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Bolivia Case Study:

an interpretative summary

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Abstract

This essay addresses the question of why Bolivia has witnessed zero growth of per capita incomes over the second half of the twentieth century while other Latin American countries have seen their incomes roughly double over this period.

The answer would seem to point to politics and distributional coalitions, given the persistence of a development pattern based on natural resource extraction throughout three different institutional models -- liberal 1900–1952, nationalized 1952–1985, and mixed 1985–2005. In each case, the dominant distributional coalition changed property rights allowing rent-seeking and political capture of key economic institutions.

Four sets of research questions concerning macro, meso and micro level processes are posed, that might help understand both Bolivia's current predicament and contribute to thinking of institutional change, economic growth and poverty reduction.

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The background

Bolivia is a large country, larger than France and Spain combined. It is landlocked and relatively remote from the rest of the world, isolated to the west by the slopes of the Andes and to the east by the vast distances from the centre of South America to the Atlantic coast of Brazil. Physically, the country is diverse, with one third of the land in the highlands where landscapes vary between very high plateaux (*altiplano*) at 4,000 metres or more, mountain chains, and intermontane valleys. The rest of the country is made up of tropical lowlands consisting variously of the parched scrub of the Chaco in the south-east, the great plains (*llanos*) of the Beni where extensive grasslands prevail, and the tropical forests of the Amazon basin to the north and north-west.

Two points stand out from the physical geography: one is that the country is rich in natural resources. There are farm lands of almost every ecological niche imaginable, plus mineral deposits — with silver and tin to the fore — in a geologically varied land that range from metals in the highlands to oil and gas deposits in the lowlands. The other point is the difficulty of movement and hence cost of transport owing to both the large distances and the difficult topography of the highlands.

Despite the size of the country, the population is still small — barely 9 million. Moreover, they are concentrated: three-quarters live in the one third of the country that is highland; while roughly two-thirds of the population live in towns and cities.

To understand the way that the economy and society has developed, we need to go back to the C16 and C17 when the Spanish colonisers arrived in the southern part of what had been the Inca empire. The Spanish arrived first in the highlands. They were looking first and foremost for precious metals and in Potosí they found a mountain of silver. The indigenous population were summarily recruited to extract the ore that was shipped back to Spain where the wealth was dissipated in military adventures, cathedrals and the legendary bureaucracy of the Spanish empire. Little of this wealth was reinvested in Bolivia.

Outside of the mining camps, the land was repartitioned to Spanish conquistadores in large estates to which the indigenous population was tied. The estates included areas for the indigenous population to cultivate their crops of potatoes, quinoa, wheat and barley as well as to graze their herds of sheep, goats, alpaca and llama — largely for subsistence — in return for corvée labour on the central farm of the landowner. Even the core of the estate was farmed extensively, largely to produce food crops that could feed the landowner and retainers, and to sell small surpluses to the mining camps. The landowners reportedly usually lived in nearby towns, preferring the urban life of the gentleman to that of the rural lord: they showed little interest in agricultural improvement and developing their properties. In particular, there were few if any cash crops that could withstand the costs of transport to the world market from the mountainous fastnesses of Bolivia.

The society that developed on the basis of this economy was deeply divided between the Spanish occupiers and their descendents, and the local indigenous population. The latter were dispossessed of their land and recruited as cheap labour. Language and ethnicity became the principle dividing lines of the population. This point should perhaps not be exaggerated: social snobbery notwithstanding, the two groups did intermarry, so that a large fraction of Bolivians today are typically described as 'mestizo'. Nevertheless, social status has long been associated with speaking Spanish and having a light skin.[1]

The colonial economy changed little when Bolivia became independent in 1825. The local elites merely cut their ties to the Spanish crown and continued to run the country along the lines long established. The late C19 brought two developments. One was the integration of Bolivia into world trading circuits, and with that the accompanying construction of railways. The other was the beginning of tin mining, the ores being found fortuitously close to the now waning stocks of silver. The world market for tin was buoyant. But once again, the mineral wealth was taken largely by three mine owners, some of whom lived fabulously wealthy lifestyles in place such as the Côte d'Azur. Meanwhile back in Bolivia, the miners — again recruited from the downtrodden indigenous population — sweated in dire conditions for meagre wages. Little of the mineral wealth was reinvested in Bolivian agriculture or industry.

The 1930s saw a major shock to the comfortable world of the ruling tin-mining and estate-owning oligarchy of Bolivia: the Chaco War with Paraguay. Bolivia lost the war and with it a large swathe of territory. The fighting was largely done by the put-upon indigenous soldiers, most from the highlands, who found themselves fighting in strange conditions

[1] The repression of local identity is very old in Bolivia, dating back to Inca times when the conquering Inca tried to impose Quechua on their empire. They were largely successful, except for the case of the Aymara who have obstinately hung on their language through the disapproval of Incas, Spanish and independent Bolivian elites. In the last decade or so, the Aymara have taken to showing their identity with a pride not seen for centuries as the social and political evolution of Bolivia has at last given them the space and freedom to do so without ridicule.

and suffered heavy losses. The obscenity of this conflict, provoked in part by a scramble for land believed — wrongly as it turned out — to cover oil fields, and sustained by the rhetoric of rampant nationalism was not lost on the participants. Junior officers were typically drawn from the mestizo middle class of the towns and the cities who could see the inequalities and injustices that the war made so very clear. A generation went home determined to change matters.

The 1952 revolution

Clamour for reform mounted in the 1940s when there were some short-lived attempts to overthrow the old order, but finally succeeded in 1952. The miners, organised in militant unions and armed, provided the muscle; the urban intellectuals, the ideas and political organisation. The result was a genuine revolution that saw a new party, the Movimiento Nacionalista Revolucionario (MNR), assume power led by a generation of young idealists with varying degrees of socialist leanings; and backed by well-organised miners. They were soon joined by peasant leaders, as the indigenous farmers took the opportunity to invade the lands of their owners, to repudiate labour services and to reclaim their ancestral lands.

