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Stabilizing neoliberalism in Bolivia: popular participation and privatization

Benjamin Kohl

Geography and Urban Studies, Temple University, Philadelphia, PA 19122, USA

Abstract

Neoliberal theorists and development practitioners contend that economic liberalization and privatization lead to increased private sector productivity and decentralization accompanied by administrative reforms lead to greater democracy, more efficient public sector investment, and faster local development. Examination of the Bolivian case, which has been promoted as a global model for neoliberal restructuring, presents a different picture. There, economic restructuring and privatization have led to a decline in government revenues and a continuing economic crisis. Privatization of public services has led to rate hikes, which, in turn, have generated massive social protests. Political restructuring through decentralization has as often resulted in the entrenchment of local elites as in increases in truly democratic control of resources and social investments. This economic and political restructuring has also served to territorialize opposition to privatization and neoliberal economic policies and, in some areas, reinforce regional social movements. When examined together, it becomes clear how economic and administrative restructuring has sought to provide transnational firms both access to Bolivian natural resources as well as the social stability necessary in which to operate. As privatization through the Law of Capitalization further opened the country's borders to global capital, the decentralization program through the Law of Popular Participation served to focus the attention of popular movements from national to local arenas. While foreign investment has increased, the lack of benefits for the majority of the country has led to mounting regional social protests in the face of reduced government spending on social programs and increased prices for basic services.

Keywords: Globalization; Decentralization; Bolivia; Democratization; Neoliberalism

E-mail address: bkohl@temple.edu (B. Kohl).

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Introduction

The current dominant international development paradigm simultaneously supports the twin agendas of free markets and democracy.[1] Development policy makers, especially those at international institutions such as the World Bank and the International Monetary Fund, assume that free markets and democratic institutions are mutually reinforcing and that when combined lead to higher rates of growth and more stable political structures. I question this assumption, and argue that considerable tension exists between the two. Bolivia provides an exemplary case to examine these issues through the continuing impacts of two laws that are the centerpeices of the Gonzalo Sánchez de Lozada administration (1993–7) broader political project, the *Plan de Todos* (Everyone's Plan).[2] The first, the Law of Capitalization—which allowed for the partial privatization of five state-owned industries that accounted for 12.5% of Gross Domestic Product—illustrates the process of economic liberalization. The second, the Law of Popular Participation—which transferred 20% of national revenues to municipal governments along with responsibility for investment and maintenance in local public infrastructure—provides an example of democratic political restructuring.

I argue that, together, the Law of Capitalization and the Law of Popular Participation, promote a global neoliberal agenda that conflates the concept of democracy with that of free markets. In this context, the promotion of local democratic institutions actually serves to establish a new regime of control that seeks the political stability necessary to attract foreign investment even as it promotes local autonomy and economic development (Kohl, 1999a,b; Miró, 1998; Robinson, 1996). The connection between global economic interests and privatization and the current conventional wisdom of international policy makers is quite clear. Increasingly, private firms, the majority of which represent foreign capital, assume responsibility for economic activities that had previously come under state purview. The connection between global interests and political decentralization is not as immediately apparent.[3] One goal of this article is to make this connection explicit.

Since 1985, when Jeffrey Sachs first designed a Structural Adjustment Program (SAP) for Bolivia's National Revolutionary Movement (MNR) government, Bolivia

[1] For a concise statement of the current dominant development paradigm see Williamson (1993) and World Bank (1997). A critical discussion of development paradigms is found in Sachs (1992) and Escobar (1995) and a critique of the politics of development in Samoff (1990) and Slater (1989). The issue of conflicts between democracy and markets was put forth more generally, but starkly, in Crozier, Huntington and Watanuki (1975).

[2] The Plan de Todos (MNR-MRTKL, 1993), which began as the electoral document of the 1993 presidential campaign, was incorporated into the governing program formally titled El cambio para todos (GOB, 1994b). The administration of Hugo Banzer (1997–2001) followed the same basic neoliberal policies.

[3] By decentralization I am referring to a transfer of the power to make decision accompanied by resources and increased responsibilities from the national to the municipal government. I am not considering the transfer of power and resources from the national to the departmental governments. For an analysis of the latter see Roca (1999, pp. 149–169).

has served as an important testing ground for international development economists who point to the country as a textbook case of economic liberalization (Sachs, 1987; Brada & Graham, 1997). Building on the success of the Bolivian experience, Sachs went on to design similar programs in Eastern Europe and other parts of Latin America. Social Emergency Funds, funded primarily by the World Bank to ameliorate the social impacts of SAPs throughout the world, were first tested in Bolivia during the 1985–9 MNR administration (Graham, 1992).[4] In 1993 another MNR government followed the path defined in 1985, again initiating innovative neoliberal policies with the *Plan de Todos*. Just as programs tested in Bolivia in the mid-1980s were later exported, the programs introduced in the *Plan de Todos* are now being adapted for use in Central America, Eastern Europe, Asia, and Africa (Brada & Graham, 1997; Peirce, 1997; Xue, 1997).

