine trade greatly accelerated the predominance of the United States dollar in the economy and the

large black market for currency, thereby helping to fuel inflation in the 1980s. The escalation of coca cultivation also damaged the output of fruits and coffee, which were mostly destined for local consumption. Coca's high prices, besides being generally inflationary, also distorted other sectors, especially labor markets. Manufacturers in the Cochabamba area during the 1980s found it impossible to match the wages workers could gain in coca, making their supply of labor unreliable and thus hurting the formal economy.

### **Farming Technology**

The use of purchased items such as fertilizers, tractors, and irrigation systems remained extremely low in the 1980s because traditional farming methods continued to dominate. Because of their isolation and lack of technical support, Bolivian farmers used less fertilizer, about two kilograms per hectare, than any other country in the Western Hemisphere. Most small farmers used natural fertilizers, such as manure, but even large farms in Santa Cruz found chemical fertilizers (all of which were imported) expensive because of transportation costs. The signing of an accord for a natural gas pipeline with Brazil in 1988, however, improved Bolivia's prospects for manufacturing its own chemical fertilizers. Bolivia's use of tractors, 0.2 per 1,000 hectares, was also the lowest in the Western Hemisphere. Most tractors were used in Santa Cruz. As the lowlands took on a greater role in agriculture, that ratio was expected to improve. By the late 1980s, just about 5 percent of the country's land was irrigated, one-third more than a decade earlier.

Government extension services for farmers remained extremely inadequate in the late 1980s. Only one agricultural agent existed for each 7,000 farming households. The chief research institution for agriculture was the Bolivian Institute for Agricultural Technology (Instituto Boliviano de Tecnología Agrícola—IBTA). Established in the mid-1970s, the IBTA concentrated mainly on new seed varieties for cash crops in the lowlands. The Institute for the Rural Development of the Altiplano (Instituto para el Desarrollo Rural del Altiplano—IDRA), the Center for Tropical Agricultural Research (Centro de Investigaciones de Agricultura Tropical—CIAT), and the national universities performed further research.

### **Livestock**

Livestock production was active and well diversified. Beef cattle numbered an estimated 6 million head in 1988 and dominated all livestock production. Beef was the preferred meat in Bolivia. Unlike the rest of the agricultural sector, beef output grew over

4 percent a year during the 1980s. Over 70 percent of all cattle were raised in the eastern plains; the Beni was responsible for over 40 percent of the national herd. Twenty percent of all cattle were found in the valleys and about 10 percent in the highlands, where they had served as beasts of burden since the Spanish introduced cattle in colonial times. In 1988 Bolivia slaughtered 200,000 tons of cattle and exported 48,000 live cattle to Brazil, as well as processed beef to Chile and Peru. The country's medium and large cattle ranchers were organized into two large producer associations—one in the Beni and one in Santa Cruz—that marketed beef and attempted to set domestic prices. Bolivia had the potential to double its beef output in a relatively short period of time.

The number of dairy cattle in Bolivia in the late 1980s was unknown but was well below what the country needed to meet domestic demand. The rate of milk consumption among Bolivians was among the lowest in the world. In 1988 Bolivia consumed 130,000 tons of milk—80,000 tons from its five dairies, 23,000 tons in donations from developed countries, and the rest in contraband, mostly in the form of evaporated milk. Dairy farms were medium to large in size and were concentrated in Cochabamba and Santa Cruz departments. The government was involved heavily in the dairy industry, but it was generally ineffective in improving nutritional levels in dairy products.

Other livestock included chickens, pigs, sheep, goats, llamas, alpacas, vicuñas, and even buffalo. Chicken production also was centered in Cochabamba and Santa Cruz departments and experienced strong growth in the 1980s. Although the poultry industry faced high feed costs and substantial Chilean contraband, it produced 25 million broilers and 200 million eggs in 1988. The pork industry, also facing high feed costs, remained small. The pig population was estimated at slightly over 1 million, and the annual slaughter was roughly 45,000 tons of pork. Santa Cruz was expected to be the location of the pork industry's future growth. There were an estimated 10 million sheep and 1 million goats in Bolivia, mostly in the highlands, which was also home to 3 million llamas, 350,000 alpacas, and a dwindling number of vicuñas. Appreciated for their fine wool and meat, llamas, alpacas, and vicuñas received government protection because of their declining numbers.

### **Forestry and Fishing**

Bolivia's vast forests and woodlands were one of the areas with the most potential for growth in agriculture. Official wood production grew by a third from the late 1970s to the late 1980s, when timber exports surpassed all other agricultural exports. Timber

exports in 1987 reached US\$31 million. Contraband in wood products, however, was expected to be equivalent to official exports. Most of the smuggled wood was destined for Brazil. Bolivia's eastern lowlands were richly endowed with hundreds of species of trees, scores of which were commercially timbered. Deforestation and the threat of erosion caused by slash-and-burn agriculture and colonization in the lowlands were growing concerns. The government's Center for Forestry Development (Centro de Desarrollo Forestal) monitored the country's forests.

Fish was a potential source of protein in the Bolivian's protein-deficient diet, but river fishing was mostly for direct consumption. With assistance from the British, the government was attempting to promote commercial fishing in the lowlands. Several processing plants were being considered to market the trout, *pacú*, and *dorados* that filled the many rivers of the Oriente.

## **Energy**

The energy sector assumed critical importance in Bolivia's economy in the 1980s. In 1985 hydrocarbons became the country's leading export, accounting for over half of all exports, 11 percent of GDP, and more than 50 percent of central government revenues. Petroleum was the dominant hydrocarbon during the quadrupling of oil prices in the 1970s, but it was overshadowed in the 1980s by natural gas. The country also had an enormous, and largely untapped, potential for hydroelectricity. Despite its impressive energy resources, however, most Bolivians consumed relatively little energy. As much as 90 percent of the mostly rural population remained without access to electricity in the late 1980s.

Most of the nation's energy consumption was destined for residential or commercial purposes (46 percent), followed by transportation (31 percent), industry (20 percent), and mining (3 percent). Energy consumption was stable in the late 1980s, as the residential and industrial sectors assumed much of the energy previously used by the mining industry. Firewood was the energy supply for 74 percent of residential and commercial purposes, while hydrocarbons accounted for 20 percent and electricity for only 6 percent. Indians in the highlands relied almost entirely on shrubs, charcoal, bottled gas, and animal dung as fuel sources. A new gas pipeline for urban dwellers in La Paz was expected to increase the amount of gas used by residences. The transportation sector relied entirely on hydrocarbons. Industry used primarily hydrocarbons (57 percent); bagasse, or sugarcane residue (30 percent); electricity (8 percent); and charcoal and firewood (5 percent). Charcoal and firewood accounted for the majority of the mining sector's

consumption. Before 1985 tin smelters consumed 85 percent of the country's charcoal.

### **Petroleum and Natural Gas**

Petroleum had been known to exist in Bolivia since the colonial period, but serious exploration did not begin until 1916. In that year, foreign firms probed for oil, marking the start of a long and sometimes bitter relationship between foreign oil companies and the Bolivian government. The government nationalized the oil industry from 1916 to 1920, denationalized it from 1920 to 1937, and nationalized it again in 1937 under the control of YPFB, where it remained in 1989. A revision of the country's petroleum code in 1952 allowed foreign companies to drill for Bolivian oil. Nevertheless, the only successful company—Bolivian Gulf, a subsidiary of Gulf Oil—was nationalized in 1969 in an acrimonious dispute with the government. Two foreign firms, Occidental International and Tesoro Petroleum, held service contracts with YPFB in the late 1980s.

Oil production peaked in the early 1970s but declined throughout the rest of the decade and into the 1980s (see table 8, Appendix). Production dropped from 47,000 barrels per day (bpd) in 1973 to only 21,000 bpd in 1988, the result of price fluctuations, obsolete machinery, minimal exploration, YPFB mismanagement, and declining reserves. As part of the NPE, the government restructured YPFB into three autonomous subsidiaries in 1985 and reduced its payroll by one-third. One of YPFB's major goals was to accelerate oil exploration and improve its inadequate reserves-to-production ratio. Proven reserves were estimated at 158 million barrels in 1988. In order to augment reserves, most economists believed that Bolivia would need to rely more on foreign oil companies for exploration.

Oil exploration in Bolivia in the 1980s remained highly regulated by the government, but revisions in the country's petroleum code were expected after 1988. For exploration purposes, the country was divided into four regions, three of which were higher risk areas; in the fourth region, where reserves were unknown, YPFB had exclusive rights for exploration. The YPFB's region was located in southeastern Bolivia, and the other regions covered the rest of the country's mostly unexplored subsoil. YPFB, however, also issued contracts for foreign oil companies to explore portions of its own select region and others. In September 1988, Occidental signed a thirty-year contract with YPFB for exploration and production in a 2.5-million-hectare area, encompassing the Madre de Dios and Lapachos regions of La Paz, Beni, and Pando departments. YPFB also managed the country's oil refineries, which had a 74,000 bpd capacity, or three times more than output. The refineries,



Source: Based on information from Orlando D. Martino, *Mineral Industries of Latin America*, Washington, 1988, 22.

**Figure 9. Primary Petroleum, Natural Gas, and Minerals Activities, 1988**

located in Santa Cruz, Cochabamba, and Chuquisaca departments, produced a diverse range of petroleum products, such as lubricating oils, gasoline, naphthas, jet fuels, diesel fuel, solvents, and ether (see fig. 9).



Seventy-five percent of Bolivia's oil was drilled in four Santa Cruz oil fields—La Peña, Monteagudo, Caranda, and Camiri—with the balance provided by fields in the departments of Chuquisaca and Tarija. A major new field, Vuelta Grande, was scheduled to begin production in 1989, providing upwards of 5,500 bpd. Most oil fields had large reserves of associated natural gas.

Natural gas reserves in 1988 were estimated at 33 billion cubic meters. The primary gas fields were concentrated in Santa Cruz and Tarija departments, with additional fields scattered in various other departments. In 1988 natural gas production equaled roughly 13 million cubic meters a day, almost half of which was reinjected. Sixty-five percent of all gas production originated from four large gas fields in Santa Cruz: Río Grande, Colpa, Vuelta Grande, and Caranda. In the late 1980s, YPFB exported close to 90 percent of the country's gas, about 6 million cubic meters a day, to Argentina via an 847-kilometer gas pipeline that was constructed in 1972, extending from Santa Cruz to the border town of Yacuiba. In total, 4,346 kilometers of gas and oil pipelines of varying sizes extended through the country in 1988. Domestic gas use, equivalent to about 10 percent of production in 1988, was expected to increase when a gas pipeline connecting the highlands to the lowlands opened in 1988 and as electricity-generating plants increasingly turned to gas as their source of power.

The contentious nature of negotiations between Bolivia and Argentina for purchasing natural gas in the mid-1980s demonstrated the subsector's dependence on foreign markets. Disagreements revolved around the market rate Argentina paid for Bolivian gas, the proportion of currency and in-kind payments, and Bolivia's failure to make its debt payments to Argentina, its largest bilateral creditor. Following a two-year period that nearly bankrupted Bolivia's treasury, the two nations signed a comprehensive agreement in 1987. Under the accord, Bolivia agreed to cut its gas price by 20 percent and peg it to market levels. Argentina resumed its gas payments to Bolivia with 80 percent of its payment in convertible currencies and 20 percent in goods, such as wheat. In the late 1980s, however, the status of the agreement beyond 1992 remained unclear.

After more than ten years of negotiations, in 1988 Bolivia and Brazil signed a preliminary agreement that was to pave the way for exports of natural gas, urea, and polyethylene to Brazil in the early to mid-1990s. Although the details were still being finalized in 1989, the pact was slated to include a 600-kilometer gas pipeline from Santa Cruz to the border town of Puerto Suárez and then to São Paulo; 3 million cubic meters of gas exports a day; the manufacturing of 200,000 tons a year of urea fertilizers and 100,000

tons of polyethylene, used for packaging and tubing; and a series of other thermal and hydroelectric projects. If the supply of gas did not reach Brazil by 1992, however, and the Argentine agreement was not renewed, Bolivia faced a potentially untenable cash-flow situation by 1993.

## **Electricity**

Bolivia's installed electricity capacity by the mid-1980s had reached 566 megawatts, and government plans in the late 1980s projected growth in domestic demand and significant annual investment in expanding domestic supply into the 1990s. Hydroelectric sources provided approximately 62 percent of the supply of electricity, followed by thermal sources with 25 percent and diesel with 13 percent. The National Electrification Institute (Instituto Nacional de Electrificación), a branch of the Ministry of Energy and Hydrocarbons, provided diesel generators to those outside major cities and beyond the reach of the interconnected electricity system, which linked most major cities for the first time in the 1980s. The National Electricity Company (Empresa Nacional de Electricidad—ENDE), also part of the Ministry of Energy and Hydrocarbons, controlled 80 percent of the country's electricity capacity, including five hydroelectric plants. Other producers of electricity included the United States-owned Bolivia Electricity Company (Compañía Boliviana de Energía Eléctrica), serving La Paz and Oruro; the Cochabamba Light and Power Company (Empresa de Luz y Fuerza Eléctrica de Cochabamba); the Rural Electricity Cooperative (Cooperativa Rural de Electrificación), working in rural areas; and Comibol, which generated much of its own electricity, primarily from charcoal and firewood. ENDE established electricity rates, which were often subject to large increases. ENDE, as a consequence of the NPE, negotiated electricity rates with private companies and local city councils. Access to electricity by private citizens was growing in the late 1980s and was available to over 72 percent of urban dwellers. Rural citizens, however, lagged well behind; only about 10 percent had such access, low even by Latin American standards.

The quality of electricity transmission was relatively good and generally reliable in larger cities. Electricity operated on a 50-cycle system, 120 and 220 volts in La Paz, and 220 volts in other major cities. To improve quality further and expand installed capacity, the government embarked in 1988 on a US\$100 million investment project in electricity, including new generation plants, gas turbines, and transmission lines. With funding from the World Bank and the Andean Common Market's Andean Development

Corporation, Bolivia was attempting to improve access to electricity for rural communities.

The country's plans to tap its vast hydroelectric potential were less clear. In the late 1980s, Bolivia's hydroelectric capacity of approximately 300 megawatts represented only 2 percent of the 18,000-megawatt potential, estimated by engineering studies performed in the 1970s and 1980s. Although small- and medium-sized hydroelectric projects were under way through regional or local governments, any large-scale projects were dependent on negotiations in progress with Brazil over the price for natural gas exports.

Policymakers also considered alternative energy resources, such as geothermal, coal, solar, wind, and biomass. Geothermal potential was positive with 350-megawatt capacity, including a possible plant at Sol de Mañana in Laguna Colorada. Commercially exploitable coal resources remained unknown in the late 1980s. Solar, wind, and biomass sources offered varying potential but remained unattractive because of the high per capita cost of their technology. Uranium deposits were known to exist as well, and the Bolivian Nuclear Energy Commission (Comisión Boliviana de Energía Nuclear) was responsible for uranium exploration and production.

## **Mining**

From 1557 to 1985, the mining industry dominated the Bolivian economy. By 1985, however, the production of every significant mineral in the country had failed to exceed the output registered in 1975. Moreover, the international tin market crashed in 1985. The mining sector in 1987 accounted for only 4 percent of GDP, 36 percent of exports, 2.5 percent of government revenues, and 2 percent of the labor force, compared with 8 percent of GDP, 65 percent of exports, 27 percent of government revenues, and about 6 percent of the labor force in 1977. Spurred by a massive increase in gold production, however, the mining sector rebounded in 1988, returning to the top of the nation's list of foreign exchange earners.

## **Structure of the Mining Industry**

Comibol, created in 1952 and decentralized into five semiautonomous mining enterprises in 1986, was a huge multimineral corporation controlled by organized labor and the second largest tin enterprise in the world. In addition to operating twenty-one mining companies, several spare-parts factories, various electricity plants, farms, a railroad, and other agencies, Comibol also provided schooling for over 60,000 children, housing for mining families, health clinics, and popular subsidized commissaries called *pulperías*

(see Glossary). By 1986 Comibol employed more nonminers than miners.

Observers severely criticized Comibol's mining policies. Comibol took fifteen years to bring tin production to its prerevolutionary levels. In addition, Comibol failed to invest sufficiently in mining technology and existing mines, and it proved unable to open new mines. Indeed, except for the mid-1960s Comibol did not engage in exploration. In terms of administration, worker control eclipsed even technical and detailed administrative decisions.

The decentralization of Comibol under the Rehabilitation Plan reduced the company's payroll from 27,000 employees to under 7,000 in less than a year. All of Comibol's mines, previously responsible for the bulk of mining output, were shut down from September 1986 to May 1987 to examine the economic feasibility of each mine; some never reopened. Comibol's mining and service companies were restructured into five autonomous mining subsidiaries (in Oruro, La Paz, Quechusa, Potosí, and Oriente) and two autonomous smelting companies (the Vinto Smelting Company and the still unopened Karachipampa smelter in Potosí), or they were transferred to ministries such as the Ministry of Social Services and Public Health or the Ministry of Education and Culture. The bureaucracy also underwent major administrative changes.

For the first time since 1952, the country's medium miners, small miners, cooperatives, and other producers, which made up the rest of the mining sector, produced more minerals in 1987 than Comibol. The medium miners consisted of Bolivian and foreign mining companies in the private sector that were involved in the production of virtually every mineral, especially silver, zinc, antimony, lead, cadmium, tungsten, gold, and tin. Nevertheless, the collapse of tin and the decline in other commodity prices in the mid-1980s also severely affected the private mining sector. Nineteen mining companies with 4,020 employees constituted the Medium Miners Association (*Asociación de Minería Mediana*) in 1987, compared with twenty-eight companies and 8,000 workers in 1985. Only 615 mines in 1987 were part of the National Chamber of Mining (*Cámara Nacional de Minería*), the equivalent of a small miners association, compared with 6,300 mines and 23,000 workers before the crash. Traditionally, small miners had to market their mining output through the Mining Bank of Bolivia (*Banco Minera de Bolivia—Bamin*), which was also restructured after 1985 into a joint venture of private and public interests. Beginning in 1987, small miners no longer had to sell their exports through Bamin, a policy shift that boosted that group's output and foreign sales. Mining cooperatives and other miscellaneous miners made up the rest of



*Indian woman shoveling salt at the Uyuni Saltpan, Potosí Department  
Courtesy Inter-American Foundation (Kevin Healy)  
Mining tungsten in the Kami mine, Cochabamba Department*

the producers in the mining sector, although their output was aggregated with that of the small mining sector. The National Federation of Mining Cooperatives of Bolivia (Federación Nacional de Cooperativas Mineras de Bolivia) served as an umbrella organization for the country's 434 mining cooperatives, 82 percent of which mined gold. Only a few of these groups, however, were officially registered with the National Institute of Cooperatives (Instituto Nacional de Cooperativas). Most cooperatives were small and consisted of individual miners organized by mine or specific mineral and using very little technology.

### **Tin and Related Metals**

Bolivia's mines had produced cassiterite, the chief source of tin, since 1861. Although long among the world's leading tin producers and exporters, the industry faced numerous and complicated structural problems by the early 1980s: the highest-cost underground mines and smelters in the world; inaccessibility of the ores because of high altitudes and poor infrastructure; narrow, deep veins found in hard rock; complex tin ores that had to be specially processed to extract tin, antimony, lead, and other ores; depletion of high-grade ores; almost continual labor unrest; deplorable conditions for miners; extensive mineral theft or *juqueo*; poor macroeconomic conditions; lack of foreign exchange for needed imports; unclear mining policies; few export incentives; and decreasing international demand for tin. Between 1978 and 1985, Bolivia fell from the second to the fifth position among tin producers.

In the late 1980s, however, tin still accounted for a third of all Bolivian mineral exports because of the strong performance by the medium and small mining sectors. The largest tin-mining company in the private sector was Estalsa Boliviana, which dredged alluvial tin deposits in the Antequera River in northeastern Potosí Department. The Mining Company of Oruro operated the country's richest tin mine at Huanuni. The country's tin reserves in 1988 were estimated at 453,700 tons, of which 250,000 tons were found in medium-sized mines, 143,700 tons in Comibol mines, and 60,000 tons in small mines. In the late 1980s, tin was exported mainly in concentrates for refining abroad. Eighty percent of all exports went to the European Economic Community and the United States, with the balance going to various Latin American countries and Czechoslovakia.

Bolivia was a founding member of the International Tin Council (ITC), a body of twenty-two consumer and producer countries that since 1930 had attempted to regulate tin markets through buffer stocks. Bolivia, however, did not sign the ITC's International Tin

Agreements in the 1970s and 1980s. In 1983 Bolivia joined the newly formed Association of Tin Producing Countries, which attempted—unsuccessfully—to control tin prices through a cartel approach to commodity regulation. After a period of decline, tin prices rebounded in the late 1980s.

Government policies since the early 1970s had sought to expand the percentage of metallic or refined tin exports that offered greater returns. As a result, smelting increased during the 1970s, but in the 1980s the excessive costs of the nation's highly underutilized smelting operations contributed to the decision to restructure Comibol.