The MNR government saw through some dramatic changes to economic organisation equal to those on the political front. The mines were nationalised, the oligarchs expropriated, to form a large corporation, Comibol. The land invasions were sanctioned by a land reform act (1953) that granted land to the tiller, and at stroke dispossessed the landed aristocracy.

Economically the MNR government promoted state industries based on import-substitution with protection from imports, and directed the banking system to make credit available cheaply for this investment in such industries. They also promoted the settlement of the lowlands, seeing in the lightly-populated green spaces to the north and east of the highlands, lands that could assuage land hunger amongst the peasantry. Land reform may have changed ownership rights, but it did not create extra land for a population that was growing. Roads were built to connect the main cities to settlement zones lower down the slopes of the Andes and on to the plains; Santa Cruz, the long-isolated centre for the Eastern lowlands was finally connected by a good road to Cochabamba and La Paz. The settlement schemes never achieved their aim of freeing up land in the highlands, but still many tens of thousands of highland families made the journey to take up land in the lowlands. This was one of the motors of subsequent booms in agricultural production in these previously neglected areas.

The MNR government ran into macro-economic problems as the state spent beyond its means and economic crisis sapped the energies of the new leaders. By the early 1960s the Revolution had lost its impetus. A coup toppled the democratic government in 1964, and Bolivia entered eighteen years of largely military rule.

Bolivia under the military

The military regimes — and there were no less than thirteen different military rulers who arrived in power by coups — were by and large conservative but variously nationalist, populist, corporatist, and eventually criminal (the *narco* regime of Garcia Meza). They preserved many of the state companies and structures set up by the Revolution, but drained them of radical intent.

They enshrined the idea that serious economic endeavour was linked to state favour — in the allocation of rights to land (in the lowlands) and prospecting for minerals, oil and gas; in gaining tax exemptions or import protection; and in gaining access to subsidised credit. Small coteries formed around the regimes that lobbied for such favour: a good case of 'crony capitalism'. New elites emerged: the old landlords of the highlands were gone, but a new class of large-scale commercial farmer in the eastern lowlands (the Oriente) rose to form a determined interest group. These were not the settlers from the highlands, but the landowners in the once-sleepy east who now realized that, thanks to the new roads, they were sitting on land that could earn well with modest investment. Oil and gas interests flourished, again in the eastern lowlands.

The 1970s saw an economic boom as world commodity prices briefly soared. The fields of the Oriente were covered in the 'white gold' of cotton. But towards the end of the decade, the prices fell back. Meanwhile, the state in common with neighbouring countries borrowed heavily on world markets on the strength of a booming economy so that by 1980, Bolivia was saddled with foreign debt of more than US$27 billion, and debt servicing equivalent to one third of export earnings. Only one new activity prospered, and that was coca growing. By the early 1980s Bolivia was awash with narco dollars. The traffickers were dangerously close to the executive.

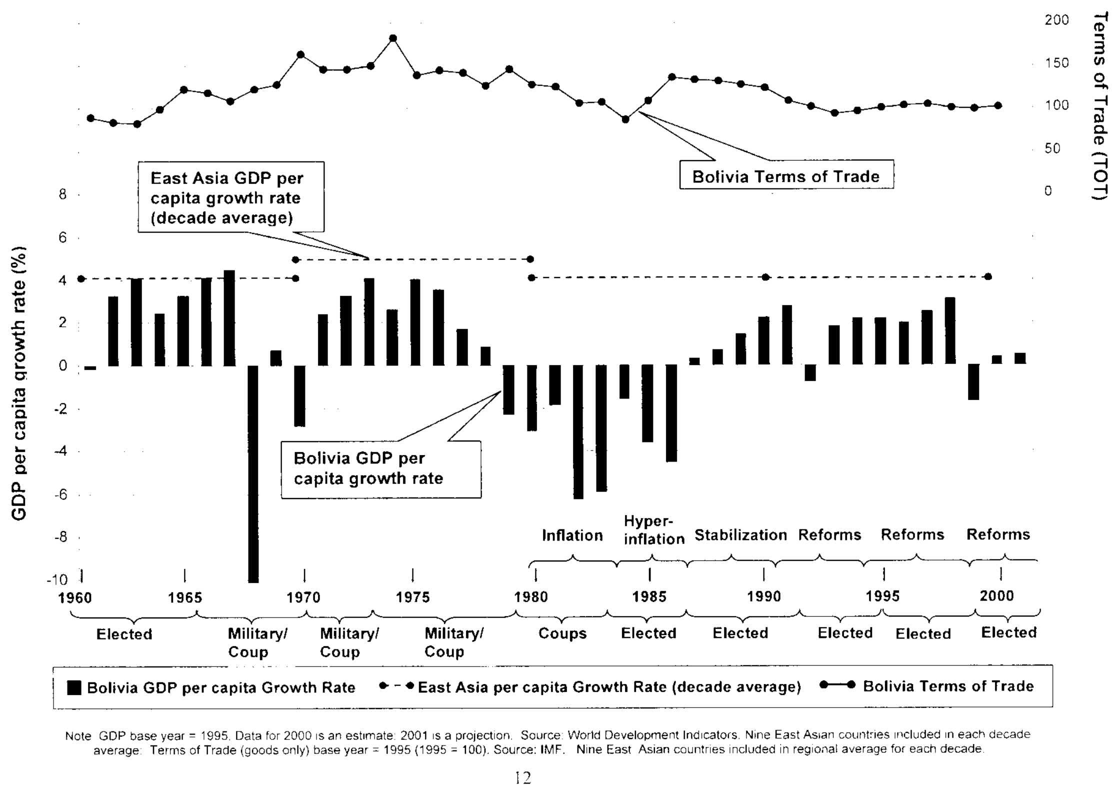
Coca could not save the economy, however. By the early 1980s the military were exhausted, discredited by their authoritarian rule and by connections to the traffickers, and faced by numerous economic problems. This included the virtual collapse of tin mining as world prices plummeted. In 1982 they retired and elections were held for a new democratic regime.

Figure 1 illustrates some of the features of economic growth of this and subsequent periods.

