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Luis Carlos Jemio M.  
Fernando Candia C.  
José Luis Evia V.

Inter-American Development Bank

Department of Research and Chief Economist

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## Abstract<sup>1</sup>

This paper analyzes reforms and counter-reforms in Bolivia in recent decades and their effects on the policymaking process (PMP) and productivity. Bolivia's PMP has shifted from a formal representative democracy to a "participative and direct type of democracy" where street protest and other non-conventional forms of political participation have become dominant. While reforms have increased productivity, they have failed to secure the political support necessary to assure long-term sustainability. In contrast, counter-reforms have so far enjoyed extensive political support, but productivity has stagnated since this process started, with declining economic growth and job creation—developments likely to undermine support for the counter-reform process. The document stresses the need to rebuild a consensus around a PMP capable of increasing productivity and employment creation while restoring social cohesion.

**JEL Classification:** A10, E61, E65, O21, O47, O54

**Key words:** Bolivia, Productivity, Policy Making Process, Reform, Counter-Reform

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## **1. Background and Introduction**

Towards the end of the 1970s and beginning of the 1980s, Bolivia experienced a period of deep economic and political crisis resulting from international economic shocks at the time and from the large levels of foreign indebtedness the country had acquired during the 1970s. The crisis was characterized by hyperinflation, continuous drops in GDP, economic uncertainty and political volatility.

After a change of government in 1985, Bolivia embarked on a comprehensive program of structural reforms aimed at stabilizing the economy and at removing structural constraints on faster economic growth and increases in productivity. Over a period of approximately 20 years, reforms included notable measures such as the following: i) opening the economy to foreign trade; ii) price, exchange rate and interest rate liberalizations; iii) fiscal adjustments; iv) central bank independence; v) establishment of a financial regulation and supervision system; vi) capitalization and privatization of public enterprises; vii) pension reforms; viii) decentralization of the public administration; and ix) strengthening key public institutions such as the internal revenue and customs offices and the national road administration.

This reform process was aimed at improving the overall functioning of the economy, particularly through improving efficiency in various sectors. The political framework at the time was favorable for implementing such policies. Bolivia had returned to democracy in 1982, and political parties and Congress played a fundamental role in the policymaking process (PMP). Political pacts became paramount in order to guarantee governance and thus ensure that successive administrations would be able to implement the reform program.

The reform process produced some positive effects, such as the consolidation of macroeconomic stability, strengthening of key economic and political institutions, large investment flows from abroad to key sectors of the economy, and the discovery of sizable natural gas reserves, which greatly improved the country's prospects of attaining faster growth and development.

At the end of the 1990s, however, a combination of factors arose that increased opposition to the reforms; they included the international financial crisis which hit the country at the time and a widespread perception that the reform program was not benefiting the poorest segments of society. This opposition, which took diverse forms including road blockades and violent protests, became increasingly important in the PMP and forced the government and

Congress to change several policies, generally reversing aspects of the reforms implemented during the 1990s. The subsequent rise to power of the Movimiento al Socialismo (MAS) continued the reversal of reforms.

Motivated by these developments, this paper analyzes the process of reforms and counter-reforms witnessed in Bolivia over the last two and a half decades and the effects these processes have had on productivity. The paper additionally discusses the changing nature of the policymaking processes underlying the reform and counter-reform processes in terms of the actors who participated in the PMP, policy domains and arenas where the PMP was shaped, and the currencies used by different actors in order to press for their demands. Moreover, the paper examines the causes of change in public support for the reform process.

The structure of the paper is as follows. Section 2 discusses the trends of overall and sectoral productivity in Bolivia, emphasizing changes brought about by the reform process. The results are analyzed both at the sectoral and regional levels. Section 3 describes and analyzes the PMP over time, highlighting the changing nature of this process, particularly dynamic changes in terms of actors, arenas, mechanisms/currencies and policy domains. Section 4 identifies the determinants of political support for the reform process over time, and the significance of some of these factors is tested econometrically. Section 5 sets forth some of the lessons learned from this study, which could help to devise a more inclusive and sustainable PMP in the future. Finally, Section 6 offers some concluding remarks.

## **2. Reforms, Counter-Reforms and Productivity Performance in Bolivia**

### ***2.1 Key Macroeconomic Events***

At the beginning of the 1980s, due to the international economic crisis, Bolivia witnessed the collapse of the state-led development model, which had been in place since the 1952 national revolution. The crisis was characterized by a significant and continuous drop in per capita GDP, hyperinflation, large fiscal and external imbalances, high rates of unemployment, low rates of investment and continuous contractions in labor productivity (Table 1).

**Table 1. Selected Macroeconomic Indicators, Annual Average**

	1981-1985	1986-1990	1991-1995	1996-2000	2001-2005	2006-2007
GDP growth (% change)	-2.35	1.81	4.20	3.89	2.53	4.82
Per capita GDP growth rate (% rate)	-4.57	-0.51	1.82	1.44	0.26	2.66
Inflation rate (% change)	732.73	25.15	11.06	5.11	3.36	8.28
Devaluation rate (% rate)	678.44	35.81	8.70	5.19	5.48	-1.29
Current account balance (% of GDP)	-8.27	-3.4	-4.8	-6.2	0.7	12.4
Fiscal balance (% of GDP)	-15.96	-5.3	-3.9	-3.5	-6.3	3.1
Investment rate (% of GDP)	14.67	12.6	15.6	19.1	13.4	15.2
FDI flows (million US\$)	26.06	36.1	167.1	740.1	272.8	239.0
Open unemployment rate (% of labor force)	13.51	15.06	4.84	5.49	7.54	7.83
Productivity growth rate (% change)	-4.00	-0.94	0.97	2.50	-0.65	0.06

*Source:* Central Bank of Bolivia, National Institute of Statistics (INE), Unidad de Programación Fiscal (UPF).

### *2.1.1 First-Generation Reforms*

This critical situation led the newly-elected government of President Paz Estenssoro to undertake a wide-ranging set of policies aimed not only at stabilizing the economy, but also at laying the foundations for a new development model based on private initiative and market forces as the main mechanisms for allocating resources within the economy. The policy package, known as the New Economic Policy (NEP), consisted of fiscal adjustment, tax reform, a devaluation of the official exchange rate aimed at unifying the foreign exchange market, price liberalization of public goods and services, international trade liberalization, and widespread interest rate and financial liberalizations.

The NEP was successful in stabilizing the economy. Inflation was reduced significantly in the second half of the 1980s and stayed low throughout the 1990s. Fiscal and external disequilibria were significantly reduced, and growth was restored, albeit at a moderate rate. The open unemployment rate was also reduced, due to the large creation of informal low-paid employment in the informal sector.

### *2.1.2 Second-Generation Reforms*

Despite the positive effects of the NEP, higher growth rates continued to be elusive, due in part to extremely low investment rates. Investment rates had partially recovered from the extremely low levels of the economic crisis but on average represented less than 15 percent of GDP

during the first half of the 1990s. To overcome the low investment-low growth trap, starting in 1993 the government of Gonzalo Sánchez de Lozada carried out a profound process of structural reforms aimed at improving the overall efficiency of the Bolivian State and thus removing the bottlenecks constraining growth and development. The reform process comprised a wide-ranging set of policies including the partial privatization of the main state enterprises (capitalization reform), pension reform, decentralization of public administration through popular participation and decentralization reforms, education and land reforms, central bank independence, strengthening of key public institutions (such as the internal revenue and customs offices), civil service programs, and regulatory and supervisory frameworks for the financial and non-financial sectors.

These economic reforms were accompanied by social policies aimed at alleviating and reducing poverty and improving income distribution. Among the most important social reforms were the following:

- The Bonosol, a universal for-life, non-contributive pension scheme, paid to all Bolivians over 65 years of age, amounting to US\$248 per year. The Bonosol was financed with the resources obtained from the capitalization process and constituted the social dimension of that process.
- National health insurance for mother and child, providing free medical attention to pregnant women until childbirth, and for children until they reached the age of five, covering diarrheic and respiratory illnesses.
- Health insurance for the elderly, providing free medical attention to senior citizens over 65 years of age;
- The decentralization law (Participación Popular), mentioned above, assigned 20 percent of all national revenues to municipalities to be spent mainly on education and health infrastructure. The distribution of these resources among municipalities is made on a per capita basis. The Participación Popular allocated resources to municipalities which had previously been neglected, avoiding the discretionary allocation of public resources on a geographic basis and thus ending the social patronage that had prevailed until then.

In the political sphere, amongst other efforts to improve the political representation of the population were: i) the introduction of 62 “uninominal” districts in which deputies were elected by direct vote. The remaining 68 deputies remained elected from a list which accompanied the Presidential candidate (“pluri-nominal”); ii) The electoral law was also modified, creating a public financing scheme for political parties, and establishing a mandatory quota for women in the list of candidates for deputies and senators.

In the Judicial System, efforts were made in order to increase the rule of law, by the establishment of a Constitutional Control Court, to keep watch at the constitutionality of laws, decrees and any non-judicial resolutions, among others; and by the creation of a judiciary council as an administrative and disciplinary body for the judicial system; and the establishment of the institution of the Ombudsman (“Defensor del Pueblo”).

### *2.1.3 The Capitalization Reform*

Amongst the many reforms implemented during the reform period aimed at increasing productivity, perhaps, the most emblematic was the capitalization of the largest public enterprises. The overall diagnostic of the Bolivian public enterprises before the reform process was that they were greatly undercapitalized, over-indebted, and technologically backward. Thus, the reform process placed great emphasis on creating the legal and institutional conditions which would maximize investment flows and technology transfer to these sectors. The capitalization reform was a two-pronged reform, comprising: i) the creation of a new institutional and regulatory framework for the functioning of each of the sectors where capitalized public enterprises operated, and ii) the partial privatization of the largest public enterprises through the issue of new shares to be bought by strategic investors.

The capitalization reform was successful in bringing about large increases in investment flows, not only to the capitalized sectors previously in the hands of the State, but also to other sectors of the economy, especially in the form of foreign direct investment (FDI). The largest FDI flows went to the hydrocarbons, telecommunications, electricity and financial services, and to a lesser extent to the agroindustrial sectors. Moreover, the strategic partners who invested in the capitalized sectors, not only through the capitalized public enterprises but also as separate investments encouraged by the new institutional environment, were large transnational corporations, with great financial capabilities and sectoral experience worldwide. This was an

intended policy, because large transnational companies, unlike domestic ones, had the capacity to bring large capital investment flows into the economy and produce transfers of the latest technology into these sectors.

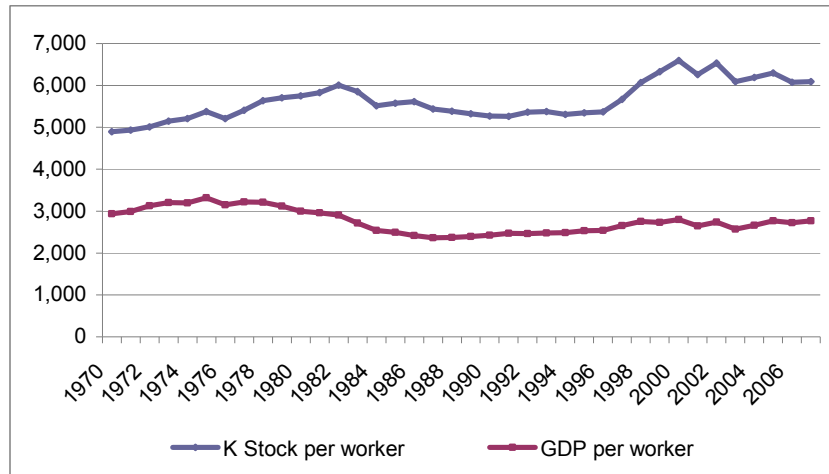
However, the capitalization process, although successful in bringing about large increases in investment inflows, which was the intended objective, overlooked some elements which eventually jeopardized the long-term sustainability of the reform. Eventually, the negative perception of the reforms by large segments of the population, coupled with the international crisis at the end of the 1990s and at the beginning second millennium, resulted in widespread support for leaders who advocated the reversal of the market-oriented reform program.

From 2001 onwards, the country witnessed a succession of policy measures which reversed the reforms, including the withdrawal of public service concessions, nationalization of capitalized enterprises, and restrictions imposed on the functioning of the labor market. These measures tended to have significant political returns in the short run, but they have also brought about a significant drop in investment inflows, which eventually are expected to bring about productivity losses in the long run.

## ***2.2 Productivity Performance over Time***

In the long run, productivity in Bolivia has remained low and stagnant. Figure 1 shows time series for the physical capital stock per worker (capital deepening) and labor productivity (GDP per worker) for the period 1970-2006. As can be observed, the very low levels of fixed capital formation the country exhibited over time have resulted in low and stagnant levels of physical capital per worker, which over this long period averaged US\$5,700 in constant 2007 values, and fluctuated within a relatively narrow range. Investment levels were barely sufficient to replace the depreciation of existing capital and to supply with capital to new entrants into the labor market, but did not permit any increase in the physical capital per worker ratio. As a result, labor productivity has remained largely stagnant over time, averaging US\$2,800 in constant 2007 values. Therefore, economic growth has been exclusively the result of factor accumulation, and the contribution of Total Factor Productivity (TFP) growth to GDP growth has been almost negligible.

**Figure 1. Capital Deepening and Labor Productivity  
(Constant 2007 U.S. Dollars)**

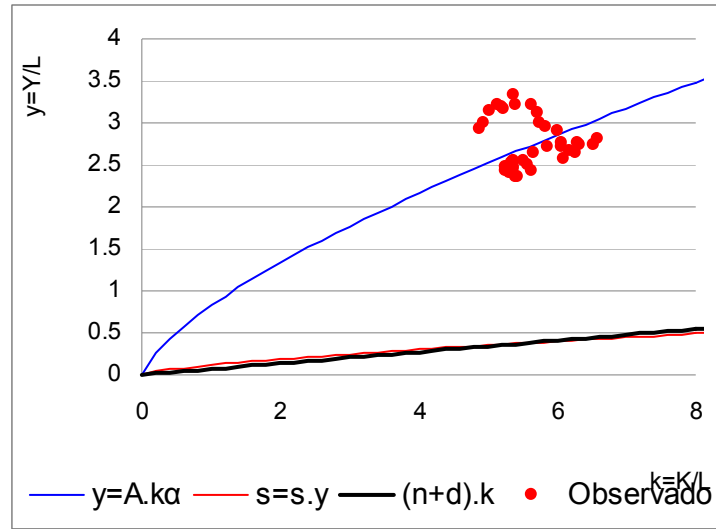


Source: National Institute of Statistics (INE).

Figure 2 shows a long-term production function for the Bolivian economy, which plots the physical capital stock per worker ( $k$ ) and total output per worker ( $y$ ). The figure shows that Bolivia's long term steady-state growth has remained almost invariable over the last 36 years. To produce a significant increase in the long-term steady-state growth path, the Bolivian economy needs to increase its investment rate significantly and permanently as well as generate permanent productivity gains by increasing its TFP.

Productivity behavior is closely linked to the performance of investment over time. Historically, the Bolivian economy has exhibited very low investment rates, due to various factors, such as low savings rates, foreign exchange constraints, an unstable and unfavorable investment environment (all due to political uncertainty) and an inadequate institutional environment. Low investment rates have been a crucial factor in explaining low productivity growth. Investment rates on average amounted to 13.9 percent of GDP for the period 1970-2007 (see Figure 3). Investment has only sporadically exceeded 15 percent of GDP and only in one year (1998) did investment exceed 20 percent of GDP. At these low rates, the economy could barely replace the depreciated capital and supply new entrants to the labor force with physical capital, but it could not increase the capital endowment per worker.

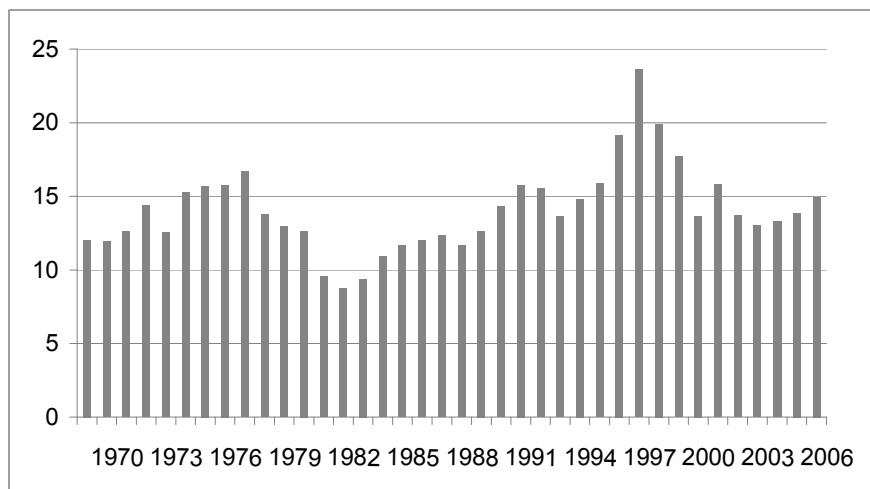
**Figure 2. Long-Term Production Function  
(Constant 2007 U.S. Dollars)**



Source: Authors' estimates based on National Accounts data published by the National Institute of Statistics (INE).

During the economic crisis at the beginning of the 1980s, investment rates fell from 16.7 percent of GDP in 1978 to 9.4 percent in 1984. The economic crisis imposed several constraints on investment, ranging from foreign exchange shortages to the deterioration of the investment climate.

**Figure 3. Investment Rate for the Bolivian Economy  
(Percentage of GDP)**



Source: Central Bank of Bolivia, National Institute of Statistics (INE), Unidad de Programación Fiscal (UPF).

After the stabilization program was implemented in 1985, investment rates partially recovered, rising to 15.8 percent of GDP in 1993 due to the improved macroeconomic and investment climate. However, investment rates stood at levels that were completely insufficient to attain rapid growth in the long run.