Silver, zinc, lead, bismuth, and other minerals were all found with Bolivia's large tin reserves and, like tin, were considered strategic minerals. Because of the common mixture of ores, tin mining frequently encompassed the mining of other minerals as well. With the collapse of tin, the government was increasingly interested in exploiting its large reserves of other minerals, particularly silver and zinc. Three centuries after being the world's largest producer of silver, Bolivia still produced 225 tons of silver in 1988, as compared with about 140 tons in 1987 (see table 9, Appendix). Zinc reserves were large, 530,000 tons, and the expansion of zinc production enjoyed growing government support. Zinc output also rose in the late 1980s from roughly 39,000 tons in 1987 to over 53,000 tons in 1988, compared with 47,000 tons in 1975. Nearly all zinc was exported. In 1987 the government declared the construction of a new zinc refinery in Potosí a national priority. Although the authorities considered lead a minor metal, production increased from 9,000 tons in 1987 to 11,000 tons in 1988. Bismuth reserves were estimated at 4,100 tons, and production in 1987 reached two-thirds of a ton entirely by small miners. Bolivia, the site of the International Bismuth Institute, was once the sole producer of bismuth in the world.

The lead and silver Karachipampa facility in Potosí was the nation's largest smelter. Completed in 1984, Karachipampa employed Soviet technology but was constructed by a company from the Federal Republic of Germany (West Germany). The smelter's gross capacity was an enormous 51,000 tons a year. Widely criticized for its overcapacity, the plant was not scheduled to open until 1992 at the earliest because of insufficient ore.

Bolivia mined about a fifth of the world's antimony in the late 1980s and was the leading producer among market economies. Private companies were responsible for all antimony production. The largest output came from the United Mining Company (Empresa Minera Unificada), which controlled the two largest antimony

mines, located at Chilcobija and Caracota, both in Potosí Department. Medium and small miners generated an average of 9,500 tons of antimony a year in the mid- to late 1980s, all of which was exported. Antimony, a strategic mineral used in flameproofing compounds and semiconductors, was exported in concentrates, trioxides, and alloys to all regions of the world, with most sales going to Britain and Brazil. Antimony reserves in 1988 stood at 350,000 tons.

Bolivia was also the leading producer of tungsten among market economies. But the dramatic decline in tungsten prices in the 1980s severely hurt production, despite the fact that reserves stood at 60,000 tons. Medium and small producers accounted for over 80 percent of the country's tungsten production in the late 1980s. The International Mining Company's Chojilla mine was the source of most tungsten output. Tungsten production sank from 2,300 tons in 1984 to barely more than 800 tons in 1987 because of falling international prices. Tungsten was sold to West European, East European, and Latin American countries, as well as to the United States.

### **Other Metals and Minerals**

Gold prospecting in the country's rivers and mines was brisk in the late 1980s. Because of Bolivia's vast territory and the high value of gold, contraband gold accounted for approximately 80 percent of exports. Official gold exports were approximately five tons in 1988, up sharply from less than one ton in 1985. In order to capture gold as a reserve for the Central Bank, in 1988 the government offered a 5 percent bonus over the international price of gold on local sales to the Central Bank. Gold was mined almost exclusively by over 300 cooperatives throughout the country, along with about 10,000 prospectors. A large percentage of the cooperatives worked in Tipuani, Guanay, Mapiri, Huayti, and Teoponte in a 21,000-hectare region set aside for gold digging and located 120 kilometers north of La Paz. Mining cooperatives in the late 1980s had requested an additional 53,000 hectares from the government for gold prospecting. Others panned for their fortunes in remote villages like Araras along the Brazilian border in the Beni. Small-scale operations were very traditional and wasteful. Analysts predicted that more commercial production, such as the dredging of alluvial deposits, would maximize gold output. A few medium-sized mining operations, as well as the Armed Forces National Development Corporation (Corporación de las Fuerzas Armadas para el Desarrollo Nacional—Cofadena) became involved in the gold rush in the 1980s. Government policy favored augmenting gold reserves



as a means of leveraging more external finance for development projects.

The government's mineral policy also gave a high priority to exploiting the lithium and potassium deposits located in the brines of the southern Altiplano's Uyuni Saltpan, estimated to be the largest of their kind in the world. The United States Geological Survey, the Bolivian Geological Survey (Servicio Geológico de Bolivia), and others discovered large reserves of lithium in 1976. By 1985 Bolivia's National Congress had made lithium extraction a national priority and created the Industrial Complex of the Uyuni Saltpan (Complejo Industrial de los Recursos Evaporíticos del Salar de Uyuni) to explore, exploit, and market lithium. Because the extraction of lithium is an expensive, technically complex process, the government sought bids for some foreign investment in lithium in the late 1980s. In addition to an estimated 5.5 million tons of lithium reserves, Bolivia also had approximately 110 million tons of potassium, 3.2 tons of boron, and an unknown amount of magnesium associated with lithium.

After years of planning, the Mutún iron mine was scheduled to open its first of two plants in 1989. The Mutún mine, the sole responsibility of the Mining Company of the Oriente, was expected to yield 592,000 tons of iron in its first five years of operation. Mutún was also expected to produce manganese. The prospects for the steel industry, which was controlled by the Bolivian Iron and Steel Promotion Unit (Unidad Promotora de La Siderurgia Boliviana, formerly known as the Bolivian Iron and Steel Industry, or Siderúrgica Boliviana), however, were bleak. After more than a decade of planning a national steel plant, Bolivia was still unable to obtain financing for such a project, especially given international overcapacity in steel. The possibility of a national steel plant appeared unlikely at the end of the 1980s.

## **Manufacturing and Construction**

The manufacturing sector played a minor role in the economy, and virtually all of its activity was linked to the three major sectors of the economy: agriculture, hydrocarbons, and mining. Since 1952 manufacturing had contributed generally 15 percent of GDP, but the deep recession of the 1980s severely weakened the sector, making it contract by 35 percent from 1980 to 1987. In that same period, manufacturing's share of GDP dropped to about 10 percent, and its share of the labor force fell from 177,000 to 117,000, or about 7 percent of all workers. The sector focused primarily on the domestic market, but in 1987 nontraditional exports, those other than hydrocarbons, agriculture, or mining, amounted to over 18 percent

of total exports. In the late 1980s, manufacturers continued to face onerous structural constraints: a small domestic market, tight credit policies, high transportation costs, a lack of infrastructure, insufficient skilled labor and managers, excessive contraband, low import tariffs, dependence on imported inputs, and the declining production of domestic inputs, such as agricultural goods, petroleum, and minerals. In addition, the NPE promoted greater export orientation and diversity for the sector, goals that few manufacturers were capable of reaching in 1985. Similarly, the NPE's policies of import liberalization and tight credit, low consumer demand, high utility costs, and a new VAT hurt most manufacturers accustomed to operating in a protectionist environment. From 1985 to 1987, more than 130 manufacturing firms collapsed, and the industry as a whole operated at only about half of its capacity.

Manufacturing grew at a pace of approximately 5 percent annually during the 1960s and 1970s, with slightly faster growth in the second decade. Until the 1970s, the government limited itself to the promotional and funding activities of the Bolivian Development Corporation, which was dissolved in 1985 in favor of regional development corporations in each department. In 1971, however, the Industrial Incentives Law granted varying import duty exceptions on capital and intermediate goods, accelerated depreciation allowances, deduction of indirect taxes, and a ten-year income exemption in the case of firms establishing themselves in the departments of Pando, Beni, Chuquisaca, and Tarija. To manage the law, the government created the National Investment Institute (Instituto Nacional de Inversiones) to screen and set priorities for investment. Investment in manufacturing increased as a result of these measures, including a surge in public sector spending from 15 percent of all manufacturing investment to 40 percent during the 1970s. The state's investment consisted of industrial plants in milk processing, cement, sugar, rubber, ceramics, metals, glass, petroleum, gas, and others, some of which were eventually sold to the private sector. The 1971 investment law was revised in 1981, but by 1986 both had been supplanted by the NPE's uniform import tariffs and tax reform. Government policy in the late 1980s focused on developing a new investment code to stimulate increased foreign investment in export industries. Nevertheless, Bolivia's history of political instability, labor unrest, and structural bottlenecks made the task of luring foreign investors formidable.

The manufacturing industry consisted of nine subsectors—food, beverages, and tobacco; textiles, garments, and leather goods; chemicals and plastics; timber, wood products, and furniture; paper

products; nonmetallic minerals; basic metal industries; metal production, equipment, and machinery; and other manufacturing. Many producers who were involved in manufacturing and related activities were classified as part of the informal sector (see Informal Sector, this ch.). The food, textile, and metal industries contributed over 80 percent of all manufacturing output and over half of the sector's labor force. Except for the manufacturing of hydrocarbons and minerals, there was little heavy industry. Except for agricultural processing, many manufacturers imported as much as 90 percent of their final product, making much of the sector more commercial than industrial. Many manufacturers ran only small artisan shops, and most employed fewer than ten workers.

The agricultural processing subsector consisted of milling wheat into flour, crushing oilseeds, refining sugar, blending coffee, milling cotton into textiles, canning fruits and vegetables, packing meat, and processing dairy products. Most agro-industries were located in Santa Cruz Department. Domestically made beverages, such as soft drinks, beer, and *chicha*, were also popular. A domestic cigarette and cigar industry also existed. In 1988 the government considered the possibility of legally exporting cocaine to the international pharmaceutical industry. The textile industry, another major subsector, had played a declining role in the economy since 1970 as mining and hydrocarbons occupied a more prominent place. The country's ten textile mills purchased local cotton and wool for their products, but the poor quality of garments, leather goods, and footwear, as well as the competition from smuggled goods, undermined growth.

Industry also produced a significant supply of local chemicals, plastics, medicines, industrial chemicals, gases, and insecticides. The subsector's output was expected to increase vigorously as the gas pipeline project with Brazil became operative and the manufacture of fertilizers and other petrochemicals increased. Although the cutting of timber accelerated and scores of small sawmills became active in the 1980s, the wood and furniture industry remained well under its potential. The wood industry was completely unregulated, and as the contraband wood trade thrived, Brazil benefited most from the increased felling of Bolivian trees. Timber also fed the country's paper industry, which consisted of several dozen mostly urban firms producing a limited product line of paper products, newsprint, and cardboard. The construction industry was primarily fed by the manufacturing of nonmetallic minerals, notably limestone, clays, and salts, all of which were found in abundant quantities. The metal industries fabricated a wide range of ferrous and non-ferrous metal alloys, iron, steel, tubing, vehicles, some appliances,

batteries, electrical transformers, sewing machines, farm equipment, bicycles, and transport equipment. In addition, Cofadena assembled automobiles in Santiváñez, Cochabamba Department, as part of an agreement with the Andean Common Market (Ancom, also known as the Andean Pact; see Foreign Relations, ch. 4).

The country's construction industry consisted of approximately 600 mostly small companies operating primarily in the cities of La Paz, Santa Cruz, Cochabamba, and Oruro. Construction activity soared in the 1960s and 1970s because of renewed investment in public works and a residential housing boom in the larger cities. Most Bolivians, however, continued to build their own homes by more traditional means. The deep recession of the early 1980s and the extremely tight credit policies of the late 1980s slowed construction activity greatly. In the late 1980s, construction contributed an average 3 percent of GDP. As part of the reactivation policies of 1987, the government created the National Housing Fund (Fondo Nacional de Vivienda—Fonvi) to inject credit into the housing industry and to foster housing construction and home improvements.

With the exception of steel, the construction industry received most of its inputs from domestic industry: limestone, cement, wood products, and metal products. The cement industry in particular was very large, the four cement plants providing an installed cement capacity in 1989 of 700,000 tons per year. The three state-owned cement factories were run by their respective regional development corporations in Tarija, Cochabamba, and Chuquisaca departments and contributed 70 percent of total cement production. The only private company, the Bolivian Cement Company (Sociedad Boliviana de Cementos) in Viacha, La Paz Department, provided the balance. In the late 1980s, about 400,000 tons per year of local limestone fed cement production.

## **Services**

### **Banking and Financial Services**

In the late 1980s, commercial banks were characterized by their limited numbers, local prominence, concentration of deposits in a few institutions, and generally shaky financial status. Only thirteen commercial banks remained in 1988 after several locally owned banks had closed because of fraud and insolvency. Ten of these institutions were local; Citibank was the only United States bank still operating in the country. The three foreign banks remained generally inoperative, however, and were restricted to collecting previous loans. The country's top five banks—the Bank of Santa

Cruz, Bolivian American Bank, National Bank, Mercantile Bank, and Bank of Cochabamba—controlled 61 percent of deposits at the end of 1988. Over half of the local commercial banks continued to report losses in 1987. In 1988 bad debt constituted 15 percent of the debt owed to local banks, whereas as much as 64 percent of the debt owed to foreign banks was deemed bad. Still, commercial banks remained the core of the private financial sector, with assets totaling US\$357 million in 1988.

Government policy changes over the legality of deposits in United States dollars severely affected the sector during the 1980s and were directly responsible for a large part of the industry's poor health, although financial mismanagement was also a factor. From 1976 to 1982, dollar deposits in bank accounts were legal; by 1982 deposits in United States currency represented 90 percent of all deposits. From 1982 to 1985, however, the Siles Zuazo government made it illegal to retain dollar accounts and forced banks and other financial institutions to convert deposits and loans into Bolivian pesos at the official exchange rate, which essentially subsidized the fading peso. Within three years after the decision of the Paz Estenssoro government in 1985 to again legalize dollar accounts, 70 percent of all savings deposited in commercial banks were in dollars. Although the deregulation of the financial system after 1985 helped to expand the deposit base, legalizing dollar accounts also signified the acceptance of millions of coca dollars that were laundered through the banking system. During this period, moreover, although many banks were ravaged by hyperinflation, other banks and their top officials had profited handsomely from the rampant currency speculation and other illegal activities.

Despite deregulation, banking generally remained an elite activity characterized by extremely high collateral requirements, except for top clients. Interest rates that were 10 to 20 percent above the prevailing rates in the United States also discouraged individuals and smaller businesses from seeking credit from commercial banks. Informal credit markets flourished. Interest rates varied considerably for boliviano deposits and loans versus dollar deposits and loans. High interest rates in the late 1980s resulted from restrictive monetary policies, continued uncertainty about the economy's future, and the high demand for credit.

In addition to normal commercial banks, there were three private sector specialized banks that lent to industry but mobilized their capital base from means other than deposits. In the late 1980s, the only specialized bank that remained highly active was the Industrial Bank (Banco Industrial), which was established in 1963. The other two specialized banks—the Industrial Finance Bank

(Banco de Financiamiento Industrial) and the Bolivian Investment Bank (Banco de Inversiones Boliviano)—were established more recently.

Other private sector financial institutions consisted of savings and loans, mortgage houses, credit unions, insurance companies, exchange houses, and, as of 1988, a stock exchange. As with commercial banking, these entities also grew rapidly in the 1960s and 1970s and greatly contracted in the 1980s. The principal savings and loan body, the Central Housing Savings and Loan Board (Caja Central de Ahorro y Préstamo para la Vivienda—Cacen), was also the institution most involved with mortgage financing. Established in 1966, Cacen operated privately through a network of cooperative savings and loan associations that promoted housing construction and offered mortgages and credit for home remodeling. Credit unions were also popular and functioned under the umbrella of the National Federation of Credit Unions (Federación Nacional de Bancos Cooperativos). Fifteen companies, five of which were multinational firms, sold insurance policies in the mid-1980s. Exchange houses, which dealt with international currency transactions, were also numerous, as were a whole range of more informal financial intermediaries, both legal and illegal, that chiefly operated in United States dollars. In 1988 Bolivia inaugurated a seventy-member stock exchange that was financed by the World Bank and AID.

Public sector financial institutions included the Central Bank, BAB, Bamin, and the State Bank (Banco del Estado—Banest). Under the 1985 NPE restructuring policy, the Central Bank assumed the outstanding debt of other public sector institutions. The reorganization of BAB confined it to new credit limits per loan and focused its business on loans to small farmers through its regional and provincial offices. The government converted Bamin into a mixed entity, both publicly and privately owned. Bamin primarily assisted the small mining sector by importing mining equipment and marketing ores. As a result of the modifications in public sector financial institutions, Banest became the sole development bank of the central government, analyzing investment strategies, writing feasibility studies, and providing credit to the private sector through forty-five national offices.

## **Transportation**

Inadequate and costly transportation, a result of the country's rugged terrain and scattered population, persisted as a major obstacle to faster growth and development in the late 1980s. Bolivia's access to foreign markets has been hampered since the loss of its

Pacific Ocean ports in the War of the Pacific (1879–83). The country's various geographical obstacles and inadequate transportation infrastructure also have hindered economic activity, especially after the latter shifted from the highlands to the lowlands. Although the infrastructure has grown significantly since the 1952 Revolution, an adequate network of integrated transportation systems was still distant in the late 1980s, as was the large external financing it would require.

Bolivia's road system accounted for the overwhelming share of domestic transportation. In 1988 the nation had over 41,000 kilometers of roads, 3 percent of which were paved, 16 percent generally gravel, and 81 percent dirt. La Paz's steep and narrow streets were primarily cobblestone. The National Road Service (Servicio Nacional de Caminos—Senac), established in 1964 when there were only 3,000 kilometers of roads, supervised road construction and maintenance. Observers criticized Senac for haphazard road development and substandard road maintenance, especially along the backbone of the paved system, the 560-kilometer Cochabamba-Santa Cruz highway (see fig. 10). In the late 1980s, Senac received funding from the Inter-American Development Bank (IDB) to repave this highway, the main access to the agricultural frontier. In addition, the winding mountain roads were poorly maintained and lacked such safety features as guard rails. Mountain and lowland roads were often impassable during the rainy season. Many blamed the rapid deterioration of roads on too-heavy, poorly maintained trucks and buses. Government policies were aimed at enlarging and improving the network of roads in the lowlands, particularly the Chapare, and connecting La Paz with Santos, Brazil, by paved road.

At least 110,000 vehicles were registered in the late 1980s, including about 71,000 automobiles or light vehicles, 30,000 heavy trucks, and 9,000 buses. In addition, the government reported about 50,000 motorbikes, 18,000 jeeps, 27,000 vans, and 37,000 light or flatbed trucks. *Flotas* (large buses) operated primarily in rural areas, and *micros* (small buses) operated throughout the country; taxis existed in larger cities. Many Indians in the highlands, however, still used llamas as a main means of transporting loads, such as market produce.

The most important transport system for external trade, excluding gas and oil pipelines, was the railroad. The country's rail system grew in stride with the tin industry, and the first railroad from Oruro to Antofagasta, Chile, opened in the 1880s (see Reconstruction and the Rule of the Conservatives, ch. 1). The railroad later extended from Oruro to the cities of La Paz, Cochabamba, and

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*Figure 10. Transportation System, 1988*

Potosí. In 1913 a railroad from La Paz to Arica, Chile, also was opened, and by the 1950s the last major rail system from Santa Cruz to São Paulo, Brazil, was completed. By the late 1980s, Bolivia possessed an extensive but aging rail system that operated over 3,700 kilometers of rail and carried over 535 million tons of freight and 2.4 million passengers a year. The National Railroad Enterprise (Empresa Nacional de Ferrocarriles—Enfe) operated the dilapidated



system, which had been subject to World Bank rehabilitation schemes since 1970. Government policies emphasized the continued upgrading of the railroad and plans to join the Atlantic and Pacific coasts by rail. In 1988 the Argentine Railroad Company (Ferrocarriles Argentinos) began work on the Expreso del Sud rail line, which would connect Buenos Aires with La Paz and eventually Matarani, Peru, to form the Liberators of America Corridor (Corredor Libertadores de América), a new Atlantic-Pacific railroad in South America. The Bolivian government also contemplated another transoceanic railroad linking Santa Cruz to Cochabamba and thus integrating its Andean and lowland railroads.

Air travel was common in Bolivia because of the great physical barriers that partitioned the country. The government's Administration of Airports and Aerial Navigation Auxiliary Services (Administración de Aeropuertos y Servicios Auxiliares de la Navegación Aérea—AASANA) managed the country's thirty-two official airports, only six of which had paved runways. Bolivia had two international airports: Kennedy International Airport outside La Paz (the highest commercial airport in the world) and Viru-Viru in Santa Cruz. There were also an estimated 800 unofficial airstrips, particularly in the lowlands. Many of these were clandestine airstrips used in narcotics trafficking.

Most air activity consisted of domestic and international travel and freight, such as beef exports. The frequent need to rely on air transportation for both domestic and international freight explained the high cost of transportation in general. Lloyd Bolivian Airline (Lloyd Aéreo Boliviano—LAB), owned both by the government and by private interests, was the country's main airline and carried over 70 percent of all domestic passengers—over 1 million passengers a year—in the 1980s. LAB serviced most Bolivian cities, most major Latin American cities, and many other international destinations. Argentine, Brazilian, Chilean, Colombian, Paraguayan, United States, and West German airlines maintained flights to and from Bolivia. Military Air Transports (Transportes Aéreos Militares—TAM) also served as a carrier for about 50,000 domestic passengers a year (see *Civil Aeronautics*, ch. 5). In addition, 170 small taxi airplanes supplemented LAB's domestic service. There were two major air taxi companies.

Rivers also served as a common means of transportation, especially in the underpopulated eastern plains. Bolivia possessed more than 14,000 kilometers of inland waterways, including Lake Titicaca, the highest navigable lake in the world. Over thirty rivers from the Amazon system flowed through Bolivia. The major river systems used for transport were the Ichilo-Mamoré, Beni-Madre

de Dios-Ortón, and Iténez-Paraguay. *Capitanías* (river stations) in Trinidad, Riberalta, and Guayaramerín oversaw the 360 craft that used the nation's rivers. Most vessels were under fifty tons. In 1988 Bolivia signed an agreement—also approved by Argentina, Brazil, Paraguay, and Uruguay—that guaranteed the free passage of ships on the Paraná and Paraguay rivers.