The new democracy of 1982

The government that entered in 1982 leaned towards to the left. Within a year or so it was embroiled in hyper-inflation and other macro-economic ills that led to the government falling in 1985. The regime that took over after elections grasped the nettle of stabilisation and economic liberalisation of international trade, product and financial markets. The results were as impressive as they were fairly quick to appear. Within a year, the economy was stabilised and began to grow.

Figure 1: Bolivia GDP per capita growth and terms of trade



Source: Kaufmann et al. 2002

The macro-economic changes of the second half of the 1980s were to be followed up a series of more profound reforms in the early 1990s — some of which have an institutional character. Box 1 lists some the main changes brought in.

Box 1: The reforms of the early and mid-1990s
Privatisation of state enterprises: through 'capitalisation' in which private investors take a 50% stake, the rest being in the public realm with the workers and a pensions fund. Affects electricity, telecommunications, hydrocarbons, water and transport sectors. This includes the 1996 Hydrocarbons Law that devolved the development of oil and gas field from the state company, YPFB, to private companies. Education Fiscal: VAT and income tax introduced Pensions: a pay-as-you go systems converted to capital funds. Later the idea of the Bonosl, a programme that delivers a pension to all over 65 years. Decentralisation: 1995 Law, transfers resources and responsibilities to the 314 municipalities, plus the funds freed under HIPC II Popular participation: 1994 Law Civil service: the 1990 SAFCO law intended to improve financial administration and controls; and the 1992 PSDC programme intended to establish a core of 2,500 professional and neutral civil servants Judiciary: Customs Social programmes streamlined Banking: laws affecting commercial banking and the Central Bank
Sources: World Bank 2005, Kaufmann et al. 2002, Klasen et al. 2004

The 1990s saw many positive outcomes. The economy grew in most years at rates of 4–5%, poverty fell by six percentage points, and government was able to expand its spending on education and health with resulting improvements in these dimensions of welfare.

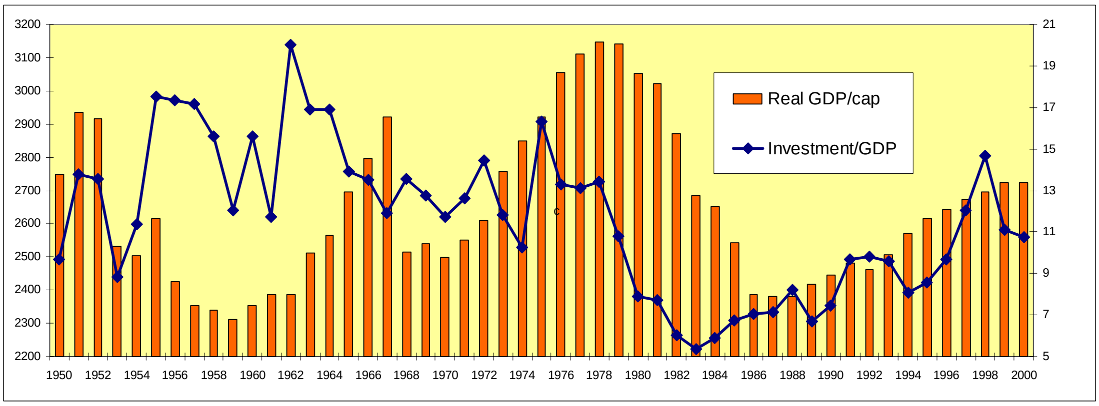
The motors of growth in Bolivia, however were narrowly based. They included the oil and gas industries and large-scale commercial farming in the Oriente centred on Santa Cruz, with soya beans as the boom crop replacing previous fields of cotton. While these activities helped stabilise the economy with prolific export earnings, they did not generate commensurate levels of employment, and arguably had relatively few linkages to the rest of the Bolivian economy. Moreover both sectors were in the eastern lowlands, with political ramifications as civic leaders of Santa Cruz pressed for more autonomy from the centralised administration of distant La Paz.

But by the late 1990s, Bolivia ran into problems. The financial crises of Asia and Russia raised the cost of foreign borrowing, the problems of Argentina and Brazil depressed demand for Bolivian exports and turned the exchange rates against Bolivia, El Niño events hit farm output, social security reforms proved more costly than expected, and the eradication of coca that in the late 1980s made up almost 6% of GDP depressed output. Consequently, Bolivian economic growth has fallen to almost nothing. That has led to unemployment and a rise in poverty; as well as to a political crisis that has seen one government in the 2000s forced out of power by popular protest, and another collapse as the President resigned in protest at the difficulty of governing the country.

Interpreting history: why so little growth?

The painful facts are these. In 1950, Bolivia was the second poorest country in Latin America. In the intervening half century real income levels are estimated to have fallen slightly. In comparison, other Latin American countries have seen their incomes per capita roughly double over this period. Figure 2 shows the way in which all periods of growth of incomes have been offset by periods of sharp economic decline.

Figure 2: Real incomes and investment in Bolivia, 1950 to 2000



Source: data from Penn World Tables

It might not be so bad that Bolivia remained a poor country, were the resources and wealth of the country distributed so that all live in a degree of admittedly frugal welfare. But this is not the case: inequality has been and remains extremely high — estimates of Gini coefficient are 0.50 and counting — so that the lot of a large fraction of Bolivians is abject poverty. By any standards this is an appalling record and a social tragedy for poor Bolivians.

But it is not as though the people of Bolivia have not tried to foster economic growth and develop their country. On the contrary, the Revolution of 1952 and later the reforms undertaken in political and economic spheres from 1982 onwards demonstrate a demand for change, an ability to implement apparently radical changes in political regimes, and considerable organisational energies to try and make change effective.

Yet the economic record is, as noted, dire.

In looking at the explanations of low economic growth, most economic analyses note the low rates of investment in the economy — 14% or less in recent years, linked to low rates of domestic savings — at 10% or less in recent times. Growth has come with increases in the labour force, with little capital deepening or improvements in productivity.