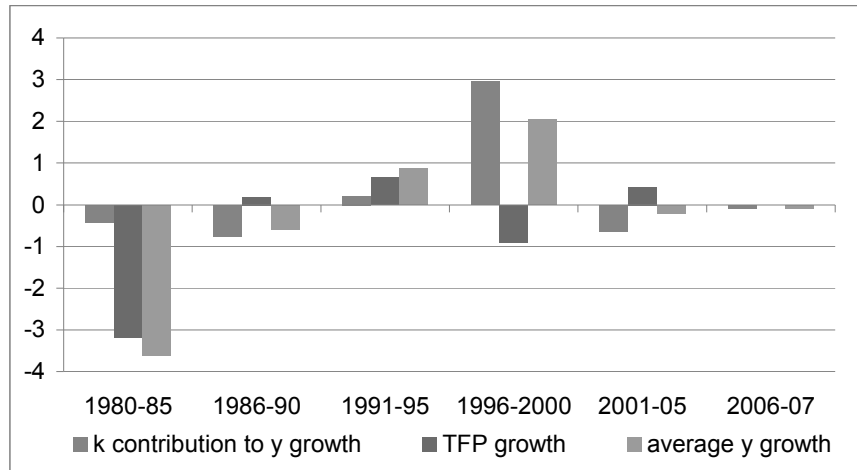
The implementation of the second-generation structural reforms placed much greater emphasis on increasing private investment, especially to foreign investment. The latter was expected to bring about not only a large increase in investment inflows, but also to produce a significant jump in the technological endowment of key sectors of the economy, such as hydrocarbons, telecommunications, electric energy, and transportation. As a result of the reforms, the overall investment rate rose to 23.6 percent of GDP in 1998.

Finally, during the reform reversal period, the investment rate plummeted to 13.3 percent of GDP in 2005 due to the economic crisis and the sharp deterioration of the investment climate. In 2007, the investment rate rose to 15 percent of GDP, but this change resulted mainly from increased public investment, whose impact on productivity is unclear. On the other hand, both domestic and foreign private investment remained largely stagnant due to political volatility and the nationalization policies undertaken by the government of Evo Morales.

### *2.2.1 Growth Accounting of Productivity*

The investment patterns discussed in the previous section have had an important impact on productivity behavior. Based on standard growth accounting analysis, Figure 4 shows that during the economic crisis at the beginning of the 1980s, labor productivity decreased at an average annual rate of 3.6 percent, mainly due to a sharp drop in TFP, which decreased at an average yearly rate of 3.2 percent. The contribution of capital stock per worker to productivity growth was small despite the decrease in the investment rate, as increased unemployment shrank the number of people participating in the labor force.

**Figure 4. Contribution to Growth of TFP and Capital Accumulation  
(Average percent changes)**



*Source:* Authors' estimates based on National Accounts data published by the National Institute of Statistics (INE).

After the stabilization program was implemented in 1985, productivity growth went down, but at a much slower pace (-0.57 percent on average between 1985 and 1990). There was a small upturn in TFP (0.7 percent annual growth on average), after the significant drop experienced at the beginning of the decade. However, the negative growth rate in capital per worker reduced labor productivity by an average yearly rate of 1.28 percent. Despite the increased investment rates, capital endowment per worker declined due to increasing participation in the labor force as unemployment declined.

During the first half of the 1990s, labor productivity grew at an average rate of 0.88 percent, basically due to the raise in TFP, which went up at an average annual rate of 1.16 percent. During that period, the capital per worker ratio went down, decreasing productivity growth by 0.28 percent annually, as a result of relatively low investment rates and lower unemployment.

In the second half of the 1990s, productivity increased at its fastest rate, 2.07 percent per year. The bulk of this increase is explained by the higher rates of capital endowment per worker. The capital per worker ratio went up by an average yearly rate of 2.65 percent during this period, due to the positive effects of the structural reforms on FDI inflows. TFP, on the other hand, presented negative growth rates of 0.58 percent per year on average.

In the first half of the 2000s, productivity growth became negative again, because the economic crisis slowed down GDP growth and generated substantial excess capacity, decreasing

productivity at a yearly average rate of 0.1 percent between 2000 and 2005. The drop in the investment rate, resulting from the economic and political crisis Bolivia experienced during this period, resulted in a negative incidence of capital per worker to productivity growth by an average annual rate of 0.44 percent. TFP presented a small growth rate of 0.35 percent a year on average.

This trend continued through 2007. Labor productivity dropped at an average growth rate of 0.08 percent per year, despite the recovery in GDP growth observed between 2006 and 2007. The absorption of previously unemployed workers into the active work force explains the low productivity growth rate. On the other hand, low rates resulted in a negative contribution of capital per worker to productivity growth of 1.61 percent per year on average. TFP increased at an annual growth rate of 1.54 percent, mirroring the positive lagged effects on productivity of investment flows of the late 1990s and early 2000s.

### ***2.3 Sectoral and Regional Productivity Performance***

This section discusses the sectoral and regional impacts of the reforms. Data on direct foreign investment by sector, sectoral labor productivity, real wages, labor distribution across sectors, and GDP share by sector are used to perform the analysis. The aim is to analyze the impact of the reform process on the functioning of reformed and non-reformed sectors, on sectoral productivity and on inequality gaps.

A similar discussion is carried out at the regional level. The effects of the reforms on regional GDP growth and per capita incomes are analyzed. To this end, data on regional per capita GDP, poverty incidence, GDP growth, and resource transfers to regions are presented.

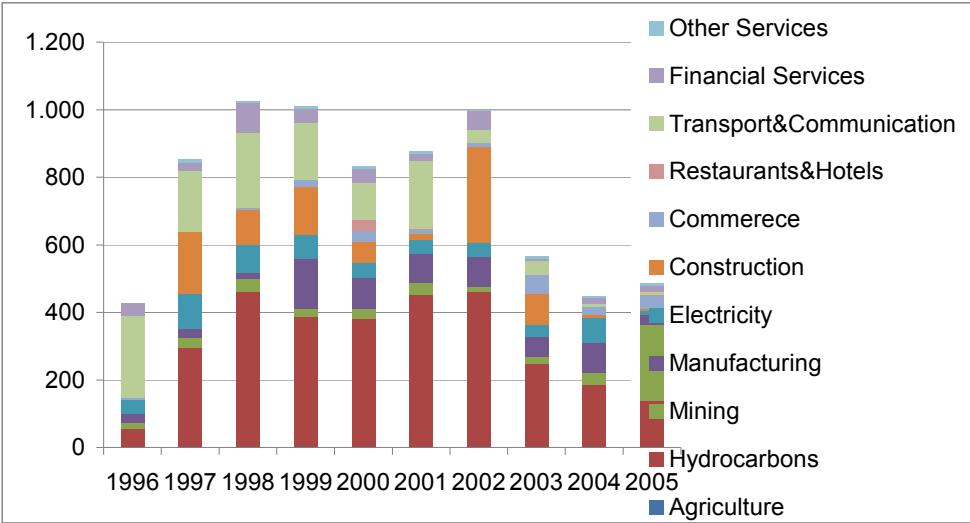
#### ***2.3.1 Sectoral Impacts of the Reforms***

Some of the reforms implemented in the 1990s, and especially the capitalization of public enterprises, sought to create an investment shock in key sectors of the economy by obtaining companies' commitment to increase investment flows in the capitalized firms. However, the capitalization and other reforms favored and promoted increases in foreign investment flows to non-labor intensive sectors (namely, hydrocarbons, energy, telecommunications and financial services). Between 1996 and 2003, FDI flows to capital-intensive sectors amounted to US\$621 million per year, on average. FDI flows to extractive activities, especially hydrocarbons, amounted to US\$368.3 million per year on average. Between 1996 and 2004, GDP in the

hydrocarbon sector almost doubled, increasing at an average annual rate of 8.5 percent during that period. Other sectors benefiting from substantial FDI were transportation and communications, which received average annual flows of US\$150.6 million. FDI flows to the electricity, gas and water sectors amounted to US\$57.7 million per year, on average. Finally, the banking sector received FDI flows of about US\$39.7 million per year. As shown in Figure 5 and Table 2, large FDI flows brought about sharp labor productivity increases in these sectors.

Conversely, the reform program did not place equal attention on labor-intensive sectors. These sectors, which employ 90 percent of the total labor force, lagged behind non-labor intensive sectors in terms of GDP growth, productivity and real incomes. As a result, large disparities in labor productivity developed among labor and non-labor intensive sectors in terms of productivity and incomes received by workers.

**Figure 5. FDI Flows by Sector (Million US\$)**



Source: National Institute of Statistics (INE).

In 2003, productivity in labor-intensive sectors was only 12 percent of that exhibited in capital-intensive sectors. Labor productivity was extremely low in construction and agriculture. On the other hand, manufacturing presented the highest productivity levels among labor-intensive activities. In terms of real incomes, between 1996 and 2003, workers engaged in labor-intensive sectors earned, on average, an equivalent of 32 percent of the amount earned by workers in non-labor intensive sectors. Agricultural workers received the lowest income levels,

while workers engaged in construction activities benefited from the highest income among labor-intensive sectors.

**Table 2. Reforms and Productivity Differences across Sectors**

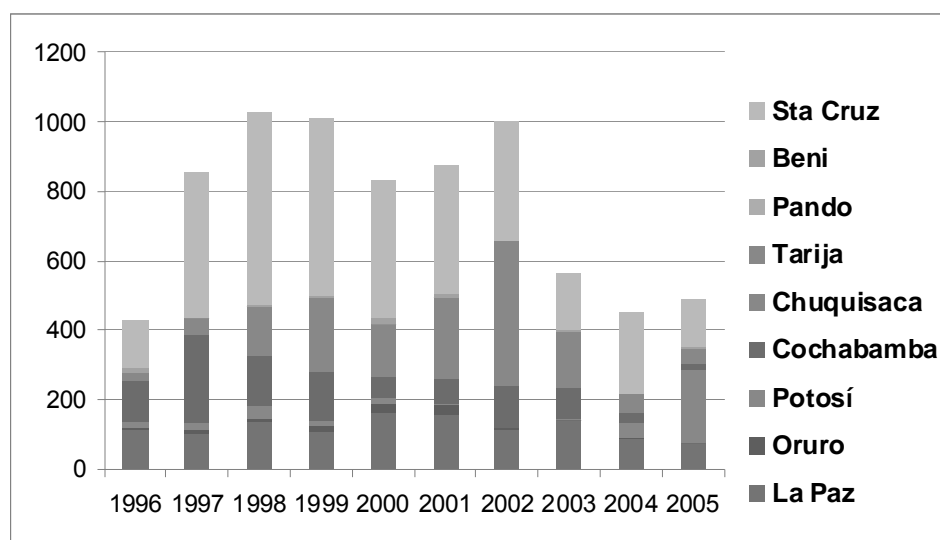
Sectors	Labor Intensity (workers per unit of Output)	Share in Total Employment (%)	Share in Total GDP (%)	Labor Productivity (Output per Worker)	Average Monthly Income (Bs. 1991)	Average FDI Flows 1996-2007 (million US\$)
<b>Labor-intensive sectors</b>	<b>299.1</b>	<b>88.3</b>	<b>53.2</b>	<b>3.3</b>	<b>282</b>	<b>174.5</b>
Construction	322.4	5.9	3.4	3.3	520	76.1
Agriculture, forestry and fishery	475.5	40.7	15.4	2.1	134	0.5
Community, social and personal services	458.2	12.0	4.7	2.2	507	0.0
Commerce	306.1	15.0	8.8	3.3	425	27.2
Restaurant and hotel	224.9	4.1	3.2	4.5	386	2.9
Manufacturing industry	109.6	10.7	17.6	9.2	409	67.9
<b>Non-labor intensive sectors</b>	<b>44.9</b>	<b>11.7</b>	<b>46.8</b>	<b>22.6</b>	<b>856</b>	<b>563.0</b>
Transport, storage and communication	77.6	4.9	11.4	13.0	692	115.4
Business services	44.9	2.3	9.4	23.8	900	5.4
Public Administration	42.7	2.3	9.6	24.2	974	0.0
Electricity, gas and water	26.4	0.3	2.1	40.2	1,186	47.2
Financial services	23.1	0.5	3.8	45.9	1,554	30.9
Mining and hydrocarbons	23.1	1.3	10.4	47.7	938	364.1
<b>Total</b>	<b>180.2</b>	<b>100.0</b>	<b>100.0</b>	<b>5.6</b>	<b>384</b>	<b>737.5</b>

*Source:* Authors' estimates based on National Accounts data and Household Surveys published by the National Institute of Statistics (INE)

### 2.3.2 Regional Impacts of the Reforms

The reform policies implemented during the 1990s were not regionally biased in principle. However, the reforms were supported or opposed more in some regions than in others. It is additionally possible that reform outcomes eventually benefitted some regions more than others, reinforcing different regions' positive or negative perceptions of the reform process. For instance, FDI arising from the capitalization reform poured more intensely into regions located in the eastern lowlands, which had historically favored a free-market model. The opposite seemed to occur in the western highlands, where there is a much greater incidence of public sector activities and employment.

**Figure 6. FDI Flows by Region (Million US\$)**



Source: National Institute of Statistics (INE).

As can be seen in Figure 6 and Table 3, FDI flows resulting from the capitalization process and the sectoral reforms, arrived in larger quantities to regions in the eastern lowlands (US\$459 million a year on average between 1996 and 2005), such as Santa Cruz and Tarija. The regions in the western highlands also received FDI flows but in relatively smaller quantities (US\$293 million per year on average).

**Table 3. Reforms and Productivity Differences across Regions**

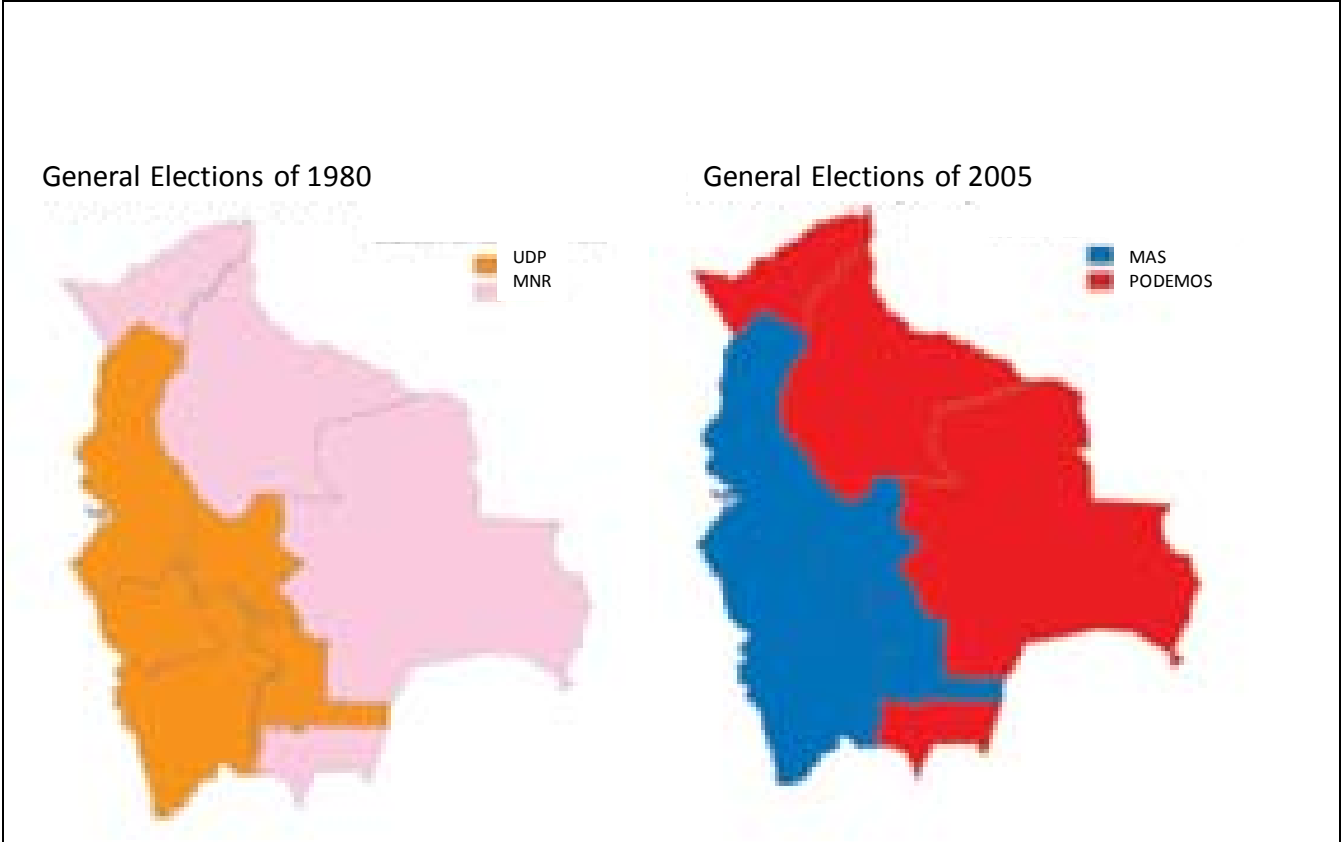
	Share in Total Population (%)	Share in Total GDP (%)	Per capita GDP (US\$)	GDP growth 1990-2006	Poverty Incidence %	Average FDI (million US\$)	Copart.+HIPC (million US\$)
Chuquisaca	6.4%	4.5%	809.2	1.43	70.1%	21.9	0.0
La Paz	28.4%	24.0%	996.9	2.63	66.2%	118.7	0.0
Cochabamba	17.6%	16.1%	1,043.4	3.26	55.0%	103.8	0.0
Oruro	4.7%	4.8%	1,213.9	2.89	67.8%	11.7	0.0
Potosí	8.6%	5.0%	711.1	2.28	79.7%	37.2	0.0
Average Highlands	65.7%	54.3%	954.89	2.50	67.8%	293.2	0.0
Tarija	4.7%	12.9%	3,033.2	8.29	50.8%	127.2	0.0
Santa Cruz	24.5%	28.9%	1,300.5	4.30	38.0%	325.7	0.0
Beni	4.4%	3.0%	814.3	2.73	76.0%	6.5	0.0
Pando	0.6%	0.9%	1,365.9	4.90	72.4%	0.4	0.0
Average Lowlands	34.3%	45.7%	1,628.48	5.06	59.3%	459.9	0.0
<b>BOLIVIA</b>	<b>100.0%</b>	<b>100.0%</b>	<b>1,152.5</b>	<b>3.59</b>	<b>58.5%</b>	<b>753.0</b>	<b>0.0</b>

Source: Authors' estimates based on National Accounts data, Household Surveys published by the National Institute of Statistics (INE), and Fiscal Balance data published by the Unidad de Programación Fiscal (UPF).

The fact that regions in the eastern lowlands had favored market-oriented policies is also linked to other socio-economic indicators which can help to explain why certain regions

tended to oppose or favor market-oriented reforms. For instance, regions in the eastern lowlands have a per capita GDP that is on average 70 percent higher, on average, than those in the western highlands. The GDP average growth rate during the 1990-2006 period for regions located in the eastern lowlands doubled the rates observed in western highlands. The incidence of poverty is also higher in the western regions (67.8 percent) than in the eastern regions (59.3 percent).