In the late 1980s, Bolivia used the ports and warehousing facilities at Arica and Antofagasta in Chile, Matarani and Ilo in Peru, and Santos in Brazil as its major outlets to the sea. In addition, Bolivia was granted free port facilities in Rosario, Argentina; Nueva Palmira, Uruguay; and Belém, Brazil. Nevertheless, Bolivia continued to negotiate with its neighbors about access to its former seaports, long a matter of national pride for the country.

### **Communications**

Bolivia's evolving communications industry helped to mitigate the regionalism that characterized the nation. In 1988 an estimated 3.5 million radios had access to over 125 radio stations ranging in power from 0.5 to 25 kilowatts. Both the size of the country and the mountainous terrain explained the proliferation of stations, about 80 percent of which were AM stations. La Paz was the site of forty stations, which broadcast in Spanish, Quechua, and Aymara (see *Ethnic Groups*, ch. 2). Most stations were privately owned.

The number of private television stations in La Paz increased during the 1980s to seven, five of which were private. Other cities hosted private stations as well. Although the National Television Company (Empresa Nacional de Televisión) directed all government programming, foreign programs dominated most stations. According to the United States Department of Commerce, Bolivia had 650,000 television sets in 1988.

Bolivia was served by six main daily newspapers ranging in circulation from 20,000 to 80,000. *Última Hora*, *El Diario*, *Hoy*, and *Presencia* were the largest periodicals. Santa Cruz's *El Mundo* and Cochabamba's *Los Tiempos* were smaller but were also circulated nationally.

The National Telecommunications Enterprise (Empresa Nacional de Telecomunicaciones—Entel) managed the country's telephone system. Bolivia had only 65,000 telephones in 1988, or fewer than 3 sets per 100 inhabitants. Only users located in the major cities enjoyed direct-dialing services. Direct international dialing was introduced for the first time in the late 1980s. Installing a new telephone, however, was a bureaucratic and expensive endeavor. Nonetheless, Entel was in the process of upgrading the telephone system, with Swedish technical assistance, through a network of

twenty ground satellite stations, a large satellite station in La Paz, a digital-switching system for La Paz and Santa Cruz and eventually other cities, and an expanded microwave system. In the 1980s, the telephone system also had limited capacity for facsimile, telex, and computer modem communications. That was expected to change by 1993, however, when the Caracas-based satellite communications system, Condor, would begin to service the Andean region, including Bolivia, and provide television, telephone, telex, and data transmission to rural and urban areas throughout Bolivia. Several hundred post offices existed, many of which had telegraph capability. Bolivia was a member of the Andean Postal Union and the International Telecommunications Satellite Organization (Intelsat).

### **Tourism**

Tourism was a small but growing activity in Bolivia with potential for greater foreign exchange earnings. The entry of tourists jumped from 22,250 in 1970 to 155,400 in 1980 but had fallen to 127,000 by 1985, or about 1 percent of all tourism in Latin America and the Caribbean. Tourism was estimated to provide as much as US\$50 million in foreign exchange. Over 300 hotels and scores of motels and tourist residences—with about 9,000 rooms and 16,000 beds—provided accommodations for travelers. Latin Americans represented nearly half of all visitors, followed by Europeans and North Americans. A small domestic tourist industry also existed. Major tourist attractions were the country's snow-covered mountains, Lake Titicaca, pre-Inca ruins at Tiwanaku (Tiahuanaco), the vast tropical areas, remote national parks, sightseeing on the national railroad, and the Indian cultures. The government's Bolivian Institute of Tourism (Instituto Boliviano de Turismo) promoted Bolivian tourism by emphasizing the nation's history and culture, as well as its beauty and varied terrain.

## **Foreign Economic Relations**

### **Foreign Trade**

In the late 1980s, Bolivia's pattern of trade was in a state of transition. Since the middle of the sixteenth century, Bolivia had depended on only a few exports to generate the foreign exchange necessary to import the goods and services that the country did not make or provide. The volatility in world prices of these export commodities, however, made economic planning difficult and generated frequent unstable economic cycles.

Official exports in 1987 stood at US\$569 million, the lowest level in the 1980s up to that year (see table 10, Appendix). Reports in

1988, however, indicated a rise to US\$599 million, which was still low compared with levels registered earlier in the decade. Exports were severely hurt by depressed commodity prices and the structural changes that those price movements caused in production. As a result of lower export prices, the country suffered declining terms of trade in the 1980s, often exporting more goods but for less total value. Exports in 1987, for example, purchased only 53 percent of the amount earned by exports in 1980. A substantial shift occurred in the 1980s in the relative importance of tin and natural gas exports. As a percentage of total exports, tin declined from nearly 37 percent in 1980 to just over 12 percent in 1987. During the same period, natural gas increased from just over 21 percent to nearly 44 percent of exports. Analysts contended, however, that a large portion of economic activity—the export of coca paste or cocaine and the smuggling of legal goods from Bolivia—was not reflected in official export figures. Estimates of coca-related exports ranged from US\$600 million to US\$1 billion. Analysts believed that tens of millions of dollars were earned in contraband smuggling.

Trade policy after the world tin collapse of 1985 concentrated on making the external sector more market oriented and on diversifying the export base. The government emphasized import liberalization through tariff reform, realistic exchange rates, aggressive import tariff collection, and the promotion of nontraditional agro-exports and minerals. The attempts to force Bolivian producers to compete with the prices of international products after years of protection, however, were often unsuccessful. The government also contracted the services of several West European surveillance companies to ensure that tariffs were paid. Import liberalization policies helped cause a negative trade balance, which totaled US\$188 million in 1987. Nonetheless, the government hoped that market-oriented policies would cause exports to expand. After 1985 all export taxes were abolished, and constant devaluations of the Bolivian peso through a floating exchange rate helped lower the prices of exports and thus improve their competitiveness. The government also decreed tax rebates for exports and established an export promotion institute.

Diversification, mainly toward agro-exports, was another key goal of trade policy. Nontraditional exports, composed mainly of sugar, coffee, soybeans, beef, and timber, reached a high of nearly 19 percent of all exports in 1987. Observers doubted, however, that such exports would grow at the rapid pace many government officials expected because of longstanding structural obstacles and a lack of credit for producers. In addition, despite the rise of natural



*A ski lodge building on Chacaltaya  
(elevation about 5,500 meters) near La Paz  
Courtesy Harvey W. Reed*

gas and the decline of tin, minerals and hydrocarbons continued to represent the overwhelming percentage of legal exports.

Total official imports in 1987 reached just over US\$777 million, the highest level in the decade since the 1981 figure of US\$918 million (see table 11, Appendix). Although the 1988 figure registered a drop to about US\$700, the 1987 figure masked the reality of an import demand in excess of US\$1 billion, as contraband imports were placed at between US\$500 million and US\$600 million. With the introduction in August 1985 of a uniform tariff of 20 percent, imports increased. The tariff for capital goods decreased to 10 percent in 1988, a level that was scheduled to be uniform once again by 1990. Unlike the country's exports, the composition of imports changed only slightly as a result of the restructuring of the economy after 1985. Capital goods, mostly machinery and equipment for industry and transport, accounted for nearly 42 percent of all imports in 1987, followed by raw materials and intermediate goods, dedicated primarily to import-intensive manufacturing (40 percent) and consumer goods (16 percent).

Bolivia's trade was increasingly integrated into neighboring Latin American economies. In 1987 about 51 percent of all exports went to Argentina; natural gas accounted for most of that total. During the 1980s, Brazil surpassed the United States as the leading supplier of Bolivian imports. Bolivia was active in groups that promoted regional economic cooperation, such as ANCOM and the Latin American Integration Association (Asociación Latinoamericana de Integración—ALADI), the successor to the Latin American Free Trade Association (LAFTA). ANCOM had been established in 1969 by Bolivia, Colombia, Chile, Ecuador, and Peru, which endorsed the sectoral industrial development programs in the pact's Cartagena Agreement. After Chile withdrew its membership in 1976, ANCOM members generally collaborated on most issues. A major exception, however, was the issue of foreign investment, which was introduced by Ecuador and continued to jeopardize regional economic harmony (see Foreign Relations, ch. 4). With the election of the Paz Estenssoro government in 1985, Bolivia sought to relax ANCOM's investment code. Bolivia received priority treatment in ANCOM as its poorest member. In the 1980s, Bolivia also developed a growing interest in ALADI.

### **Balance of Payments**

Three major factors—reduced access to international capital, domestic economic instability, and a drop in commodity prices—greatly disrupted Bolivia's balance of payments during the 1980s. As the structural weaknesses of the economy became more apparent

in the late 1970s, foreign banks scaled back their loan commitments. This trend was exacerbated by the general economic chaos that reigned during the first half of the 1980s. Recession and hyperinflation discouraged new foreign direct investment, and policies that attempted to eliminate the predominance of the United States dollar in the financial sector spurred capital flight. Weakening commodity prices shrank export revenues, causing a negative trade balance after 1985. Fortunately, however, multilateral and bilateral sources provided Bolivia with generous amounts of financing to meet its shortfalls and allowed it to sustain international economic transactions.

Bolivia experienced persistent deficits in its current account during the 1980s, primarily as a result of a large chronic debit on the service portion of this account and significant trade imbalances after 1985 (see table 12, Appendix). From 1980 to 1985, the current account deficit equaled approximately 10 percent of GDP, or about three times the shortfall of the previous fifteen years. The last current account surplus occurred in 1973 and was the result of oil price windfalls. In 1987 the negative balance on the current account stood at nearly US\$488 million, more than any other year in the decade. Although trade was expected to improve slowly, the outlook for a reversal of the current account deficit was not bright.

With the decline in new foreign direct investment and private financing in the early 1980s, the capital account was negative every year from 1982 to 1987, except for 1984. Overseas investment in Bolivia from 1983 to 1987 averaged a mere US\$11 million, a consequence of the poor macroeconomic climate, unclear positions on regional investment rules, the lack of a new national investment code, and an unfavorable history of relations with the foreign private sector. The only significant inflows into the economy during the 1980s were from international sources like the IMF and the World Bank, along with multilateral and bilateral creditors, whose balance of payments support propped up the economy. Although foreign exchange reserves dropped in the 1980s, special financing from international public institutions and the nonpayment of Bolivia's commercial debt after 1984 limited the degree of damage. Central Bank officials reported that gross reserves at the end of 1988 totaled US\$404 million and net reserves, US\$181 million. Bolivia, however, did maintain over US\$300 million in gold reserves, and those reserves were mounting.

## **Debt**

Bolivia was the first country during the Great Depression to default on its foreign debt, and not until 1971 did the government

return to international capital markets for financing. External financing, mostly newly generated petrodollars, quadrupled during the 1970s as political stability and economic growth improved Bolivia's creditworthiness. As foreign financing dried up in 1978, foreign banks also negatively reassessed Bolivia's ability to service more debt. In 1984 Bolivia became the first Latin American country to declare an official moratorium on debt payments to commercial banks, and it continued to withhold payment through 1988. Bolivia, however, maintained a good repayment record with official creditors, such as the IMF and World Bank, recognizing they were its lenders of last resort.

By the late 1980s, Bolivia had accrued one of the highest per capita debts in Latin America. The country's total external debt amounted to US\$4.6 billion in 1986, or slightly more than its GDP for that year. Its debt-servicing requirements amounted to US\$161 million in 1986, creating a debt-service ratio (debt as a percentage of exports) of approximately 24 percent. Fortunately, about 90 percent of the country's debt was long-term liability. The structure of the country's debt changed drastically during the decade. Official multilateral and bilateral creditors composed 42 percent of total debt in 1980, compared with over 75 percent by 1988. Of the eighteen most heavily indebted developing countries tracked by the World Bank, Bolivia had the second lowest percentage of its debt with official creditors. The rapid changes in the structure of the liability were caused by the discontinuation of new private loans, large increases in official lending, and the government's purchases of its private debt in 1988. Argentina and Brazil, two of the developing world's largest debtor nations, were the country's largest bilateral lenders.

Despite unsteady relations with its commercial creditors, Bolivia achieved at least six debt reschedulings or deferments from 1980 to 1988. These agreements typically included longer grace periods, extended repayment schedules, and, occasionally, lower interest rates. As the Bolivian treasury reportedly neared depletion during the 1980s, such measures had become absolutely necessary in order to maintain the country's solvency. Most of the reschedulings occurred in the multilateral forum of the Paris Club (see Glossary), a clearinghouse for private and certain public debt negotiations. Outside the Paris Club framework, Bolivia also rescheduled its US\$900 million bilateral debt with Argentina in 1987 on very favorable terms, including a fifteen-year grace period and a twenty-five-year repayment timetable. According to Bolivia's minister of finance, the reschedulings reduced the country's debt-service burden by 50 percent beginning in 1988.



In addition to rescheduling, the Paz Estenssoro government sought to reduce its debt through complex international financial schemes. In 1988 Bolivia negotiated a debt-purchase arrangement with commercial creditors, many of which had already written off or substantially reduced the value of the loans on their books. In order to forestall a complete loss on their loans, bankers agreed to a program whereby the Bolivian government purchased its debt on secondary markets, where such liabilities are traded, for 11 percent of its face value, or at an 89 percent discount of the original debt. A special escrow fund administered by the IMF and financed by donations from West European and Latin American governments enabled Bolivia to pay for the discounted debt. By June 1988, Bolivia had acquired nearly 50 percent of its private debt through buybacks and sought to obtain the remainder of the debt by the end of 1989. Another debt-management approach adopted by Paz Estenssoro, a debt-for-equity swap, allowed commercial banks to exchange a predetermined value of the debt for equity in a Bolivian enterprise, usually a semiautonomous one slated for privatization. The government's third debt-reduction approach, a much smaller operation, allowed a United States environmental organization to purchase US\$650,000 of Bolivian debt at an 85 percent discount in a "debt-for-nature" swap and receive B250,000 to manage a 135,000-hectare wildlife preserve in Beni Department.

As a result of the country's aggressive debt-management program, Bolivia actually lowered its liability in 1988. Furthermore, it became the only Latin American nation to avoid exporting capital during the debt crisis. Instead, it obtained more external financing, although solely from public sources, than it paid out in interest and principal on its debt. Debt management, however, remained a controversial political issue, especially for critics of the military governments in the 1970s that accumulated the bulk of the liabilities. Restructuring or repayment of that debt was perceived by some as legitimizing gross economic mismanagement. The debt was considered negotiable enough that Roberto Suárez Gómez, Bolivia's reputed "King of Cocaine," even offered to pay off the country's multibillion-dollar debt in the early 1980s to avoid extradition (see *The Security Forces*, ch. 5).

### **Foreign Assistance**

As one of the two poorest countries in South America, Bolivia received generous amounts of multilateral and bilateral foreign assistance. The most important multilateral lenders were the IMF, the World Bank, and the IDB, all of which furnished mostly concessionary loans. The IMF and the World Bank provided several

hundred million dollars to the Bolivian government for the restructuring of the financial system, debt management, balance of payments support, the Emergency Social Fund, and various other projects. In 1988 Bolivia received US\$187 million in World Bank funding under the Enhanced Structural Adjustment Facility, a new loan mechanism available only to the poorest members of the bank. The IDB, another major multilateral donor, has lent the country in excess of US\$1 billion since the early 1960s for projects in infrastructure, mining, industry, agriculture, energy, health, education, and other fields. In the late 1980s, the IDB's project funding focused on repair to the Cochabamba-Santa Cruz highway, export financing, small farming projects, tax reform, and the informal sector. Other multilateral organizations present in Bolivia were the Andean Development Corporation, the United Nations, and the Organization of American States.

Bilateral overseas development agencies in the first half of the 1980s granted Bolivia an average of US\$170 million a year, or about 6 percent of GDP, and the United States on average provided a quarter of grant monies. As with multilateral agencies, bilateral agencies responded favorably to the orthodox policy reforms attempted by the Paz Estenssoro government. The United States, which had provided US\$1.18 billion from 1946 to 1986, remained Bolivia's single most important bilateral donor in the late 1980s. AID transferred over US\$61 million to the country in 1988 and earmarked US\$77 million for 1989. Over half of that assistance was directed at PL-480 Food for Peace programs, and another third went into specific development projects. An increasing percentage of assistance was being targeted for balance of payments support in the form of Economic Support Funds. AID supported market-oriented policy reforms, assisted in narcotics control and coca eradication efforts, and funded health, education, and informal sector projects to mitigate the effects of the economic crisis. Other United States agencies, including the Drug Enforcement Administration, the Department of Defense, and the Inter-American Foundation, also provided economic assistance to the country. The Peace Corps, which was expelled by the Bolivian government in 1971, hoped to return in the early 1990s. Japan, Canada, and most West European countries also extended bilateral assistance. The Soviet Union provided Bolivia with an estimated US\$204 million from 1954 to 1987.

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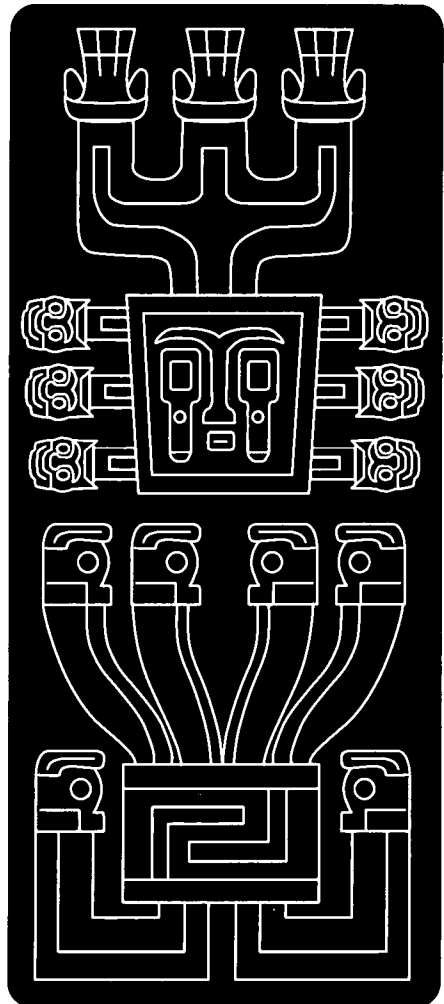
Definitive, book-length studies of the Bolivian economy in the 1980s were unavailable in early 1989. The literature tended to focus

on labor unions and the history of tin. Nor were there any comprehensive, book-length studies of important economic developments, such as the 1985 tin-market crash and the 1985 NPE. The most comprehensive work on the tin industry, *The Economics of Tin Mining in Bolivia* by Mahmood Ali Ayub and Hideo Hashimoto, was written before the crash. An informative monograph on the collapse is the London-based Latin America Bureau's *The Great Tin Crash* by John Crabtree, Gavan Duffy, and Jenny Pearce. A useful monograph on the NPE is *Bolivia's Economic Crisis* by Juan Antonio Morales and Jeffrey Sachs. There are also few in-depth studies on the important revenue-producing hydrocarbon and coca industries. Data on Bolivia's coca eradication and other antidrug efforts can be found in the periodic *International Narcotics Control Strategy Report*, published by the United States Department of State's Bureau of International Narcotics Matters, and in *Drug Control*, published by the United States General Accounting Office. Among the few journal articles on the Bolivian economy is James M. Malloy's "Bolivia's Economic Crisis."

A definitive source of economic data on Bolivia also was lacking in early 1989, and, as with many developing nations, data varied greatly. Useful Bolivian sources include publications of the Central Bank and the Ministry of Planning and Coordination's National Statistical Institute, such as the annual *Bolivia en cifras*. The best English-language sources include the IMF's *International Financial Statistics Yearbook, 1988*; the World Bank's *Annual Report, 1988*; the IDB's discussion of Bolivia in *Economic and Social Progress in Latin America*; and *Country Profile: Bolivia, 1988-89*, published by the London-based Economist Intelligence Unit. Useful monthly newsletters include *Latin America Regional Reports* and *Latin American Monitor*. (For further information and complete citations, see Bibliography.)



## Chapter 4. Government and Politics



*Symbolism on the back of the Great Idol of Tiwanaku*

IN 1989 VÍCTOR PAZ ESTENSSORO stepped down as president of Bolivia and on August 6 handed over power to the third democratically elected leader of the 1980s. Paz Estenssoro presided over four years of economic and political stability following two decades of military rule and nearly six years of a tumultuous transition to democracy.

When Paz Estenssoro assumed office on August 6, 1985, he inherited a society besieged by the most profound political and economic crisis in its history. Years of military rule had destroyed the nation's political institutions and eroded democratic traditions. The economy, in turn, had experienced a catastrophic downturn owing to years of mismanagement, the exhaustion of a state-centered economic development strategy, and extreme dependence on a single export commodity—tin. By 1985 inflation had reached 24,000 percent, and growth rates were declining steadily by over 10 percent annually.

To revive an agonizing nation, Paz Estenssoro, the old politician who had led the 1952 Revolution, transcended electoral and party-based politics. To address the economic crisis, he commissioned a team of young technocrats. The resulting New Economic Policy imposed a severe austerity program that stabilized the economy and fundamentally transformed Bolivia's development strategy.

The political crisis, characterized by a recurrent conflict between the executive and legislative branches, required equally innovative answers. Soon after the announcement of the New Economic Policy, Paz Estenssoro and his Nationalist Revolutionary Movement signed the Pact for Democracy with former General Hugo Banzer Suárez's Nationalist Democratic Action party. With the Nationalist Democratic Action party's support in the National Congress, the New Economic Policy and related legislation were implemented successfully. The Pact for Democracy provided the needed support for implementation of the government's economic policy, as well as the basis for four years of political stability.