But of course this merely begs the question: why so little investment? The World Bank cite a portmanteau of underlying ills, thus:

> (1) macroeconomic mismanagement; (2) trade policies; (3) taxation; (4) political instability; (5) weak institutions; (6) infrastructure; (7) financial sector weaknesses; (8) investment climate; (9) deficient entrepreneurship/labour/skills; (10) education; (11) geography; (12) ethnic conflicts; (13) non-diversified economic structure, and (14) external factors. (World Bank 2005, 24)

Some of these look as much symptoms as causes. The IMF has come to firmer conclusions:

> … the root causes of low trend growth in Bolivia are poor infrastructure, poor institutions and government services, and fear of instability. The main insight of the more recent studies is that the political and social roots of these problems are deeper than recognized in the previous literature.
>
> (IMF 2005, p. 13; cited in World Bank 2005, 24/25)

Once again, the four factors cited all beg the question of 'yes, but why?'

Peering into deeper causes reveals different perspectives. For the Bank (2005), a critical factor is lack of investor confidence arising from fears over property rights. In support of this, two cases are cited. One concerns the controversies over water privatisations in Cochabamba and La Paz where in both cases the government has rescinded private concessions to foreign-owned companies. The other is the case of the new proposed law on hydrocarbons that gives the state more say over operations by private companies, veto rights to indigenous groups over prospecting and drilling on their lands, and a new tax regime. There are also uncertainties that apply to the legal ownership of some farms in the Oriente.

A different vision is that of UNDP (PNUD 2005). This focuses on the structure of the economy, where so much is produced by a few sets of activities in the formal sector — where the large-scale farms and the oil and gas concerns are prominent; while so many are employed at low productivity in the diverse activities of a large informal sector consisting of petty trading, artisan manufacturing, and smallholder farming. For UNDP, the key is fostering the growth of the latter by freeing the limitations it faces. These include uncertainty over changeable public policy, missing institutions and market failures — credit access being a prime example, and the prevailing lack of trust of participants in other economic actors other than members of their families.

Implicit in this argument is that the informal sector, that contains the bulk of the workforce, has the potential to produce, grow and become a great deal more productive than it currently is. But to alter the constraints faced implies some fundamental changes in the way the political system operates, requires institutional innovations, and a way of changing social attitudes: a tall order, perhaps.

Klasen et al. (2004) share some of the concerns of UNDP. They note the need to activate the economy across a wider spectrum than currently pertains. Gas revenues can be used to finance investments in other sectors, including highland agriculture, unpromising though that sector may be. Tax reform and deregulation of the urban labour market are recommended. Rural-urban migration should be encouraged, looking to realise the potential of the small towns as growth points. Above all, they argue, economic growth will not solve social and political issues: these need to be addressed directly, with deep reforms to remedy the equally deep and longstanding inequalities, including redistribution of assets.

One thing that all analyses agree on is that the governance of Bolivia is dire and either at least a major factor or the very root of economic problems. The form of democracy instituted since 1982 barely functions. The parties have weak policy programmes and compete on the basis of promises of patronage to supporters. Worse, none of the main parties has been able to command a clear majority (the December 2005 elections excepted), so that coalitions need to be built based on trading favours. Ministerial posts are spread across claimants from the parties in the coalition, and most civil service posts are in the power of the party bosses. The system produces a patrimonial state that makes poor use of state funds, provides public goods badly, and generates unpredictable policies; within a context of repeated political crises that have their origins in a general lack of trust in government and a sense that government is illegitimate.

Although the state is in many respects weak, it is able to reward supporters of the parties in power, and provide — although perhaps in haphazard fashion — benefits to some large-scale business interests.

It is easy to construct an explanation for economic failure. Put simply, the combination of poor delivery of public services; inconsistent policy; and weak formal institutions, above all in property rights and the rule of law — produces a rotten environment for business.

But did not the reforms of the 1990s intend to address many of these problems? Yes, they did. But the reforms

> were limited by, at least, four factors:
>
> (i) most reforms were not fully implemented (e.g., fiscal consolidation);
>
> (ii) the reforms did not extend to the investment climate for private sector activities;
>
> (iii) institutional reforms (e.g., enforcement of contracts, customs) began late, have not been vigorously pursued, and take longer to complete; and
>
> (iv) some reforms led to new distortions (e.g., pension). (World Bank 2005, 23)

Those parts of the package that could be implemented and controlled by relatively small groups of talented bureaucrats, with political backing, seem to have worked well — macroeconomic stabilisation in particular has been achieved. Those parts requiring more extensive change have stumbled.

Box 2: Change and persistence in Bolivian history

Dr George Gray M. and his team at UNDP distinguish between patterns and models: Bolivia exhibits a series of enduring patterns, even though the model in which the pattern is reproduced may change quite dramatically.

So, for example, the dominant historical pattern of economic growth is that of exploiting the rich natural resources of Bolivia; while the models of private ownership by oligarchs, state enterprises, foreign companies and a new generation of local bourgeoisie have changed almost by the decade.

Patterns that persist and re-emerge	Varying models and manifestations
The paternal state	MNR, the military (both left and right wing), the post-1982 democracy — all centralised, paternal Exception: since the early 1990s, new ventures in participation

	and decentralisation to municipalities
A dual economy of (a) Natural resource enclaves	Oligarchs — the tin barons of the first half of the C20 State corporations — Comibol ex 1952, YPFB Foreign companies — Standard Oil, Gulf, Petrobras, BG, etc. National bourgeoisie — the large-scale farmers of the Oriente Tin from the 1900s to the 1970s, coca in the 1970s and 1980s, cotton in the 1970s, soybeans in the 1990s, oil from the 1930s, gas in the 1990s
(b) Subsistence and survival	Smallholder farming Small-scale manufacturing and commerce
Entrenched differences, by: (a) Region	The highlands — close to seat of government, heavily populated, the scenes of the deepest social divisions, economic inequality and misery The lowlands — a less divisive history, control by local elites, distrust of distant central government — and yet reproducing pronounced inequalities social and economic
(b) Social group	Persistent inequality, yet changing identities: • Class — peasants & workers versus the bourgeoisie, • Sector — miners and peasants, • Region — the camba-kolla divide between lowlanders and highlanders, and • Ethnicity — mestizos versus indigenes (Aymara, Guaraní, Quechua, etc.)