**Figure 7. Political Support by Regions**



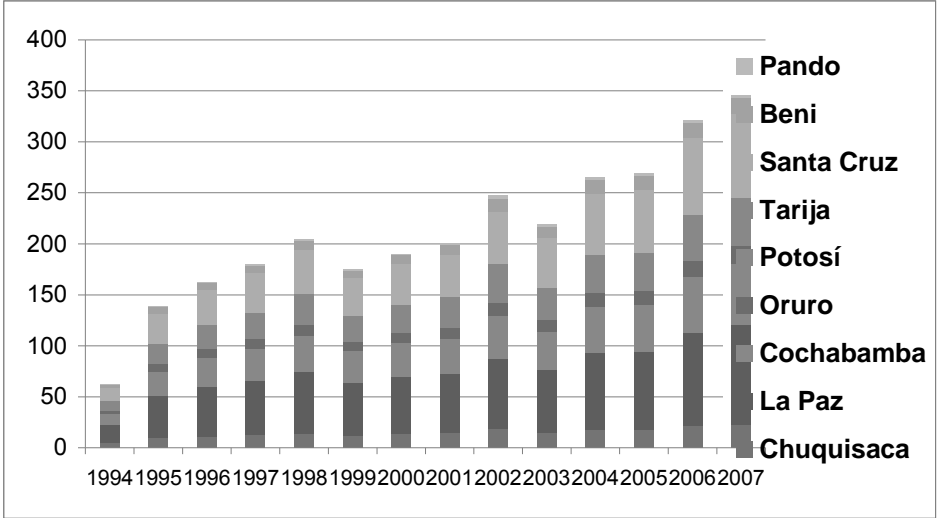
Source: Corte Nacional Electoral (CNE).

These indicators show that regional socio-economic imbalances in Bolivia could help to explain regional differences in political support for market-oriented reforms. The much wealthier eastern lowlands have tended to support political parties identified with market-oriented reforms, while the opposite tends to occur in the much poorer western highlands. Figure 7 shows that these political preferences have remained unchanged over time. In the 1980 elections, the left-wing party UDP, which favored a state-led economy, obtained a

majority of votes in the western regions, while the center-right-wing party MNR, which pioneered the reform process, won in the eastern regions. This pattern can also be observed in the 2005 general elections, when the left-wing party MAS won in the western highlands, while the right-wing party PODEMOS won in the eastern lowlands regions.

Although the reform process placed great emphasis on policies aimed at enhancing productivity, policies also focused on distributive objectives. The Popular Participation Reform, for instance, transferred 20 percent of total national tax revenues to municipalities across the country, amounting to about US\$190 million, on average, during the period from 1994 to 2007 (Figure 8). Starting in 2001, transfers to municipalities were increased within the HIPC debt-relief initiative by US\$45.7 million per year on average for the period 2001-2007.

**Figure 8. Resource Transfers to Municipalities through Popular Participation Reform and HIPC II Initiative (US\$ Million)**



Source: Unidad de Programación Fiscal (UPF).

As can be observed in Table 3, regions in the western part of the country received larger amount of resources than regions in the eastern part. This shows that although the reform process also included policies aimed at attaining a more equal distribution of resources among regions, they were insufficient to change regional support for the reforms.

### **3. Policymaking Process**

This section analyzes the dynamic nature of the PMP in Bolivia over the period studied. Annex A describes the main actors in the PMP, the arenas where the PMP was shaped, and the currencies used by actors to press for their socio-economic demands. In this section, all these elements and concepts are combined in order to portray the dynamics of the Bolivian PMP.

Politics has played an extremely important role in shaping the PMP in Bolivia and consequently its economic behavior. The PMP, however, has experienced significant changes over time, in terms of the socio-economic and political players involved, the arenas where the PMP process took place and the various currencies used by the different players, as well as their policy objectives. During the 1980s and 1990s, traditional political parties played the most important role in the PMP. During the 2000s, however, economic policy has been, to a great extent, the result of social and political pressures that have had a significant impact on productivity. The following sections explain the dynamic of the PMP in Bolivia over the past 25 years. The PMP matrix, which outlines the PMP's flux over time, is presented in Annex B.

As discussed previously, in order to capture the changes occurred in the PMP over time, and the factors underlying these changes, the discussion on the PMP process will be divided into three periods characterized by essentially different traits: the reform process, reform fatigue and reform-reversal periods.

#### ***3.1 PMP during the Reform Process***

After the return of democracy in 1982, the Legislative branch played a paramount role in Bolivia's PMP. In the first half of the 1980s, Bolivia suffered a profound economic crisis characterized by continuous reductions in GDP and hyperinflation. The government of President Siles Suazo (1982-1985) lacked the political support in Congress required to implement a coherent economic program. His ruling left-wing party, Unidad Democrática Popular (UDP) only controlled 36.3 percent of seats in Congress, while opposition parties controlled the remaining 63.7 percent (Table 4). In 1985, President Siles Suazo realized that he was unable to cope with the economic, social and political crisis and decided to shorten his mandate, calling for early general elections one year ahead of the constitutional end of his mandate.

**Table 4. Congressional Composition during the Reform Process  
(Number and percentage of Congress members)**

	1980-85			1985-89			1989-93			1993-97			1997-02			2002-05			2005-			
	Parties	MPs	%	Partie	MPs	%	Partie	MPs	%	Partie	MPs	%	Partie	MPs	%	Partie	MPs	%	Parties	MPs	%	
Government	UDP	57	36,3%	MNR	59	37,6%	ADN	46	29,3%	MNR	69	43,9%	ADN	44	28,0%	MNR	46	29,3%	MAS	84	53,5%	
				ADN	51	32,5%	MIR	41	26,1%	UCS	21	13,4%	MIR	31	19,7%	MIR	31	19,7%				
							Conde	11	7,0%	MBL	7	4,5%	UCS	23	14,6%	NFR	27	17,2%				
													Conde	20	12,7%	UCS	5	3,2%				
Total Congress Control		57	36,3%		110	70,1%		98	62,4%		97	61,8%		118	75,2%		109	69,4%		84	53,5%	
Oposition	MNR	44	28,0%	MIR	16	10,2%	MNR	49	31,2%	AP	43	27,4%	MNR	31	19,7%	MAS	35	22,3%	Podem	56	35,7%	
	ADN	30	19,1%	MNRI	8	5,1%	IU	10	6,4%	Conde	14	8,9%	IU	4	2,5%	MIP	7	4,5%	MNR	8	5,1%	
	PS-1	11	7,0%	VR-9A	6	3,8%				ARBOI	1	0,6%	MBL	4	2,5%	ADN	5	3,2%	UN	9	5,7%	
	PDC	5	3,2%	PS-1	5	3,2%				EJE	1	0,6%			PS	1	0,6%					
	FSB	3	1,9%	IU	4	2,5%				VSB	1	0,6%										
	PRA	3	1,9%	PDC	3	1,9%																
	MNR-U	2	1,3%	FSB	3	1,9%																
	MITKA	1	0,6%	MRTK	2	1,3%																
	MITKA-1	1	0,6%																			
Total Congress Control		100	63,7%		47	29,9%		59	37,6%		60	38,2%		39	24,8%		48	30,6%		73	46,5%	
Total Congress		157	100,0%		157	100,0%		157	100,0%		157	100,0%		157	100,0%		157	100,0%		157	100,0%	
First Two Parties			64,3%			70,1%			60,5%			71,3%			47,8%			51,6%			89,2%	
<b>Government Coalition</b>																						
Congressional Control		57	36,3%		110	70,1%		98	62,4%		97	61,8%		118	75,2%		109	69,4%		84	53,5%	
Upper Chamber		10	37,0%		26	96,3%		18	66,7%		18	66,7%		22	81,5%		17	63,0%		12	44,4%	
Lower Chamber		47	36,2%		84	64,6%		80	61,5%		79	60,8%		96	73,8%		92	70,8%		72	55,4%	
Number of Parties			1			2			3			3			4			4			1	

Source: Authors' estimates based on data published by the Corte Nacional Electoral (CNE).

After the Presidential and Congressional elections of 1985, the newly elected government of President Paz Estenssoro had the urgent task of ending the economic crisis and stabilizing the economy. For this purpose, the new administration unveiled an economic package consisting of a wide range of reforms aimed not only at stabilizing the economy, but also at laying the foundations of a new development model based on private initiative and the market as the main mechanisms for allocating resources within the economy.

One fundamental lesson the new administration had learned from its predecessors was that, in order to conduct a coherent economic program, the government needed a strong political party coalition. This would permit the government to control an essential majority of Congress members, both in the Upper and Lower Chambers, in order to pass the laws required to implement its policies. Thus, the government of the Movimiento Nacionalista Revolucionario (MNR) formed a coalition with the right-wing Acción Democrática Nacionalista (ADN), named as “Pacto por la Democracia” (Pact for Democracy). This alliance controlled 70.1 percent of seats in Congress and provided the essential majority required to implement a successful stabilization program that would lower inflation, restore macroeconomic equilibrium and reestablish economic growth.

Given the administration’s urgent need to address the economic crisis, the stabilization policies were put into effect by means of a Supreme Decree (SD 21060), which did not require Congressional approval. The stabilization program was based on widespread budget cuts, a freeze of public servants’ salaries, price liberalization of public goods and services, including fuels, and a rationalization of public employment. Despite its austerity, the NEP was eventually accepted by the population due to strong demand for economic stability.

The strategy of forming coalitions in order to guarantee governance was also followed during the next administration of President Paz Zamora, who in spite of placing third in national elections became President and remained in power between 1989 and 1993 thanks to an agreement with ADN, the second-place party in that election. The governance pact was agreed upon between ADN, a right-wing party, and the left-wing Movimiento de Izquierda Revolucionario (MIR). The so called “Acuerdo Patriótico” (Patriotic Accord) included 62.4 percent of Congress, a majority sufficient to approve key laws and policies. While the Acuerdo Patriótico administration continued the macroeconomic stabilization policies initiated in 1985, it did not deepen the structural reform process.

A coalition strategy also characterized the first administration of President Gonzalo Sánchez de Lozada (1993-2007), who won a landslide victory as the MNR's candidate in 1993. The winning party nonetheless formed a coalition with Unión Cívica Solidaridad (UCS) and the Movimiento Bolivia Libre (MBL), thus controlling 61.8 percent of Congress. This majority allowed the administration to implement the wide-ranging set of structural reforms known as the *Plan de Todos* (Plan for Everyone) that had been part of the MNR's electoral platform.

During the 1990s Bolivia enjoyed a period of relative political and institutional stability. The continuity of the stabilization policies applied had successfully brought inflation down and restored economic growth, and structural reforms remained at the top of the policy agenda, implemented through sectoral laws passed by majorities in Congress. The reform process additionally enjoyed the support of part of the entrepreneurial sector, international financial organizations and the international community of donors. The democratic alternation in power had apparently given the reform process the political support needed to guarantee the long-term sustainability of market-oriented reforms.

The sectors which opposed the reforms, such as trade unions, social movements and left-wing political parties, had been politically weakened by the economic and social crisis that Bolivia experienced during the UDP government. Moreover, the world collapse of the socialist bloc in 1989 had made the socialist paradigm questionable as a viable political and economic alternative, further weakening the position of left-wing parties in the country. Finally, the 1990s witnessed the implementation of market-oriented reforms across the globe, and across the Latin American region, within the overall umbrella of the Washington Consensus. Bolivia had somehow pioneered the reform process and, thus, the political party system perceived the reform process was moving in the right direction.

### ***3.2 Reform Paralysis***

Politically, the coalition system proved very effective in providing the governance needed to maintain democratic and economic stability while carrying out reforms. The reform process experienced significant advances during the 1985-1989 and 1993-1997 administrations, and slowed down during the 1989-1993 government. However, the reform process came to an almost complete halt during the different administrations that ruled the country after 1997. This period was characterized by significant changes in the PMP. These changes included the following:

i) the emergence of important new actors such as social movements and regional organizations; ii) a significant shift in the arenas of policy formation, especially from Congress to the streets; and iii) the aggregation of policy domains whereby fragmented demands of various heterogeneous groups and actors were articulated around wider policy objectives such as the reversal of market-oriented reforms.

The coalition system had become exhausted over time. The high degree of electoral dispersion made it increasingly difficult to form a coherent coalition, since it became necessary to include a larger number of political parties. Table 3 above illustrates electoral dispersion over time. While the 1985-1989 coalition was formed with only two political parties, representing 70.1 percent of seats in Congress, the coalition formed after the 2002 elections included four parties representing only 69.4 percent of seats in Congress. The 1993-1997 governing coalition was arguably the last formed around a coherent program.

Over time, the population vote became more and more disperse, making it increasingly difficult to assemble diverse political parties within a coherent government alliance with a unified and consistent government program. Thus, in 1997, the elected government of General Hugo Banzer had difficulties in forming its government coalition, needing to include four different parties within the alliance, with not necessarily the same vision or programmatic agenda. Additionally, Banzer's administration was confronted with numerous political and social conflicts, resulting from a variety of sectoral demands. Furthermore, the government embarked in a tough program to eradicate coca crops in the Chapare region, located in the central part of Bolivia. The program brought about violent protests against the government policies, in the form of road blockades, hurting local producers badly and damaging productivity. Amid the political crisis, Bolivia began experiencing the effects of the international economic crisis, which resulted in slower economic growth and higher unemployment.

The political, economic and social crises deepened during Sánchez de Lozada's second term, which began in 2002 after he received only some 22 percent of the vote. This time his government coalition was comprised of four political parties, including the President's MNR. By then social and political volatility had increased to unmanageable levels, and after a series of political and social conflicts he was forced to resign from the presidency. The government was unable to implement its policies to cope with the economic and political crisis, not because of a lack of the needed congressional majority, but rather due to the violent street opposition staged

by social movements and trade unions through road blockades and other types of violent demonstrations. Congress became less predominant in determining the PMP, surrendering this function to the street forces.

Several factors explain the loss of legitimacy of Congress as a main arena in the PMP. First, the coalition system had lost credibility because Congressional coalitions were increasingly formed based on clientelistic objectives and not on policy programs. In addition, the traditional political parties were accused of covering up corruption cases and thus lost credibility in the eyes of the population.

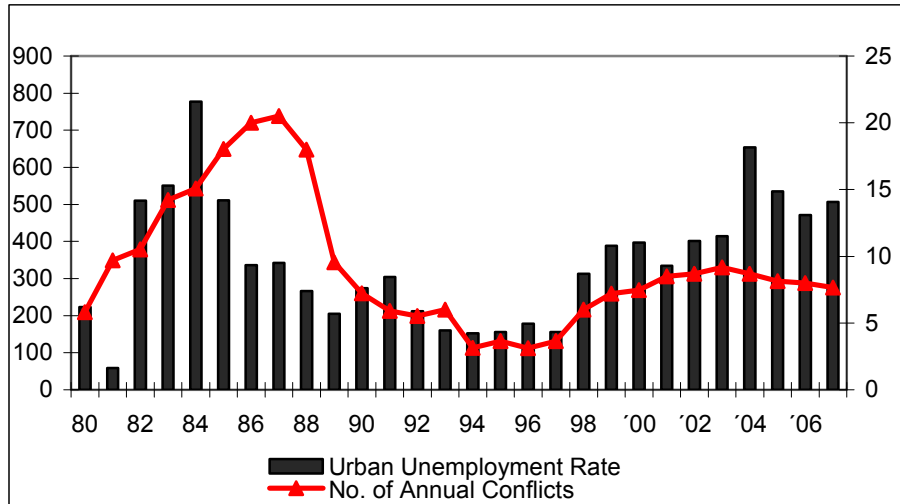
Second, the social movements and trade unions, the latter grouped within the Central Obrera Boliviana (COB), which had been weakened after the crisis of the 1980s, regained power and succeeded in unifying diverse sectoral demands under various ideological banners, such as the recovery of national natural resources (i.e., hydrocarbons), the defeat of the neo-liberal model, and opposition to the sale of natural gas to Chile, with whom Bolivia has had a territorial dispute dating back to the nineteenth century. These causes gained support from a wide variety of sectors of the Bolivian society due to a number of different factors:

- i) Starting in 1999, the effects of the international economic crisis began to be felt by the Bolivian economy in the form of reduced growth and higher unemployment. The poorest segments of the population, which were affected more deeply by the crisis, blamed the structural reforms and, more generally, the market-oriented model for the negative effects which had triggered the crises. This was reinforced by the reform fatigue felt by society as a whole.
- ii) The economic crisis had also created large macroeconomic imbalances, such as an increased fiscal deficit, and the dependence on grants and borrowing from the international community to finance them. Some administrations tried to implement unpopular fiscal adjustment measures, such as the creation of a personal income tax and fuel price adjustments, which brought about riots and violent demonstrations, undermining the government's political and popular support.
- iii) The zero-coca program proposed by the Banzer administration between 1997 and 2002, involving the total eradication of coca crops exceeding traditional domestic consumption, generated strong opposition from the coca-growing

- sector, which had the opportunity to block a key export road in the middle of the country and deeply hurt the economy. Thus coca producers and their leader Evo Morales became paramount in opposing government policies.
- iv) The Popular Participation and Decentralization reforms implemented during the 1990s transferred a large share of the public investment management to local governments (i.e., municipalities and *Prefecturas*, departmental authorities). These policies promoted greater social, political and economic participation of previously excluded segments of the society, especially of rural citizens. This reform transferred greater competences and resources to municipalities, and the capacity to elect their own authorities through direct vote. Thus, historically neglected segments of the society acquired a much greater capacity to organize themselves and press for their demands through different channels and mechanisms, including road blockades. The increased participation promoted by these reforms brought about a much more conflictive political environment that served to weaken the political party system. This was neither an intended nor foreseen outcome of the reform.

All the factors described above contributed to creating a socio-political environment characterized by a permanent state of social and political conflict, which was not favorable for the continuity and deepening of the reform process. The reform process was almost completely halted during this period, as the annual number of conflicts, of diverse nature and origin, rose from 156 in 1997 to 654 in 2004 (Figure 9). The economic crisis of the first half of the 2000s had reduced employment and income opportunities, hurting the poorest segments of the society the most. The increased discontent paved the way for sectors and actors who opposed reforms and sought to reverse them, finding support from different segments of the population.

**Figure 9. Unemployment Rate and Number of Social Conflicts**



Source: Laserna and Villarroel (2007) and National Institute of Statistics (INE).

### 3.3 Reversal of the Reforms

The loss of legitimacy by Congress brought about significant changes in the PMP in terms of actors, arenas and currencies. The most noticeable change was that the PMP was now determined mostly by the street forces rather than by Congress. Referendums, like the one that took place in 2004 to approve a change in hydrocarbon sector policy, became another key vehicle in the policymaking process. Social sectors acquired great power and influence over the policymaking process by exerting pressure on the government through measures such as road blockades, strikes, demonstrations and protest marches. The so-called social movements and their leaders were able to articulate fragmented sectoral demands from various heterogeneous groups, such as salaried and self-employed workers, coca growers, neighborhood organizations, peasants, and landless movements, among others, under common national banners such as the defeat of pro-market policies, the recovery of the country's natural resources from transnational corporations and the reversal of the reform program.