The twin challenges of globalization: markets and democracy[5]

Promoting democracy as a way to guarantee political stability for economic globalization is central to the neoliberal model. William Robinson explores this in his discussion of the role of US foreign policy in promoting what he calls “low-intensity” democracy. in developing countries:

> The impulse to ‘promote democracy’ is the rearrangement of political systems in the peripheral and semi-peripheral zones of the ‘world system’ so as to secure the underlying objective of maintaining essentially undemocratic societies inserted into an unjust international system. The promotion of ‘low-intensity democracy’ is aimed not only at mitigating the social and political tensions produced by elite-based and undemocratic status quos, but also at suppressing popular and mass aspirations for more thoroughgoing democratization of social life (Robinson, 1996, p. 6).

In a similar vein, Donna Van Cott (2000), in her study on constitutional reform in Columbia and Bolivia, observes that “[o]ne important reason that both presidents [of Columbia and Bolivia] were able to prevent powerful private sector elites from mobilizing against the democratic reform was that neither reform program threatened the neoliberal economic model. In fact, this model was strengthened in both cases” (p. 31).

Refocusing social opposition from national to local issues during even apparently democratic decentralization may also serve to provide the social stability desired to

[4] The Social Emergency Fund, 1985–1990, was given a broader mandate and reincarnated as the Social Investment Fund when it became clear that the social costs related to SAPs could not be resolved through a single 5-year program.

[5] Globalization is marked by the acceleration of the expansion of the world-system reflected in the blossoming of transnational institutions that are beyond the control of any single government (Dicken, 1992; Knox and Agnew, 1989: McMichael, 1996).

attract increased foreign capital. This apparently contradictory outcome is not the result of a global conspiracy on the part of international development policy advisors but rather of individuals implementing agendas that often conflict in a range of local and national settings. While the laws that I consider here were written in a specific historical, social, and political context—Bolivia at the end of the twentieth century—the push to provide stable environments for international firms while concurrently decentralizing governmental powers is in vogue around the globe.

Much of the discussion of decentralization in developing countries ignores the global context in which those reforms take place (Grindle, 2000; Rondinelli and Cheema, 1983; Rondinelli, McCullough & Johnson, 1989; Van Cott, 2000; World Bank, 1997). Meriliee Grindle's (2000), for example, provides an interesting comparative study of decentralization and municipal reform in Venezuela, Argentina and Bolivia. She presents the reforms as the product of politicians seeking to retain power while ignoring the broader context in which those actors function. She is not alone. As Slater (1989) points out, authors who write on public administration and development have typically avoided addressing the international economic and political context in which decentralization programs are promoted. Often, even authors who recognize the broader economic context in which political restructuring takes place have chosen to focus on other themes. Van Cott (2000), in her study of constitutional reform in Columbia and Bolivia, recognizes "the problems of legitimating a system theoretically based on equality in the context of worsening economic conditions and the increasing concentration of political and economic power" (Van Cott, 2000, p. 5) yet decides that the "gap between formal democratic procedures and rights and the effective exercise of citizenship and political rights by all sectors of society" (Van Cott, 2000, p. 5) is of greater interest.

Much of the literature promoting decentralization and increased municipal autonomy present this agenda as the work of apolitical professionals operating within international financial and development institutions (Rondinelli et al., 1989; Rondinelli, 1990). These policy-makers believe that administrative decentralization will lead to more efficient and democratic governments and, most important for these authors, faster economic growth (Olowu, 1999; Therkildsen, 2000; World Bank, 1997). Some scholars, however, question these assumptions. Werlin (1992, pp. 228–230), for example, points out that effective decentralization requires strong leadership and effective bureaucracies staffed with honest and competent professionals, conditions not met in most lower-income nations. Bienen, Kapur, Parks and Riedinger (1990) show that in Nepal decentralization of government programs also allowed "local elites [to] capture local administrative and political structures in the absence of strong central authority and use these structures in antidemocratic ways". Other scholars argue that the opposite has occurred: reducing the role of the central government has not led to a weaker state but rather to its relocation, actually extending the power of central authorities. Slater argues that decentralization in Tanzania

> extended and consolidated the regional and local power of the state in a situation where a growing proportion of the rural population was being resettled, often coercively, in so-called 'development villages'. Within these villages, where

> bureaucratic staff and local Party leaders were politically dominant, the organization of agricultural production showed few signs of being restructured in accordance with a strategy of collectively managed socioeconomic transformation. The decentralization programme did, however, provide a cloak for increasing state control, combined with a growing reliance on foreign aid, including World Bank funding for export-oriented agricultural projects (Slater, 1989, p. 515).