Source: PNUD 2005

The results over a half century have been overall failure: yet both in time and space, by sector and social group, the panorama is hugely varied. Variation, of course, must be true in almost countries throughout history.[2] Perhaps then the great frustration in Bolivia seems to the inability of the country to harness its successes, to expand and replicate them for the greater good of the economy and society.

[2] Indeed, it would not be difficult to construct a Darwinian hypothesis that sees economic, social and political success as a matter of selecting from the variety of experiences seen.

The role of institutions in Bolivian economic history

What are issues that have arisen with **economic institutions**? Perhaps two points stand out.

One concerns **property rights**. During the last fifty years there have been repeated episodes where rights have been in doubt. On land, the reform of 1953 gave rise to a situation where many smallholders possessed the land, but did not have titles or legal backing for their plots. Arguably this impeded a land market and prevented holdings from being mortgaged or pledged as collateral. But the point is contested: informal norms on access to land in highland communities have been respected, and land has been transferred as and when it has been to the advantage of those concerned. More recently, there are disputes over the status of land in the eastern lowlands where some large farmers have taken over land; while the relationship between indigenous communities of Guaraní and other ethno-linguistic groups to their ancestral lands held and used under collective tenure is not always clear in the eyes of the state.

Rights over factories and equipment have also been put in doubt. Different governments have nationalised enterprises and later privatised them, and most recently attempted to reassert public control over sensitive sectors such as water provision and the oil and gas fields. As noted, the World Bank sees recent doubts over these rights as deterring investors, and especially foreign capital. While a plausible argument, it is not clear that rates of investment were any better before the recent controversies over water and hydrocarbon fields.

The second point concerns **transaction costs** and associated market failures. For some observers, and notably UNDP, the failure to raise output and productivity in the informal sector is a key issue. Much of the problem can be seen as one of lack of information — on markets, techniques, possible alliances in industrial organisation, and above all, on the character and competence of potential partners in the supply chain. Exacerbating this has been chronic uncertainty. Some of this has been almost inevitable: small and weak economies such as that of Bolivia are highly vulnerable to events on world markets and natural hazards such as droughts. But equally, the policy environment has been unpredictable; and above all, government has been more of a hindrance than a help. Public goods have been provided poorly, while attempts are regulation have been heavy-handed and applied unpredictably, and often with a view to milking semi-legal enterprises that by their status are always likely to be in contravention of one or other rule. As the UNDP (PNUD 2005) notes ruefully, small-scale businesses have come together strongly and effectively when defending themselves against the depredations of state operatives — but seem unable to take this co-operation forward into the realm of production.

For UNDP, the consequence of this state of affairs has not only been to put a brake on informal enterprises, but also to distort their efforts towards activities with quick turn-over and against those with longer-term pay-offs. Trading — including dealing in contraband imports — prospers, manufacturing is repressed.

Again, while these arguments are plausible, it is difficult to test them. So many disadvantages face the informal sector that attributing problems to any one set of factors is difficult.

There is an intriguing hypothesis on economic institutions arising from history. Bolivia's economy, and certainly the formal side of it and those sectors generating exports, has always been based on large-scale enterprises. These, by and large, require few institutions to function. Comibol, for example, as a huge state conglomerate with monopoly powers over the mining sector, only needed the legal authority to operate as Comibol — something that the government could provide literally at the stroke of a pen. From then on, almost all transactions were internal to the corporation so that questions that might in other cases be ones of co-ordination within markets, were converted into the rather more tractable questions of hierarchical organisation.[3] Similar, if less dramatically clear cut cases, apply to the oil and gas corporations, and perhaps even to the large-scale farms of the Oriente. The state's role in establishing economic institutions or underwriting and fostering them has not been a priority: once the property rights to land, mineral deposits, and oil and gas fields have been awarded; or monopoly rights to trade have been issued, then there has been little demand for the state to do more.

Indeed it might be argued that the state-led and corporatist approaches to the economy that characterised Bolivian economic management through until 1985 — and that have arguably persisted in muted and veiled forms thereafter — have detracted public attention from the issue of bolstering the economic institutions necessary to run a market economy, and certainly one that is broad-based with reasonably level playing fields for all.

[3] Of course, as a state monopoly it didn't much matter if Comibol was inefficient in its internal organisation: it was not under threat from competition and governments would not allow it to go bankrupt.

Box 3: Deeper roots of institutional stunting — the case of hacienda
The rural estate or *hacienda* dominated the rural economy and society of western and highland Bolivia before the 1952 Revolution and subsequent land reform. The way in which production was organised, using indented or *corvée* labour on the central estate, impeded industrialisation not only in terms of restricting the domestic market for manufactured goods, but also in terms of not allowing for the development of business skills amongst the *peones* (workers/peasants). This stands in marked contrast to other countries that, at the time they began their industrialisation, had a large mass of small and medium-scale farms that both constituted a demand for products from the factories and who also were used to running small businesses. The interesting question here is to what extent this historical legacy locked the rural communities into a under-development of both entrepreneurial capacity and the institutions to allow small-scale businesses to flourish — or whether in the half-century since land reform, these deficits have been made up.
Source: Alexander Schejtman

The story of **political institutions**, however, is one that captures the attention and imagination of many authors. Despite the apparent lack of theory about political institutions *as institutions*, the dominant argument concerns the failure to establish a state and society that is ruled by laws that are impersonal, universal and perceived to be fair. (Prats 2003) To put it crudely, Bolivian society and politics have been forged by groups that, once in power, have had little or no respect for the rights, however minimal, of others. Rules and norms are manipulated blatantly in favour of supporters, and twisted against the opposition. Thus no-one in the political, social and economic spheres, can trust the future unless they can be sure that they are well placed with the ruling group at any given time.