Thus, during the 2000s pressure by social movements deeply influenced the policymaking process. A variety of measures resulted from this pressure. The most notable included an increase in hydrocarbons royalties from 18 percent to 50 percent of total output, the reversal of two license contracts to administer the water supply in the cities of La Paz and Cochabamba, and the postponement of the project to export natural gas to the United States and Mexico using liquefied natural gas technology.

Eventually, the social movements and other left-wing political groups organized around a political party, the Movimiento al Socialismo (MAS) led by Evo Morales, and they were able to successfully compete in the 2005 general election, winning an absolute majority of the vote, which in turn granted the government a majority in Congress. Once in power, the government implemented a number of policies aimed at reversing the structural reforms of the 1990s, such as the re-nationalization of various previously privatized companies, including Chaco, Andina and Transredes in the hydrocarbon sector, Entel in telecommunications, and the tin-smelting company Vinto. It is interesting to highlight that some of the measures taken by the new administration relied on its ability to gain support from the streets rather than from Congress.

The counter-reform process has produced some positive returns to the government, both economically and politically. However, these policies have had a significant cost for the Bolivian economy in terms of reduced investment flows, which will eventually have a negative impact on sectoral and overall productivity.

The government presently seeks to deepen the counter-reform process and to continue with other policies such as land redistribution, as well as promote a larger role of the state in the economy. To this end, the administration has succeeded in approving a new constitution which will grant it with a constitutional framework to carry forward the counter-reform process. Nevertheless, the government has faced strong opposition coming from two fronts. The first consists of the opposition parties which control the Upper Chamber in Congress and thus have the power to stop part of the government initiatives. The government has resorted to social movements which, through sieges of Congress, have exerted pressure on the Senate and managed to bring about the approval of some key laws; this strategy has been quite successful thus far. Second, the regions in the lowlands, which have traditionally favored market-oriented policies and the private initiative in economic activity, have fiercely opposed the government project to impose a socialist state-dominated economy. These regions, namely Pando, Beni, Santa Cruz and Tarija, are struggling with the Central Government for greater autonomy and thus the ability to adopt a free market-oriented economic model for their regions.

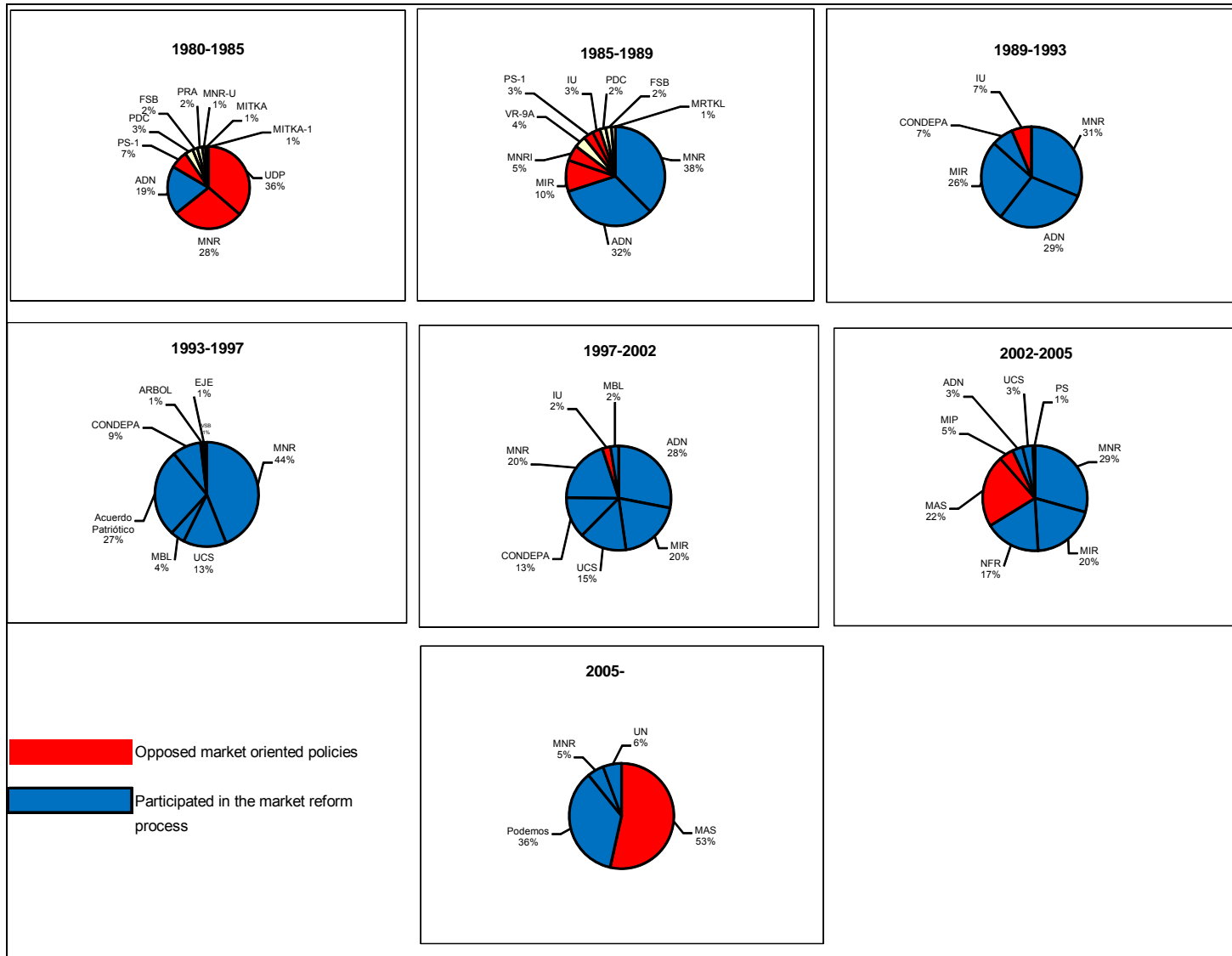
In summary, the analysis above allows us to identify two patterns in the PMP over the last 25 years. First, the coalition system in Congress was the main support of the PMP between 1985 and 1997, guaranteeing governance, economic stability and the implementation of the reform process. It was weakened, however, due to the increased dispersion of the electoral vote,

which in turn made it more difficult to form coherent government coalitions. Paradoxically, voting tended to concentrate again in the 2005 presidential election, as only four political parties obtained congressional representation. The government party (MAS) did not have to resort to any coalition as it controlled 53.5 percent of Congress. Only one of the traditional political parties (MNR) retains congressional representation.

During the reform process (i.e., between 1985 and 1997) almost all political parties which obtained representation in Congress in any of the national elections participated in at least one of the governing coalitions. Thus, as can be observed in Figure 10, between 1993 and 2002, almost all political parties with congressional representation had participated in government coalitions which maintained or deepened the market-oriented reform process. Beginning in 1985, the reform process gained the support of political parties which had previously opposed it.

A second notable pattern is that, starting in 2000, Congress lost its ability to represent the population and the PMP was increasingly shaped by the pressure exerted by social movements on the streets. Parties opposed to the market-oriented model which had not participated in any of the previous coalitions, namely the MAS party of Evo Morales, began to receive the support of the population and obtain congressional representation. This tendency was accentuated in the 2005 election.

**Figure 10. Composition of Congress during Different Administrations**

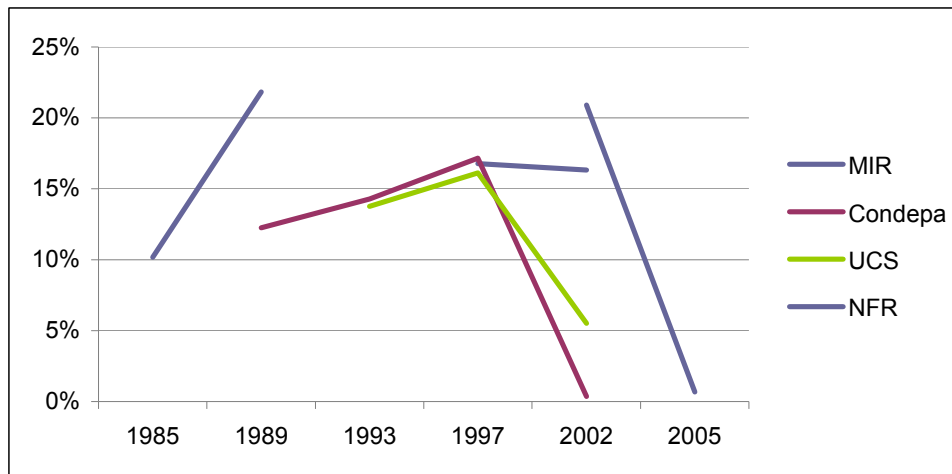


Source: Authors' estimates based on Corte Nacional Electoral (CNE) data.

It is interesting to analyze why the market-oriented reform, which seemed to be backed up by very strong congressional coalitions until the 1997 election, suddenly lost legitimacy and support beginning with the 2002 election. A plausible explanation for this phenomenon is that the increasing dispersion of the vote was reflecting a loss of representation and legitimacy of traditional parties that had begun much earlier. Parties such as the Movimiento Izquierda Revolucionaria (MIR), Conciencia de Patria (Condepa) and Unión Cívica Solidaria (UCS) obtained a relatively large vote in the electoral races, vowing that they were going to implement policies completely different from the market-oriented model. Eventually, however, they ended up forming a coalition which allowed the reform process to continue. The MIR campaign in 1989, for instance, was based on the slogan that the party was going to “repeal SD 21060.” Nonetheless, MIR eventually formed a coalition with ADN and continued the implementation of the free-market model.

Figure 11 below shows the vote for non-systemic parties (MIR, Condepa, UCS and Nueva Fuerza Republicana, NFR) before and after they participated in a government coalition. These parties campaigned with an anti-systemic platform but ended up forming government coalitions led by systemic parties. The figure clearly shows that these parties have lost support from their voters over time, suggesting that these parties were punished by their constituencies because of forming alliances with ideologically-opposed parties. The exception is UCS. Having participated in a government coalition between 1993 and 1997, this party nonetheless increased its vote because of external factors, such as the death of its leader just before the 1997 election, which had a deep emotional impact on the population. Otherwise, all other non-systemic political parties have consistently lost electoral votes after they participated in government coalitions led by systemic parties.

**Figure 11. Electoral Voting for Non-Systemic Parties before and after Forming a Coalition Led by a Systemic Party**



Source: Authors' estimates based on Corte Nacional Electoral (CNE) data.

## 4. Underlying Factors Affecting PMP Shifts

### 4.1 Determinants of the PMP Shifts

The PMP in Bolivia has experienced dramatic changes over time, essentially moving from Congress to the streets. We hypothesize that several factors which explain these changes: i) loss of legitimacy of the alliance system, ii) insufficient time for the reforms to mature and deliver results, iii) emphasis of the reform on capital-intensive sectors, and iv) regional differences in the acceptance of the reform process due to existing socio-economic gaps across regions. The following sub-sections briefly define these factors, and Section 4.2 presents some empirical evidence.

#### 4.1.1 Loss of Legitimacy of the Alliance System

The alliance system, which had been a very effective mechanism in ensuring governance during the 1990s and a necessary condition for maintaining democratic and economic stability, and thus deepening the reform process, became exhausted over time and lost representation in the eyes of the population. The high degree of dispersion in the electoral vote made it increasingly difficult to form a coherent coalition, since it became necessary to include a larger number of political parties in the coalition in order to attain Congressional control.

#### *4.1.2 Insufficient Maturation Time for the Reforms*

The reforms implemented during the 1990s, did not have a sufficiently long maturation period to deliver positive results in the eyes of the population. For instance, the capitalization and sectoral reforms have had significant success in promoting investment and increasing the access of the population to public services such as electricity, telecommunications, drinking water and sanitation. The reforms also brought about a sizable increase in Bolivia's hydrocarbon reserves, exports, and fiscal revenues. Public opinion, however, has not associated these positive results with the reform process. In fact, the reforms were blamed for the negative employment and income effects of the economic crisis of the 1990s and beginning of the 2000s.

#### *4.1.3 Emphasis of the Reform Process on Capital-Intensive Sectors*

The reforms have focused on capital-intensive sectors such as hydrocarbons, electricity, telecommunications and financial services. As a result, these sectors exhibited large inflows of FDI, productivity gains and increased salaries for their workers. On the other hand, labor-intensive sectors such as agriculture and urban services (which employ the bulk of the labor force), lagged behind. These gaps seem to have diminished support for the reform process.

#### *4.1.4 Regional Differences in Support*

There were deep regional socio-economic gaps which have conditioned the support given by different regions to the reform process. For instance, regional indicators such as per capita GDP, poverty incidence, GDP growth, and regional Human Development Indicators (HDI) are closely correlated with support (or lack thereof) for the reforms across regions. The rationale is that regions with higher human development and lower poverty incidence were better prepared to take advantage of the productivity-enhancing policies, and those regions benefitted the most from income and productivity gains. Thus, these regions have tended to maintain their support for political parties which advocated for market-oriented reforms.

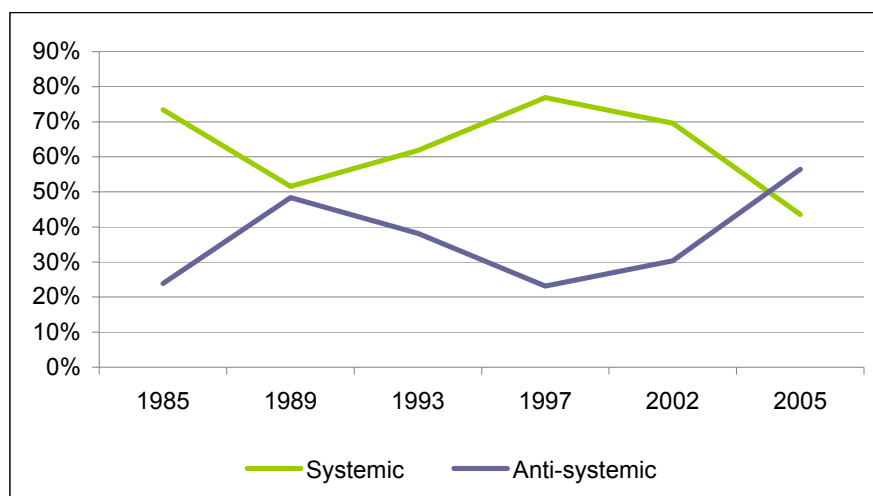
## 4.2 Econometric Tests

### 4.2.1 Geographic Concentration of the Vote

The objective of this section is to study voting behavior in order to assess support for the reform process. Figure 12 shows the support for “systemic” political parties which promoted the reform process or at least did not attempt to reverse it. The share of votes obtained by these parties in elections is interpreted as a measure of support for the reform process. A list of parties classified as systemic/anti-systemic is shown in Annex C.

The figure shows a high level of support for systemic parties in 1985, which can be explained as voters’ response to the ruling coalition government’s failure to resolve the 1983 economic crisis. The stabilization program fostered by the government in 1985, and the associated social and political costs, explain the decline in support for systemic parties in the 1989 election. This decline is further explained by the classification of MIR party as anti-systemic party in that election, as it had been a principal member of the 1982-1985 UDP and in the 1989 campaign sought to reverse the NEP. The 1993 and 1997 elections witnessed an increase in support for systemic parties, followed by a small decline in 2002. The pattern changed dramatically, however, in the 2005 election where the voting for anti-systemic parties exceeded support for traditional parties.

**Figure 12.**  
**Percentage of Votes for Systemic and Anti-Systemic Political Parties**

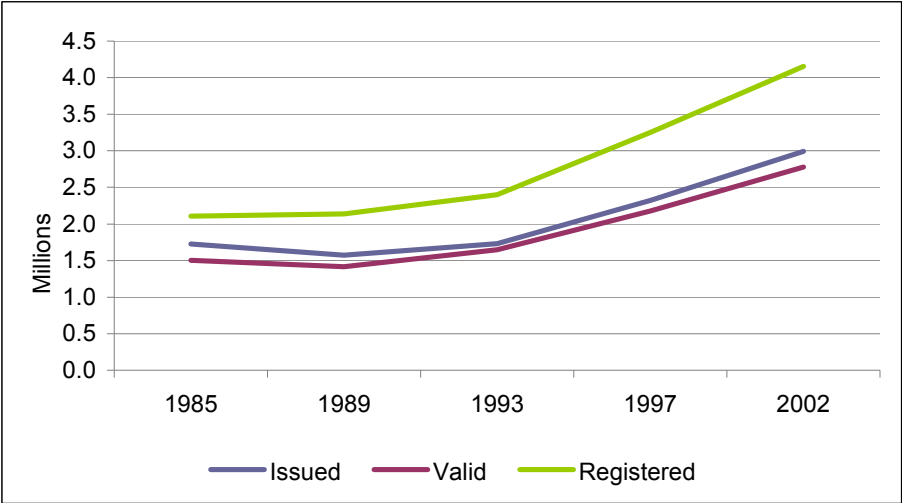


Source: Authors’ estimates based on Corte Nacional Electoral (CNE) data.

It is important to note that anti-systemic parties enjoyed significant support throughout the period studied. Even in 1985, and after the hyperinflation period, anti-systemic parties managed to obtain 24 percent of the vote. This figure probably underestimates the real support for anti-systemic parties, since many other anti-systemic parties (the most radical parties) frequently did not participate in elections and called for voters to abstain. Figure 13 shows the number of registered voters, issued ballots and valid votes for the 1985-2002 elections.

A hierarchical agglomerative average-linkage cluster analysis is carried out in order to identify clusters of regions (departments) according to their support for systemic parties in each of the elections. This technique considers each observation as a separate group and then combines the two closest groups. The process is repeated until the data are grouped into a relevant number of clusters. The method to compare the groups is called the linkage method. The average linkage method uses the average distance between the observations of the groups to select the two closest groups.

**Figure 13. Registered Voters, Issued Ballots and Valid Votes**



*Source:* Authors' estimates based Corte Nacional Electoral (CNE) data

The data confirm the existence of two clusters. Cluster A groups regions where support for systemic parties is greater, and Cluster B where support for these parties is weaker. Table 5 shows the years in which each region was part of one of the two clusters.