Mohan (1996) further explores the link between the economic agenda of international financial institutions and decentralization drawing from the Ghanaian case during the 1980s. Responding to IMF pressures to reduce government spending, the government devolved certain responsibilities to local governments yet only transferred about US$1.00 (in current dollars) per capita to local governments. Mohan identifies a paradox, as the "IMF requires a strong state in order to implement structural adjustment programmes, while weakening the government with its conditionalities" (Mohan, 1996, p. 96). This, Mohan contends, leads to a situation in which "certain parts of the state are strengthened, especially the technocratic elements in the finance ministries. In reality neo-liberalism restructures political institutions but they still remain a necessary link in the chain of causality" (Mohan, 1996, p. 96). The net effect in Ghana, as in other countries, is to increase the relative power of those in government who promote economic agendas that parallel those of national, and to an increasing degree international, business communities.

The important innovation of the Bolivian *Plan de Todos* was that it simultaneously attempted to reconcile the demands of subnational regions for greater autonomy with those of international institutions for open markets. The *Plan* allowed regions to gain some degree of autonomy and financial resources to embark on local projects through the Law of Popular Participation, while multinational firms would gain access to Bolivia's natural resources through the Law of Capitalization and related economic policies. To the degree that this type of solution could be duplicated in other countries, the *Plan de Todos* might serve as a model for economic globalization.

Proponents of globalization, in which hegemony rests not in a single nation-state but in myriad international institutions united by a liberal, market-centered ideology, face three important challenges (McMichael, 1996). First, they must overcome the limitations of a system that has expanded to its geographic limits. While the current marketplace extends around the globe, it does so unevenly, and one of the explicit goals of recent development programs is to find ways to deepen and broaden markets in Latin America, Asia and Eastern Europe (Brada & Graham, 1997; Williamson, 1993; World Bank, 1997). Second, they must resolve the limitations that national borders historically have placed on trade through protectionist tariffs and barriers to the free flow of capital and labor. The creation of larger free-trade zones and a trend towards relaxing of barriers for capital addresses these issues. A third challenge stems from growing demands for both political autonomy and a share of economic resources as a result of increasingly unequal distribution of resources. This resistance to globalization can be either national—the Zapatistas in Mexico (Cleaver, 1994)—or international—demonstrators protesting at the World Trade Organization meetings or at international summits.

The laws introduced in Bolivia aim to address the challenges that national borders and demands for local autonomy present to globalization. Economic restructuring removes the state from the economic arena and allows international capital greater mobility as transnational firms are given almost unrestricted access to the country's resources.[6] Privatizing state-owned enterprises has fragmented Bolivia's labor movement, as each group of workers must negotiate with different employers rather than with the government. Addressing some of the demands for local autonomy refocuses the sphere of action for social movements from national to regional arenas. As Gonzalo Rojas, head of research for the National Secretariat of Popular Participation from 1994 to 1997, claims: "With the Law of Popular Participation, we won the majority of the demands that the Zapatistas are fighting for and at a far cheaper price than the Mexicans are paying" (Rojas, 1997b). The weakness of these laws, however, is that they do little to address the demands for increased social rights (Marshall, 1964) or economic justice.

The new development paradigm and the Washington Consensus

The recent Bolivian reforms fall within the range of policies labeled the new development administration, defined by an "emphasis upon decentralization, community development, deregulation, privatization, minimal government, popular participation and flexible forms of foreign aid" (Werlin, 1992, p. 223). Together, these policies aim to shift the function of government from implementing development to ensuring the administrative stability and fair rules theoretically desired by private firms and markets. Limiting the power and reach of the Bolivian government may seem appropriate, given that historically it has primarily served the interests of either national or international elites. The current laws, however, do not aim to replace an oppressive government with an enlightened one but rather to replace a corporate state that limits private economic activity with a neoliberal one that promotes it.