This might not matter had Bolivia seen a stable political configuration, where whether just or not, the key actors, vested interests, and biases in the system were well-established and predictable. On the contrary, Bolivia has seen rapid turnover of governments — more than 25 in a half century (Kaufmann et al. 2002), with at least four regimes of government — the old oligarchy, the MNR revolutionaries, military dictatorships and the re-establishment of democracy.[4]

Hence Bolivia has had a combination of highly personalised government, but within a context of great instability, so that personal alliances forged under any one regime have had to be frequently reconstructed under the subsequent ones. For businesses one response to

[4] Conceivably the government of Morales that has just begun could see a fifth phase: most Bolivians hope for this, and this is why they voted for Evo.

such a scenario has been to keep contacts with potential power holders, another has been to form defensive alliances to ward off threats, and a third — there must be others — has been to establish mechanisms that allow one rapidly to curry favour with whoever has come to power. The general pattern is that large-scale enterprises have cultivated their access to the corridors of power, while smaller businesses have formed defensive associations. Indeed, a prominent and recurrent feature of Bolivian political life has been the formation of unions (sindicatos) in all spheres of life to represent and defend particular interests — see Box 4.

Box 4: Rural unions — the case of the *sindicatos*
An unusual feature of Bolivia is the degree throughout society of the formation of unions around occupations. There is nothing remarkable about this for manufacturing and mining; but in Bolivia the experience was repeated amongst the smallholders of the highlands after the Revolution. Once the land invasions of 1952 and 1953 were underway, the MNR sought to build its base amongst the campesinos in the same way that the miners and other groups were organised — in formal trades unions. Hence under the MNR a strong network of federated unions developed in the highlands. The unions however saw their role as similar to that of the miners: a fighting force to defend interests and demand their rights — in the case of the campesinos, their rights to their ancestral lands. Politically the sindicatos were on the left. The peasant unions did not then prioritise economic issues: they did not see themselves as incipient co-operatives, looking to improve marketing, to secure inputs or access credit. The subsequent history of the rural unions is that they the subject of attempts to co-opt them by the conservative military regimes — the *Pacto Campesino-Militar* — in patriotic alliances that stressed supposedly 'traditional' and conservative values. This gave the military a counter-force to the militant miners. This worked for a while, but the military were intolerant of what they saw as dissent, repressed it (1974) and alienated the union leaders. In the 1980s the unions re-emerged, but this time looking to ally themselves with the development efforts funded by the donors and the NGOS. One new protest emerged at this time: that of the coca growers — mainly in the Chapare — in opposition to attempts to eradicate the crop.[5] In the last decade, the unions have fallen into disrepute in some areas, such as parts of the Altiplano (Norte, Potosí): they have been seen by the peasantry as vehicles for political advancement by ambitious local leaders that do little for the peasants themselves. There are now reports from communities in the Altiplano Norte that many village elders now ignore the union structures, and proudly wearing longstanding Aymara costume (the union leader would more likely wear the clothes of a mestizo or cholo),

[5] In these structures a young leader cut his political teeth. His name? Evo Morales.

represent themselves as leaders of *ayllus* — the centuries-old form of organisation of the Aymara. Another development has been the formation of producer organisations with an economic agenda — the *Organizaciones Económicas Campesinas* (OECA) that are grouped under a a national co-ordiinating body, CIOEC. These changes have seen open conflict between the OECAs and the unions when the latter, in pursuit of national protest have blocked roads, to the detriment of OECA members who are trying to get their milk to the cities. All these developments are woven in with the new experiences of decentralised government at municipal level where local elections bring into competition leaders with identities and identifications as distinct as union leaders, traditional elders, and small-scale business leaders. Unions in other areas — central Cochabamba, for example — have adapted to the new local democratisation and are active participants in the municipal governments.
Sources: Alexander Schejtman, Fairfield 2004, Urioste 2005, Whitehead & Gray M. 2004

One constant in the political field, however, is perhaps a cultural legacy. The state in Bolivia is weak. It struggles to run an administration that effectively provides public goods. It rarely is able to formulate and implement policy programmes that are coherent, focused and strategic. It is chronically incapable of running the country according to the rule of law ('estado de derecho'). And it cannot even ensure its own survival: most administrations have been wretchedly short-lived, and even within the short time span of most governments, the rotation of ministers has been high.

Yet despite these manifestations of a weak state, all manner of actors and organisations in Bolivia demonstrate an enduring pattern of belief in strong central government, with the state in a highly paternal role to the population. The state has still been seen as the main hope for improvement by petitioners and claimants. So we see an apparent paradox: almost every protest movement in Bolivia begins by noting the many flaws of the current administration, yet still presents demands on the state where the implicit assumption is that somehow the state can deliver.

This would be illogical, were it not that, despite its evident weaknesses, the state has indeed been able to offer valuable favours — in allocating rights to natural resources, in distributing opportunities to take rents through permits and licences, by offering jobs to the unemployed within the state bureaucracy, and otherwise by the patterns of its admittedly limited public spending.

So this then completes a miserable feedback loop: a weak state is actually encouraged to be particularistic so as to have something to offer to supporters and petitioners in the immediate future. But by doing so, the state ensures that in the not-so-long term it not only remains chronically weak, but also loses legitimacy in the eyes of the majority — and thereby more or less condemns any administration running the system to a swift fall, and often in the midst of chaotic events — strikes, road blocks, uprisings, military coups, etc.[6]

On the basis of these notes, an overall hypothesis that explains Bolivia's extraordinarily poor economic record in institutional terms can be constructed — as set out in Box 5.

Box 5: Economic failure and institutions — an extreme case

In broad terms, low economic growth in Bolivia — at least for the last thirty years — is closely associated with low levels of investment. But why has there been such a reluctance to invest?

A highly unequal society is reflected in economic dualism in which a small number of large enterprises produce a substantial fraction of GDP and generate the bulk of export earnings.

The large enterprises seek from the state two things: rights to resources — minerals, oil and gas fields, agricultural land; and a series of rent-generating favours — protection from imports, tax exemptions, control of the entry of competitors, etc. As far as economic institutions are concerned, the demand is for property rights — and highly particular ones at that, and for little else.