**Table 5. Clustering of Departments by Vote**

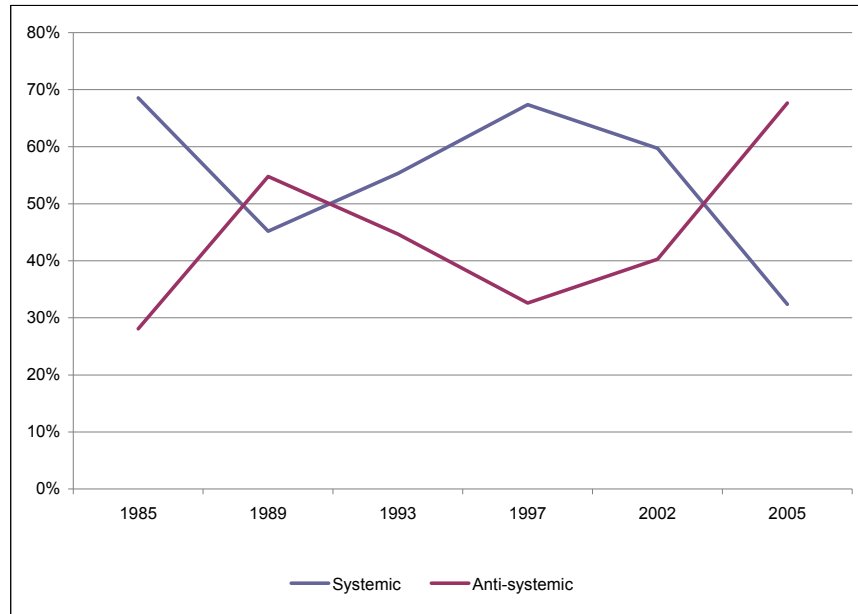
	Cluster A	Cluster B
Beni	1985, 1989, 1993, 1997, 2002, 2005	
Chuquisaca	2002	1985, 1989, 1993, 1997, 2005
Cochabamba	1989	1985, 1993, 1997, 2002, 2005
La Paz		1985, 1989, 1993, 1997, 2002, 2005
Oruro		1985, 1989, 1993, 1997, 2002, 2005
Pando	1985, 1989, 1993, 1997, 2002, 2005	
Potosí		1985, 1989, 1993, 1997, 2002, 2005
Santa Cruz	1985, 1989, 1993, 1997, 2002, 2005	
Tarija	1985, 1989, 1993, 1997, 2002, 2005	

*Source:* Authors' calculations based on Corte Nacional Electoral (CNE) data.

With the exception of 1997, the Duda-Hart pseudo T-squared test (which finds the number of clusters based on the difference of the sums of the squared errors of the possible groups and the squared errors of the total data) confirms that the data can be divided into two groups. In 1997 there could be three groups, however, with La Paz forming a highly anti-systemic group of its own. It is nonetheless clear that the cluster in the voting data reproduces the division that has shaped the country's political dynamics in recent years, as Cluster A represents the eastern provinces and Cluster B the western provinces. It is interesting to note how this clustering has prevailed over time. There are only two exceptions to this rule: Cochabamba in 1989 and Chuquisaca in 2002. In these cases both departments voted more like the eastern provinces. Based on this analysis, regions are separated into two groups: "western" and "eastern" departments.

Figure 14 shows the voting pattern in the five western departments: La Paz, Oruro, Potosi, Cochabamba and Chuquisaca.

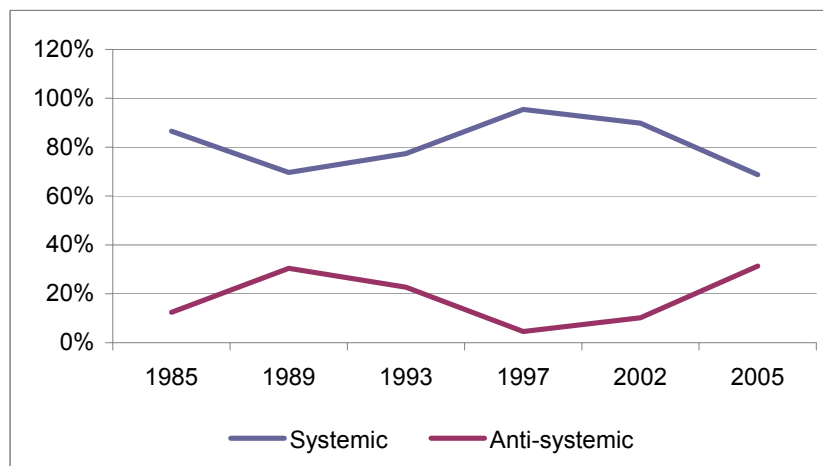
**Figure 14. Percentage of Votes for Systemic and Anti-Systemic Political Parties in Western Departments**



*Source:* Author's estimates based on data published by the Corte Nacional Electoral (CNE).

For purposes of comparison, Figure 15 shows the voting pattern in the four eastern departments: Pando, Beni, Santa Cruz, and Tarija.

**Figure 15. Percentage of Votes for Systemic and Anti-Systemic Political Parties in Eastern Departments**



*Source:* Authors' estimates based on data published by the Corte Nacional Electoral (CNE).

In all of the elections, support for systemic parties has been stronger in eastern departments (81.2 percent on average) than in western departments (54.7 percent on average). Likewise, the standard deviation of the vote for systemic parties in eastern regions (11.0 percent) was systematically lower than that observed in western regions (13.9 percent). There is clearly a difference in the voting patterns of the west and east, as determined by testing the difference of means for the support for systemic parties between eastern and western departments (see Table 6).

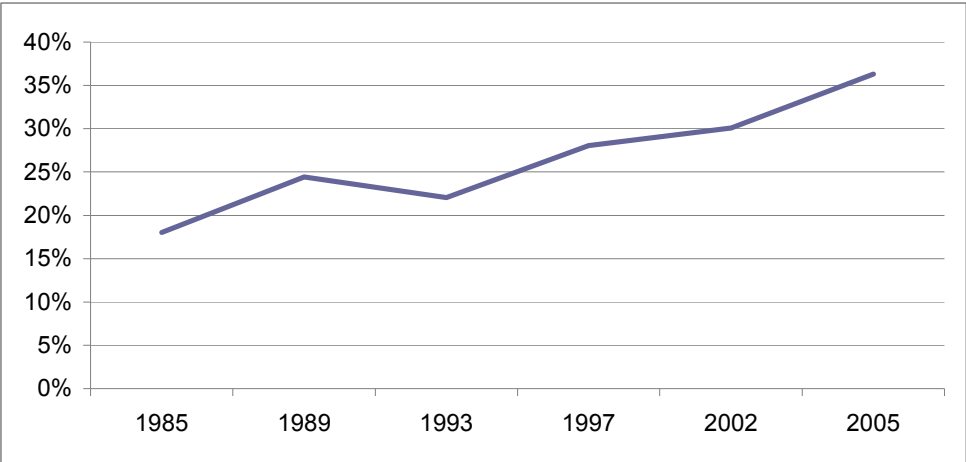
**Table 6.**  
**Test for Difference of Means**

	Obs.	Mean	Std. Err.
Western	30	0.58	0.0287
Eastern	24	0.837	0.0209
Difference		-0.257	0.0355
t-stat.			-7.224

*Source:* Authors' estimates based on Corte Nacional (CNE) data.

Moreover, the differences in the support for systemic parties between eastern and western departments have increased over time, as shown in Figure 16.

**Figure 16. Difference between Regions in Support for Systemic Parties**



*Source:* Authors' estimates based on Corte Nacional Electoral (CNE) data.

#### 4.2.2 Location Patterns and Vote Preferences

In order to identify which location pattern determines the concentration of the support for systemic parties, a spatial test is performed in this section. Alternative measures of geographical location are constructed, forming a data panel. The spatial autoregressive models methodology is applied to data from six national elections and for the nine departments (54 observations). The estimated model is as follows:

$$y = \rho W y + X \beta + \varepsilon$$

where  $y$  is the dependent variable (i.e., the support for systemic parties),  $X$  is a set of dummy variables for the elections years, and  $W$  is the spatial matrix, which reflects the spatial relationship between the different regions, and  $\varepsilon$  is an error term, which is normally distributed, with

$$\varepsilon \sim N(0, \sigma^2 I_n)$$

The econometric test is performed for three alternative spatial matrixes. The first uses the rook contiguity concept, which defines the presence of contiguity of two entities if they share a common side, in this case the vicinity of the regions. The second matrix forms two groups: one for the eastern and another for the western departments. The third matrix takes the distances between the main cities as the variable which measures the geographic location, based on latitude-longitude coordinates.

The results of all regressions for the three spatial matrixes are presented in Table 7.

**Table 7. Spatial Regressions for the Support for the Systemic Parties  
(Dependent Variable: Support for Systemic Parties)**

Variable	Constant	D1989	D1993	D1997	D2002	D2005	Contiguity	$\sigma^2$	R-squ.	Rbar-squ.	Log-lik
Para.	0.6634	-0.1699	-0.0674	0.0862	0.02	-0.2283	0.0298	0.0221	0.35	0.28	45.03
t-stat*	2.2773	-2.4269	-0.9625	1.2307	0.2862	-3.26	0.3362				
Variable	Constant	D1989	D1993	D1997	D2002	D2005	Region	$\sigma^2$	R-squ.	Rbar-squ.	Log-lik
	0.167	-0.1699	-0.0674	0.0862	0.02	-0.2283	0.1409	0.0075	0.35	0.28	72.08
	2.7198	-4.1676	-1.6528	2.1134	0.4916	-5.5981	10.83				
Variable	Constant	D1989	D1993	D1997	D2002	D2005	Distance	$\sigma^2$	R-squ.	Rbar-squ.	Log-lik
	3.6122	3.4422	3.5448	3.6984	3.6323	3.3839	-0.6549	0.0127	0.33	0.26	77.33
	13.3	12.67	13.05	13.62	13.37	12.46	-10.47				

Source: Authors' estimates based on Corte Nacional Electoral (CNE) data.

Note: \* Asyntotic.

In the case of the contiguity matrix, the coefficient of this variable is not significantly different from zero. This shows that, although two regions may be neighbors, this does not necessarily mean that both regions would support or oppose a systemic party. The regression, which groups separately the departments from the west and the east, has a coefficient for the spatial matrix which is significantly different from zero and has the expected positive sign. This regression reflects the fact that the departments in each region tend to behave in a similar way. Finally, the regression in which the spatial matrix reflects the distance between the main cities of each department also has a significant coefficient. In this case, the sign of the coefficient is negative, reflecting the fact that the greater the distance between the main cities of the departments, the more opposed their political views.

#### 4.2.3 Economic Growth and Regional Differences in Voting

A plausible explanation of the difference in voter preferences, for or against the reform process, is the difference in economic growth among regions during the period covered in this research. The eastern departments enjoyed a more rapid growth than the western ones during the period in which the government coalitions ruled. Economic growth in western departments was much slower, thus making their voters less willing to support the reform process.

It is interesting to note that the three best performers in GDP growth for the whole period are Pando, Santa Cruz, and Tarija, which are part of the eastern part of the country; Beni was the only department in the east which exhibited a lower growth rate. The western departments comprise the less dynamic growth group. In what follows, we test statistically the hypothesis which attributes the difference in voting to differences in growth rates.

Using cluster analysis, regions are classified into more dynamic and less dynamic departments based on their economic growth rates between 1989 and 2003 (Table 8).

**Table 8. Growth Clusters**

More Dynamic	Less Dynamic
Santa Cruz, Tarija, Pando	
Oruro	La Paz, Potosí, Cochabamba, Chuquisaca, Beni

*Source:* Authors' calculations based on Instituto Nacional de Estadística (INE) data.

For the 1989-2003 period, the Eastern regions (with the exception of Beni) were more dynamic with an average growth rate of 5.1 percent. In contrast, the western regions (with the exception of Oruro) displayed an average growth rate of 2.4 percent.

In order to test whether the classification above still holds when shorter periods are considered, average growth rates are taken for the periods of government immediately before the elections (1989-1992, 1993-1996,-1997-2001), the years of the last government of Sánchez de Lozada (2002-2003), and the most recent period (2004-2007), as shown in Table 9.

**Table 9. Average Rate of Growth by Department**

	Pando	Beni	Santa Cruz	Tarija	Potosí	Oruro	Cochabamba	La Paz	Chuquisaca
1989-1992	3.25%	1.08%	5.11%	4.95%	4.46%	5.35%	2.34%	4.14%	0.91%
1993-1996	6.54%	3.23%	6.00%	2.19%	1.06%	6.28%	5.84%	4.07%	-0.26%
1997-2001	8.18%	4.38%	4.88%	7.44%	1.81%	3.95%	2.72%	-0.28%	3.05%
2002-2003	-0.15%	-0.07%	1.45%	15.14%	5.02%	-3.49%	-0.17%	5.13%	-0.30%
2004-2007	6.38%	3.53%	3.68%	14.85%	5.62%	1.96%	3.79%	3.15%	3.18%

*Source:* Authors' calculations based on Instituto Nacional de Estadística (INE) data.

With these data the cluster analysis for each period yields the results presented in Table 10. In addition, the average rate of growth for each cluster is shown in Table 11.

**Table 10. Growth Clusters**

	More Dynamic	Less Dynamic	Outliers	
			Negative	Positive
1989-1992	La Paz, Santa Cruz, Oruro, Potosí, Tarija	Beni, Pando, Chuquisaca, Cochabamba		
1993-1996	Beni, Oruro, Cochabamba, La Paz, Santa Cruz, Pando	Chuquisaca, Potosí, Tarija		
1997-2001	Beni, Oruro, Santa Cruz	Chuquisaca, Cochabamba, Potosí	La Paz	Tarija, Pando
2002-2003	La Paz, Potosí	Beni, Pando, Santa Cruz, Chuquisaca, Cochabamba	Oruro	Tarija
2004-2007	Beni, Oruro, Santa Cruz	Chuquisaca, La Paz, Cochabamba		Tarija, Pando, Potosí

*Source:* Authors' calculations based on Instituto Nacional de Estadística (INE) data.

**Table 11. Average Growth Rates for Clusters**

	More		Outliers	
	Dynamic	Less Dynamic	Negative	Positive
1989-1992	4.80%	1.90%		
1993-1996	5.33%	1.00%		
1997-2001	4.41%	2.53%	-0.28%	7.81%
2002-2003	4.29%	1.35%	-3.95%	16.42%
2004-2007	4.08%	3.11%		9.06%

*Source:* Authors' calculations based on Instituto Nacional de Estadística (INE) data.

The results obtained when the cluster analysis is carried out for shorter periods are less conclusive than those obtained at the aggregated level. It is interesting to note that, between 1989 and 2001, Santa Cruz was in every period part of the more dynamic group. The same also applies to Oruro, with the exception of the 2002-2003 period. La Paz was in the dynamic group in the first two periods but moved to the less dynamic group in the third through fifth periods. Chuquisaca has been in the less dynamic group during the whole period. Finally, Beni, Pando, Tarija, Cochabamba and Potosí have moved alternatively from one group to the other.

The period from 1997 to 2001, however, shows a clearer division. The eastern departments show a better performance than the western departments (excluding Oruro). It is also important to note that the differences in the rate of growth between the groups increased importantly. The standard deviation of the mean growth rates is shown in Table 12

**Table 12. Standard Deviation of Average Growth Rates**

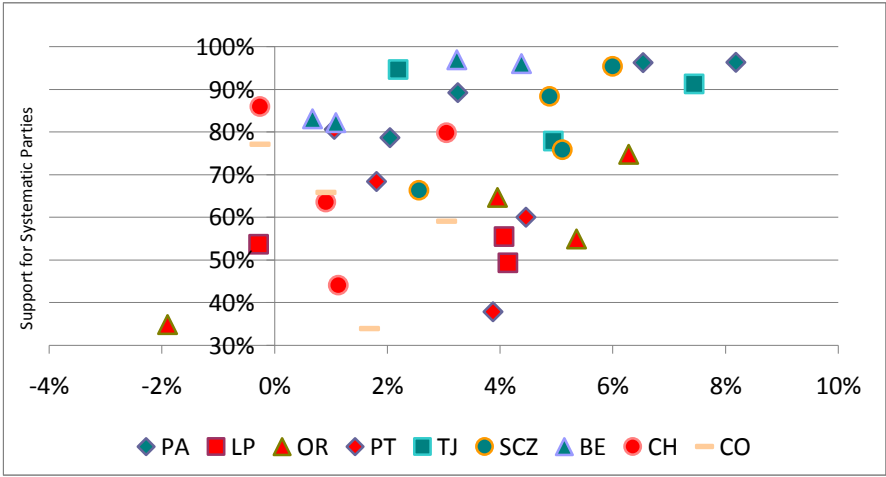
1989-1992	0.02
1993-1996	0.02
1997-2001	0.03
2002-2003	0.06
2004-2007	0.03

*Source:* Authors' calculations based on Instituto Nacional de Estadística (INE) data.

In the period 1997-2001, economic growth followed divergent trends in the eastern and western departments, with the exception of Oruro. The crisis of the late 1990s seems to have had a much more profound impact in the western departments. In contrast, the eastern departments maintained a relatively stable growth rate. Moreover, Tarija and Pando increased their growth to very high rates. Regions which showed more support for the systemic parties were also regions which had higher growth rates. Figure 17 shows the support for systemic parties and the average rate of growth for periods prior to the 1993, 2002 and 2005 elections for each of the nine departments.

Although the relationship between voting patterns and growth seems to be conclusive for the whole 1989-2003 period, the evidence has two major shortcomings. First, many explanatory variables tend to co-vary, making it difficult to distinguish the effects of each. Second, there could be a problem of aggregation of individual data, which can bias the results of the regression and thus lead to spurious correlations. In order to overcome these problems we use data at the micro-level obtained from Latin American Public Opinion Project (LAPOP) surveys.

**Figure 17. Systemic Support and Average Growth**



Source: Authors' estimates based on Corte Nacional Electoral (CNE) data and Instituto Nacional de Estadística (INE) National Accounts.

The Lapop surveys, systematically conducted in even-numbered years, ask respondents how they voted in order to explore in detail determinants of support for different parties. Data for the 1998, 2002, and 2006 surveys are used, since those are the surveys closest to election years. As before, political parties are classified as either systemic or anti-systemic. It should be

noted that some respondents prefer not to reveal their vote, and if the non-response is not evenly distributed among political parties this could introduce some bias into the results. It is assumed that this is not the case.

As mentioned above, possible explanations for regional differences co-vary at the aggregate level. But at the individual level this is not necessarily the case. Individual level data can thus help to discriminate the influence of different variables, especially income, on the voting pattern. Table 13 shows the result of regressing a logit function for the vote pattern (1 systemic, 0 anti-systemic) as the dependent variable, and the following as explanatory variables: region (dichotomous with 1 identifying the lowlands, and 0 the highlands), urban (1 urban, 0 rural), language (1 Spanish, 0 native language or combination of Spanish and native), race (1 Hispanic, 2 mestizo, 3 native), age, years of education, and income (an ordinal variable with 5 tranches).