The movement to redefine the government in Bolivia began in 1985, when the World Bank and the International Monetary Fund imposed a SAP, implemented as the New Economic Policy (NEP), following principles put forth by Jeffrey Sachs.[7] Sachs writes that the NEP "went beyond macroeconomic stabilization to include fiscal reform, trade liberalization, internal price decontrol, and the decentralization

[6] The migration of a large fraction of the Bolivian labor force to low-paid jobs may be seen as another example of firms appropriating Bolivia's resources. An estimated 1.5 million Bolivians—about one in six—work in Argentina (*La Prensa*, 1999).

[7] The general strategy can be imputed from Jeffrey Sachs and Filipe Larrain's macroeconomics textbook in their discussion of structural adjustment and tradable and non-tradable sectors. Tradable goods include anything not nailed down that can be shipped outside the country or exchanged for foreign currency. Non-tradable goods are those that must be consumed internally. The fundamental insight of the recent economic and political decentralization programs is to devolve control of the non-tradable goods sector to the community level, while the tradable goods sector is privatized to allow those goods to enter global commodity markets. The goal is to maintain stability in the tradable sector, regardless of what happens in the non-tradable sector (Sachs and Larrain, 1993, Chapters 21–26).

or privatization of public enterprises" (Sachs, 1987, p. 281). The post-reform government, to a large extent the poster-child of the new development administration, was designed to ensure a stable social and political environment for private firms.

The economic portion of this development model is found most recently in policies promoted by the 'Washington Consensus', the consortium of international institutions that implement the liberal agenda, dominated by the World Bank, IMF, and USAID. Williamson, who coined the term, writes:

> My view is in fact that the 'Washington Consensus' is the outcome of worldwide intellectual trends to which Latin America contributed (principally through the work of Hernando de Soto) and which have had their most dramatic manifestation in Eastern Europe. It got its name simply because I tried to ask myself what was the conventional wisdom of the day among economically influential bits of Washington, meaning the US government, and the international financial institutions (Williamson, 1993, p. 1330).

Williamson identifies ten points of consensus on economic policies: (1) fiscal discipline with deficits of only 1–2%; (2) a change in public expenditure priorities that reduces subsidies for special interests; (3) tax reform that includes cutting marginal tax rates, especially on overseas investments; (4) financial liberalization, with market-determined interest rates, or, minimally, the abolition of subsidized interest rates for special interests; (5) unified exchange rates; (6) trade liberalization and the replacement of trade restrictions by tariffs, not to exceed 10% or, at worst, 20%; (7) increase of foreign direct investment through abolishing investment barriers to 'level the playing field'; (8) privatization of state enterprises; (9) deregulation and the abolishment of regulatory barriers to entry for all industries; and (10) guarantees of secure property rights (Williamson, 1993, pp. 1332–1333).

As economic principles, free of any social or political context, many of the points of the consensus are reasonable. Subsidies, for example, are often the result of the political power of special interests rather than an effort to address broadly defined social interests. In the Bolivian case the abuses of personal political power to win governmental subsidies are legion (Solíz Rada, 1997). Moreover, state-owned enterprises have a reputation for being corrupt. In a 1996 study, Transparency International rated Bolivia one of the most corrupt countries in the world (*La Razón*, 1998a,b). Given such an environment, a powerful argument can be made for privatizing state-owned firms that are riddled by corruption. Yet privatization alone does not address the fundamental issues of corruption; instead, it transfers the sphere of corruption from the public to the private sector.

Williamson's policy recommendations ignore the broader social and political context in which these policies are implemented. While the arguments may be sound for economic policy in certain instances, they are neither as universal nor as successful as their proponents hold (Brohman, 1996; Banuri, 1991). That the Washington Consensus defines conventional wisdom tells more of its political efficacy than its ability to predict economically effective policies. Furthermore, the assumption that getting prices right is of greater concern than considerations of social justice results in policies that have been shown to have a negative impact upon the poorest sectors of society (Benería & Feldman, 1992).

The Bolivian case

The restructuring carried out as part of the new development administration program in Bolivia did not lead to economic improvements for the majority of Bolivians. Unemployment has increased and government spending has fallen as corporate and value added taxes have not replaced revenues from oil and gas production. The costs of energy and basic services have skyrocketed leading to widespread civil unrest beginning in December 1997, only months after the capitalization of oil and gas production (*La Razón*, 1997b). Cycles of protest have increased in frequency and severity since and the country was shut down three times between February 2000 and April 2001 (Farthing & Kohl, 2001). While not all economic troubles can be linked to the economic restructuring, almost every protest includes demands to end neoliberal economic policies.