Although originally envisioned as a long-term agreement that could establish the foundations of Bolivian democracy, the Pact for Democracy proved to be a temporary marriage of convenience that the partners renounced owing to irreconcilable differences. By February 1989, the Pact for Democracy had collapsed, mainly because the campaign for the May elections had accentuated the

differences between the two parties. Most Bolivian analysts hoped that the three years of the Pact for Democracy that enabled the New Economic Policy legislation to go forward were enough to establish the basis for positive growth in the 1990s. Each of the three leading presidential candidates in the May elections committed himself to the basic premises of the New Economic Policy.

Still, the most complex issue in Bolivian politics in 1989 remained the question of governability. The Pact for Democracy enabled Paz Estenssoro and the Nationalist Revolutionary Movement to govern for four years. With parties focused on the immediate task of getting elected, the more serious task of establishing the foundations of a stable political system was set aside. The key issue was whether or not political parties would be able to transcend the mundane worries about electoral politics to lay the groundwork for democratic rule. Their failure threatened to precipitate another round of military intervention.

## **Constitutional Background**

The Constituent Assembly that founded Bolivia in 1825 wrote the nation's first constitution establishing a centralized government with executive, legislative, and judicial branches. Based on the United States Constitution and borrowing a few premises from the French Republic, the first charter adopted liberal and representative democracy granting the congress autonomy and policy-making prerogatives. This constitution, however, was never adopted.

On November 26, 1826, the Bolivarian constitution, written in Lima by the liberator Simón Bolívar Palacios, replaced the original document and instituted a fourfold separation of powers among a lifetime presidency, an independent judiciary, a tricameral congress, and an electoral body. The tricameral congress comprised the Senate and the Chamber of Tribunes, whose members had fixed terms, as well as a Chamber of Censors, whose members served for life. Theoretically, the Senate was responsible for codifying laws and reorienting church and court officials, the Chamber of Tribunes possessed general legislative powers, and the Chamber of Censors had oversight powers that included impeachment of members of the executive. In reality, the legislature's key functions were to name the president and to approve a list of successors submitted by the president. One of the long-lasting effects of the Bolivarian constitution was the establishment of an executive-based system. The Bolivarian constitution reflected the Spanish tradition of bureaucratic patrimonialism in which power rested in the executive branch. Historians have argued retrospectively that Bolívar's



constitution suited the nation's political structure better than the liberal constitutions that followed.

In many ways, the Bolivarian constitution reflected Bolívar's uneasiness about mob rule. Like the founding fathers of the United States, Bolívar considered necessary the prevention of rule by the masses. As a result, the franchise was extended only to those literate in Spanish who either possessed property then worth 400 bolivianos or engaged in an art, in a science, or in some other remunerative position. Domestic and personal servants were also denied the franchise. In short, voting rights were limited to a very small and privileged elite. Voting qualifications and restrictions remained until universal suffrage was adopted during the 1952 Revolution.

Mostly, however, the Bolivarian constitution reflected Bolívar's distrust of the privileged elite that inherited Upper (Alto) Peru from Spain. Bolívar feared that rival elite factions would wage battle against each other for control over the new nation and became convinced that the best way to prevent instability and chaos was to institutionalize a strong, centralized, and lifetime presidency.

In spite of Bolívar's foresight, the Bolivarian constitution did not last long because of the great disparity that existed between the national aspirations of the state and its effective power over Bolivia's disparate regions and population. Between 1825 and 1880, Bolivian political life was dominated by a series of quasi-military leaders, known as caudillos, who had emerged with the collapse of the Spanish Empire. Within the context of economic crisis, warring caudillos, and a semifeudal social structure, constitutions and the national government became prizes to be captured by one or another caudillo.

Under the presidency of General Andrés de Santa Cruz y Calahumana, a new constitution was adopted on August 31, 1831. The new constitution introduced bicameralism, dividing the body between the Chamber of Senators (Senate) and the Chamber of Deputies elected by proportional representation. Annual sessions for the National Congress (hereafter, Congress) were to run between sixty and ninety days. Although the president was given the power to dissolve Congress, the new constitution abolished the lifetime presidency and limited the president to renewable four-year terms. Despite these limitations, however, presidential power actually increased during the presidency of Santa Cruz, and the trend toward greater concentration of power in the executive continued throughout Bolivia's history.

Under the short-lived Peru-Bolivian Confederation of 1836-39, Santa Cruz promulgated a new constitution that basically applied

the principles of the 1831 charter to the alliance (see *Construction of Bolivia: Bolívar, Sucre, and Santa Cruz*, ch. 1). The end of the confederation motivated Santa Cruz to institutionalize the strong executive model embodied in the 1831 charter. Because the president was given the power to dissolve the legislature, Congress was condemned to a passive and submissive role.

For the next forty-two years, Bolivia was subjected to the whims of caudillos who dictated constitutional charters almost as regularly as changes of government occurred. Between 1839 and 1880, six constitutions were approved by the legislative power. Except for the constitution of 1839, which limited presidential power, the constitutions promulgated under José Ballivián y Segurola (1843), Manuel Isidoro Belzú Humérez (1851), José María de Achá Valiente (1861), Mariano Melgarejo Valencia (1868), and Agustín Morales Hernández (1871) further concentrated power in the hands of the executive. As a rule, during this era Congress responded to the demands of whatever caudillo was in power.

Caudillo politics came to an end after the War of the Pacific (1879-83), in which the combined forces of Bolivia and Peru suffered a humiliating defeat against Chile's armed forces (see *War of the Pacific*, ch. 1). The end of the war gave rise to a new mining elite oriented to laissez-faire capitalism. Aided by the failure of Bolivia's armed forces in the war effort, this new elite was able to design a new civilian regime of "order and progress."

In 1880 Bolivia's most durable constitution was approved; it was to remain in effect for the next fifty-eight years. Under this constitution, bicameralism was fully adopted, and the legislative power became an important arena for political debate. During this period, Bolivia achieved a functioning constitutional order complete with political parties, interest groups, and an active legislature. The country was also a prime example of a formal democracy with legally limited participation. Literacy and property requirements were still enforced to exclude the Indian population and the urban working class from politics. Political life was reserved for the privileged and a minuscule upper class.

The basic premises of representative democracy introduced in 1880 still prevailed in 1989. Specifically, congressional oversight prerogatives over executive behavior were introduced by law in 1884 when Bolivia emerged from the War of the Pacific. The Law Governing Trials of Responsibilities was to become an integral part of Bolivia's restricted democracy.

The era of political stability, which paralleled the integration of Bolivia into the world economy through the export of tin, ceased with the end of the tin-export boom and the overthrow of President

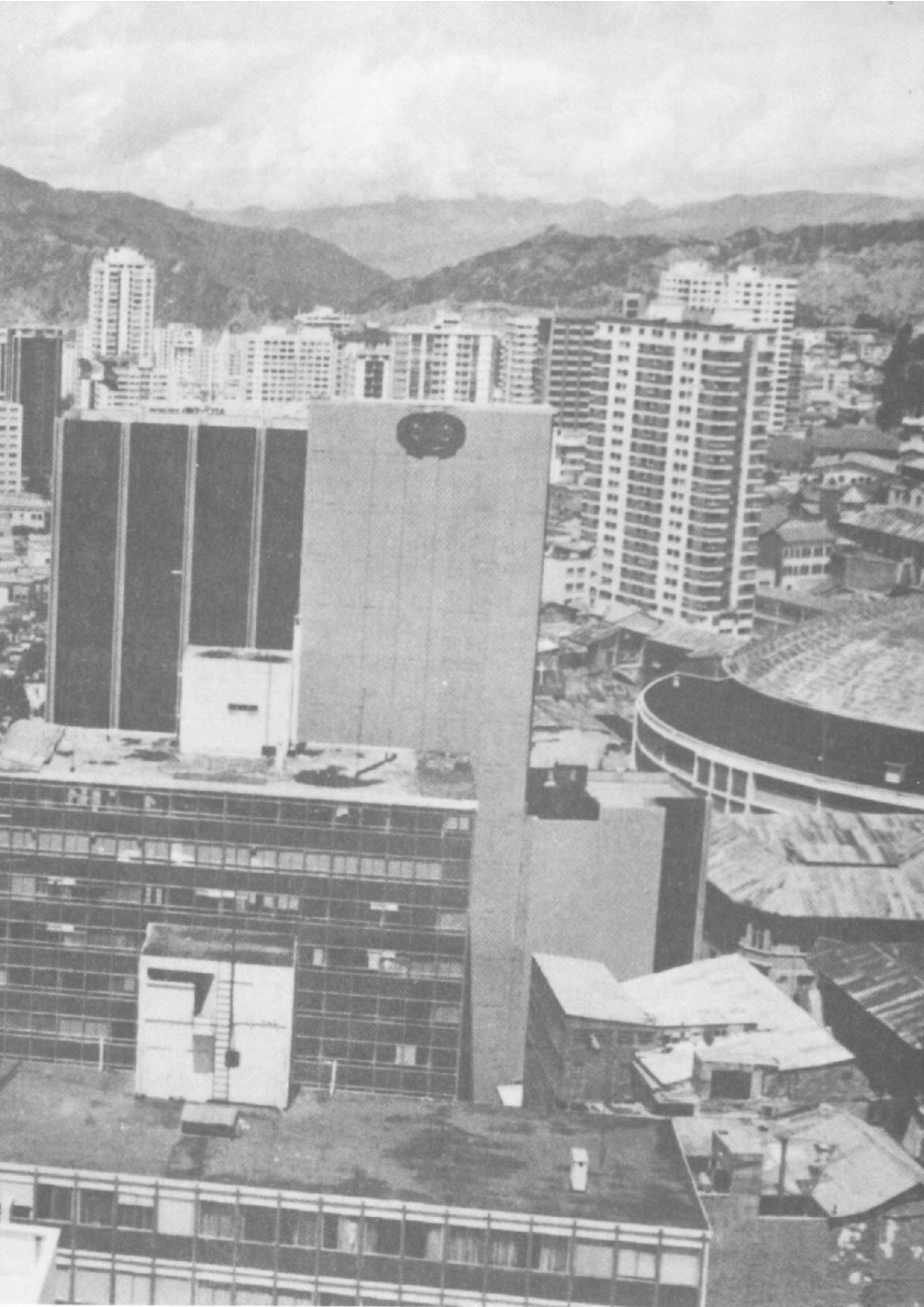
Daniel Salamanca Urey (1931–34). One of the legacies of this period was an extremely stratified pattern of social relations that was to affect Bolivia's political structure. In particular, the middle class became dependent on the state for employment as the upper class monopolized hard sources of wealth. As the economy plummeted, competition for scarce jobs increased. The result was a discontented and jobless middle class. In this context, political conflict became a struggle between factions led by elite leaders and middle-class followers.

The economic crisis of the 1930s and the disastrous Chaco War (1932–35) exacerbated social tensions (see *The Chaco War*, ch. 1). The effects of the war would in turn have a dramatic effect on Bolivian political life and its institutions. Between 1935 and 1952, middle-class reformist efforts converged into populist movements led by both military officers and middle-class civilian intellectuals (see *Prelude to Revolution, 1935–52*, ch. 1). Under Colonel Germán Busch Becerra (1937–39), a constituent assembly approved reforms in 1938 that were to have a lasting and profound impact on Bolivian society. Of greatest significance were changes that altered the pattern of relations between state and society. According to its provisions, human rights outweighed property rights, the national interest in the subsoil and its riches predominated, the state had a right to intervene in economic life and to regulate commerce, workers could organize and bargain collectively, and educational facilities for all children were mandated. The labor provision helped establish the basis for political parties by allowing the formation of miners' and peasants' unions that eventually played central roles in the 1952 Revolution.

Bolivia's constitution was again reformed in 1944 during the presidency of Colonel Gualberto Villarroel López (1943–46), another populist reformer. The principal changes included suffrage rights for women, but only in municipal elections, and the establishment of presidential and vice presidential terms of six years without immediate reelection. Reforms undertaken by military-populist governments, however, were partially rolled back following the overthrow and assassination of Villarroel in 1946. In 1947 a new constitution reduced the presidential term to four years and increased the powers of the Senate.

In retrospect, it is clear that the post-Chaco War reformist efforts increased the role of the state, especially in terms of redressing social and economic grievances. The constitutions of this period reflected the rise of movements and groups that were to dominate Bolivian politics for the next forty years. For example, the Nationalist Revolutionary Movement (*Movimiento Nacionalista Revolucionario*)—





*El Prado, a main avenue in La Paz  
Courtesy United States Department of State*

MNR) espoused a broad multiclass alliance of workers, peasants, and middle-class elements to do battle with the antinational forces of the mining oligarchy and its foreign allies. It went on to conduct the 1952 Revolution, and in 1985 the MNR was back in power with Paz Estenssoro, its founder and leader, as president. Although the 1952 Revolution fundamentally transformed Bolivian society, a new political order was never fully implemented. Between 1952 and 1956, factions of the MNR debated alternative and novel modes of political organization, including proposals to implement a workers' assembly. By 1956, however, the 1947 constitution had been ratified. Apart from a powerful labor movement, organized as the Bolivian Labor Federation (Central Obrera Boliviana—COB), the MNR failed to create new institutions capable of channeling and controlling the demands of the groups mobilized by the 1952 Revolution (see *The Unfinished Revolution*, ch. 1).

The 1961 constitution institutionalized the gains of the 1952 Revolution by adopting universal suffrage, the nationalization of the mines, and agrarian reform. Factional disputes within the MNR, rooted in demands for access to state employment, undermined the party's capacity to carry out further reforms. In fact, the 1961 constitution served mainly the interests of Paz Estenssoro's faction of the MNR by providing for his reelection in 1964.

The overthrow of the MNR by General René Barrientos Ortuño (president, 1964–65; copresident, May 1965–January 1966; and president, 1966–69) in 1964 initiated the contemporary era in Bolivian constitutional development (see *The Presidency of Barrientos*, ch. 1). After calling elections in 1966 and invoking the 1947 constitution, Barrientos attempted to force through Congress a new corporatist charter. Because he sought democratic legitimacy, however, he was forced to give up his original project in favor of a constitution rooted firmly in the liberal democratic tradition that had inspired the authors of the 1880 charter.

Under the terms of the Constitution of 1967, Bolivia is a unitary republic that retains a democratic and representative democracy. Article 2 stipulates that sovereignty resides in the people, that it is inalienable, and that its exercise is delegated to the legislative, executive, and judicial powers. The functions of the public power—executive, legislative, and judicial—cannot be united in a single branch of government. Although the Constitution of 1967 recognizes Roman Catholicism as the official state religion, it also guarantees to all other faiths the right to worship publicly. In theory, the people govern through their representatives and through other authorities established by law. The Constitution of 1967 became known to most Bolivians only in the 1980s because, for all practical

purposes, it was in effect only until 1969 when a coup by General Alfredo Ovando Candía (copresident, May 1965–January 1966, and president, January–August 1966 and 1969–70) overthrew the civilian regime. Between then and 1979, the Constitution of 1967 was given only lip service by the military rulers who governed Bolivia.

Between 1978 and 1989, four general elections were held, and Bolivia enjoyed a stable, elected, civilian democratic government under the terms of the Constitution of 1967. Nevertheless, although the Constitution of 1967 had continued the strong executive tradition, the political system had not yet developed strong party organizations capable of establishing viable and long-term ruling coalitions.

## **Governmental Structure**

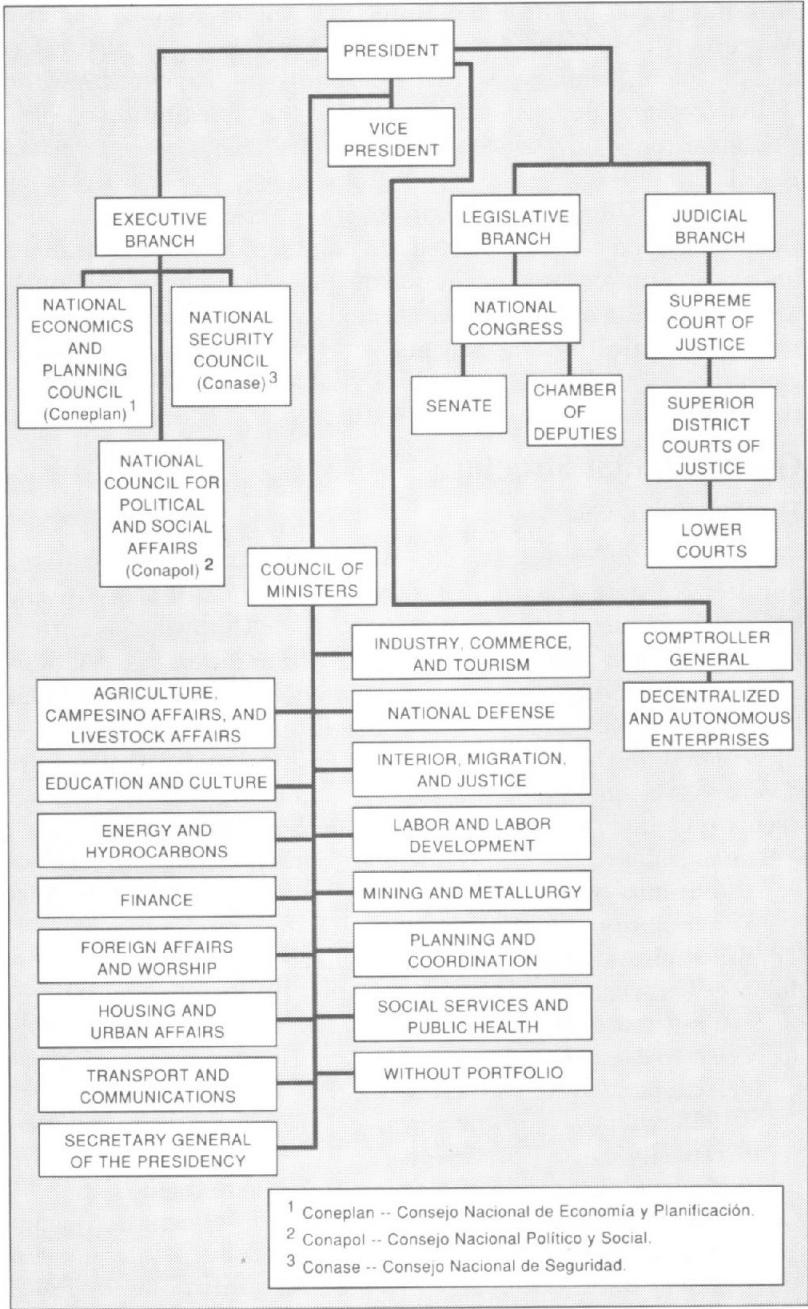
### **The Executive**

Executive power resides in the president of the republic and his ministers of state. The ministers of state conduct the day-to-day business of public administration. In 1989 the Council of Ministers included sixteen ministries (see fig. 11). In addition to the Council of Ministers, the president headed the National Economic and Planning Council (Consejo Nacional de Economía y Planificación—Coneplan), the National Council for Political and Social Affairs (Consejo Nacional Político y Social—Conapol), and the National Security Council (Consejo Nacional de Seguridad—Conase).

The president and vice president are chosen through direct elections to a four-year term. To win an election, a candidate must secure a majority of the popular vote. If a majority is not achieved, Congress selects the next president from among the top three candidates. This reliance on Congress, rather than on a second round of elections, has contributed greatly to the instability of democratically elected executives. Because of a recurring executive-legislative split, elections produced governments that had only formal power. Until 1985 real power, or the effective capacity to rule, had eluded democratically elected presidents.

Under the Constitution, reelection of the incumbent is not permitted; however, after four years the previous president may again run for office. Similarly, an incumbent vice president may not run for president until four years after the end of his term. In 1985, however, a pact between the major political parties allowed Vice President Jaime Paz Zamora to run for the presidency.

To become president, a person must be at least thirty-five years of age, literate, a registered voter, and the nominee of a political



*Figure 11. Governmental System, 1989*



party. Members of the armed forces on active duty, Roman Catholic clergy, and ministers of other religions may not run for office. Blood relatives and relatives to the second degree by affinity of the incumbent president and vice president are ineligible to run for the presidency. Incumbent ministers of state who seek the executive office must resign at least six months before election day.

By tradition and constitutional law, the president is a strong executive. Conducting foreign relations, making economic policy, enforcing and regulating laws, negotiating treaties and ratifying them after prior approval by Congress, appointing officials, commanding the armed forces, and preserving and defending the public order are all prerogatives guaranteed the chief executive under the Constitution of 1967. In emergency situations, such as internal turmoil or international war, the president has the power to call a state of siege.

The power of appointment enables the president to exercise control over the large number of public servants at all levels of government. The president appoints the ministers of state, members of the bureaucracy, and *prefectos* (prefects) of *departamentos* (departments). From lists submitted by the Senate, the president appoints the comptroller general, the attorney general, the national superintendent of banks, and the heads of state enterprises. As captain general of the armed forces, the president has the power to appoint the commander in chief of the armed forces and the commanders of the navy, army, air force, and public safety.