**Table 13. Logistic Regression  
(Dependent Variable: Vote Marginal Effects)**

	Region	Urban	Language	Race	Age	Education	Income	F	Pr(vote) Pred.
1998	0.1256 (0.0143)	-0.0431 (0.0174)	- -	-0.0585 (0.0150)	0.0015 (0.0005)	0.0037 (0.0018)	- -	11.4200 -	0.9166 -
2002	0.1289 (0.0229)	-0.0431 (0.0201)	0.1439 (0.0287)	-0.0646 (0.0201)	0.0026 (0.0006)	- -	0.0274 (0.0076)	21.8500 -	0.8461 -
2006	0.3653 (0.0341)	- -	0.2496 (0.0391)	-0.1021 (0.0344)	- -	- -	0.0345 (0.0139)	47.7400 -	0.3822 -

*Source:* Authors' estimates based on Instituto Nacional de Estadística (INE) data.

Region is a significant variable in explaining the probability of voting for a systemic party, which increases if those interviewed live in the lowlands. The effect of this variable is strong in the three periods and it presents a three-fold increase in the 2006 election. The urban/rural variable is significant for 1998 and 2002 but loses significance for the 2006 election. The effect of this variable is one third of that corresponding to the region variable. Language was not significant in the 1998 election but turned out to be significant in the following elections, becoming very significant in the 2006 election. Race was significant for the three elections, and became increasingly important over time. Age was significant for the 1998 and 2002 elections, but lost significance in 2006. Though the influence of this variable on voting is recognizable, it is relatively small. Education was significant only for 1998. Income lacked significance for the

1998 elections but became significant for 2002 and 2006. Its size is relatively small, but increasing.

The logit regressions seem to show that the effect of region is very important, and its significance does not disappear if income, race, language, urbanization or education is included in the regression. Income has become increasingly important over time in determining voter preferences, and this could in part explain differences among departments, but this effect is relatively small, and region remains the most influential factor in determining vote preferences. It is also important to note that race and language have become more and more significant as determinants of voter preferences.

## **5. The Magic of Politics**

### *5.1 The Unsustainability of the Current PMP*

From the discussion above, it is evident that the PMP in Bolivia has experienced dramatic shifts over time. Traditional political parties have lost legitimacy and representation, and social movements have become paramount players in the PMP. Regional organizations and regional governments have also acquired a significant leverage in the PMP. Congress has also experienced a significant loss of legitimacy as a key arena in the PMP. The streets, on the other hand, seem to have an upper-hand in influencing the PMP. Policy objectives have become essentially political and productivity goals have been largely neglected. Finally, the representative democracy system has lost ground to a more participative and direct type of democracy, where currencies such as the “cabildo” (informal mass gathering), the referendum and the assembly are dominant in the PMP.

However, there are strong reasons to believe that several factors render the current PMP Bolivia unsustainable. First, the disregard for economic and productivity objectives in the current PMP will result in reduced economic growth and employment capacity, which will eventually reduce the support of the population for the counter-reform process. The political volatility and nationalization policies carried out by the government have resulted in a considerable drop in investment rates. Moreover, Bolivia has lost its previously privileged position as a major player in South America’s hydrocarbons business. Bolivia’s hydrocarbons sector is already experiencing the effects of reduced investment flows and decreased reserves, and the country is not complying with its export commitments. This institutional volatility has also caused the

cancellation of important energy projects such as planned exports of liquefied natural gas to Mexico and the United States. Other sectors, which previously experienced fast growth and technological upgrades as a result of the FDI flows attracted by the reforms, are now experiencing bottlenecks because of reduced investment rates. Furthermore, the Bolivian government has for ideological reasons suspended the pursuit of free trade agreements with the United States and the European Union. This is expected to contribute to slower economic growth and to sluggish job creation in the long run.

Second, the economic bonanza enjoyed by the current administration will eventually end and is likely to produce a profound economic crisis. Thus far, a key factor that has favored the populist policies implemented by the Evo Morales administration, in order to secure the support of the population for its counter-reform strategy, has been extremely favorable conditions existing in the world economy between 2005 and 2008. The world boom in metal prices has given new breath to the mining sector in Bolivia, generating employment and income opportunities to workers in the western highlands, where poverty is deeply entrenched. High oil prices, moreover, have raised export prices of natural gas, considerably increasing fiscal revenues. Thus, the government has had sufficient fiscal revenues to increase spending and create various bonuses which favor different groups of the population. Paradoxically, the populist policies of the Evo Morales government are largely financed by export revenues from large natural gas reserves discovered in the 1990s as a result of the market-oriented structural reforms implemented during that period. Consequently, the present international economic recession may seriously jeopardize the Morales administration's plans.

Third, the government has experienced serious shortages of qualified high-ranking officials, which have contributed to the poor quality of policies. The ambitious economic plan set forth by the government in 2006, known as the National Development Plan, has experienced delays and deficiencies not only because of the inherent weaknesses of the plan itself, but also due to the lack of management capacity to implement it. The lack of effective economic policy management may represent a particularly serious problem in the current situation, where a reduction in fiscal revenues due to the international economic crisis could cause serious macroeconomic disequilibria.

## ***5.2 The Future of the PMP in Bolivia***

Bolivians are in search of means to build a more equitable society by eradicating poverty and exclusion. To achieve that end, it is crucial to rebuild a common sense of purpose transcending other divisions, and this process of consensus-building will take a long time. Some of the reforms introduced after 1985 should prevail, and so should some of the reforms introduced after 2005. In this process, additional swings in the policy-mix orientation cannot be ruled out until a stable and livable equilibrium is attained within society.

Policies to improve productivity can be seen not only as a particular outcome of a new policy-making process in Bolivia, but also a contributing factor to reach the goals which the country is agreeing upon. Based on the evidence presented in this paper, the latter perspective guides the recommendations that follow.

### ***5.2.1 Rescuing the Political Party System***

Bolivian society has a tendency to act in a corporatist rather than a democratic fashion. At the same time, there is dissatisfaction with this form of social representation. During the debates of the Constitutional Assembly in 2006 and 2007, no proposal with a corporatist orientation was accepted, and in this atmosphere the political party system has been given a chance to regain the confidence of the general public.

The loss of confidence in the political party system is at the root of the de-institutionalization of the country's PMP, and rebuilding that confidence should be undertaken by both the State and the political parties themselves. For its part, the State should enact and enforce modern regulations for political parties, with free and democratic election of party leaders at the national, regional and local levels supervised by the National Electoral Court. Accurate party registries, along with transparency and accountability on the part of their administrators, should help to attract supporters. Moreover, political party charters describing the ideals and principles they support—and clearly stating their rules of governance—should be in the public domain. Additionally, the allocation of public funds could be considered to contribute to capacity building at all levels of the political establishment, and of course, in society at large.

### *5.2.2 Autonomies and Decentralization*

In recent years, voters in four of Bolivia's nine departments have passed referenda demanding regional autonomy. Even in departments that have so far voted against autonomy, however, the idea is gaining strong support. A precedent exists at the local level, as Bolivia's municipalities already enjoy autonomy. Additional responsibilities could therefore be transferred from the central government to subnational governments, with appropriate levels of funding, at the same time that the mechanisms envisaged in the Popular Participation Law are strengthened. Such an approach may help to bridge the gap that has traditionally separated the State from its citizens.

While some progress has been made in the discussions that led to a draft proposal for a new constitution, further progress is needed in order to assign to the regions responsibilities that could be better managed at that level. Additionally, subnational governments should have some power and independence in funding of the implementation of local and regional programs and projects.

### *5.2.3 Direct Democratic Participation*

As described in earlier sections, Bolivia has adopted referenda as a means to consult the population on a very broad range of issues. Amazingly enough, in four years after its inception in the Bolivian law, this mechanism has been utilized on six occasions at the national level and four occasions at the regional level. But this does not imply that Bolivians' interests have been more effectively articulated than in the past. All these referenda met with varying degrees of well-reasoned opposition based on both formal and substantial concerns. Since Bolivia's Constitutional Tribunal was rendered virtually powerless some time ago, there is no legal mechanism for resolving such cases.

Once the institutions of direct democracy have been adopted, it is crucial to protect them and to promote them as a powerful way of clearly communicate the population's preferences. It is also important to regulate these institutions in order to avoid their manipulation with the intention to block executive initiatives, endanger governability, or pursue special interests. It is well-known that, because of the "rational ignorance" of voters, the electorate can become the victim of predation, and the indiscriminate use of referenda could exacerbate this problem. Regulations should therefore delineate which issues which are and are not subject to a referendum, as well as limit the frequency of referenda to avoid their

indiscriminate use. Additionally, information that the voters should receive prior to the ballot should also be regulated and made widely available. Finally, it is crucial to develop a trustworthy electoral system, preserving its independence from the ruling parties and protecting electoral registries from any sort of manipulation.

#### *5.2.4 Balanced Regional Development Policies*

Equitable development and the eradication of poverty are goals which require specific policies to develop the western part of Bolivia. Not only is poverty concentrated there, but it is also the country's most populated area and the location of the seat of government. Not surprisingly, this part of the country is the epicenter of social conflicts.

It is only through improving market access and making labor-intensive investments (both private and public) that this region will develop. Both, however, are much more easily said than done. Beyond ideological posturing in favor of an unattainable welfare State, there is a need to create consensus to assigning a greater proportion of resources to the poorer rather than more affluent regions. The distribution of these resources has been the subject of the most recent regional and social unrest in the country. A precondition to implement effective development policies in this part of the country is to open a dispassionate debate on these matters.

#### *5.2.5 Social Cohesion*

Social cohesion represents Bolivia's greatest challenge in the near future, as recent power struggles have deepened most of the cleavages in Bolivian society. Even after the adoption of constitutional provisions allowing the formation of autonomous governments in all nine departments, regional tensions remain strong between the eastern and the western regions, and those tensions are still based on each region's vision for the country's future. At the same time, addressing Bolivia's cultural diversity, which has called for the formation of a multicultural nation, means that the existence of 36 indigenous ethnic groups recognized as nations with the right to organize themselves according with their traditions, must now be harmonized with the existence of one State. There is no formal recognition, however, of the large mestizo population residing in urban areas. As a result, urban and rural interests are now in conflict, and there is currently a struggle about their representation in the new Pluri-national Legislative Assembly, which will replace Congress after the national election of 2009.

The future of Bolivia's PMP depends on the country's ability to design a new institutional order capable of coping with all the regional, social and political conflicts that have been exacerbated over the last few years. The principal concern is no longer inclusion, but rather a quest to unify the country's diversity according to a common vision of a shared future within the boundaries of a vast territory.

## **6. Conclusions**

The PMP in Bolivia has experienced substantial shifts over the years. Traditional political parties have lost legitimacy and representation, and social movements have become paramount players. At the same time, regional organizations and regional governments have acquired significant leverage. While Congress has experienced a significant loss of legitimacy as a policy arena, the streets have acquired new preeminence in the PMP. Policy objectives have become essentially short-sighted and productivity goals have been largely neglected. Finally, representative democracy system has lost ground to a "participative and direct type of democracy," where results of a "cabildo," a referendum or an assembly drive the PMP.

The following factors help to explain these changes: i) loss of legitimacy of the political coalition system, ii) insufficient maturation time for the reforms to deliver results, iii) emphasis of reforms on capital-intensive sectors, and iv) regional differences in the acceptance of the reform process due to existing socio-economic gaps across regions.

The coalition system, which during the 1990s had very effectively ensured governance—thus maintaining democratic and economic stability and the deepening of the reform process—became exhausted over time and lost favor in the eyes of the population. Moreover, a high degree of electoral dispersion made it increasingly difficult to form a coherent coalition, since it became necessary to include an ever-larger number of parties to gain control of Congress.

The structural reforms carried out during the 1980s and 1990s have produced remarkable results in terms of productivity increases in sectors where reforms were implemented, such as hydrocarbons, electricity, and telecommunications. The reforms brought about significant inflows of FDI to these sectors, which in turn increased the production of services and the population's access to them. The reform process also addressed distributive policies through reforms such as Popular Participation, which transferred fiscal resources and competences to municipalities and departments. Support for the reform process, however, has tended to decline,

especially in the western highlands regions comprising the departments of La Paz, Chuquisaca, Cochabamba, Oruro and Potosí.

Historically, these regions have favored a State-led economic model. The opposite occurs in the eastern lowlands, which have supported parties favoring market-oriented policies. Differences in support for reform across regions seem also to have been determined by differences in socio-economic factors such as per capita GDP, education, race, language and GDP growth.

Several other factors have profoundly affected popular support for the reform process as well as the PMP itself. While the reforms focused on capital-intensive sectors, bringing about large inflows of FDI, productivity gains and increased salaries for workers in those sectors, the labor-intensive sectors that employed most of the labor force displayed much lower productivity increases and real income gains. These discrepancies have greatly diminished support for the reform process.

Finally, the reforms implemented during the 1990s did not have a sufficiently long maturation period to deliver positive results in the eyes of the population. The economic crisis of the late 1990s, which deeply affected economic activity and employment, reduced support for the political parties who participated in implementing the reforms.

The current PMP in Bolivia, however, is not sustainable in the long run for a variety of reasons. For instance, the disregard for economic and productivity objectives that presently characterizes the PMP will eventually result in reduced growth and employment capacity, which will in turn eventually reduce support for the counter-reform process.

Bolivia urgently needs to develop a new PMP that is both more inclusive and places a greater emphasis on productivity and employment creation that will make that PMP sustainable in the long run. In particular, policies to foster productivity should focus on sectors that were neglected in the reform process. Bolivia additionally faces the challenge of building a more sustainable PMP based on greater equity and eradicating poverty. A sustainable PMP must promote policies aimed not only at enhancing productivity, but also at attaining goals which society as a whole has agreed upon.

This will not be an easy task. At the root of all challenges for the PMP lies a pressing need to restore social cohesion. In the recent past, the struggle for power has deepened most of the divisions in Bolivian society. Therefore, Bolivia must build a new institutional order capable

of unifying the country's diversity according to a common vision of a shared future. Only such a framework can restore order to the selection of public policies that best serve the interests of the Bolivian population at large.

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## **Annex A: Actors, Interests, Arenas, and Currencies**

The 2006 IDB report on economic and social progress in Latin America, *The Politics of Policies*, provided an in-depth analysis of the process by which public policy decisions are made and implemented in the region. A number of country studies accompanied that report, but Bolivia was not a case under scrutiny. Hence, this Annex is intended to fill that gap by describing actors, arenas, interests and currencies that are part of the policymaking process in the country. Obviously, an emphasis is placed on those actors which constitute the main building blocks of the research presented in this paper. Here, the reader will find some additional background information on the driving interests of relevant actors for the PMP, the arenas where they interacted, and the mechanisms and currencies used during the reform process and its ulterior reversal.

### ***A.1. Institutional Development and the PMP Process: An Overview***

To better understand the roles played by different actors in the policy arenas and domains which brought the decision-making process “from Congress to the streets,” as is discussed in this paper, it is useful to bear in mind that Bolivia, aside from being poor, is a highly-fragmented society with a low level of institutional development. These characteristics have interacted to prevent any deep rooting of State policies which could foster development if applied consistently over time.

The most prominent lines of social cleavages in Bolivia are regional, territorial, class, ethnic, and ideological. Hence, efficient and equitable policy design is cumbersome. In addition, the introduction of ways to open up social participation in the decision-making process has been very slow, especially for the recognition of a rising social demand for tending to the pressing conditions emerging from severe economic crises and external shocks.

The National Revolution of 1952, which introduced an agrarian reform, abolished peasant servitude, and granted voting rights to women and the rural population, proposed the construction of a nation-state based on a broad alliance of classes. This ideal was not achieved. Instead, under both democratic and military regimes, exclusion was the norm in forming ruling coalitions that were not infrequently corrupt. Moreover, public policy design and implementation was increasingly centralized, exposing the decision-making process to pressure and lobbying.

In the period covered by this paper, Bolivians had to adapt to new conditions after a profound economic and institutional reform process, with an obvious new balance of winners and losers. That process was subject to misperceptions about who was obtaining greater benefits or enduring the pains coming from the reforms, which exacerbated social tensions and, ironically, ended up unifying a large part of the population against the reforms.

The reform process initiated in 1985 was first devised to cope with hyperinflation, and then to remove structural obstacles to economic and social development. Institutional reforms designed to deal with social and political imbalances were introduced in a second generation reform which began only in 1993.

Military regimes governed the country for almost two decades before the return of democracy in 1982. During the time under military rule, relations between the State and civil society were corporatist in nature. Only one major political party has existed since the 1940s; all others were born as part of the struggle for the return to democracy and thereafter. Therefore, the issue of formal and democratic participation and representation is still an evolving matter and subject to constant debate in Bolivia.

In general terms, it is difficult to link the influence of social actors to their economic weight in society. The sectoral composition of GDP and employment does not greatly help to explain various players' weight in the PMP at any given moment. Over most of the period covered in this paper, agriculture has been the most important sector in the economy, accounting for almost 20 percent of GDP and 40 percent of employment. However, neither the rural population nor the business community involved in this sector was an influential player in the PMP. The historical composition of exports offers only a somewhat more valuable guide. Mining led Bolivian exports until the collapse of tin prices in 1985, and until that time both labor and business organizations in that sector were prominent in the country's political and social life. However, after the collapse of mineral prices worldwide and the close of state- and privately-run mining operations, this sector had almost disappeared from the scene. Natural gas, soybeans, and agroindustry have overtaken the former preeminence of mining in the economy, but people in these sectors have not attained decisive influence in the PMP.

While results from the 2004 referendum and the 2005 elections, have clearly shown that a majority of Bolivians have put an end to 20 years of liberal and market-oriented policies designed to enhance productivity, no clear alternative has emerged. The Bolivian government

is currently attempting to implement policies consisting of a mix of indigenism, socialism and nationalism, with no particular emphasis on productivity. This process has polarized the country in terms of ethnic sentiments, political preferences and regional interests, creating a unique situation of conflict and opportunity with deep implications for the PMP.

## **A.2. Institutionalized Actors**

### **a) The Political Party System**

The Bolivian political party system is in the midst of a profound crisis, making governance in Bolivia increasingly difficult. It is widely admitted that politicians lost contact with their constituencies a long time ago. In order to attain power, political parties have relegated programmatic guidelines in favor of short-lived pragmatic ruling coalitions. This has served to discredit the political party system and eroded its ability to represent the population.