The results of these policies in Bolivia appear to be better predicted by critics of neoliberal market-driven policies than by neoliberal policymakers themselves. Capitalization was touted to drive growth rates from 4–7% annually and create 250,000 new jobs over 4 years. Decentralization was promoted as certain to decrease the size of government and increase the efficiency of government spending (GOB, 1994b). Economic growth spiked to 5.5% in 1998, mainly due to increased investment in oil and gas production before falling to 0.9% in 1999 and 2.5% in 2000 (EIU, 2001). The bonanza of jobs from capitalization never materialized as employment grew at 2.8% through 1998, the same as before Capitalization (*La Razón*, 1998b). Even the largest investment, of more than US$400 million in a gas pipeline to Brazil created less than 1000 permanent jobs nationally. Ironically, municipalities, many with budgets for the first time, were the largest source of new jobs in the late 1990s.

The Laws of Capitalization and Popular Participation

The 1994 Law of Capitalization partially privatized five strategic industries: oil and gas, telecommunications, airlines, electricity, and railroads.[8] Before Capitalization these public industries accounted for about 60% of government revenues—48% from oil and gas alone. Sanchez de Lozado justified selling the core state industries claiming that investments coming into the country would create 500,000 new jobs and drive annual GDP growth from 4 to 10% (GOB, 1994b). Rather than follow other countries that privatized industries through their outright sale, the Bolivian government sold only 50% of each business through a competitive bidding process

[8] The Law of Capitalization (GOB, 1994c) originally called for selling 50% of each of six industries, but there was no interest shown in Vinto, the state-owned smelter.

to private firms labeled "strategic partners" (Peirce, 1997).[9] Rather than pay for the 50% interest outright, the strategic partners promised to make investments over a 4–7-year period (Villegas Quiroga, 1997a). The Brazilian airline company VASP, for example, bought 51% of the national airline Lloyd Aero Boliviano (LAB) with a commitment to invest US$47.5 million over 5 years.[10] The contract allowed VASP to take control of the company with a single payment of US$5 million. With this payment VASP took control of LAB's parts inventory valued at over US$13 million, and, according to the Bolvian press, immediately began to sack the company stores. At the other extreme, the Italian firm Stet bought ENTEL, the Bolivian telephone company, paying the entire purchase price at the time of the sale by placing US$610 million in an interest-bearing escrow account. The majority of ENTEL's profits during the year following Capitalization came from the interest they earned on this account (ENTEL, 1997).

Capitalization took place in the context of a larger privatization campaign that aimed to dismantle the state capitalist model. This drive began in 1985 with Law 21060, which laid the basis for structural adjustment (Bedregal Gutierrez, 1994; ILDIS, 1992). The 1989–93 government of Victor Paz Zamora legislated the sale of 30 state-owned firms (GOB, 1992) and suggested the partial privatization of larger state firms (ILDIS. 1992, p. 89). In 1995 Sánchez de Lozada signed a presidential decree that called for the sale of 72 more firms. Before the Law of Capitalization, which sold US$1.67 billion in stock in state-owned firms, almost all firms that had been sold were small, and together their sale garnered less than US$100 million for the national treasury (Villegas Quiroga, 1997b, p. 48).

The 1994 Law of Popular Participation (LPP) restructured politics to the same dramatic degree as Capitalization did the economy, introducing participatory political institutions at the municipal level through three significant innovations. Most important, the national government transferred 20% of its budget (through revenue-sharing) on a per capita basis to municipalities, many of them newly created (MDH-SNPP, 1996).[11] Second, neighborhood and indigenous organizations gained legal status as formal representatives of their constituent populations through Grassroots Territorial Organizations (GTOs). Finally, Oversight Committees, comprised of representatives of these GTOs, were given veto power over municipal budgets. Along with the new financial resources, the municipalities were given complete control over investing in construction and maintenance in the areas of health, education, roads, micro-irrigation, and sports facilities.

[9] The remaining 50% of the firms' equity was divided: 49% to fund the bankrupt national pension system and 1% to employees of the former state-owned firms (Brada and Graham, 1997).

[10] The contract called for a single cash payment of US$5 million, the purchase of a single Boeing 727-300 for US$31.9 million, the lease of two more Boeings 737-300s, other special supports for US$8.6 million, and miscellaneous purchases and payments totaling US$2 million (Prefectura de La Paz, 1995).

[11] While this represents a relatively large commitment in terms of the share of the national budget, in 1997 it translated to only US$28 per person. Before the LPP the 20% of the budget specifically for cities and departments was split between municipal capitals (10%) and the regional development corporations (10%).