Consequently the state is under no pressure from large enterprise to develop institutions to reduce transactions costs, or to foster economic co-operation.

Large-scale enterprise, operating along the lines typically described as 'crony capitalism', has to invest energies in cultivating links to political leaders and senior civil servants to ensure that their demands are heard.

The cost of this is unusually high in Bolivia since administrations, and indeed political regimes, are very short-lived. Hence business repeatedly has to recreate connections and faces chronic uncertainty over the future actions of the state.

Hence large-scale enterprise is reluctant to invest.

Meanwhile, the informal sector thus finds itself operating in an economic landscape where the best opportunities have been cherry-picked by the large corporations; and where the institutions that would allow a vigorous and broad-based market to operate effectively are absent.

Hence informal enterprises lack the means to invest, and in any case, face the same chronic uncertainty as larger businesses, and hence invest little.

This may explain low investment and low growth, to some degree. Unfortunately, it is not a hypothesis can easily be tested. Critical variables — time and energy invested in political connections, perceptions of uncertainty — cannot be observed. Moreover, the processes outlined operate in complex systems that depend on highly contextual and changing sets of conditioning variables.

Moreover, the explanation raises other important questions. For example:

Why has the informal sector, particularly under democracy where the many votes it commands should count, not demanded that the state help create the necessary institutions for economic

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[6] As can be seen in this part of the argument, separating the 'state' from the administration in power is not simple. This in itself may be another manifestation of political failure.

growth?

Why has not an elite composed of crony capitalists and a political dictatorship managed to create long-lived control of the state, with accompanying economic growth that gives it a patina of legitimacy —in the way seen in several fast-growing Asian states?

Not all observers are gloomy over the evolution of the political system. There are those — such as Whitehead & Gary Molina 2004 — who see long-term changes in Bolivia, and who believe that there are forces of democratisation and participation that are about to break, once and for all, the chains of history within the current generation. This optimism is based on the working through of the laws of popular participation and decentralisation where there are signs that, after a decade, the fruits of broad-based democracy are coming to the fore. Associated with this is the confident re-assertion of the rights of some of the most marginalised communities of Bolivia. While in the short run this may make for yet more political instability, it is in the longer run perhaps the only way that deep-seated wounds of persistent inequality in Bolivia will ever be healed.

Summarising: Bolivia's challenges

Although there is a temptation to think of Bolivia as a case study about how Washington Consensus policies 'failed' over the past 15 or more years, this must be resisted, for at least three reasons.

First, the assumption that a wave of 'second generation' institutional reforms actually held sway in Bolivia must be revisited. Although laws were passed, decrees enacted, and bureaucracies rearranged, the Bolivian reforms were hampered by serious problems in implementation.[7] Few institutional reforms actually outlived governmental change — the exceptions are capitalization reform of 1993, popular participation reform of 1994 and the education reform of 1993. Most other reforms withered or were watered down by successive legislative, administrative or policy changes.

Second, even those reforms that did survive governmental change should probably not be evaluated as 'Washington Consensus' reforms, in the sense of representing homogeneous recipes imported from Washington-based institutions. In fact, both Capitalization and

[7] See George Gray Molina, Ernesnto Perez de Rada and Wilson Jiménez (1999) and George Gray Molina and Gonzalo Chávez (2005).

Participation, may have succeeded precisely because they adapted to local informal institutions, existing political practice and popular expectations.[8] [9]

Third, 'second-generation' reforms enacted in the 1980s and 1990s are only starting to have a cumulative effect over social and political institutions and economic growth. Perhaps more important than the neo-liberal reforms of August 1985 (Decree 21060), is the collapse of tin mineral prices in October of 1985. This relates to a longer economic cycle that encompasses a number of path-dependent institutions — both state and non-state— that survive despite being dysfunctional to current economic conditions.[10]

If Bolivia is not a failed case of policy reformism, what is it a case of? We would argue Bolivia is a case of *path dependence* of formal and informal economic and social institutions that have outlived their usefulness in promoting economic growth and reducing poverty. Many of the institutions built around 18th and 19th century silver mining and 20th century tin mining are part of the current patchwork of formal and informal institutions — even 20 years after the collapse of the tin mining economy, 50 years after the National Revolution and close to a 100 years after the collapse of the silver mining. Bolivian institutions designed to secure property rights around tin mining concessions, to overcome the long-run costs of being landlocked and geographically diverse, and promote patrimonial and clientelistic forms of social and political inclusion, have outlived their usefulness. Ironically, as the Bolivian economy veers towards higher dependence on natural gas and returns to popular forms of broad-based governance this institutional memory seems more relevant than ever.

We believe the Bolivian case can provide insights into the mechanics of institutional path dependence in societies marked by profound social change. Ethnic, class and regional cleavages make the task all the more interesting and relevant to multi-cultural comparative research. The Bolivian case is in one sense a natural experiment for hypotheses on distributional conflict, institutional change and economic growth. It is characterized both by a history of long-term fundamental political change emerging from the National

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[8] Capitalization is currently under political heat, despite delivering a gas-rich economy for the next few decades.

[9] See Carol Graham (1997) and Merilee Grindle (1999).

[10] See Laurence Whitehead and George Gray Molina (2003).

Revolution of 1952 and is also characterized by more recent economic and social change since 1985, that has changed the nature of distributional conflict in the political arena.

Research issues arising

We suggest four sets of research questions which might help understand both Bolivia´s current predicament and also advance on the comparative agenda of institutional change, economic growth and poverty reduction. They are framed as macro, meso and micro level research questions.

First, to the extent that Bolivia´s National Revolution of 1952 changed the long-term nature of distributional coalitions — the same tin-based economy under different institutional rules — it provides a natural experiment of how institutional change affected the trajectory of economic growth and poverty reduction over time. In particular, it provides a case for analyzing the macro effects of three different institutional models — liberal 1900–1952, nationalized 1952–1985, and mixed 1985–2005 — under the same underlying development pattern based on natural resource extraction with little value added. To a certain extent, radical changes in the institutional model do not seem to make a difference in average economic growth between 1950 and 2005 (average per capita growth is zero, in this period). Why is this so? And, what consequences does this have for the institutional trajectory that locks in impoverishing growth? The answer would seem to point to politics and distributional coalitions discussed by Acemoglu et al.