In view of this circumstance, some of the second-generation reforms were intended to open up the space for greater social participation. In 1994, the Popular Participation Law (PPL) divided the nation's territory into 311 autonomous municipalities and provided for direct election of councilmen and mayors, with the intention of making municipalities an arena of direct democratic participation. It also devised grass-root consultative and supervisory bodies (*Consejos de Vigilancia*) to interact with the elected officials in setting priorities for the allocation of resources. Along these lines, some responsibilities in education, health and infrastructure were transferred from the central government to the municipalities. Funding for these autonomous entities is based on a revenue-sharing mechanism and on directly collected local taxes. Links with the national government were defined through regional administrations (*prefecturas*) in the Decentralization Law, which in turn had transferred resources and responsibilities from the central government to subnational governments.

Also in 1994, the Constitution was amended to introduce a German style mixed-member proportional electoral system. Local constituencies now directly elect half of the Lower Chamber. Political party affiliation was removed from the requirements to be elected as a Deputy or as a member of a municipal council. Political participation was opened up to other organizations different from political parties. These were called citizen organizations (*Agrupaciones Ciudadanas*) in an additional attempt to cope with the erosion in the role of political parties as intermediary bodies for Bolivian society. To grasp the significance of this

decision, it could be mentioned that the very same year in which political participation was opened up, 400 Agrupaciones Ciudadanas were legally organized to take part in municipal elections held that year.

All these reforms, however, could neither institutionalize social participation in the decision-making process nor restore confidence in the political party system. The political landscape was even more fragmented after these reforms. Not only was the number of political parties participating in national or municipal elections increased from 8 to 14 between 1979 and 1993 (see Table C.1), but also the number of Agrupaciones Ciudadanas almost doubled in number between 1994 and 2002. The reform, intended to give the population an alternative to previous forms of political representation, was underestimated by the traditional political parties. With the exception of the momentum gained after 2002 by the Movimiento al Socialismo, a political agglomeration which does not conform to most of the characteristics of a political party in a strict sense, there is no evidence of any major change in the way the political party system was structured or run which would have brought them closer to their constituencies.

**Table A.1.**

<b>Election Year</b>	<b>Number of parties:</b>	
	<b>Participating</b>	<b>Gaining a seat in Congress</b>
1979	8	7
1980	13	11
1985	18	10
1989	10	5
1993	14	8
1997	10	7
2002	11	8
2005	8	4

*Source:* Based on Mayorga (2005) and Corte Nacional Electoral (CNE) data.

Demands for greater participation and inclusion mounted after the implementation of the PPL, the decentralization law, and the 1994 constitutional amendment. In 2004, after dramatic social unrest related to hydrocarbon policies, and the resignation of the incumbent President, Congress passed a law allowing for referenda on public policies at the national,

regional and local levels. This institution of a tool for direct democracy was first and immediately adopted to decide on the nationalization of the hydrocarbons sector. Later, in 2006, this form of direct participation in the decision-making process was introduced to the Constitution with an amendment which enjoyed widespread support but not full conformity with the provisions for the reform of the constitution.

The lack of effective intermediary bodies in the political system has de-institutionalized the PMP and contributed to the multiplication of representing entities with a disperse agenda of local and sectoral interests. The ideas at play were concentrated in the extremes of the political spectrum, as was reflected in the 2005 election results. That year, the number of political parties decreased to 1979 levels but the Movimiento al Socialismo, which proposed ending capitalism in the country and reversing the reforms implemented since 1985, won 53.7 percent of the vote, which made it unnecessary for President-elect Evo Morales to form a coalition with another party.

The crisis in the political party system was caused not only by historical factors with deep roots in the structure of Bolivian society, but also by the system's failure to respond to events, thus signaling their divorce from the interests of the general public. If we look back to the 1951 election,<sup>2</sup> we can find a regional split in voting similar to that encountered repeatedly in the period covered by this paper—in spite of massive differences in suffrage. In 1951, the electorate was comprised only of urban and educated men. Women and illiterate people (almost the entirety of the rural population at the time, and the vast majority of the population nationwide) were not allowed to vote. The vote in the west nonetheless favored the MNR, which was championing the end of the quasi-feudal social arrangements prevailing at the time, while the east was mostly inclined in favor of the status quo. This geographical divide has persisted in the period covered in this paper. There are immediate reasons which could explain this behavior, some of them related with the reform process, and other cultural and structural factors may also have contributed to this result. It could then be questioned why the political parties have not responded adequately to this trend. One possible explanation has to do with a

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<sup>2</sup> This section is broadly based on the third edition of Romero Ballivián (2003). In addition to being the single most important book on the sociology of the electoral process in Bolivia from 1979 until 2002, it is also an interesting history of the major political parties which participated in those elections.

natural tendency of all political parties to lean to the center and away from the left,<sup>3</sup> at least in the eyes of the electorate. This is so because there is always room for a new political party which will proclaim more radical ideas in defense of the interest of the largest segments of a society. At the same time, political parties already in the arena are occupied with attempting to gain support from other segments of society with some real circumstantial power. In the case of Bolivia such a party is the MNR, which in 1952 carried out agrarian reform, nationalized the mining sector; instituted voting rights for women and the rural population; opened up the economy in 1985, and introduced all the market-oriented reforms analyzed in this paper. The MNR is the only political party which has lasted more than six decades. Annex C presents a list of more than 40 political parties that have participated either alone or as part of an alliance in the elections held in the period covered by this paper. Most of these parties do not exist today. The bulk of them, if not all, entered political life as left-leaning entities or at least entities claiming to defend the interest of the poor, the indigenous population and the impoverished middle classes. Among Bolivia's parties, only the MAS has been able to increase its share of the vote in the last three elections through increasingly radical proposals opposing the traditional political system and market-oriented reforms.

*b) State Institutions*

The reform and counter-reform process (1985-2008) examined in this paper has taken place under a Constitution which has since been replaced. The new Constitution was drafted in a Constitutional Assembly (2006-2008) dominated by the MAS, later modified by a Congress (2008) with a MAS majority, and approved by the population in a January 2009 referendum. This referendum displayed the same regional divide as other elections. The western part of Bolivia approved the new Constitution, while eastern and southern parts rejected it.

However, it is still relevant to portray, although briefly, the nature of the rules and regulations which governed the life of the State in the period covered in this paper. The movement of the PMP “from Congress to the streets” requires a short discussion of the former Constitution. At the end of this section we single out the main implications of the new Constitution for the PMP.

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<sup>3</sup> Here we adhere to the notion that right and left are relative categories in the political spectrum, beyond ideological confinements.

Bolivian State institutions were organized in three independent branches: Legislative, Executive, and the Judiciary. The Constitution called for the coordination of these powers, but at the same time proclaimed their autonomous status. None of these branches was supposed to prevail over any of the other two. The Constitution provided for checks and balances intended to attain this objective. Of course, this ideal has been elusive for both the Legislative and the Judiciary. In practice, the executive branch has strengthened its position in relation to the other due to informal mechanisms, especially in cases where the President has enjoyed a strong hold on the politics of the ruling party or coalition.

The general belief among Bolivians is that the Presidency officially holds all governmental powers. This was not the case according to the text of the Constitution, which formally assigned a range of powers to Congress. However, Bolivian presidents have enjoyed a great deal of informal power, especially because they decided who would be included on his party's electoral list. In addition, allocations of budget items and public sector positions have been powerful tools for gaining influence over Congress. In contrast, Congressmen were not highly experienced in public policy, and they were not able to build strong legislative advisory bodies.

In most of Bolivia's recent history, each newly-elected President has come from an opposing force to the ruling party. This has major implications for the PMP, because most incoming administrations have embarked on reversing or restructuring at least some of their predecessors' policies. In doing so, however, politicians were guided by their short-term interests in remaining in power and discrediting their opponents rather than taking into consideration the long-term progress of the country.

The new Constitution has introduced changes in the organization of the State which call for the design of a new PMP. The former Constitution envisioned a country ruled by a central Government that granted autonomy to municipalities only according to very well-defined roles and a revenue-sharing mechanism. The new Constitution, however, allows for the formation of autonomous governments in those departments in which the inhabitants decide to adopt this form of government and additionally grants the right to peasant and indigenous populations to create autonomous governments in their own territories. A fourth type of autonomous government could also be formed by grouping municipalities which decide to unify their territories in an autonomous region, each with its own governing and deliberative mechanisms.

While the new Constitution stipulates the policy areas reserved to the national level and specifies policy domains under the aegis of each autonomous level, the risks of overlapping jurisdiction have not been properly addressed, and some areas are subject to different interpretations which leave the autonomous regime without any clear limits. Furthermore, not all autonomies will have the same structure; therefore, some missed links will require additional regulation in order to promote smooth and orderly functioning of the State.

The new Constitution puts the State at the center of the development process. The State should conduct the economic development planning with the participation of, and in consultation with, the population. Provisions of the general development plan are binding on both the public and the private sector (Article 316). The Constitution also grants the State authority to command and control the exploration, exploitation, industrialization, transportation and marketing of all natural resources (Article 351), which are broadly defined as comprising minerals, hydrocarbons, water, air, land, forest, biodiversity, the electromagnetic spectrum, and any other physical elements and forces with the potential to be exploited (Article 348). Furthermore, private participation in the exploitation of natural resources is seriously restricted by regulations which inhibit the free administration of profits by private investors (Articles 351 and 355). Hence, the new PMP must encompass not only the responsibilities associated with managing newly nationalized companies, but also newly created companies such as a national airline, some paper and cardboard factories and dairy plants across the country. Moreover, the new PMP must define the allocation of resources to all sectors under this new and expansive definition of natural resources.

The new Constitution further establishes universal rights to access to free primary, secondary and tertiary education (Article 17); free health care attention for the whole population (Articles 18 and 35); the right to access to water supply, sewage, energy and telecommunications services provided by the State (Article 20), and the right to a minimum retirement pension financed by the State (Article 67). Although these rights could be interpreted as progressive in their nature, they have profound implications for the PMP at the national, regional and local levels.

The new Constitution also establishes that civil society organizations will exert control over all State institutions and administrations, and over the quality of basic services (Article 241). The adoption of this form of supervision and, to a certain extent, of regulation, requires

careful design of ways to form these civil society organizations and the means by which they will make their decisions enforceable. Such control mechanisms, unless properly embedded in the new formal PMP, could be detrimental to the allocation of resources in the economy.

*c) Civil Society Organizations*

Civil society organizations have had different degrees of influence and/or participation in the policymaking process in Bolivia. This participation has evolved over time from isolated and issue-specific involvement to more consistent involvement in policies regarding national interests. It is useful to distinguish between at least two different kinds of civil society organizations in Bolivia. On the one hand, there are traditional and well organized entities (labor unions, regional representations, business associations, and the like), and, on the other hand, there are recently-born and less formalized organizations with a great degree of popular appeal and a greater capacity to aggregate social demands (better known today as “movimientos sociales” or social movements). In essence, the means by which these organizations have sought their objectives has not changed over time, but the latter have taken increasingly radical approaches in the recent past.

- **Business Organizations**

- **Confederación de Empresarios Privados de Bolivia (Private Entrepreneurial Confederation)**

Founded in the early 1960s, this organization has been influential in the political life and the PMP of Bolivia. Before democracy was re-established in Bolivia, corporatist forms of participation were the norm. Both business and labor organizations participated in the political life of Bolivia through their associations. In the case of the business community, their concerns were mostly related with sectoral rather than national interests. Relations with the government were handled without any political intermediation and proved very effective. As government had been the largest contractor in the economy until the reform process, therefore, an intricate network of relations was formed with politicians and government officials. Under these circumstances, there was very little interest in participating in the life of political parties, with obvious and commendable exceptions.

Contrary to general belief, the Bolivian business community subtly opposed market reforms. The reform process opened the economy to international trade and, therefore, to competition by lowering tariffs to the lowest range in Latin America and eliminating all non-tariff barriers. Public enterprises were either closed or handed over to the private sector, and economic policies tended to be neutral. These measures created a new landscape for the business community by fostering competition and significantly diminishing government procurement.

The reform process and conditions in the world economy have determined a regional shift in the center of power of the business community. During a period of State dominance of the economy and high international prices for minerals, Bolivia's western entrepreneurs had a great deal of influence in the PMP. Nowadays, this center has moved to the east, to Santa Cruz, where the largest private national and foreign companies are located, and whose business organizations' main interests have generally been limited to specific sectoral issues.

In recent years this confederation has lost its influence and has not been able to speak with a single voice for its members, and at present business organizations from the prosperous eastern region of Bolivia do not participate in the national confederation. The present Government is proposing the reversal of market-oriented reforms which ironically may bring government-business relations to the way they were before the reform process, something that is welcomed by some members of the business community.

- **Labor Organizations**

Labor unions have a long tradition in Bolivia. Although most of them were created under democratic regimes, their biggest influence in the PMP was developed during military regimes. Labor associations have a national leading entity; however, some sectoral or regional organizations are of greater importance than their respective confederations. Though these organizations are non-partisan, their political slant is evident, labor organizations favor left-leaning ideas, in the same way business organizations favor right-leaning beliefs. Labor organizations are concerned with both labor interests and national economic and political concerns.

### **Central Obrera Boliviana (COB, Bolivian confederation of labor unions)**

Founded in the early 1950s, it is one of the oldest organizations of civil society in Bolivia, and it has been one of the most influential organizations in political life, taking up issues beyond labor-related interests. Although formal sector employment in Bolivia has been a small part of total employment, the COB was a leading institution in the defense of democracy during the military regimes, and it was a firm opponent of stabilization policies in 1985. The lead of this confederation has changed hands over time. Miners were the most influential group until the collapse of tin prices in 1985 (until then, the most important export item of Bolivia, run by a state-owned enterprise). Peasant organizations subsequently took the lead until recently. Since 2002, the COB, and some of its regional branches in particular have reemerged as influential actors in the PMP.

### **Confederación de Maestros de Bolivia (teachers' labor union)**

Teachers account for almost one half of the public sector workforce in Bolivia. Urban and rural teachers belong to separate labor unions under one single confederation, which is a highly-politicized organization. Teachers' union leaders come from political parties on the far left. They were at the center of the opposition to the educational reform passed by Congress in 1994, which for the first time established a bilingual and intercultural educational system.

- **Regional Organizations**

The further a region is located from the government's seat, the greater the importance of regional organizations. To some extent, their strength reflects the central government's neglect of certain regions. Their main interests have involved drawing attention to local demands or to the execution of specific public investment projects, and obtaining a larger share of yearly budgets. However, to the extent that the political party system has lost its ability to represent the population, regional organizations have begun to take strong and influential stands on the country's overall political agenda.

These entities are currently the leading force for the reorganization of the State into nine autonomous regions. Some of those groups proposed a national referendum for this purpose, which was passed in four of the country's nine departments. After some years of intense debate, there is now nearly national consensus on reforming the State into autonomous

regions. Of course, there are great differences between the Bolivia's east and west regarding the form such autonomy should take.

### **Comité Cívico Pro Santa Cruz (a regional civic committee)**

This emblematic organization encompasses almost all forms of urban and rural civic representation in the Santa Cruz region. It has been in existence for 58 years and has played a decisive role in obtaining hydrocarbon royalties for Santa Cruz. The organization has served as a model for the creation of similar, although not equally successful, civic committees in all nine departments (regions) of Bolivia. The hydrocarbon royalty system demanded and attained in Santa Cruz has, moreover, become a State policy nationwide. This group is additionally the leading force advocating the reorganization of the State into autonomous departments.

### **A.3. *Non-Institutionalized Actors***

Civil society organizations had different degrees of influence and/or participation in the policy-making process in Bolivia. This participation has evolved over time from isolated and issue-specific involvement to more consistent intervention in policies regarding national interests.

These organizations have influenced policies in the recent past and have significantly changed Bolivia's PMP. As the policy agenda moved from pure stabilization towards structural reform, to a large degree dependent on congressional support, civil society organizations played a greater role (as supporting or opposing forces) but without any open recognition in the PMP. More recently, some of these organizations are at the center of the PMP, or at least hold enormous power to approve or disapprove policies adopted by the executive.

### **Confederación de Pueblos Indígenas de Bolivia (CIDOB, Indigenous peoples' confederation)**

Founded in 1982, by representatives of four ethnic groups living in the eastern part of Bolivia, this organization represents 34 indigenous groups in seven out of Bolivia's nine departments. This organization was one of the first to ask for a Constitutional Assembly in order to get the recognition of the different indigenous groups in Bolivia as nationalities other than the Bolivian nationality. The group fought for land, especially areas belonging to them before the colonial period, but also areas belonging to them before the development of extensive agricultural cultivation. In the late 1990s members of the group marched hundreds of

kilometers to La Paz to demand their property rights, and this march is regarded as a turning point in the influence of social movements to attain changes in public policies.

### **Coordinadora del Agua**

This informal entity represented a coalition of social movements in the city of Cochabamba in order to bring about the expulsion of a foreign company which was granted the concession for the city's water supply. In the year 2000, after months of negotiations, conflicts and a violent confrontation with the police in what was afterwards called "The War for Water," this foreign company was expelled from Bolivia after two years of operations. Three years later, a similar movement in La Paz forced the termination of a concession contract with another foreign company in charge of that city's water supply, after almost seven years of operations. The "War for Water" is a landmark in the ability of social movements to pursue sweeping changes in policies adopted by Government. The most extreme case of this type of mobilizations has been "The War for Gas" in October 2003, opposing an alleged intention of the Government to export gas through Chilean territory, a country with which Bolivia has a century-old claim for regaining access to the Pacific coast, lost after a war. This mobilization resulted in the fall of the democratically-elected government after only one year and three months in office.

### **Coca Growers Associations**

Almost 20 coca growers' unions represent the interests of this sector in the countryside of Cochabamba and La Paz. Their immediate purpose has always been to curb coca eradication efforts and to expand the area of legal coca plantations. Interestingly enough, these organizations have retained power and influence even at times when illegal coca plantations were almost eliminated. This sector is at the root of the Movimiento al Socialismo, the party currently in power.

#### ***A.4. External Actors***

International financial institutions and official aid agencies have also influenced the PMP. These institutions have used their financial leverage in support of policies which matched their international aid agenda. Most of the time, however, it was possible to find a common ground with domestic agendas, contributing both to the reform process, but also to its reversal.

#### **A.5. Arenas**

##### *a) Task Forces*

During the reform period, task forces outside the government formal structure were ad hoc teams of external and local advisors and policymakers involved in formulating the reform strategy to be presented to the President and Cabinet. These task forces were extremely active in the stabilization period and the first steps of the reform, but their role eventually faded as the stabilization process was consolidated and as other major reforms were not introduced until the 1993 administration.

##### *b) President's Inner Circle*

The President's Inner Circle comprised the President and its closest advisors, some of them members of cabinet. The importance of this arena varied sharply with different governments, being a crucial stage for decision-making in some administrations but completely lacking power in others.