Three key factors shaped the LPP. First, the relationship between the regions and the central government had been tense since colonial times (Ardaya, 1991, 1995; Medina, 1997a,b; Rodriguez Ostra, 1995).[12] These pressures for regional autonomy had increased with the growing economic importance of Santa Cruz, 1000 km east of La Paz (Molina Monasterios, 1997, pp. 43–68). Since the return to civilian rule in 1982, every government had debated decentralization, and German, US, Dutch, and Swiss bilateral aid supported different decentralization initiatives (Ardaya, 1995; Thévoz & Porcel, 1997). Second, there was a general trend towards decentralization throughout Latin America during the 1980s (Van Cott, 2000). Peru and Colombia introduced new programs to transfer responsibilities from central to regional governments, and Costa Rica and El Salvador strengthened municipal governments (Molina Monasterios, 1997, pp. 55–58). Finally, since the 1980s non-governmental organizations (NGOs) in Bolivia, as in much of Latin America, had assumed increasing responsibility for rural development (Duran, 1990; Fisher, 1993; Kruse, 1997), and the authors of the LPP assumed NGOs would be key actors in implementing the law (Molina Monasterios, 1997).

Results of the Law of Capitalization

The telecommunication, oil and gas, and railroad sectors all adapted well, as economic units, to the new, non-Bolivian owners, as improved management and greater access to capital and technology led to increases in productivity. ENTEL reported growth of 16% during the first year of private ownership (ENTEL, 1997). ENTEL's performance has not continued at the same pace and its share price had fallen from a peak of US$50 in 1997 to under US$25 by the middle of 2001. In one month, Cruz Blanca, the new Chilean owners of the railroads, went from a net monthly operating loss of US$4 million to a slight profit (FCA, 1997).

The economic growth attributable to Capitalization between 1996 and 1998 was primarily tied to an increase of capital investment in imported not domestic machines and technology. Four of the privatized firms were included in a list of the largest importers in Bolivia compiled in 1996 (*Investment and Trade*, 1997, pp. 19–23). Total imports increased through 1998, which largely reflected investments made in oil and gas production and transportation. With the pipeline completed, in 1999 total imports fell to below 1997 levels (EIU, 2001). As the economic crisis continued through 2000 and 2001, in large part due to the successful eradication of coca, import levels remain below those of 1998, boding little optimism for long-term growth, especially in the face of a broader global economic slowdown.

Between 1996 and 1998 the capitalized typically firms met a large part of their investment requirement through importing manufactured products. The import of Boeing 727s for LAB may have had a greater effect on employment in Seattle than

[12] The liberal revolution of 1899, for example, that resulted in the transfer of the seat of government—although not the capital—from Sucre to La Paz, grew out of conflicts between the old silver and new tin mining elites (Klein, 1992, pp. 161–165; de Mesa et al., 1999, pp. 488–494).

in Cochabamba where the airline has its headquarters. ENTEL bought much of its hardware from subsidiaries of its parent company at “less than favorable prices”, according to one journalist who preferred to remain anonymous (Personal communication, 1997). Not a single length of pipe for the natural gas pipeline was manufactured nationally and Bolivia is no closer to having the manufacturing capability to produce such pipe. Even though the capitalized firms exceeded their joint US$1.67 billion investment commitment by the end of 1999, these investments had small multiplier effects and therefore failed to create new jobs or lead to faster economic growth (EIU, 2000 p. 20).

Privatization generally increased efficiency and productivity. The railroad line, Cruz Blanca, posted a profit of US$3.4 million during l996 (FCA, 1997) and annual profits more than doubled by 1999 (*La Prensa*, 2000). Even though the company profits do not include track depreciation, all agree that the new management has increased productivity as the company’s profits continue to grow. Much of the increased profit was achieved by reducing the workforce by two-thirds.

While the newly privatized industries did make capital investments and increase productivity, overall they eliminated more jobs than they created. Cruz Blanca reduced the combined workforce of the two railroad firms from a pre-Capitalization peak of around 5000 to 900; another 1200 employees were retained at the Empresa Nacional de Ferrocarriles (ENFE) Goods and Services division, charged with responsibility for track maintenance (Taborga, 1997).[13] The national oil company, Yacimientos Petroleros Fiscales Boliviano (YPFB), reduced its workforce from 5000 to 2000 and encouraged another 1300 ex-employees to form independent cooperatives to compete for private oilfield contracts. Employment at ENTEL and LAB has continued to decline (CEDIB, 2001, p. 31).