The executive branch also included a number of decentralized institutions and autonomous enterprises, such as the Social Security Institute (Colegio Nacional de Seguridad Social—CNSS), the Mining Corporation of Bolivia (Corporación Minera de Bolivia—Comibol), the Bolivian State Petroleum Enterprise (Yacimientos Petrolíferos Fiscales Bolivianos—YPFB), the National Railroad Enterprise (Empresa Nacional de Ferrocarriles—Enfe), and the National Telecommunications Enterprise (Empresa Nacional de Telecomunicaciones—Entel). The state also owned and operated Lloyd Bolivian Airline (Lloyd Aéreo Boliviano—LAB; see Transportation, ch. 3).

One of the largest state enterprises, the Bolivian Development Corporation (Corporación Boliviana de Fomento—CBF), grouped a number of smaller industries ranging from dairy products to matches. As a result of a decentralization program, control over the CBF was passed on to regional development corporations in 1985. These were in turn given the task of selling enterprises to the private sector (see Growth and Structure of the Economy, ch. 3).

The dependent nature of Bolivia's middle class and the lack of a broad economic base often resulted in state bureaucracies' being used for political gain. Because of the small size of private industry, the middle class coveted positions in the state bureaucracy. As a result, competition for a limited number of bureaucratic positions frequently engendered political conflict. Government remained a prized commodity struggled over by factions made up of leaders drawn from the elite and ambitious personal followers drawn from the middle class.

By the mid-1980s, the state had become a large but extremely weak apparatus. Approximately 220,000 public employees bloated the bureaucracy, and the prevalence of patronage prevented the dismissal of inefficient employees. This huge payroll seriously inflated the public deficit.

Reforms undertaken since 1985 under the guise of the New Economic Policy (Nueva Política Económica—NPE) reduced the size of the state sector by privatizing or decentralizing state enterprises. To reduce public spending, 20,000 miners from Comibol were laid off (see *Structure of the Mining Industry*, ch. 3). Through the restructuring of state enterprises, the government also fired employees in YPFB and other bureaucracies. Critics of the reforms noted, however, that workers were dismissed instead of the government officials whose salaries were responsible for most of the increases in public spending.

In 1989 the Integrated System of Financial Administration and Governmental Control (Sistema Integrado de Administración Financiera y Control Gubernamentales—Safco), a program funded by the United States Agency for International Development (AID) and the World Bank (see *Glossary*), was introduced to monitor hiring and firing practices and to reduce corruption in the public sector. The program's central objective was to make government bureaucracies efficient administrative entities. Reforms undertaken by Safco also sought to reduce the number of ministries in order to make the state apparatus leaner and more manageable.

In early 1989, President Paz Estenssoro commanded a cabinet divided equally between politicians and technocrats. Old members of the MNR shared responsibilities with managers drawn from the private sector. Paz Estenssoro's cabinet was credited with enforcing the rigid austerity aims of the NPE. With the economy creeping toward reactivation, the attempt to reduce the size of the public sector appeared to have succeeded.

## **The Legislature**

Although Congress generally played a passive policy-making role, it was a major actor in national politics. Indeed, Congress

had elected every civilian ruler to take office from the late 1970s to 1985.

Historically, Congress had been subordinated to the executive; the intention of the Constitution of 1967 was to consolidate a strong presidential system. Nonetheless, within the context of a multiparty system, the Constitution of 1967 provides important mechanisms that allow for a more influential and active Congress. Congress has the right to pass, abrogate, interpret, and modify all laws. A bill must be passed by the legislature and must be signed by the president to become a law. Although the president may veto a bill, Congress may override the veto with a two-thirds majority vote (see table 13, Appendix).

The Constitution provides for a bicameral legislature: a Chamber of Deputies and a Senate. Every year, beginning on August 6 (Independence Day), Congress meets in La Paz for 90 sessions; the number of sessions may be expanded to 120 if requested by the executive or if favored by a majority of members. Congress may also meet for extraordinary sessions to debate specific bills if requested by the executive and if favored by a majority of its members.

Congress has twenty-two prerogatives, which can be divided broadly into its economic policy, foreign policy, and political powers. Congress's principal economic policy function is approval of the annual budget that the executive must submit to Congress before the thirtieth session. This constitutional requirement for approval has rarely been respected, however. In 1987 and 1988, Congress approved the budget for the first time since 1967, although not within the first thirty sessions. Because budgets often faced opposition in Congress, governments usually approved them through executive decree. Congress also has the power to establish the monetary system and is responsible, in theory, for approving all economic policy. Development programs, for example, must be submitted to Congress, and any loans contracted by the government must also be approved by the legislature.

Congress's foreign policy prerogatives primarily concern its power to approve all treaties, accords, and international agreements. Although this practice was not always respected in the late 1980s, Congress must also decide whether or not to allow foreign troops to travel through or operate in Bolivian territory. Moreover, Congress decides when Bolivian troops may travel abroad.

Congress's political powers include the naming of justices of the Supreme Court of Justice and members of the National Electoral Court, as well as the right to create new provinces, *cantones* (cantons), and municipal districts. One of its most important prerogatives is

to declare amnesty for political crimes. Its most significant power, however, is to resolve elections in which the winning candidate has not garnered a majority of the vote.

Congress possesses wide-ranging oversight powers over executive behavior. A single senator or deputy may call ministers and other members of the executive to testify through a procedure known as *petición de informe oral* (request for an oral report). If the report is unsatisfactory, the senator or deputy may convert a simple request into an interpellation, which may be resolved only through a vote of confidence or a vote for censure. In Bolivian parliamentary tradition, a censured minister must resign and be replaced by the executive. A *petición de informe escrito* (request for a written report) may also be sent to the executive regarding specific policies, events, and actions. The Senate or Chamber of Deputies may also call attention to problems and current issues through *minutas de comunicación* (minutes of communication).

Congress also has the power of specific indictment. For a *juicio de responsabilidades* (malfeasance trial) before the Supreme Court of Justice, a two-thirds majority vote is required to indict individuals accused of wrongdoing while in office. In 1986 Congress indicted former dictator General Luis García Meza Tejada (1980–81); in early 1989, he was being tried in absentia by the Supreme Court of Justice.

In addition to shared powers, each chamber has specific responsibilities. The Chamber of Deputies elects justices of the Supreme Court of Justice from a list submitted by the Senate, approves the executive's requests for the declaration of a state of siege, and transmits to the president of the republic a list of names from which the latter must select the heads of social and economic institutions in which the state participates. The Senate hears accusations against members of the Supreme Court of Justice raised by the Chamber of Deputies; submits to the president a list of candidates for comptroller general, attorney general, and superintendent of the national banking system; approves ambassadors; and approves rank promotions in the armed forces every year.

Elected deputies and senators enjoy immunity from prosecution for the duration of their term; however, a two-thirds majority may retract this privilege from a specific legislator. In 1969, for example, owing to pressure from President Barrientos, Congress lifted the immunity from two deputies who had initiated a "responsibilities trial" against the president. This clearly confirmed the primacy of presidential power.

Deputies are elected through universal suffrage based on a complex proportional representation system. A 1986 electoral law, used

for the first time in 1989, calls for the election of 130 deputies (see table 14, Appendix). Bolivia has adopted the Spanish tradition of electing *suplentes* (alternates) as well. Hence, every elected deputy has an alternate in the event of his or her death, resignation, or disability. Based on population density in 1980, the Chamber's 130 seats were divided as follows among Bolivia's nine departments: La Paz, 28; Potosí, 19; Cochabamba, 18; Santa Cruz, 17; Chuquisaca, 13; Oruro, 10; Tarija, 9; Beni, 9; and Pando, 7.

Deputies are elected for four-year terms, with the entire membership facing election every fourth year. To become a deputy, a person must be at least twenty-five years of age, a Bolivian by birth, a registered voter, have no outstanding penal charges, and not be a government employee, a member of the clergy, or a contractor for public works.

Every legislative year, the Chamber of Deputies elects a new leadership. Its leadership comprises a president, two vice presidents, and five secretaries. The day-to-day operations of the chamber are the responsibility of an *oficial mayor*, or high official. Since 1982 the leadership has reflected the chamber's party composition, although the political parties with the greatest number of seats control the top three positions.

Every new legislative year also carries with it the reordering of committee memberships. In 1989 the Chamber of Deputies had seventeen committees that reflected broadly the structure of the executive cabinet. Since 1982 the committees, which have five members each, also have reflected (with some exceptions) the political subdivisions of the chamber as a whole. Usually, committee chairs are reserved for members of the party in control of the chamber, but they may be used as bargaining tools. Because committee memberships are reorganized each year, seniority is not a factor. Owing to the large number of political parties represented in the lower chamber, the process of approving bills in committee and in the house as a whole is a protracted exercise.

The vice president of the nation is president of the Senate, as well as president of Congress. The Senate is composed of twenty-seven senators, three per department. The winning party in each department secures two senators, and the runner-up controls the third. This arrangement ensures minority representation in the upper house. Like the deputies, senators are elected for four-year terms. To become a senator, one must be at least thirty-five years old, a Bolivian by birth, a registered voter, and must not be a government employee, a member of the clergy, or a contractor for public works. As in the lower chamber, alternates are also elected.

In August, at the beginning of a new legislative year, the Senate elects a president, two vice presidents, and four secretaries. Because fewer parties are represented in this chamber, electing the leadership is usually a rapid and smooth process.

Like the Chamber of Deputies, the Senate has seventeen committees, and every legislative year a complete membership turnover takes place. Each committee must have five members drawn from every party represented in the chamber. In general, bills spend less time in committee in the Senate (and they are also approved more rapidly by the whole chamber) than in the Chamber of Deputies. This is largely because fewer political parties are represented in the Senate.

Committees in both the Chamber of Deputies and the Senate are not specialized bodies, and attempts were not made to secure competent legislative support staff until the late 1980s. Advisers to the committees were selected more on the basis of political affiliation than on expertise. Committees were also plagued by the lack of an adequate library and reference service. The Senate library, which theoretically serves Congress, was woefully inadequate. Although every session was recorded on tape, an efficient congressional record service did not exist. The transcripts of the 1982–85 sessions, for example, did not become available until the late 1980s.

A recurring problem in both chambers was the prevalence of obsolete rules of procedure dating back to the 1904–05 legislative year. Procedural rules have slowed the approval of bills and have contributed in large measure to making Congress's legislative function obsolete.

During congressional recesses, the Constitution provides for a *comisión de congreso* (congressional commission) to be elected by the members of each chamber. Nine senators and eighteen deputies, including the president of each chamber and the vice president of the republic, are elected to this commission.

The congressional commission ensures that the Constitution and civil rights are respected while Congress is not in session. It is also provided with the same executive oversight capacity as Congress. Through a two-thirds majority vote, the commission may convoke an extraordinary session of Congress. Moreover, in the case of a national emergency, it may authorize the president, by a two-thirds vote, to issue decrees that carry the full force of law. Finally, the commission may design bills to be submitted to Congress during the regular legislative year.

## **The Judiciary**

The judicial system is divided into upper and lower levels with effective power resting in the Supreme Court of Justice. The

Supreme Court of Justice consists of a president and eleven *ministros* (justices) who serve in three chambers for civil, penal, and social and administrative matters. Justices are elected for ten-year terms by the Chamber of Deputies from a list proposed by the Senate, and they cannot be reelected. To become a justice, a person must be a Bolivian by birth, have been a judge for ten years, be a lawyer, and meet all the requirements to become a senator.

Under the Constitution of 1967, the Supreme Court of Justice has the power to determine the constitutionality of laws, decrees, and resolutions approved by the executive and legislative branches of government. Moreover, it serves as the arena for malfeasance trials of public officers, including the president, vice president, and ministers of state, for crimes committed while in office.

The Senate elects members of the superior district courts of justice from a list proposed by the Supreme Court of Justice. It also elects members of a complex set of national labor courts. Members of the superior district courts are elected for six years, whereas *jueces de partido* (lower-court, or sectional, judges) and *instructores* or *jueces de instrucción* (investigating judges) are elected to four-year terms but may be reelected. The nine superior district courts hear appeals in both civil and criminal matters from decisions rendered on the trial level by the courts in each department.

*Juzgados de partido* (civil and criminal trial courts) are established in departmental capitals and in towns and cities throughout Bolivia. The criminal sections have investigating judges who investigate and prepare criminal cases for trial when appropriate. These cases are tried by sectional judges. Commercial and civil matters on personal and property actions are heard by the civil sections of the trial courts.

A number of small claims courts are scattered throughout the country and are limited to actions involving personal and real property or personal actions. Larger claims may be submitted to the same court, but the parties have the right of appeal to the sectional judge.

At the bottom of the judicial system are the mayors' courts, which consist of local judgeships. The civil jurisdiction of these courts is limited to hearing small claims and, in the criminal field, chiefly to police and correctional matters.

Theoretically, the judiciary is an autonomous and independent institution with far-reaching powers. In reality, the judicial system remains highly politicized; its members often represent partisan viewpoints and agendas. Court membership still reflects political patronage. As a result, the administration of justice is held hostage to the whims of party politics. Because members often also represent

departmental interests, a national legal culture has not been fully developed.

Owing to years of military rule, Bolivia's legal culture has stagnated. The closure of universities in the 1970s resulted in a declining system of legal education. Only in the late 1980s did the Bolivian legal system have access to developments in organization and theory that had taken place in other nations. In 1989 AID initiated a program to overhaul the system of the administration of justice. In the opinion of most observers, however, the near-term prospects for implementing any reforms appeared poor.

Of particular concern in the 1980s was the increasing influence exercised by the cocaine industry over judges and even justices of the Supreme Court of Justice. Because of their low salaries, members of the courts were susceptible to the offers of the large amounts of money by narcotics traffickers (see *The Criminal Justice System*, ch. 5).

### **The Electoral System**

The May 1989 elections marked the sixth time that Bolivians had gone to the polls since 1978. This proliferation of elections did not make up for the twelve-year electoral hiatus imposed on the country by successive military dictatorships. Following years of authoritarian rule, the Bolivian electorate faced elections without undergoing a process of institution-building and electoral practice. The result was a chaotic transition period that culminated in October 1982 with the election of Hernán Siles Zuazo (1982-85).

In 1978 the National Electoral Court annulled the first elections because of large-scale fraud; as a result, the military reintervened. The 1979 elections produced a congressionally mandated one-year interim government debilitated by military coups and countercoups. In 1980 a bloody military coup prevented Congress from assembling to elect a new president. In 1982 the Congress elected in 1980 was convoked to choose a president. Elections were held again in 1985, one year earlier than originally mandated by Congress. In May 1989, Bolivians cast their ballots for the third democratic and civilian president of the 1980s.

All Bolivian citizens at least twenty-one years of age, or eighteen if married, are guaranteed the right to vote through secret ballot in free and open elections. All voters must register with neighborhood electoral notaries established prior to an election. To register, voters must present a *cédula de identidad* (national identity card), a birth certificate, or a military service card. Because voting is considered a civic duty, failure to register or vote invokes several penalties. Only citizens over seventy may abstain voluntarily. Mental



patients, traitors, convicts, and conscripted soldiers are ineligible to vote.

The electoral system comprises the National Electoral Court, electoral judges, electoral notaries, departmental electoral courts, and electoral juries. The most important of these bodies, the National Electoral Court, is an independent, autonomous, and impartial organization charged with conducting the electoral process. The court may recognize or deny registration to political parties, fronts, or coalitions. Sixty days before elections, it approves a single multi-color ballot with symbols of parties or pictures of candidates running for office. The court also counts the ballots in public and investigates all charges of fraud. Once the electoral results have been certified by the National Electoral Court, it must provide credentials accrediting elected deputies and senators, as well as the president and vice president. The court must also present an annual report of its activities to Congress.

The National Electoral Court consists of six members elected by Congress, the Supreme Court of Justice, the president of the republic, and the political parties with the highest number of votes in the previous election. Members serve four years and are eligible for reelection.

Electoral judges are seated in the capitals of each department or province. They hear appeals by notaries regarding admission or exclusion of inscriptions in the registry, try electoral notaries and other persons for crimes committed during the electoral process, hear charges of fraud and other voting irregularities, and annul false electoral cards.

Electoral notaries must be present at every electoral station in the country. Their principal task is to organize and provide custody for the electoral registry. They are also empowered to register citizens to vote and to keep an accurate registry of voters.

The 1986 electoral law establishes ten departmental electoral courts, including one in each department capital and two in La Paz. Each court comprises six members, three of whom are named by Congress and three by the superior district courts, president of the republic, and political parties. The departmental electoral courts have the power to name all judges and notaries and to remove them if charges of corruption or inefficiency brought against them by parties are confirmed. They also are empowered to count ballots in public for the president, vice president, senators, and deputies. Each electoral jury is composed of five citizens who monitor voting at the polling place. They are chosen randomly from the lot of voters at each voting table; service is compulsory.

The Constitution establishes that only political parties that are duly registered with the National Electoral Court may present candidates for office. Although labor unions, entrepreneurial associations, and regional civic committees have a very large voice in policy making, by law they must work through political parties. The Constitution and the electoral law provide for a proportional representation system to ensure the representation of minority parties.

The proliferation of tiny parties, alliances, and electoral fronts in the late 1970s led to the enactment of Article 206 of the 1980 electoral law. This article states that parties, alliances, or coalitions that do not achieve 50,000 votes must repay to the national treasury the costs of printing the ballot. Repayment must be made three days after the final ballot has been counted; a jail term awaits party chiefs who fail to pay.

In 1986 amendments to the 1980 electoral law sought to establish further limits on the proliferation of parties by establishing restrictions for party registration. The specific objective of these reforms was to limit the access of minuscule parties to Congress in order to establish a viable two- to three-party system.

The most significant amendment to the electoral law governed registration requirements. Beginning in 1986, citizens had to present either a national identity card or a military service card to register to vote. Critics noted that this reform would legally exclude 60 percent of the peasantry that lacked either document. Indeed, fraud generally occurred in the countryside where the population lacked these documents. The law was amended in December 1988, however, to allow birth certificates as valid documents for registration. Universal suffrage was one of the principal gains of the 1952 Revolution; thus, attempts to restrict voting eligibility have been closely scrutinized.

Since elections returned to Bolivia in 1978, only two have been relatively honest. In 1978 the elections were annulled following massive fraud on the part of the military-sponsored candidate. The 1979 elections were much cleaner, but charges of fraud still surfaced. Most observers agreed that the 1980 elections were clean, but because of a military coup, the outcome was postponed until 1982. Owing to electoral reforms, the 1985 general elections were by far the fairest ever held in Bolivia. Nonetheless, because elections are inherently political, accusations of fraud are a permanent feature of the electoral system. Early in the campaign for the 1989 elections, charges of fraud were already being leveled against the ruling MNR.

### **Departmental and Local Government**

In 1989 Bolivia was divided into nine departments, which were subdivided into ninety-four provinces. Provinces, in turn, were

divided into sections and sections into cantons. Following the French system of governance, each department is governed by a prefect, who is appointed by the president for a four-year term. Prefects hold overall authority in military, fiscal, and administrative matters, working in each substantive area under the supervision of the appropriate minister. Centralized control is ensured by the president's appointment of subprefects, officials vested with the administration of the provinces. Cantons are administered by *corregidores* (administrative officials named after the Spanish colonial officials), who are appointed by the prefect of their department. Serving under the *corregidores* are *agentes* (agents) who have quasi-judicial and quasi-executive functions.

The president's power of appointment created a system of patronage that reached down into the smallest administrative unit. Especially under military governments, the office of the prefect was key to obtaining regional loyalty. Under democratic rule, local government reflected the pattern of job struggle present in the national bureaucracy.

In some areas, *ayllus* (see Glossary) prevailed as the principal local government. Years of military rule did not disrupt these communal structures. Each community selected *jilacatas* or *malleus* to head the *ayllus*, a practice that reflected the prevalence of a political system outside the structures of the Bolivian state. As a result, the Bolivian campesino was marginal to the political process.

The principal local structure was the municipal government system. Historically, municipal governments in Bolivia proved susceptible to political instability; democratic procedures at the local level were suspended from the time of the Chaco War to 1985, and municipal elections were not held after 1948. During the military period, mayors of cities were appointed by the president, a practice that prevented the development of local and autonomous governmental structures. Instead, municipal governments throughout Bolivia became part of the patronage distributed among retainers by de facto rulers.

For the first time since 1948, municipal elections were held in 1985. They were also held in December 1987 and were scheduled again for December 1989. In large measure, the reemergence of municipal elections has been very healthy for the development and consolidation of democracy in Bolivia. However, many of the same problems that plagued democracy at the national level have emerged in municipal elections.

Municipal governments are bound by the terms of the Constitution and the Organic Law of Municipalities, a 125-article law approved in January 1985. Theoretically, the municipal governments

are autonomous. Autonomy refers primarily to the direct and free election of municipal authorities, the power to extract and invest resources, and the power to implement plans and projects.

Four types of municipal government exist in Bolivia. In the capitals of the departments, municipal governments function under the direction of an *alcalde* (mayor), who should be subject to a municipal council, which consists of twelve members. The capitals of the provinces also function under the direction of a mayor, as well as a six-member municipal junta, or board. Provincial sections are governed by a four-member municipal junta and a mayor. In the cantons, municipal governments function under the direction of municipal agents.

Municipal governments have executive, judicial, comptroller, and legislative functions that reside mainly in the municipal council. Theoretically, the council governs at the local level, and the mayor is subordinate to its mandates. Mayors are elected by the council and are accountable to its members, who may impeach them. But the mayor is a local executive who commands a great deal of influence and can direct the activities of the council.

Mayors and council members are elected in each department and province for two-year terms. To become a council member or mayor, a person must be a citizen in possession of all rights, be twenty-one years of age (or eighteen if married), have run on a party slate, and be a resident of the district that the candidate seeks to represent. Members of the clergy, state employees, and active-duty military service personnel may not run for office.