To the extent that the dominant distributional coalition changed property rights three times in 50 years, allowed rent-seeking and political capture of key economic institutions, it sustained an economic status quo of half a century. Interestingly, the same cannot be said of political and social change which show significant improvements over the second half of the twentieth century. Paradoxically, many of these positive effects might derive precisely from the same distributional coalition that maintained the economic status quo, albeit with a 20 or 30 year lag — once the changes brought about by agrarian reform, nationalization of mines and other measures had a chance to institutionalize. It is possible that many of the achievements in social and economic progress of the 1980s and 1990s emerged thanks to long term processes of institutional accumulation from social and economic institutions set into motion 20 or 30 years earlier.

This contrast between model and pattern might be framed as a macro hypothesis on the determinants of economic growth and poverty reduction in Bolivia. It suggests that both formal and informal institutions are functional over the long run to a distributional coalition anchored on a single development pattern. If Bolivia does not change either the dominant natural-resource-based distributional coalition, or its dependence on natural resource extraction altogether, it is unlikely to escape the trajectory of zero per capita growth witnessed over the second half of the twentieth century.

Second, and at the meso level, Bolivia provides an interesting experiment in how economic organizations and institutions such as agrarian unions, mining unions and different forms of social capital travel over time and space. With the collapse of the mining sector in 1985, massive migration from the highlands to capital cities, coca-growing centres in the Chapare valley, and agro-industrial production in the Santa Cruz lowlands resulted in an interesting institutional mix. Thousands of miner and agrarian unions relocated in the Chapare, Santa Cruz and El Alto with very different economic outcomes. To the extent that we are able to track how organizations transplanted from tin-mining to coca farming, soybean agro-industrial production and a massive informal sector in the highland cities, we can analyse the path dependence of a certain organisational form and a certain political logic over different economic activities.

It is no secret that Bolivians readily form social and economic associations. A recent study focusing on social capital in El Alto, suggests that while social capital has been readily translated into neighbourhood and self-help functions, the very same social capital does not seem to facilitate economic or productive activities linked to risk-taking, technological adoption or market activities. Why is this? One hypothesis points to the limits of miner union associations transplanted to export-oriented wood manufacturing, organic agriculture or leather processing, which may be simply dysfunctional. The phrase *'solidarios pero solitarios'* (united in solidarity, yet solitary) emerges in the cross-examination of such initiatives. Again, path dependence in meso-level organisation would seem to contribute to long term lock-in to impoverishing growth.

A meso level hypothesis on association, social capital and organisational characteristics of different types of economic activities can be tested empirically by looking more closely into the economic activities of Aymara mining migrants in lowland Santa Cruz, coca-growing Chapare and the highland city of El Alto. All three regions were recipients of massive highland migration in the 1980s, and all three can be tracked geographically to the point of identifying the impact of institutional adaptation to different economic environments. The impact of association and social capital also has obvious implications over current social and political affairs in Bolivia, particularly after the election of Evo Morales, the country´s first Aymara (and migrant) president.

Third, more micro level analysis focusing on household level analysis might reveal additional insight into the dynamics of institutional change, economic growth and poverty reduction in Bolivia. Recent studies suggest that from being pro-poor, economic growth in Bolivia has led to an absolute increase in the number of poor over time and a slight increase in income and consumption-based inequality. Micro-level analysis leads to a more detailed discussion of institutions that smoothen idiosyncratic and systemic risk over time. Household diversification strategies that fill in holes in the insurance safety net, explain both why household-based economies are resilient to many types of exogenous shocks, but also why it is extremely difficult to transform household based economic networks into risk adopting, competitive, entrepreneurial initiatives.

Most of the existing literature in Bolivia has focused on these consumption and income smoothing strategies on their own, without linking the discussion back to the meso and macro level hypotheses discussed above. Studies on micro-credit and micro-finance have come closest to examining the linkages between risk, institutions and growth, but have often focused on the supply side of the equation — i.e. the profitability of micro-credit institutions, their growth, etc. — rather than on the poor themselves. Perhaps a focus on different types of linkages between tradeable and non-tradeable sector activities might help understand how the micro story of institutional incentives and obstacles fits into the larger story.

A micro level hypothesis might unravel why and how household-based economies in Bolivia diversify but do not specialise, thus sustaining a massive urban informal sector below the poverty line. The way to unravel this question is to compare household-based producers in tradeable sectors (such as export chains), vis-à-vis household based producers in non-tradeable sectors (such as urban commerce or transportation services). The contrast will start to answer why and how institutions can create incentives for risk adoption, technological adoption and overall market competitiveness. This type of analysis can also be framed within the meso and macro level hypotheses discussed above.

Finally, a fourth set of questions operates at both a practical and meta-hypothetical level. Explanations of Bolivia's economic plight are, if anything, over-determined. That is to say, there are too many plausible candidates to explain what has happened. The enormous challenge facing scholars is then to pick their way through all the plausible factors, to isolate those that drive the system — while recognising, of course, that perhaps the system only works the way it does owing to the multiplicity of factors in play at any given time. It is small wonder, then, that a definitive explanation and diagnosis for Bolivia escapes the many impressive researchers who have examined the country.

How, then, may we shed useful light on this? One strategy is that of internal comparisons, through time and space — overall the story may be one of failure, but that is not true at all times, in all regions, and in all sectors. Indeed, a strong paradox of contemporary Bolivia is that there are boom sectors and regions. So what exactly is the difference between the booming soya bean sector and the stagnation seen in other parts of the economy? Comparative case studies could be highly instructive. For example, comparing the supply chain for some highland farm production with soya or other commodities from the eastern lowlands. UNDP (PNUD 2005) has had adopted an approach along these lines with some success. This might be developed more formally, with an explicit focus on the institutional elements of the supply chains.

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