##### *c) The Cabinet*

The cabinet comprises the ministers which represent the main political allies of the governing coalition and independents. In the stabilization phase, the reforms were approved by the executive branch only, because of the nature of the reforms applied and the need for swift action. When the reforms needed congressional approval, the cabinet sent the proposal to Congress, but if the coalition had secured a majority in the Congress, then the approval in the cabinet assured the congressional approval as well.

##### *d) Congress*

Congress had the power to block any reform initiative, not only those which needed congressional approval. Therefore, it was important to have some control of Congress. This support was assured by the formation of a coalition. In the reform process, governability was soon interpreted as having a coalition large enough to control the Congress. As explained in the main text, Congress did not foster any major reform initiatives, and few of its members had a deep understanding of the initiatives presented to it. The legislature (perhaps only with exception of regional laws), followed the decisions taken by the leaders of the ruling coalition.

The role of Congress has decreased over time, because the social movements found the way to force the decisions of this body. The legislative branch is largely irrelevant to the

counter-reform process, and its role has been diminished. In fact, the virtual elimination of the constitutional court was devised to reduce the role of Congress.

*e) Institutionalized Bureaucracy*

After the first generation of reforms, the task forces were institutionalized in a series of independent institutions such as the Central Bank and Superintendencies. Public administration was professionalized and had an increased voice in decision-making, a process reinforced by the institution of a civil service program. This bureaucracy had a very important and sometimes a leading role in the second-generation set of reforms. The institutionalization of councils, where ministers and the bureaucracy met to examine and endorse economic policy measures (for example the council for economic policy, the council for social policy, the macroeconomic group, etc.), was an important step in reinforcing technical and professional influence on decision-making. One of the objectives of the MAS administration is to dismantle the institutions which correspond to a liberal democratic administration, and it began by replacing government officials from former administrations with public servants which have an ideological affinity with the new administration. The administration has also closed the offices of independent regulators and transferred those competencies to sectoral ministries. Only two regulators (financial intermediation and hydrocarbons) remain as independent entities, and Central Bank independence was almost eliminated by the new constitution.

*f) Assemblies and Streets*

“Social movements” make their decisions, in “cabildos” (in which the people gather, without any formal affiliation) and labor unions in “general assemblies” of labor union members. In these arenas, the leaders set forth a proposal to those in attendance, who approve or reject it, usually by majority vote. This decision is then communicated to the Executive. If the demand is rejected, social movements or labor unions begin a process of negotiation accompanied with protests in the streets, which becomes the central arena for a final policy definition.

*g) Executive Branch*

The executive branch is a key player in the counter-reform process. Since this process tries to impose the decisions of the streets, it tries to circumvent the institutions of representative democracy, especially the checks and balances system. Therefore, the process tries to concentrate power in the executive branch. The executive branch is engaged in a very complex relationship with the social movements, sometimes using these movements and sometimes facing their attempts to impose its decisions on the executive branch.

*h) Constitutional Assembly*

Because the decision-making mechanisms and institutions were designed to follow the rules of representative democracy, these are not functional to the “direct democracy” proclaimed by the counter-reform process. Therefore, a constitutional assembly was elected to try to formalize and institutionalize a “direct democracy” system. After two years of work and several conflicts, the majority of the assembly approved a new draft of the Constitution, which was later modified to gain political support from certain political parties with congressional representation. A new version of the proposed constitution was submitted to the consideration of the electorate and approved in a January 2009 referendum. This new Constitution reflects most of the ruling party’s principles and does not reflect a social pact adaptable to future needs. Some of the problems that led to the de-institutionalization of the PMP in Bolivia remain unaddressed and others have been amplified. For instance, the State will be organized into four different forms of autonomies, with potential overlapping of territorial spaces and competences and no mechanism devised to deal with such problems. The Constitution has established a one-year term for the approval of the norms that will implement its provisions (Fifth Transitional Disposition) after the election of the new Pluri-national Legislative Assembly. It is thus very likely that in the early stages of the implementation of the new constitution no formal PMP will be institutionalized for the design of public policies over the long run.

## ***A.6 Mechanisms and Currencies***

### *a) Congressional Support*

The political coalition system in Congress proved a very effective mechanism for governance, which was a necessary condition for maintaining democratic and economic stability and implementing the reform process. The reform process experienced significant advances in the 1985-1989 and 1993-1997 administrations, and slowed down between 1989 and 1993. The coalition system, however, became deeply exhausted over time.

The system lost credibility because Congressional coalitions were increasingly formed based on the basis of clientelistic objectives rather than policy-based agreements. In addition, the traditional political parties were accused of covering up corruption cases. At the same time, social movements and trade unions gained power and succeeded in unifying diverse sectoral demands under one single cause, which was the reversion of the structural market reforms.

### *b) Budget Allocations*

Budget allocations were an effective tool for gaining support for ruling government policies. As explained earlier, members of Congress had an increased interest in gaining local and sectoral support. An effective way to do so was to fight for a greater share of public funds and to obtain financing for highly-visible regional public investment projects. However, “over-budgeting” was not a common practice; hence, the budget allocation process distorted to some degree the main policy objectives of the Government. The extent to which this was politically damaging depended on the strength of the main political party of the coalition and its leader, i.e., the President.

### *c) Demonstrations*

As Congress and political parties lost their representativeness of the population, citizen organizations were active and vocal in channeling their demands. These organizations were not part of the PMP (some instances of people participation operated only at the municipal and departmental levels, most of them co-opted by the political parties). Therefore, their voice was only heard when they exerted some sort of pressure, most of the time on the central government and sometimes on municipal governments. Road blockades, strikes, marches and hunger strikes were the means by which these organizations sought and attained their objectives. These mechanisms have proven to be increasingly effective—to the point of almost

replacing the formal PMP. Since the social movements are now part of the MAS administration, the Government has used this mechanism to its own advantage. The passage of critical pieces of legislation has been attained by mobilizing political followers to lay siege on Congress until their objective is attained.

*d) Conditionality*

Conditionality was a means by which international financial institutions and official aid agencies gained support for their policy agenda. During most of the period under analysis, Bolivia was heavily dependent on foreign aid. During those regimes with a clear policy agenda, conditionality, and more importantly, cross-conditionality was not a major obstacle. To the contrary, it supported the implementation of the government's policy agenda. However, as the coalition system lost coherence in its policy orientation, conditionality became a tool to implement donor preferences.

### Annex B. Policymaking Process in Bolivia over Time

<b>Years</b>	<b>Political Events</b>	<b>Actors</b>	<b>Arenas and Currencies</b>	<b>Economic Events (Outcomes)</b>
1971-1978	<ul style="list-style-type: none"> <li>▪ Banzer Government</li> </ul>	<ul style="list-style-type: none"> <li>▪ Armed Force</li> <li>▪ Entrepreneurial sector</li> <li>▪ Corporate Groups</li> </ul>	<ul style="list-style-type: none"> <li>▪ Military dictatorship, decision imposed by the use of force</li> <li>▪ Political repression</li> <li>▪ Individual liberties and press control</li> </ul>	<ul style="list-style-type: none"> <li>▪ State-controlled economic model</li> <li>▪ External indebtedness</li> <li>▪ High commodity prices</li> <li>▪ Export and commodity boom</li> <li>▪ Natural gas exports to Argentina began</li> </ul>
1978-1982	<ul style="list-style-type: none"> <li>▪ End of the Banzer dictatorship</li> <li>▪ Political uncertainty and volatility</li> <li>▪ Attempts to return to democracy</li> <li>▪ Succession of short-lived democratic and military governments</li> <li>▪ Exhaustion of the military regimes</li> </ul>	<ul style="list-style-type: none"> <li>▪ Armed Force</li> <li>▪ Political Parties (MNR, ADN, UDP)</li> <li>▪ Trade Unions (COB)</li> <li>▪ Informal Groups (Left-wing sectors)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Military dictatorship</li> <li>▪ Street demonstrations and protests</li> <li>▪ Hunger strikes</li> <li>▪ Congress and political parties</li> </ul>	<ul style="list-style-type: none"> <li>▪ Economic crisis towards the end of the 1970s and beginning of the 1980s</li> <li>▪ Debt crisis</li> </ul>
1982-1985	Return to Democracy (Siles Suazo Government)	<ul style="list-style-type: none"> <li>▪ Government (UDP)</li> <li>▪ Congress (dominated by opposition parties, MNR and ADN)</li> <li>▪ Entrepreneurial sector</li> <li>▪ Trade Unions (COB)</li> <li>▪ Social movements</li> <li>▪ International financial organizations (IMF)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Congress (Congress blockade to government initiatives)</li> <li>▪ Street demonstrations by trade unions (COB) against the government</li> </ul>	<ul style="list-style-type: none"> <li>▪ Hyperinflation and shortages of basic goods</li> <li>▪ Debt Crisis</li> <li>▪ Large fiscal deficit</li> <li>▪ Continuous GDP fall</li> <li>▪ Failed stabilization policies</li> </ul>

<b>Years</b>	<b>Political Events</b>	<b>Actors</b>	<b>Arenas and Currencies</b>	<b>Economic Events</b>
1985-1989	<ul style="list-style-type: none"> <li>▪ Paz Estenssoro government</li> <li>▪ First congressional pact to ensure Congressional majority and governance (MNR-AND)</li> <li>▪ Alternative Development strategy and Law 1008</li> </ul>	<ul style="list-style-type: none"> <li>▪ Government (President and some Cabinet members)</li> <li>▪ Congress (political parties)</li> <li>▪ Corporative Groups</li> <li>▪ Trade Unions (COB)</li> <li>▪ International Financial Organizations (IMF, WB, IDB)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Congress (Congressional majority)</li> <li>▪ Weak labor and social movements</li> </ul>	<ul style="list-style-type: none"> <li>▪ Stabilization Policy package (D.S. 21060)</li> <li>▪ De-regulation of key markets (financial, exchange and goods markets)</li> <li>▪ Labor market flexibilization</li> <li>▪ Opening of the economy to foreign trade</li> <li>▪ Tin crisis</li> </ul>
1989-1993	<ul style="list-style-type: none"> <li>▪ Paz Zamora Government</li> <li>▪ Second congressional pact (ADN-MIR)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Congress (political parties)</li> <li>▪ Trade unions (COB)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Congress (congressional majority)</li> <li>▪ Weak labor and social movements</li> </ul>	<ul style="list-style-type: none"> <li>▪ Slow-down of the reform process</li> </ul>
1993-1997	<ul style="list-style-type: none"> <li>▪ Sánchez de Lozada first government</li> <li>▪ Third congressional pact to guarantee governance (MNR-UCS-MBL)</li> <li>▪ Last pact around a coherent government program</li> <li>▪ Political Institutional reforms:</li> <li>▪ Constitutional reforms</li> <li>▪ Land reform (INRA Law)</li> <li>▪ New Electoral Law</li> </ul>	<ul style="list-style-type: none"> <li>▪ Government (strong leadership of the President)</li> <li>▪ Congress (political parties)</li> <li>▪ Entrepreneurial sector</li> <li>▪ Transnational companies</li> <li>▪ Regional corporative groups</li> <li>▪ Bureaucracy</li> <li>▪ International Financial Organizations (IMF, WB, IDB)</li> <li>▪ Trade Unions (COB) and other social movements</li> </ul>	<ul style="list-style-type: none"> <li>▪ Congress (congressional majority)</li> <li>▪ Social movements began to articulate</li> </ul>	<ul style="list-style-type: none"> <li>▪ Plan de Todos (Plan for Everyone)</li> <li>▪ Second Generation Reforms</li> <li>▪ Institutional reforms</li> <li>▪ Central Bank autonomy</li> <li>▪ Privatization (capitalization) of public enterprises</li> <li>▪ Pension reform</li> <li>▪ Decentralization and municipalization of the public administration</li> <li>▪ Sectoral regulatory frameworks (SIREFI, SIRESE)</li> </ul>

<b>Years</b>	<b>Political Events</b>	<b>Actors</b>	<b>Arenas and Currencies</b>	<b>Economic Events</b>
1997-2002	<ul style="list-style-type: none"> <li>▪ Fragmentation of the electoral vote</li> <li>▪ Need to form Mega-coalitions to assure governance (AND-MIR-NFR-UCS)</li> <li>▪ Increased political volatility</li> <li>▪ National Dialogue</li> <li>▪ Zero-Coca policy</li> <li>▪ War for water</li> <li>▪ Counter-reform process begins</li> <li>▪ Police force strike</li> <li>▪ March to Caracollo</li> <li>▪ Fragmentation of the PMP</li> </ul>	<ul style="list-style-type: none"> <li>▪ Government (Banzer - Tuto)</li> <li>▪ Congress (Political parties)</li> <li>▪ Civil society</li> <li>▪ Trade Unions (COB)</li> <li>▪ Informal Groups and social movements (Coca producers, landless movements, pensioners)</li> <li>▪ Corporative groups</li> <li>▪ NGOs</li> <li>▪ International Financial Organizations</li> <li>▪ Rural workers and Indian groups (CSUTCB-CIDOB)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Congress with increased opposition to the reform process from non-traditional parties (MAS)</li> <li>▪ Road and street blockades</li> <li>▪ Attempts to channel social sector demands through the National Dialog</li> </ul>	<ul style="list-style-type: none"> <li>▪ Large foreign capital inflows owing to the reform process</li> <li>▪ International crisis out-brake</li> <li>▪ Large fiscal deficit</li> <li>▪ Pro-cyclical policies</li> <li>▪ Custom Law</li> <li>▪ Zero-Coca policy</li> <li>▪ Strict financial regulation and credit crunch</li> <li>▪ HIPC II</li> <li>▪ Exports of natural gas to Brazil began</li> </ul>
2002-2003	<ul style="list-style-type: none"> <li>▪ Increased fragmentation of the electoral vote</li> <li>▪ Sánchez de Lozada second term</li> <li>▪ Alliance between former antagonist parties (MNR–MIR–NFR)</li> <li>▪ Black February</li> <li>▪ Black October (War for Gas)</li> <li>▪ Overthrow of GSL government</li> </ul>	<ul style="list-style-type: none"> <li>▪ Weakened Government Alliance</li> <li>▪ Congress (weakened coalition of traditional political parties)</li> <li>▪ Congress (emerging opposition political parties-MAS)</li> <li>▪ Social Movements coca producers, Indian groups, neighbor organizations</li> <li>▪ International Cooperation</li> </ul>	<ul style="list-style-type: none"> <li>▪ Weakened Congressional majority</li> <li>▪ Strong opposition to reforms in Congress (MAS)</li> <li>▪ Tough and radical opposition to government outside Congress (road blockades and street demonstrations)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Deepening of economic crisis (increased fiscal deficit, credit crunch and slower growth)</li> <li>▪ Failed attempt to recover the reform process (BONOSOL, SUMI, Capitalization)</li> <li>▪ Failed economic adjustment measures (tax on personal income) with high political costs</li> </ul>

<b>Years</b>	<b>Political Events</b>	<b>Actors</b>	<b>Arenas and Currencies</b>	<b>Economic Events</b>
2003-2005	<ul style="list-style-type: none"> <li>▪ Constitutional succession (Mesa government)</li> <li>▪ Gas Referendum</li> <li>▪ Resignation of CMG and call for new elections</li> <li>▪ Break down of PMP based on political party alliances</li> </ul>	<ul style="list-style-type: none"> <li>▪ Weak government with no congressional representation</li> <li>▪ Divided Congress opposed to the government</li> <li>▪ Regions (Santa Cruz)</li> <li>▪ Social movements (coca growers, neighbor organizations (El Alto)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Continuous confrontations between Government and Congress</li> <li>▪ Continuous confrontations between Government and Regions (Santa Cruz and Tarija) and regional “cabildos”</li> <li>▪ Road blockades and street demonstrations by labor and social movements</li> </ul>	<ul style="list-style-type: none"> <li>▪ Partial economic recovery</li> <li>▪ Attempts to reduce the fiscal deficit (tax regularization, tax on financial transactions, domestic fuel price increases)</li> <li>▪ Reversal of reforms accelerate</li> <li>▪ New Hydrocarbons Law (50% Royalties)</li> <li>▪ Unilateral termination of the contract with Aguas del Illimani (water services)</li> </ul>
2005-	<ul style="list-style-type: none"> <li>▪ General elections with direct election of regional authorities (Prefectos)</li> <li>▪ Landslide victory of Evo Morales</li> <li>▪ Constitutional Assembly (process)</li> <li>▪ De-institutionalization and polarization (ideological and regional)</li> <li>▪ Referenda for regional autonomies in regions opposed to the government</li> </ul>	<ul style="list-style-type: none"> <li>▪ Government (with strong Presidential leadership - Morales)</li> <li>▪ Congress (lower chamber controlled by the government and upper chamber by the opposition)</li> <li>▪ Prefectos-Regions and regional organizations</li> <li>▪ Constitutional Assembly</li> <li>▪ Trade Unions (COB) and social movements (coca producers, miners and Indian movements)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Government approves nationalizations by Supreme Decrees</li> <li>▪ Senate does not pass laws set forth by the government</li> <li>▪ Regions carried out referenda to deepen autonomic processes</li> <li>▪ Constitutional Assembly approves a Constitution without the support of the opposition</li> </ul>	<ul style="list-style-type: none"> <li>▪ Commodity price boom</li> <li>▪ Nationalization of previously capitalized enterprises (hydrocarbons, telecommunications)</li> <li>▪ Populist economic policies</li> <li>▪ Government’s National Development Plan outlines the strategy to reverse market-oriented reforms</li> <li>▪ Inflationary pressures and exchange rate appreciation</li> <li>▪ Reduced FDI flows</li> </ul>

### Annex C. Classification of Political Parties used in the Paper

Political Party	Not Classified	Systemic	Antisystemic
ACP	X		
ADN		X	
ADN-PDC		X	
AND-NFR-PDC		X	
AP		X	
ARBOL			X
ARENA	X		
ASD		X	
AUR	X		
CONDEPA			X
CONDEPA-MP		X	X
EJE			X
EJE-Pachakuti			X
FNP	X		
FPU		X	
FREPAB			X
FSB		X	
FULKA			X
INDEPENDIENTES		X	
IU			X
L J			X
MAS			X
MBL		X	X
MCC		X	
MFD		X	
MIN			X
MIP			X
MIR			X
MIR-NM		X	
MKN			X
MNR		X	
MNR - MRTKL		X	
MNR-MBL		X	
MNRI			X
MNRI-1			X
MNRV		X	
MRTK			X
MRTKL			X
NFR		X	
PDB		X	
PDC		X	
PODEMOS		X	
POR			X
PS			X
PS-1			X
UCS		X	X
UCS-FSB		X	
UN		X	
USTB			X
VR-9		X	
VSB			X

*Note:* Double entries represent roles in different elections.