Because councils are elected on the basis of proportional representation, minority parties have a significant degree of influence. Specifically, if a candidate for mayor does not receive a majority of the vote, the councils must elect the next mayor from the top three contenders. The experience of the December 1987 elections in the La Paz mayoral race revealed that standoffs in the councils could cause a mayoral election to be held hostage to the whims of individual council members. Several proposals for reforming the electoral laws affecting municipal government have been debated in Congress; however, it appeared unlikely in early 1989 that they would be approved in the near future.

## **Political Dynamics**

### **The Legacy of the 1952 Revolution**

In 1989 Bolivia celebrated seven consecutive years of civilian rule. Considering the nation's history of political instability and turmoil, the longevity of the current democratic period marked a significant



*Pérez Velásquez Street, La Paz*  
*Courtesy Inter-American Foundation (Kevin Healy)*

achievement. Clearly, democracy did not come easily to Bolivia; only when other alternatives were exhausted did the country's political leaders accept representative government.

Between 1978 and 1982, seven military and two weak civilian governments ruled the country. Coups and countercoups characterized one of the darkest and most unstable periods in Bolivian history. The unsolved dilemmas of the MNR-led revolution, worsened by decades of corrupt military dictatorships, accounted for Bolivia's convoluted transition to democracy.

The 1952 Revolution sparked the transformation of Bolivia and initiated a process of state-led development that envisioned a harmonious pattern of capitalism and populist redistribution. State capitalism, however, proved to be more compatible with exclusionary, military-based rule than with the populist politics of the MNR. In fact, the inability of the MNR to control the demands for greater redistribution by organized labor, led by the COB, culminated in the MNR's overthrow in 1964.

Conflict between labor and the state deepened under military rule. With the exception of the Juan José Torres González period (1970-71), military governments repressed organized labor to implement state capitalist development. As a result, over the next two decades class conflict was exacerbated. State capitalism (see Glossary) had been incapable of improving the living standards of the

majority of Bolivians, and the economy was still heavily dependent on a single export commodity. Under the government of General Hugo Banzer Suárez (1971–78), the health of the economy rested on excessive foreign borrowing.

A second objective of the revolution had been to institutionalize a political model that could both incorporate the masses mobilized by the MNR and provide access to state jobs for the middle class. Although it attempted to emulate Mexico's Institutional Revolutionary Party (Partido Revolucionario Institucional—PRI), the MNR failed to subordinate labor, military, and peasant groups to the party structure. Instead, the party was held hostage to the interests of factional leaders who eventually conspired with the military to overthrow Paz Estenssoro and the MNR. The military made several attempts to institutionalize a new political order, including a Soviet-like Popular Assembly (Asamblea Popular) in June 1970 and a corporatist legislature in 1974. Like the MNR, however, the military also failed to create an alternative model of politics.

In short, the failure of the revolution and the subsequent military regimes to accomplish political and economic objectives led to the deepening of cleavages that sparked the revolution in the first place. By the late 1970s, Bolivia was a country torn apart by regional, ethnic, class, economic, and political divisions. This was the context in which the transition to democracy was to take place.

### **The Tortuous Transition to Democracy**

The succession of elections and coups that followed the military's withdrawal from politics in 1978 revealed the deterioration of Bolivian institutional life (see table 15, Appendix). In the absence of military leadership for the process of transition, parties, factions, and other groups searched for a formula to carry them to the presidency. Nearly seventy political parties registered for the general elections in 1978, including at least thirty MNR factions.

In this context, it became evident that elections would not solve the structural problems facing Bolivia. In 1979, 1980, and 1985, the winning party could only muster a plurality of votes during the elections. As a result, the legislature became the focal point of political activity as parties and tiny factions maneuvered to influence the final outcome of the general elections. For example, in 1980 Congress elected as president Hernán Siles Zuazo, who had won a plurality of votes. Simultaneously, factions of the military linked to narcotics and other illicit activities were unwilling to surrender control of the state to civilian politicians who threatened to investigate charges of human rights violations and corruption during the Banzer years.

The July 17, 1980, coup by General Luis García Meza Tejada represented a two-year interruption of the transition to democracy. García Meza's military regime was one of the most corrupt in Bolivian history; García Meza and his collaborators maintained close links with cocaine traffickers and neofascist terrorists. Faced with international isolation and repudiation from nearly every political and social group, García Meza and the generals that succeeded him ruled with brute force. By 1982 disputes among rival officers and pressure from abroad, political parties, the private sector, and labor eventually led to the convocation of Congress that had been elected in 1980.

Siles Zuazo of the Democratic and Popular Unity (Unidad Democrática y Popular—UDP) coalition, was again elected president by Congress on October 10, 1982. The UDP was an amorphous entity that grouped Siles Zuazo's own Nationalist Revolutionary Movement of the Left (Movimiento Nacionalista Revolucionario de Izquierda—MNRI), the Bolivian Communist Party (Partido Comunista Boliviano—PCB), and the relatively young Movement of the Revolutionary Left (Movimiento de la Izquierda Revolucionaria—MIR). Having been denied the presidency in three consecutive elections, Siles Zuazo's rise to power was an auspicious occasion. He enjoyed overwhelming popular support and appeared to have a mandate to implement populist reforms. The military and its civilian allies were completely discredited and were no longer a threat or an alternative to rule Bolivia.

By 1982, however, Bolivia faced the most severe economic and political crisis of the preceding three decades. The economy was beset by chronic balance of payments and fiscal deficits. The most immediate manifestation of the crisis was an inability to service payments on its foreign debt of nearly US\$3 billion (see *Growth and Structure of the Economy*, ch. 3). By 1982 the gross domestic product (GDP—see Glossary) had dropped by nearly 10 percent. Siles Zuazo thus faced the dilemma of trying to democratize the country in the context of economic scarcity and crisis. The UDP promised to enact a more equitable development program that would address labor's demands for higher wages and other benefits. As the crisis deepened, however, labor became increasingly disaffected.

The economic plight exacerbated tensions between populist and antipopulist wings of the MNR and other political parties that had been latent since the revolution. Because the UDP controlled only the executive, political conflict was heightened. Congress remained firmly in control of a *de facto* alliance between Paz Estenssoro's MNR (the faction that retained the party's name) and Banzer's

Nationalist Democratic Action (Acción Democrática Nacionalista—ADN).

Conflict between branches of government had been manifest since the beginning of the transition process. Legislators formed complex coalitional blocs to choose executives, whom they promptly turned on and sought to subvert. Congressionally sanctioned coups, labeled “constitutional coups,” were only one example of the prevailing political instability.

Under Siles Zuazo, the full complexity of the crisis emerged. From the outset, the government was weakened by a serious confrontation between the legislature and the executive over alternative solutions to the economic predicament. Responsibility for resolving the crisis rested with the executive, whereas Congress exercised its oversight powers. Additionally, the presence of minuscule parties in Congress exacerbated the confrontation between the UDP and the parties in the legislature.

As a result of the government’s inability to deal with Congress, Siles Zuazo relied on executive decrees. Congress, in turn, charged the president with unconstitutional behavior and threatened to impeach or overthrow him in a constitutional coup. During the three years of his presidency, Siles Zuazo was unable to put down the congressional threat, directed by opposition parties but bolstered by groups from his own UDP.

Between 1982 and 1985, the Siles Zuazo government attempted to address Bolivia’s economic crisis by negotiating several tentative *paquetes económicos* (stabilization programs) with the International Monetary Fund (IMF—see Glossary). Each was the center of a recurring political battle that put Siles Zuazo in the middle of a class struggle between the powerful COB, which represented labor, peasants, and sectors of the middle class, and the relatively small but organized private sector led by the Confederation of Private Entrepreneurs of Bolivia (Confederación de Empresarios Privados de Bolivia—CEPB). This conflict reflected a recurring debate in Bolivia between models of development and the question of what class should bear its costs. It also revealed the extent of Bolivia’s reliance on foreign aid.

Between 1982 and 1985, the CEPB and COB attempted to pressure the government to enact policies favorable to their interests. Siles Zuazo would decree a stabilization program designed to satisfy the IMF and the United States internationally and the CEPB domestically. The COB would respond with strikes and demonstrations, often backed by peasants and regional civic associations. Lacking congressional support, the government would modify the program to the point of annulling its effectiveness through wage



increases and subsidies, thereby provoking the wrath of the CEPB and IMF.

By 1984 the government was completely immobilized and incapable of defining effective economic policies. The result was the transformation of a severe economic crisis into a catastrophe of historic proportions. During the first half of 1985, inflation reached an annual rate of over 24,000 percent. In addition, Bolivia's debt-servicing payments reached 70 percent of export earnings. In December 1984, lacking any authority to govern because of the conflict with Congress, labor, the private sector, and regional groups, the Siles Zuazo government reached the point of collapse. As the crisis intensified, the opposition forced Siles Zuazo to give up power through a new round of elections held in July 1985.

The 1985 elections reflected the complex nature of the Bolivian political process. Banzer, who had stepped down in disgrace in 1978, won a slight plurality with 28.5 percent; the old titan of the MNR, Paz Estenssoro, finished a close second with 26.4 percent. A faction of the MIR, headed by Vice President Jaime Paz Zamora, took third. An indication of the left's fall from the grace of the electorate was the MNRI's showing of only 5 percent.

In Congress the MNR moved quickly to form a coalition that would enable Paz Estenssoro to gain the presidency. After luring the MIR with promises of state patronage, a coalition was formed, and Paz Estenssoro was elected president of Bolivia for the fourth time since 1952. Although enraged by the outcome of the congressional vote, Banzer and the ADN made the calculated decision to accept it. In so doing, the former dictator protected his long-term political interests.

### **Democracy and Economic Stabilization**

In 1985 the entire nation was submerged in a state of tense anticipation as Paz Estenssoro unveiled his strategy to confront the economic and political crisis. Throughout August 1985, a team of economists worked to design the new government's economic initiatives. The private sector came to play a crucial role in the elaboration and implementation of the government's economic policy. The private sector's main organization, the CEPB, had shifted its traditional support for authoritarian military solutions and by 1985 had become clearly identified with free-market models that called for reducing the state's role in the economy. When the economic reforms were announced, the impact on the private sector became evident.

On August 29, 1985, Paz Estenssoro signed Decree 21060, one of the most austere economic stabilization packages ever implemented in Latin America. Hailed as the NPE, the decree sought

to address the structural weaknesses in the state capitalist development model that had been in place since 1952. Specifically, the decree aimed at ending Bolivia's record-setting hyperinflation and dismantling the large and inefficient state enterprises that had been created by the revolution. Hence, the NPE represented a shift from the longstanding primacy of the state in promoting development to a leading role by the private sector. The NPE also rejected the notion of compatibility between populist redistribution and capitalist development that had characterized previous MNR-led regimes.

After addressing the economic side, Paz Estenssoro moved to resolve the political dimensions of the crisis. In fact, shortly after the announcement of Decree 21060, the COB, as it had done so often under Siles Zuazo, headed a movement to resist the NPE. But the COB had been weakened by its struggles with Siles Zuazo. After allowing the COB to attempt a general strike, the government declared a state of siege and quickly suffocated the protest. Juan Lechín Oquendo and 174 other leaders were dispatched to a temporary exile in the Bolivian jungle. They were allowed to return within weeks. By then, the government had already delivered the COB a punishing blow that all but neutralized organized labor.

Even as he moved to contain the COB, Paz Estenssoro sought to overcome the potential impasse between the executive and legislature that had plagued Siles Zuazo for three years. The MNR did not have a majority in Congress, and therefore Paz Estenssoro had to contemplate a probable confrontation with the legislature; for this reason, among others, he decreed the NPE. In moving to overcome this political gap, Paz Estenssoro did not seek support from the center-left groups that elected him. Indeed, any move in that direction would have precluded the launching of the NPE in the first place. Paz Estenssoro had in fact seized on parts of the program pushed by Banzer and the ADN during the electoral campaign. As a result, Banzer was left with the choice of backing Paz Estenssoro or opposing a stronger version of his own policy program.

Discussions opened by Paz Estenssoro with Banzer ripened into a formal political agreement, the Pact for Democracy (*Pacto por la Democracia—pacto*), signed on October 16, 1985. The formulation of the *pacto* was a crucial political development. Under its terms, Banzer and the ADN agreed to support the NPE, a new tax law, the budget, and repression of labor. In return, the ADN received control of a number of municipal governments and state corporations from which patronage could be used to consolidate its organizational base. The MNR also agreed to support reforms to

the electoral law aimed at eliminating the leftist groups that voted against Banzer in Congress. Most important, the *pacto* allowed ADN to position itself strategically for the 1989 elections.

In the most immediate sense, the *pacto* was effective because it guaranteed the Paz Estenssoro government a political base for implementing the NPE. For the first time in years, the executive was able to control both houses of Congress. Paz Estenssoro used this control to sanction the state of siege and defeat all attempts of the left to censure the NPE. In broader historical terms, the *pacto* was significant because it created a mechanism to overcome the structural impasse between the executive and the legislature.

The *pacto* served other purposes as well; for example, it gave Paz Estenssoro leverage over some of the more populist factions of the MNR who were unhappy with the NPE because they saw it as a political liability in future elections. For three years, Paz Estenssoro used the *pacto* to prevent any possible defections. Hence, party factions that could have harassed the president contemplated the immediate costs of being cut off from patronage even as they were forestalled in their larger political goal of altering the NPE.

As in Colombia and Venezuela, where pacts between the principal parties were responsible for the institutionalization of democracy, the *pacto* was deemed an important step toward consolidating a two-party system of governance. In contrast to the Colombian and Venezuelan cases, however, the *pacto* was based more on the actions of Banzer and Paz Estenssoro than on the will of their respective parties. Moreover, because the *pacto* was a reflection of patronage-based politics, its stability during electoral contests was tenuous at best. During the municipal elections in 1987, for example, party members, when confronted with patronage offers from opposition parties, faced enormous difficulties in adhering to it.

The campaign for the 1989 elections tested the *pacto* to the breaking point. At issue was the need to ensure that in the event neither candidate secured a majority, the losing party would support the victor in Congress. Polls conducted in December 1988 and January 1989 suggested that Banzer could emerge victorious. Under the terms of an addendum to the *pacto* signed in May 1988, the MNR would be obligated to support Banzer in Congress. This situation provoked a sense of despair in the MNR, which perceived itself as an extension of the ADN with no real likelihood of emerging victorious in May 1989.

In a surprising pre-electoral move, Banzer announced the formation of a "national unity and convergence alliance" between the ADN and MIR. Congress deliberated fourteen hours on August 5 before electing Jaime Paz Zamora as president of Bolivia

and Luis Ossio Sanjinés of the ADN-Christian Democratic Party (Partido Demócrata Cristiano—PDC) alliance as vice president. On handing the presidential sash to his nephew, Paz Zamora, on August 6, Paz Estenssoro thereupon became the first president to complete a full term in office since his second presidency in 1960–64. The political maturity of the election was illustrated not only by Banzer's support for the MIR and the MIR's willingness to join with the ADN but also by the vows of both Banzer and Paz Zamora to continue with the policies of the NPE.

The "national unity and convergence alliance," however, revealed that old ways of doing politics had survived. Although the ADN and MIR each received nine ministries, the ADN controlled the principal policy-making bureaucracies, such as foreign affairs, defense, information, finance, mining and metallurgy, and agriculture and peasant affairs. The ADN's share of the cabinet posts went to many of the same individuals who had ruled with Banzer in the 1970s. The MIR's principal portfolios were energy and planning. Following a traditional spoils system based on patronage, the new ruling partners divided among themselves regional development corporations, prefectures, and decentralized government agencies, as well as foreign embassy and consular posts.

### **The 1989 Elections**

In the initial months of 1989, the MNR tried in vain to postpone the election date, arguing that the deadline for electoral registration restricted citizen participation. In December 1988, the party's delegation in Congress had managed to amend the electoral law of 1986. Arguing that the new registration requirements, which limited registration to citizens who possessed *cédulas de identidad* (national identity cards), constituted a violation of universal suffrage, the MNR pushed through legislation that added birth certificates and military service cards as valid registration documents. The ADN refused to go along with its ally and eventually charged the MNR with conducting fraudulent registrations. By mid-February this issue had triggered the rupture of the *pacto*.

The end of the *pacto* revealed an old reality about Bolivian politics. To achieve power, broad electoral alliances must be established; yet, electoral alliances have never translated into stable or effective ruling coalitions. On the contrary, electoral alliances have exacerbated the tensions built into a complex system. Thus, once in power, whoever controls the executive must search for mechanisms or coalitions such as the *pacto* to be able to govern. This search was the single most important challenge facing Bolivian politicians in the 1980s.

*President Jaime Paz Zamora  
Courtesy Embassy of Bolivia,  
Washington*



As expected, every political party was forced to scramble for new allies. The ADN joined forces with the now minuscule Christian Democrats by naming Ossio Sanjinés as Banzer's running mate in an effort to attract other political elements. Banzer led every major poll, and the ADN repeatedly called for Congress to respect the first majority to emerge from the May 7 election.

The situation was more complex in the MNR where, after a bitter internal struggle, Gonzalo Sánchez de Lozada, a pragmatic former minister of planning and coordination and prominent entrepreneur, captured the party's nomination. The MNR's strategy was to develop Sánchez de Lozada's image as a veteran *movimientista* (movement leader) to capture populist support. At the same time, party strategists intended to attract support from outside the party by building on the candidate's entrepreneurial background. The task of converting the candidate into an old party member apparently succeeded: old-line populist politicians dominated the first slots on the party's legislative lists. The naming of former President Walter Guevara Arze as the vice presidential candidate was perceived as further evidence of the party's success in influencing the candidate.

Following a similar electoral logic, the MIR sought to broaden its base of support by establishing ties with several parties, including Carlos Serrate Reich's 9th of April Revolutionary Vanguard (Vanguardia Revolucionaria 9 de Abril—VR-9 de Abril), the Revolutionary Front of the Left (Frente Revolucionario de Izquierda),

and a number of dissidents from the MNRI. Paz Zamora, the MIR's candidate, led in some polls, and most analysts agreed that he would pose a significant threat to the MNR and ADN.

The left attempted a comeback following the disastrous experience of the UDP years. Headed by Antonio Aranibar's Free Bolivia Movement (Movimiento Bolivia Libre—MBL), the left grouped into a broad front labeled the United Left (Izquierda Unida—IU). The IU brought together splinter factions of the MIR, the Socialist Party One (Partido Socialista Uno—PS-1), and the PCB, and it counted on the support of organized labor, especially the COB. Given the historical divisions within the Bolivian left, however, the IU was not perceived to be a serious contender. If it could maintain unity beyond the 1989 elections, observers believed that its impact might be greater than anticipated.

The main newcomer to national electoral politics, although no stranger to La Paz politics, was Carlos Palenque. Popularly known as *el compadre* (the comrade), Palenque was a former folksinger turned radio and television owner and talk show host. His "popular" style of broadcasting had always enjoyed widespread appeal in the working-class and marginal neighborhoods surrounding La Paz. For at least a decade, Palenque had been regarded as a possible candidate for mayor of La Paz; during the 1987 municipal elections, his name was under consideration by the MNR.

Palenque's move into national politics was prompted by the closing down of his television station for airing accusations made by an infamous drug trafficker, Roberto Suárez Gómez, against the Bolivian government (see *Narcotics Trafficking*, ch. 5). To promote his candidacy, Palenque founded Conscience of the Fatherland (Conciencia de la Patria—Condepa), which grouped together a bizarre strain of disaffected leftists, populists, and nationalists who had defected from several other parties.

Ten parties and fronts contested the election, which was held as scheduled on May 7, 1989. The results, a virtual three-way tie among the MNR, ADN, and MIR, were not surprising (see table 16, Appendix). As expected, Congress once again was given the task of electing the next president from the top three contenders. But the slight majority (a mere 5,815 votes) obtained by the MNR's candidate, Sánchez de Lozada, was surprising to observers, as was the unexpected victory by Palenque in La Paz Department. His showing was significant in a number of ways. First, it demonstrated that none of the major political parties had been able to attract lower middle-class and proletarian urban groups, who had flocked to *el compadre*; Palenque had wisely targeted marginal and displaced sectors of La Paz. Second, Condepa's showing reflected the growth



*Presidential campaign graffiti in an Altiplano town  
Courtesy Inter-American Foundation (Kevin Healy)  
Political graffiti in 14 de Septiembre, the Chapare  
Courtesy Inter-American Foundation (Kevin Healy)*

of racial and ethnic tension in Bolivian electoral politics. For the first time in the history of the Bolivian Congress, for example, a woman dressed in native garb would serve as a deputy for La Paz Department.

Claims of fraud from every contender, especially in the recounting of the votes, clouded the legitimacy of the process. At one stage, fearing an agreement between the ADN and MIR, the MNR called for the annulment of the elections. Indeed, negotiations were well advanced between the MIR and ADN to upstage the relative victory obtained by the MNR. Between May and early August, the top three finishers bargained and manipulated in an attempt to secure control of the executive branch.

The composition of Congress exacerbated the tensions between the parties in contention. Because seventy-nine seats are needed to elect a president, compromise was indispensable. In mid-1989, however, it was unclear whether the political system in Bolivia had matured enough to allow for compromise.