YPFB, divided into four firms, also increased its productivity through workforce reductions and the use of new technology in the privatized firms.[14] Overall production increased as the three privatized firms spun off from YPFB in 1997 brought projects on line. Transredes, a distribution network comprised of a consortium headed by the US multinational Enron, completed a natural gas pipeline to Brazil in 1998 ahead of schedule and has begun the construction of other pipelines. Natural gas exports in the first six months of 2000 were more than 200% greater than a year earlier.

Although firm efficiency has increased, the transfer of ownership carried a net cost to the government in lost revenues of US$255 million during 1997 alone. Government income fell further in 1998 because the oil companies, which had provided nearly half of government revenues, were privatized in the middle of 1997 (*La Razón*, 1997a; Molina, 1998). Even though production of oil and natural gas

[13] The Ministry of Capitalization divided ENDE into three companies: Empresa Andina, Empresa Oriental, and ENDE. The Chilean railroad firm, Cruz Blanca, bought both Andina and Oriental. My figures refer to the combination of the two.

[14] Three firms were privatized, and the fourth was the residual YPFB. The firms were divided into one transport company, Transredes (bought by Enron and Shell for $263,500,000), and two oil exploration and production companies, Empresa Petrolera Chaco (bought by Amoco for $306,667,001) and Empresa Petrolera Andina (bought by YPF-Argentina and Compac-Pluspetrol for $264,777,021).

continues to rise, government revenues have not increased as regulations lowered taxes and royalties from 50 to 18% in an effort to induce greater exploration and production. An ex-member of YPFB's board of directors estimated that the drop in royalties will cost the Bolivian government more than US$4 billion over the next 20 years (Alem, 1997).

Workers fired from Bolivian petroleum and railroad industries, for the most part, have been unable to find comparable private-sector employment in Bolivia. Freddy Chávez, General Secretary of the Federation of Railway Workers, estimated that approximately 25% of those who lost their jobs have found skilled jobs, although many at reduced pay. An additional 25% have emigrated to Argentina to look for work, with the remaining 50% either working in informal-sector jobs or unemployed. Chávez also said that the loss of work has had high social costs; rates of alcoholism and violence have soared as families deal with the loss of economic security (Chávez, 1997).

Apart from workers who lost their jobs, the economic restructuring also had a range of other impacts across the board (Villegas Quiroga, 1997a). As basic services are privatized and subsidies removed, prices for energy and water rise. Liquid natural gas, the cooking fuel for urban Bolivians, increased in price by more than 25% in 1997 alone. Electricity and water prices increased by over 50% between 1995 and 1997 even as the poorly paid informal sector provided the greatest source of new jobs. In December 1997, under pressure from the IMF and the World Bank and faced with a US$470 million budget deficit, President Banzer imposed an economic austerity plan that increased gasoline and diesel prices by 25% and reduced public spending (*La Razón*, 1997a,b). Price hikes and the announcement of reductions in public spending led to strikes and riots in December 1997. Transportation workers first went on a nation-wide strike to protest gas price increases. On returning to work, drivers raised transportation prices by an average of 20%, which led to a round of popular protests.

This was the first in the ongoing protest that defines the normal politics of daily life in Bolivia. The protests increased in severity over the 4 years of the Banzer administration.[15] In February 2000, protesters took to the streets after the Cochabamba water system was privatized and rates were increased by as much as 100%. Coca-growers in the tropics of Cochabamba, altiplano *campesinos*, and teachers' unions all piggybacked onto the protests. By April the situation had deteriorated to the point that Banzer, who had ruled the country as a military dictator from 1971–78, responded to the popular rebellion by calling a state of siege that, according to the official count, left 5 dead and 42 wounded (Assies, 2001, p. 1). When the dust had settled, a social movement, which united urban and rural *Cochabambinos*, had forced the government to return the water company to public control (Farthing & Kohl, 2001).

Further rounds of unrest rocked the country during the months that followed. In

[15] President Hugo Banzer assumed office at the head of a coalition government on 6 August, 1997, and left office after serving 4 years of a 5-year term on 6 August, 2001 because of failing health.

September coca-producers, reinitiated protests against government coca eradication policies and were joined by highland peasants and teachers, all with their own grievances. The protests ground the country to a halt for over 3 weeks, while private industry lost millions, schools were closed, and the cities were crippled as food supplies steadily diminished because of blockades. Then in April 2001, coca growers, accompanied by members of trade unions, water-user groups, and other peasant organizations, set out for La Paz on the "March for Life and Sovereignty" (Kohl & Farthing, 2001). Together, with other peasants both from the altiplano and the tropical Yungas northeast of La Paz, they hoped to build on successful protests of the previous April to sway the government's position on policies ranging from coca-eradication to the neoliberal restructuring that had begun with the 'New Economic Policy' in 1985 and continued through the privatization of government industries in the mid-1990s. Each group had its own set of demands, which included ending coca eradication, repealing the labor code, and revising the education reform. Rather than achieve a repetition of the popular victory of the previous April, the coalition crumbled on May 1 when highland peasants cancelled a series of roadblocks.