## **Political Forces and Interest Groups**

### ***Political Parties***

Bolivian political parties do not perform the classic functions of aggregating and articulating the interests of social classes, regions, or individuals. Historically, political parties have been divorced from pressure groups such as labor, the private sector, and regional civic committees. Instead, parties have been vehicles through which politicians can lay a claim to state patronage. As in other Latin American nations, the dependent nature of the middle class, which does not own hard sources of wealth and therefore relies on the state for employment, accounts partially for this role.

Since the 1950s, the MNR has been the major party in Bolivia. Because the MNR was the party of the 1952 Revolution, every major contemporary party in Bolivia is rooted in one way or another in the original MNR. The rhetoric of revolutionary nationalism introduced by the MNR has dominated all political discourse since the 1950s. Owing to the fact that the MNR was a coalition of political forces with different agendas and aspirations, however, the subsequent splits in the party determined the course of Bolivian politics.

The major splits in the MNR occurred among Guevara Arze, Paz Estenssoro, Siles Zuazo, and Lechín, the principal founders of the party. Each led a faction of the party that sought to control the direction and outcome of the revolution. As MNR leaders tried



to subvert each other, factional strife culminated in the overthrow of the MNR and the exile of the four titans of the revolution.

Although years of military rule did not erode the MNR's appeal, factional disputes within the party resulted in a proliferation of parties that surfaced in the late 1970s when the military opted for elections. Indeed, political party lines were very fluid; party boundaries were not the product of ideological distinctions and shifted at any moment.

In the late 1970s, Paz Estenssoro, Lechín, Siles Zuazo, and Guevara Arze reemerged as the principal political actors. Siles Zuazo's MNRI joined forces with the PCB and the MIR to finally gain control of the presidency in 1982. Paz Estenssoro orchestrated a congressional vote that catapulted him to power in 1985. Until 1986 Lechín remained at the helm of the COB. Guevara Arze served as interim president in 1979 and was the MNR's vice presidential candidate in 1989.

Founded in 1979 by Banzer, the ADN was the most important political party to have emerged in the 1980s. The ADN was significant in that it grouped the supporters of Banzer into a relatively modern party structure. Simultaneously, however, the ADN was a classic caudillo-based party, with Banzer sitting at the top as the undisputed leader.

The ADN's ideology of democratic nationalism was not significantly contrary to the revolutionary nationalism of the MNR; in fact, several of the principal ADN leaders were dissidents of the MNR. In large part, however, democratic nationalism was rooted in a nostalgia for the stability experienced under Banzer's dictatorship in the 1970s.

Since the 1979 elections, the ADN's share of the electorate has grown considerably. Especially in the urban areas, the party has attracted the upper sectors of the middle class. Its call for order, peace, and progress following the turmoil of the Siles Zuazo years resulted in its outpolling other parties in the 1985 election. Banzer claimed to have the backing of 500,000 Bolivians, a figure that would make the ADN the largest party in Bolivia.

The other significant political party to emerge after 1970 was the MIR. Founded in 1971 by a group of young Christian Democrats educated at Louvain University in Belgium, the MIR was linked to the student movement that swept across the world in the latter part of the 1960s. Initially, the MIR expressed solidarity with urban guerrilla groups such as the National Liberation Army (Ejército de Liberación Nacional—ELN) and had close ties to its namesake, Chile's more radical Movement of the Revolutionary Left (Movimiento de la Izquierda Revolucionaria—MIR).

The Bolivian MIR achieved political maturity during Siles Zuazo's government. As a part of the cabinet, it was responsible in large measure for enacting important economic decrees. Paz Zamora, the MIR's chief, served as the UDP's vice president. Like other Bolivian political groups, however, the MIR went from a party of idealistic youth to an organization that was captured by a cadre of job-hungry politicians.

By 1985 the MIR had split into at least three broad factions that represented the ideological tensions within the original party. Paz Zamora's faction was the most successful, mainly because it retained the party's name while avoiding responsibility for the UDP period. By the late 1980s, Paz Zamora's MIR had become the third largest political party in Bolivia; indeed, some observers believed that after the May 1989 elections it would eclipse the MNR. The new MIR portrayed itself as a Social Democratic party that could work within the parameters of the NPE implemented in 1985.

The MBL, which reflected one of the more orthodox Marxist strains within Bolivia's original MIR, remained an important MIR faction in the late 1980s. For the 1989 elections, the MBL managed to put together the IU. The IU included the remnants of a deeply divided Bolivian left, including the PCB, which was still feeling the effects of its role in the infamous UDP coalition.

### *The Military*

In 1952 the MNR downgraded the military as an institution and attempted to create new armed forces imbued with revolutionary zeal. This event initiated a long and complex relationship between the armed forces and politicians. The 1964 coup by General Barrientos began a cycle of military intervention that culminated only in 1982, with the withdrawal of the military from the political arena (see *Military Rule, 1964-82*, ch. 1; *Evolution of the Military Role in Society and Government*, ch. 5).

By then the military as an institution had been reduced to a collection of factions vying for control over the institution and the government. A process of disintegration within the armed forces reached its extreme form under General García Meza, who took power in 1980 after overthrowing Lidia Gueiler Tejada (1979-80), a civilian constitutional president (see *The Tumultuous Transition to Democracy, 1978-82*, ch. 1). By that juncture, however, the military was plagued by deep internal cleavages along ideological, generational, and rank lines. The connection of García Meza and his followers to the burgeoning cocaine industry further divided the armed forces.

Officers such as Banzer and García Meza represented the last vestiges of the prerevolutionary armed forces that sought unsuccessfully to eradicate populism in Bolivia. In the process, however, they discredited the military and, at least in the short run, eliminated the institution as a power option in Bolivian politics. The older generation retired in disgrace, accused of narcotics trafficking, corruption, and violations of human rights.

Since 1982 the military has undergone a major reconstruction process. The old guard of "coupist" officers was replaced as the generation of officers who had graduated from the new military academy in the 1950s reached the upper echelons of the armed forces. The younger generation appeared committed to the rebuilding of the military and manifested its support for civilian rule. It also accepted end-of-year promotions authorized by the Senate.

After 1982 key officers rejected overtures from a few adventure-some civilians and soldiers who were dismayed by the "chaos and disorder" of democratic rule. The military command was even involved in aborting a coup attempt in June 1984 that included Siles Zuazo's brief kidnapping. Officers realized that a coup against Siles Zuazo or any other civilian would disturb the military's efforts to rebuild.

The military's unwillingness to launch another coup was even more significant given the economic and political situation in Bolivia between 1982 and 1985. The COB and business, regional, and peasant groups exerted untenable demands on the Siles Zuazo government. All of these groups tried to coerce the regime by using tactics such as strikes, roadblocks, and work stoppages.

The military remained in its barracks despite the social turmoil that enveloped the country. Indeed, the only military action during this period occurred in response to a presidential directive. In March 1985, Siles Zuazo called upon the military to restore order after miners occupied La Paz. Once this had been accomplished, the armed forces retreated obediently. Their mission then became one of ensuring the peaceful transfer of power to the victor of the 1985 elections. The military's role in support of democracy in the late 1980s was in large measure dependent on the success of Paz Estenssoro's reforms under the NPE. In early 1989, Bolivia's armed forces had no reason or excuse to intervene.

Because of the military's willingness to engage in joint exercises with United States troops and in drug interdiction programs in the late 1980s, the military once again became the recipient of aid that had been drastically reduced since 1980. The joint antinarcotics operation with the United States, dubbed "Operation Blast Furnace," also provided the military with important equipment and

training. In fact, a close partnership developed between Bolivia's armed forces and the United States Southern Command (see Foreign Military Assistance in the 1980s; Narcotics Trafficking, ch. 5).

A new generation of officers were to assume command of the armed forces in the 1990s. Most were young cadets during the 1970s and were given special treatment and protection by General Banzer. Some observers had suggested that these officers might have intervened if Banzer had been denied the presidency in 1989 by a congressional coalition.

### ***Organized Labor***

Historically, organized labor in Bolivia had been one of the most politically active and powerful in Latin America. Owing to the importance of mining in the economy, the Trade Union Federation of Bolivian Mineworkers (Federación Sindical de Trabajadores Mineros de Bolivia—FSTMB) has been the backbone of organized labor since the mid-1940s. Before the 1952 Revolution, the FSTMB orchestrated opposition to the three dominant tin barons and led protests against worker massacres.

During the first few days of the revolution, the MNR founded the COB in order to group the FSTMB and the other labor unions under an umbrella organization that would be subordinate to the party. In creating the COB, the MNR was following the example of Mexico's PRI, which effectively controlled labor through the party's structures. In Bolivia the COB and especially the FSTMB, which controlled labor in the nationalized mining sector, pushed for worker comanagement and cogovernment. Moreover, worker militias were allowed to form freely when the military as an institution was downgraded.

As a result, the COB became an autonomous institution that challenged the primacy of the MNR. Relations between the MNR and the COB were more state to state than party to subordinate labor union. In fact, the COB came to perceive the state as an apparatus that had been appropriated by the MNR politicians and that had to be captured in order to further the interests of the working class. This relationship was to characterize the relations between the COB and the Bolivian state until the mid-1980s.

As the COB grew in power, the MNR relied on the reconstructed military to control labor and its militias. With the adoption of a state capitalist model of development that postponed the aspirations of organized labor, the conflict between the state and labor deepened. This conflict climaxed in the mid-1960s under the military government that overthrew the MNR. With the exception of

the 1969–71 period, the military initiated a long period of repression that sent the COB into clandestine existence.

When the military called for elections in 1978, the COB, despite being outlawed between 1971 and 1978, reemerged as the only institution able to represent the interests of the working class. Moreover, the COB directed the workers to demand economic, political, and social rights that had been denied to them throughout the military period.

Labor's strength climaxed during Siles Zuazo's second term (1982–85). However, the economic crisis had reached such extremes that in surrendering to the demands of the workers the UDP government only exacerbated the economic situation. Although this period demonstrated the power of the COB to coerce governments, it also led to the downfall of organized labor. As the COB staged hundreds of strikes and stoppages, the economy faltered and public opinion turned against labor.

The MNR government headed by Paz Estenssoro thus was able to impose the NPE on the workers. The COB attempted to stage a strike, but three years of confrontation with the Siles Zuazo government had seriously weakened its ability to mobilize labor. With the support of the *pacto*, Paz Estenssoro imposed a state of siege that effectively debilitated organized labor. Indeed, the COB's power was undermined so effectively that in the late 1980s it was incapable of staging a general strike.

After 1985 labor's efforts centered on preventing the decentralization and restructuring of Comibol. The restructuring of the nationalized mining sector, especially the mass layoffs, had decimated the FSTMB. As a result, the COB demanded the rehabilitation of Comibol and respect for the rights of labor unions. In September 1986, the FSTMB sponsored a workers' march, dubbed "March for Life," to fend off plans to restructure Comibol, to halt mass firings, and to raise miners' salaries. In response, the government declared a congressionally sanctioned state of siege and immediately imposed Decree 21337, which called for the restructuring of Comibol along the lines originally prescribed in Decree 21060.

The "March for Life" forced government and labor to enter into negotiations, mediated by the Bolivian Bishops Conference (Conferencia Episcopal Boliviana—CEB), that postponed the implementation of Decree 21337. The result was an accord whereby the government agreed that all production and service units targeted for elimination by the decree would remain intact. Moreover, the government agreed that all management decisions in Comibol would be made only after consulting with labor unions. Finally,

the MNR government promised to end massive layoffs and agreed that employment would be capped at 17,000 in Comibol.

Because the accord was opposed by radical labor leaders grouped under the so-called Convergence Axis, the agreement fell through, and Decree 21337 was imposed. Labor had suffered its worst defeat. In July 1987, radical labor leaders were ousted at the COB's convention. COB strategies in 1988 proved more effective. In May 1988, for example, it helped defeat proposals to decentralize health care and education. For the moment, labor had been reduced to defensive actions that sought to protect its few remaining benefits. Nonetheless, the COB was still a formidable force that would have to be faced in the future. For democracy to survive in Bolivia, it was clear that the demands and aspirations of labor would have to be taken into account.

### *The Peasantry*

The peasantry became politically active only after the 1952 Revolution. Previously, much of the Indian peasant population had been subjected to a form of indentured service called *pongaje* and had been denied voting rights through a series of legal restrictions. *Pongaje* ended with the Agrarian Reform Law enacted in 1953. Universal suffrage, in turn, incorporated the Indian masses into Bolivian political life.

The MNR established a new type of servitude, however, by using the Indian peasant masses as pawns to further the political interests of the party. Party bosses paraded peasants around at election rallies and manipulated peasant leaders to achieve particularistic gain. Some authors have labeled this system of political servitude *pongaje politico*, a term that evokes images of the prerevolutionary exploitation of the peasantry.

As the MNR surrendered control of the countryside to the military, the peasantry came to rely extensively on military protection. This reliance enabled the military to forge the so-called Peasant-Military Pact, through which they promised to defend the newly acquired lands of the peasantry in return for help in defeating any new attempts to dismantle the military as an institution.

With the overthrow of the MNR in 1964, General Barrientos buttressed his grip on power by manipulating the Peasant-Military Pact. The pact became a mechanism through which the military co-opted and controlled the peasantry. Autonomous peasant organizations, as a result, failed to emerge.

During Banzer's presidency, the military attempted to continue the manipulation of the peasantry. In January 1974, peasant demonstrations against price increases culminated in a bloody



*A meeting of Aymara Indians in the Altiplano region  
Movie theater mural in Llaqui,  
a mining town in Potosí Department  
Courtesy Inter-American Foundation (Kevin Healy)*

incident known as the "Massacre of Tolata," in which more than 100 peasants were either killed or wounded. The Tolata incident put an end to the Peasant-Military Pact; paradoxically, it led to the emergence of a number of autonomous peasant and Indian organizations that remained active in politics in the late 1980s.

The most significant was the Katarista movement, or Katarismo, which embraced political parties and a campesino union. The political parties, such as the Túpac Katari Indian Movement (Movimiento Indio Túpac Katari—MITKA), were based on an ideology rooted in the Indian rebellion that Julián Apasa (Túpac Catari, also spelled Katari) led against the Spaniards in 1781 (see *State, Church, and Society*, ch. 1). After 1978 the MITKA succeeded in electing several deputies to Congress.

The union-oriented branch of Katarismo founded the Túpac Katari Revolutionary Movement (Movimiento Revolucionario Túpac Katari—MRTK). In 1979 the MRTK established the first peasant union linked to the COB, known as the General Trade Union Confederation of Peasant Workers of Bolivia (Confederación Sindical Única de Trabajadores Campesinos de Bolivia—CSUTCB). The establishment of this union was a significant development. For the first time, an autonomous peasant organization recognized a commonality of interests with labor. Many observers noted, however, that the campesino movement had never really been accepted by the COB. Moreover, the fortunes of the MRTK were tied to those of its ally, the UDP.

In the 1980s, Bolivian peasant organizations fared poorly. MITKA and MRTK parties performed worse than anticipated in elections and were forced to seek alliances with larger parties. Electoral reforms in 1980 and 1986 further undermined the capacity of peasant political parties to compete in national elections. The greatest challenge confronting these movements was the need to break the monopoly over the peasantry held in the countryside by the traditional political parties.

### ***Regional Civic Committees***

In the late 1980s, Bolivia was one of the least integrated nations of Latin America. Because Bolivia's geographic diversity generated deep regional cleavages, Bolivian governments had been challenged to incorporate vast sectors of the country into the nation's political and economic systems. The most profound of these regional splits separated the eastern lowlands region known as the Oriente (Santa Cruz, Beni, and Pando departments and part of Cochabamba Department) from the Altiplano. Natives of the Oriente, called Cambas, often looked with disdain at highlanders, referred



to as Kollas. Over the years, Cambas contended that the central government, located in La Paz, had financed the development of the Altiplano by extracting resources from Santa Cruz Department. This became a self-fulfilling prophecy in the mid-1980s because of the primacy of natural gas and the collapse of the mining industry. For most of Bolivia's history, however, the Altiplano had supported the development of the Oriente.

In this context of regional disputes, *comités cívicos* (civic committees) emerged to articulate and aggregate the interests of cities and departments. The most significant was the pro-Santa Cruz Civic Committee, founded in the early 1950s by prominent members of that department's elite. In the late 1950s, this committee effectively challenged the authority of the MNR in Santa Cruz. Some observers argued that between 1957 and 1959 the Civic Committee in effect ruled Santa Cruz Department. As was the case with other sectors of society, the MNR was unable to subordinate regional interests to the interests of the party.

During the period of military rule, leaders of the civic committees received prominent government posts. During the Banzer period, for example, members of the Santa Cruz committee were named mayor and prefect. The military was among the first to discover that civic committees were better mechanisms for regional control than political parties.

Civic committees also proved to be more effective representatives of departmental interests. Under democratic rule, the civic committee movement bypassed parties as valid intermediaries for regional interests. This situation was attributable to the political parties' failure to develop significant ties to regions. Regional disputes often took precedence over ideology and party programs. Nevertheless, although civic committees often presented the demands of their respective regions directly to the executive branch, the Constitution of 1967 states that only political parties can represent the interests of civil society. Civic committees thus forged contacts within political parties, and political parties, in turn, actively sought out members of civic committees to run on their slates. These efforts by political parties to incorporate the demands of the civic committees as their own could be perceived as healthy for the institutionalization of an effective party system in Bolivia. Moreover, civic committees helped to relieve partially the regional tensions that, under authoritarian regimes, were mediated only by the military.

### *The Private Sector*

Although historically Bolivia had a very small private sector, it wielded considerable political influence. Before the 1952 Revolution,

three large enterprises accounted for the bulk of the nation's mining production and were the only other major source of employment besides the state. With the advent of the revolution and the nationalization of the mines, the private sector suffered a severe setback. The ideology of the revolutionaries was to establish a model of development in which the state would take the lead role. But the MNR's intention was also to create a nationally conscious bourgeoisie that would reinvest in Bolivia and play a positive role in the country's development.

As the revolution changed course in the 1950s, the private sector recovered under the tutelage of the state. Joint ventures with private, foreign, and domestic capital were initiated during the late 1950s, and Bolivia moved firmly in a state capitalist direction in the 1960s. This pattern of development had a negative effect on the private sector. Private entrepreneurs became dependent on the state for contracts and projects. This dependence eliminated entrepreneurial risk for some individuals in the private sector while simultaneously increasing the risks for others who lacked governmental access. As a result, the private sector divided into two broad camps: those who depended on the state and prospered and those who relied on their entrepreneurial skills and fared poorly.

In 1961 the CEPB was founded as a pressure group to represent the interests of the private sector before the state. Fearing the impact of populist and reformist governments, the private sector sought protection from the military; in fact, individual members of the CEPB often funded coups. Beginning with the Barrientos government, the CEPB exerted pressure on military regimes and extracted significant concessions from the state. The private sector came to play a protagonist role during the dictatorship of Banzer; many members of the CEPB staffed key ministries and were responsible for designing policies.

During this period, however, the CEPB did not speak for the private sector as a whole. In fact, many private entrepreneurs became disenchanted with the economic model and opposed the Banzer regime. State capitalism actually hindered the development of a modern and efficient private sector because a few individuals benefited at the expense of the majority. Moreover, private entrepreneurs realized that the state was a competitor that had an unfair advantage in the marketplace.

By the end of the tumultuous transition period in 1982, CEPB members generally believed that a liberalized economy and a democratic system would serve its class interests better than any authoritarian dictatorship. The CEPB became one of the principal groups that forced the military out of politics in 1982. It then pressured

the weak UDP government to liberalize the economy and to eliminate state controls over market forces, opposing attempts to regulate the activity of the private sector. Ironically, although generally hostile to the private sector, several UDP policies, such as the “dedollarization” decree, were highly favorable to that sector (see *Growth and Structure of the Economy*, ch. 3).

During the UDP period, the CEPB emerged as a class-based organization that articulated the interests of the private sector and countered those of COB-led labor. In a very real sense, a well-structured class conflict developed as two class-based organizations battled each other within the framework of liberal representative democracy.

The introduction of the NPE in 1985 represented the culmination of years of efforts by the private sector to liberalize the economy. Prominent members in the private sector, such as Gonzalo Sánchez de Lozada, Fernando Romero, Fernando Illanes, and Juan Cariaga, played a key role in the elaboration of the NPE. They expected the NPE to end the devastating economic crisis of the mid-1980s and to create a safe environment for private investment and savings. As stabilization measures brought a spiraling inflation rate to a halt, the NPE was lauded as the “Bolivian miracle.”

Yet, the NPE did not please the entire private sector, mainly because stabilization had not produced economic reactivation. Some entrepreneurs, long accustomed to the protective arm of the state, realized that the free market was a difficult place to survive and sought to alter the model. Others also suggested that the state should reestablish controls to protect local industry from what they considered to be unfair competition from neighboring countries.

Still, privatization of state enterprises and other measures helped raise the level of private sector confidence in the NPE. Because private enterprise was by definition the motor of the new economic model, a positive and supportive outlook developed in the CEPB. Whether or not this attitude would continue rested on the ability of the government to reactivate the economy.

## **The Media**

Bolivian governments historically recognized the political significance of the media and attempted to censor communication channels employed by the opposition. In the 1940s, the MNR utilized the daily *La Calle* to mobilize support for its cause. During the revolution, the MNR purged unfavorable news media and established *La Nación* as the official news organization. Military governments, in particular, subjected journalists to harassment, jail terms, and exile. The Banzer government, for example, expelled

many journalists from the country. In the early part of the 1980s, General García Meza closed down several radio stations and ordered the creation of a state-run network binding all private stations. Many Bolivian and foreign journalists were imprisoned and their reports censored.

After 1982 freedom of the press developed as an important byproduct of the democratization of Bolivian politics. Siles Zuazo's government was perhaps the first to honor its pledge to respect freedom of expression. Radio and newspapers were guaranteed freedoms that Bolivians had never enjoyed previously.

In the early years of democratic rule, the monopoly enjoyed by Channel 7, the state-run television station, represented the greatest obstacle to freedom of the press. Until 1984 Channel 7 was part of the patronage distributed to partisan supporters. Although the Siles Zuazo administration respected freedom of the press in other media, it used the station to further its political agenda and barred the establishment of privately owned stations. The Ministry of Information argued that television was a strategic industry that had to be kept under state control. After several rounds with the opposition in Congress, the minister of information refused to issue permits for the opening of private television stations.

Despite government restrictions, the media experienced a tremendous boom in the mid-1980s. The growth and proliferation of party politics generated a concomitant expansion in the communications industry. Newspapers, television, and radio stations mushroomed during the 1984-85 electoral season. Some forty-seven public and private television stations were in operation by 1989. One of the great surprises was the presence of six channels in the city of Trinidad, Beni Department, which had a population of fewer than 50,000. In short, democracy had magnified the importance of the media in Bolivian politics.

In 1989 daily newspapers reflected the general pattern of ties between party politics and the media. Five daily newspapers enjoyed national circulation: *Presencia*, *Última Hora*, *Hoy*, *El Diario* (La Paz), and *El Mundo* (Santa Cruz). Of these, *Presencia* was the only publication that did not reflect partisan interests. Founded in 1962 under Roman Catholic auspices, *Presencia* was the largest and most widely read newspaper, with a circulation of 90,000. In large measure, *Presencia* reflected the opinions of socially conscious Roman Catholic clergy, who often used its pages to advocate reform.

The oldest newspaper in Bolivia was *El Diario*, with a circulation of 45,000. Founded in 1904, this daily belonged to the Carrasco family, one of the most prominent in La Paz. Historically, *El Diario* reflected the very conservative philosophy of the founding family.

In 1971, during the populist fervor of the Torres period, its offices were taken over by workers and converted into a cooperative. The Banzer government returned the newspaper to the Carrasco family. Hence, *El Diario* was generally perceived as partisan to the views of Banzer and his ADN party. The death of Jorge Carrasco, the paper's director, however, apparently changed the philosophy of the daily. Jorge Escobari Cusicanqui, the new director, was linked to Condepa.

*El Mundo*, with a circulation of 20,000, emerged as one of the most influential daily newspapers in Bolivia. It was owned by Osvaldo Monasterios, a prominent Santa Cruz businessman. This newspaper was commonly identified as the voice of the ADN. A similar observation could be made about *Última Hora*, formerly an afternoon paper that had been circulating in the mornings since 1986. Mario Mercado Vaca Guzmán, one of Bolivia's wealthiest entrepreneurs and a well-known ADN militant, owned *Última Hora*. This newspaper had hired outstanding academics to write its editorials.

Perhaps the most politicized of all newspapers in Bolivia was *Hoy*, owned by Carlos Serrate Reich, an eccentric politician who also owned Radio Méndez. Serrate demonstrated how the media could be utilized to achieve electoral advantage. Through *Hoy*, which had a circulation of 25,000, and Radio Méndez, Serrate made huge inroads into the rural areas of La Paz Department for the VR-9 de Abril, his political party. The only other newspaper of significance in Bolivia was *Los Tiempos*, a Cochabamba daily with a circulation of 18,000. In the 1970s, *Los Tiempos* had been the leading newspaper in the interior, but it was bypassed by *El Mundo* in the 1980s.

Like the printed media, private television stations reflected the positions of the major political parties in Bolivia. By the same token, the political line of the owners was often reflected in the news broadcasts of each channel. This situation was particularly true in La Paz, where the city's eight channels, including Channel 7 and Channel 13 (the university station), were tied directly to political parties.

## **Foreign Relations**

Bolivia's foreign relations have been determined by its geographical location and its position in the world economy. Located in the heart of South America, the country has lost border confrontations with neighboring nations. Along with Paraguay, Bolivia is a landlocked nation that must rely on the goodwill of neighboring countries for access to ports. Bolivia's highly dependent economy has exacerbated the nation's already weak negotiating position in

the international arena. Economic dependency has established the parameters within which Bolivia could operate in the world.

Bolivia's history is replete with examples of a recurring tragedy-comedy in the course of international affairs. Modern Bolivia is about one-half of the size that it claimed at independence. Three wars accounted for the greatest losses. Of these, the War of the Pacific (1879-83), in which Bolivia lost the Littoral Department to Chile, was clearly the most significant; it still accounted for a large part of Bolivia's foreign policy agenda in the late 1980s. Territorial losses to Brazil during the War of Acre (1900-1903) were less well known but accounted for the loss of a sizable area. The bloody Chaco War with Paraguay (1932-35) culminated in the loss of 90 percent of the Chaco region (see fig. 3).

Relations with the United States fluctuated considerably from the 1950s to the 1980s. United States economic aid to Bolivia during the 1950s and 1960s, the highest rate in Latin America, was responsible for altering the course of the 1952 Revolution. Subsequent United States support for military regimes of the right, however, left a legacy of distrust among sectors of the Bolivian population. The lowest point in bilateral relations was reached during the military populist governments of General Ovando (1965-66 and 1969-70) and General Torres (1970-71). Student protesters burned the binational center in 1971, and the military government expelled the Peace Corps. In the late 1970s, then-President Jimmy Carter's human rights program began Bolivia's transition to democracy by suspending United States military assistance to Bolivia. Washington's nonrecognition of Bolivia's military right-wing governments in the early 1980s because of their ties to the narcotics industry established a new pattern in United States-Bolivian relations.

The democratic era that began in 1983 also ushered in a more cordial phase in Bolivian regional relations. Bolivia's relations with Brazil and Argentina improved significantly, owing in part to a common bond that appeared to exist between these weak democratic governments emerging from military rule and facing the challenges of economic chaos. In early 1989, relations with Brazil were at their highest level in decades, as evidenced by new trade agreements. Relations with Argentina were rather strained, however, because of Argentina's inability to pay for Bolivian natural gas purchases. Bolivian-Chilean relations remained contentious because Bolivia's principal foreign policy goal revolved around its demand for an access to the Pacific Ocean.

In the 1980s, Bolivia became more active in world affairs. Adhering to a nonaligned policy, it established relations with the Soviet

Union, Cuba, East European countries, and the Palestine Liberation Organization (PLO). In some cases, such as with Hungary, relations matured into trade agreements. Bolivia also maintained an important presence in the Organization of American States (OAS) and the United Nations (UN).

### **The United States**

In the 1980s, the growth of Bolivia's narcotics industry dominated United States-Bolivian relations. Drug enforcement programs in Bolivia were begun in the mid-1970s and gathered strength in the early part of the 1980s. Concern over military officers' growing ties to cocaine trafficking led to a tense relationship that culminated in June 1980 in the military's expulsion of the ambassador of the United States, Marvin Weisman, as a *persona non grata*. The "cocaine coup" of July 1980 led to a total breakdown of relations; the Carter administration refused to recognize General García Meza's government because of its clear ties to the drug trade. President Ronald Reagan continued the nonrecognition policy of his predecessor. Between July 1980 and November 1981, United States-Bolivian relations were suspended.

In November 1981, Edwin Corr was named as the new ambassador, thus certifying Bolivian progress in narcotics control. Ambassador Corr played a key role in forcing the military to step down. In the subsequent democratic period, Corr helped shape the drug enforcement efforts of the weak UDP government. In 1983 President Siles Zuazo signed an agreement through which Bolivia promised to eradicate 4,000 hectares of coca over a three-year period in return for a US\$14.2 million aid package. Siles Zuazo also promised to push through legislation to combat the booming drug industry.

With United States funding and training, an elite antinarcotics force known as the Rural Area Police Patrol Unit (*Unidad Móvil Policial para Áreas Rurales—Umopar*) was created (see *The Security Forces*, ch. 5). Siles Zuazo's government, however, was incapable of carrying out an effective antinarcotics program. Opposition from social groups, the significance of traditional coca use in Bolivia, and the absence of a major drug law were the most commonly cited explanations for this failure. Between 1982 and 1985, the total number of hectares under cultivation doubled, and the flow of cocaine out of Bolivia increased accordingly. In May 1985, in a final effort to save face with Washington, the Siles Zuazo government approved a decree calling for extensive drug enforcement programs; the United States perceived this effort as too little and too late, however.

Under Paz Estenssoro's government (1985–89), which made sincere efforts to combat the drug trade, relations with the United States improved significantly. As a result, aid to support economic reforms increased dramatically. In 1989 Bolivia received the greatest amount of United States aid in South America and the third highest total in Latin America, behind El Salvador and Honduras. The major obstacle to harmonious relations, however, remained the prevalence of drug trafficking.

During the Paz Estenssoro government, United States policy toward Bolivia was split between congressional efforts to enforce the 1985 Foreign Assistance Act, limiting aid to countries that engaged in drug trafficking, and the Reagan administration's stated objective of helping consolidate and strengthen democratic institutions in Latin America. Both aspects of United States policy were responsible for setting the course of relations with Bolivia.

In August 1985, Corr was replaced by Edward Rowell, who worked closely with the new Paz Estenssoro government to combat Bolivia's economic crisis and the flourishing drug trade. Rowell arrived in La Paz shortly after a visit of members of the Select Committee on Narcotics Abuse and Control of the United States House of Representatives. The committee's report revealed a deep distrust for Paz Estenssoro's stated intention to carry on with the drug battle and to implement fully the provisions of the May 1985 decree. In June 1986, owing to pressures from the United States Congress, Washington announced the suspension of US\$7.1 million in aid because Bolivia had not satisfied the coca eradication requirements of the 1983 agreement.

Simultaneously, however, the Bolivian government secretly entered into Operation Blast Furnace, a joint Bolivian-United States effort aimed at destroying cocaine laboratories in Beni Department and arresting drug traffickers (see *Narcotics Trafficking*, ch. 5). Despite the outcry from political party leaders on the left, who argued that the operation required Bolivian congressional approval because it involved foreign troop movements through the nation's territory, Operation Blast Furnace began in July 1986 with the presence of over 150 United States troops. Paz Estenssoro's government survived the tide of opposition because of the support forthcoming from the ADN-MNR *pacto*.

Despite Bolivia's evident willingness to fight the drug war, the United States Congress remained reluctant to certify the country's compliance with the Foreign Assistance Act. In October 1986, the Bolivian envoy to Washington, Fernando Illanes, appeared before the United States Senate to report on the progress made under Operation Blast Furnace and on the intention of the Bolivian



government to approve an effective drug law to both eradicate the coca leaf and control the proliferation of cocaine production. Revelations of continued involvement in the drug trade by Bolivian government officials, however, undermined the efforts of Paz Estenssoro's administration to satisfy the demands of the United States Congress.

Congressional efforts in the United States to sanction Bolivia contributed to the degree of frustration felt by the Paz Estenssoro government. Ambassador Rowell, however, was able to convince the Reagan administration that the Bolivian government was a trustworthy partner in the drug war. In spite of another reduction in United States aid in late 1987, the Reagan administration certified that Bolivia had met the requirements of Section 481(h) of the Foreign Assistance Act. Still, the United States Congress was dissatisfied and, in early 1988, decertified Bolivia's progress.

Bolivia's efforts met with some encouragement from the Reagan administration. The United States supported Bolivia's negotiations with international banks for debt reduction and provided substantial aid increases in terms of both drug assistance and development programs. United States aid to Bolivia, which totaled US\$65 million in 1987, reached US\$90 million in 1988. Although the Reagan administration requested almost US\$100 million for fiscal year 1989, disbursement was contingent on the congressional certification of Bolivian progress on eradication programs. Despite this increase in assistance, it paled in comparison with total cocaine production revenues, conservatively estimated at US\$600 million. Bolivian opponents to the drug enforcement focus therefore argued that although the United States advocated drug enforcement and interdiction programs, it was unwilling to fund them.

United States satisfaction with Bolivian efforts in terms of stabilizing the economy, consolidating democracy, and fighting the drug war, however, was evidenced in 1987-88 with the announcement of several AID programs. Specifically, assistance was targeted to rural development projects in the Chapare region of Cochabamba Department, the center of the cocaine industry. Other AID programs in health, education, and privatization of state enterprises were also initiated. More ambitious projects aimed at strengthening democratic institutions, such as legislative assistance and administration of justice, were scheduled for initiation in 1989. AID also proposed the creation of an independent center for democracy. Future AID disbursements, however, were contingent on Bolivia's meeting of the terms of the Foreign Assistance Act and agreements signed with the United States government for the eradication of 5,000 to 8,000 hectares of coca plantations between January and December 1989.

In 1988 Bolivia moved closer toward satisfying United States demands for more stringent drug laws. In July the Bolivian Congress passed, and Paz Estenssoro signed, a controversial bill known as the Law of Regulations for Coca and Controlled Substances (see *Threats to Internal Security*, ch. 5).

The bombing incident during Secretary of State George P. Shultz's visit to Bolivia in early August 1988, attributed to narco-terrorists, raised concern that a wave of Colombian-style terrorism would follow (see *Narcotics Trafficking*, ch. 5). Shultz's visit was intended to praise Bolivia's effort in the drug trade; however, in certain Bolivian political circles it was perceived as a direct message about pressing ahead with coca eradication efforts.

Nevertheless, with the approval of the 1988 antinarcotics law and a new mood in Washington about Bolivia, Ambassador Robert S. Gelbard's arrival in La Paz in early October 1988 was an auspicious event. The ambassador headed efforts to confer "special case" status for Bolivia in order to allow for a more rapid disbursement of aid. In return, Bolivian government officials pointed out that United States-Bolivian relations were at their highest level ever.

Gelbard's honeymoon, however, was short lived. On October 26, Umopar troops killed one person and injured several others in the town of Guayaramerín in the Beni. As was the case with another violent incident in Villa Tunari in June 1988, the left and the COB perceived Umopar's actions as the byproduct of a zealous and misguided antidrug policy. The presence of United States Drug Enforcement Administration (DEA) agents in Guayaramerín also renewed questions about the role of United States drug enforcement agents. As 1988 ended, controversy also surrounded the announcement that, under United States Army civic-action programs, United States technicians would help remodel and expand the airports in the cities of Potosí and Sucre (see *Foreign Military Assistance in the 1980s*, ch. 5).

United States support for the Bolivian government was expected to continue. In large measure, however, United States policy depended on the perception in the United States Congress of Bolivia's progress in controlling the drug trade. Operation Blast Furnace, the 1988 antinarcotics law, and the arrest of several drug lords demonstrated that Bolivia had become a loyal and useful partner in the United States war on drugs. Washington expected Bolivian cooperation to continue after the May 1989 elections.

## **The Soviet Union**

During the military populist governments of General Ovando and General Torres in the late 1960s, Bolivia initiated relations

with the Soviet Union and East European countries. The first formal exchange of ambassadors with the Soviet Union took place in 1969 and continued into the late 1980s. Political relations with the Soviet Union were strained somewhat during the first years of the Banzer regime, but they improved quickly when the Kremlin promised aid for the construction of huge metallurgical plants, such as La Palca and Karachipampa. A paradoxical situation thus developed as the Soviet Union established extremely good relations with the right-wing military government.

With the advent of democracy in the early 1980s, relations with the Soviet Union continued to improve. The UDP government established greater commercial ties, and political relations reached their highest level since 1969. But the situation deteriorated somewhat following the discovery of anomalies in the construction of the huge metallurgical complexes of the 1970s. La Palca and Karachipampa became useless white elephants, but the Bolivian government still owed for the cost of their construction. In 1985 Bolivia requested that the plants be made functional and that the Soviet Union take responsibility for their poor construction. One of the major points in contention was the use of obsolete technology that rendered the plants too expensive to operate. The Soviet Union refused to take responsibility for any defects in the construction of the plants. Simultaneously, the Soviet Union was quite stringent in applying conditions for the repayment of Bolivia's debt. Bolivia requested that its debt with the Soviet Union be renegotiated along the lines of Paris Club (see Glossary) agreements, but Moscow refused.

Cool relations with the Soviet Union were also attributed to Bolivia's continued refusal to grant landing rights to Aeroflot, the Soviet Union's national airline. Landing rights had been negotiated during the Siles Zuazo presidency. In 1985 the new Bolivian government had promised Moscow that Aeroflot would be allowed to land on Bolivian territory. In return, the Soviet Union agreed to grant 200 scholarships and 200 round-trip tickets for Bolivian students and US\$200 million in aid. Nonetheless, the conservative daily *El Diario* led a campaign to deny landing rights to Aeroflot, and other airlines, including United States-based Eastern Airlines, joined in this effort. A report from the military's National Security Council claiming that Soviet spies and arms, rather than travel agents, would be sent to La Paz served to shelve a decision on this issue.

### **The Third World**

Following the onset of democracy, Bolivia pursued a nonaligned foreign policy. In 1989 Bolivia held relations with every communist

nation, including Albania. Relations with China were established in 1985, and diplomatic relations with Taiwan suspended. In 1983 Bolivia had established relations with Cuba. Relations with Cuba improved steadily in the mid- to late 1980s. Cuba donated medical equipment to hospitals and supported Bolivia's quest for non-aligned status. Bolivian leaders, including the foreign minister, met with Fidel Castro Ruz and praised the achievements of the Cuban Revolution.

Bolivia's foreign policy strategy in the early part of the 1980s was labeled "independent neutrality," which was an external manifestation of domestic populism rooted in the 1952 Revolution. In fact, neutrality in foreign affairs was historically associated with populist regimes, such as those of the MNR (especially 1952-56) and Ovando and Torres (1969-71).

The guiding principle of independent neutrality was that diplomatic relations should be maintained with all nations of the world, regardless of political ideology. Respect for the principles of nonintervention and self-determination was a second underlying theme. Independent neutrality reflected a nonaligned thrust with deep roots in Bolivian history. The first Paz Estenssoro government (1952-56), for example, was the first to adopt a policy of neutrality that reflected the revolutionary reality of the country in the 1950s. Subsequently, General Ovando's government established relations with the Soviet Union, and in 1970 General Torres became the first Bolivian leader to attend a conference of the Nonaligned Movement.

The Siles Zuazo regime criticized several United States efforts in Latin America and the Caribbean. In 1981 the Nicaraguan delegation to the UN allowed Siles Zuazo's "government in exile" to denounce human rights violations in Bolivia by the García Meza-led junta that was in power in La Paz. After assuming the presidency, Siles Zuazo criticized the Nicaraguan opposition force, the *contras*, and spoke in favor of the Contadora process, the diplomatic effort initiated by Mexico, Venezuela, Colombia, and Panama in 1983 to achieve peace in Central America. In 1983 Bolivia voted with the majority in the UN to censure the joint United States-Caribbean intervention in Grenada. Siles Zuazo's government also joined a region-wide movement to reform the OAS.

Critics of the 1985-89 Paz Estenssoro administration contended that his more conservative domestic political agenda was reflected in Bolivia's foreign policy. In their view, foreign policy had become increasingly tied to the interests of the United States, affecting Bolivia's relations with other Latin American democracies. Critics pointed out that Bolivia had refused to participate in regional forums on the foreign debt issue since 1985, pursuing instead direct

negotiations with international banks. Additionally, they charged that Bolivia's lack of interest had excluded it from regional integration projects such as the Andean Common Market (Ancom, also known as the Andean Pact). Others pointed out that Bolivia limited its participation in regional organizations to persuading its Andean neighbors to eliminate the controversial Decision 24 from the Ancom charter that restricted foreign investment in the region.

The loss of autonomy in foreign policy, however, was not as obvious as critics claimed. The Bolivian government, in fact, had actively pursued regional ties; for example, it participated in Ancom's Cartagena Agreement and the Río de la Plata Basin commercial and development agreement, and it sponsored a meeting of the Amazonian Pact. In terms of economic integration, the Bolivian government stressed its participation in the Latin American Economic System (Sistema Económico Latinoamericano—SELA) and the Latin American Integration Association (Asociación Latinoamericana de Integración—ALADI).

A discernible change had occurred, however, with respect to Bolivia's policy toward the Central American conflict. In contrast to Siles Zuazo, Paz Estenssoro maintained a distance from the conflict, limiting himself to endorsing Costa Rican president Oscar Arias Sánchez's initiatives. Paz Estenssoro did not challenge the United States on this issue, which remained outside regional peace efforts, such as the Contadora support group. Most significantly, Bolivia was conspicuously absent from the Group of Eight Latin American democracies that demanded hemispheric autonomy, sought support for Cuba's return to the OAS, and put forth an agenda for reforming the OAS.

Bolivia continued to maintain good relations with the Nonaligned Movement in the late 1980s, although they were not as close as during the Siles Zuazo administration. According to Guillermo Bedregal Gutiérrez, Paz Estenssoro's foreign affairs and worship minister, relations were established with seventeen Nonaligned Movement nations, including Ethiopia, Mozambique, and Vietnam. In addition, the Paz Estenssoro regime pointed out that Bolivia occupied the vice presidency of the movement's Ministerial Conference in 1986 and had been actively involved in the organization of the Ministerial Conference for 1988.

### **Neighboring Countries**

Bolivia's major foreign policy position in the twentieth century concerned its demands for a Pacific Ocean coastline on territory lost to Chile during the War of the Pacific (1879–83). In the early