In these cases, the democratic structures that neoliberal theorists claim are so dependent on free markets for their successful functioning were undermined as Banzer met growing social protests with increased force. These events seem to have been predicted by Polanyi's (1957) description of the double movement of the market: an increase in market liberalization extracts high social costs and is countered by social responses as the poor demand alleviation of the hardships exacted by an unbridled market.[16]

Results of popular participation

The 1994 Law of Popular Participation (LPP) transferred 25% of the national government's annual revenues to municipalities through a revenue-sharing program and created new institutions for local control and oversight of municipal spending. For the first time, municipalities that had never received direct support from the government had to open bank accounts, develop municipal plans and budgets, and implement projects.[17] In 1996, the first full year of implementation of revenue sharing under the LPP, all municipalities received an equal per capita payment, based on 1992 census figures, of about $26. That figure rose to over $31 in 1998 before falling back to around $26 in 1999.

Clearly, the distribution of funds was the important component of the LPP. Javier

[16] Polanyi writes about the double movement of the market: "one was the principle of economic liberalism, aiming at the establishment of a self-regulating market...the other was the principle of social protection aiming at the conservation of man and nature as well as productive organization . . ." (Polanyi, 1957, p. 132). See Benería (1998) on the relevance of Polanyi in current context.

[17] Bolivia's municipalities, more like counties, than cities, are predominantly small and rural. The country is divided into 314 municipalities and 31% have populations under 5000, 73% have populations under 15,000 and 94% have populations under 50,000 (SNPP-DNFC, 1997, p. 11).

Medina, a researcher for the Secretaria Nacional de Participación Popular (SNPP), tells of the initial disbelief common in rural municipalities:

> The Mayor of one municipality in Oruro had to convince the community to work on the plan. No one wanted to do it because they said it was a lot of work and nothing would come of it. So the Mayor went to the bank, took out all the money, and brought it back to the community to show them it was really there. Only then did they start to work together (Medina, 1997a,b).

This type of response can, in part, be understood in terms of the historical relationship of rural to urban Bolivia. Since the Spanish invasion there have effectively been two Bolivias: one tied to global markets through silver, rubber, tin, or gas and the second, largely indigenous, locally rooted in a combination of subsistence and market production and remittances from migratory labor. This second Bolivia has historically received little attention or assistance from the government.

Along with revenue sharing, the LPP called for participatory planning to determine the allocation of new revenues. By 1997, more than 15,000 Grassroots Territorial Organizations (GTOs)—neighborhood organizations in the cities and a range of peasant unions in rural areas—with an average size of about 500 members, were registered with the government (SNPP-DFNC, 1997, p. 18). Community members came together to define their needs and priorities in a participatory planning process (Ayo, Barragan & Guzman-Boutier, 1998; Blanes, Jiménez, Sánchez Serrano & Arias Veizaga, 2000; Kohl, 1999a). Representatives from the numerous GTOs then negotiated with members of the municipal council to determine which projects would be implemented as part of municipal Annual Operation Plans (POAs) or integrated into the 5-year Municipal Development Plans.

When revenue sharing was first proposed, critics suggested that popular participation would simply 'decentralize corruption'. Given Bolivia's history of endemic corruption (Transparency International, 2001), this was a reasonable concern. In an attempt to minimize losses, the LPP also called for local oversight of both the allocation of funds and the budget itself. Oversight Committees (OCs)[18] consisting of representatives from GTOs were charged with ensuring that funds were equitably shared within the municipality and that the projects that were funded were actually carried out. These OCs functioned with varying degrees of success (Ayo et al., 1998).

In many areas Municipal Development Plans (MDPs) were written by private contractors or by NGOs following government guidelines (Ayo et al., 1998; Kohl, 1999b). A 1998 study, published by the Vice Ministry of Popular Participation and

[18] Some authors (Assies, 2001; Booth et al., 1996; Gannitsos, 1998) refer to these as "Vigilance Committees" translating literally from the Spanish *Comités de Vigilancia*.

Municipal Strengthening (VMPPFM),[19] identified 15 significant problems with the planning process (VMPPFM, 1998a), including a lack of coordination between municipal, departmental, and national organizations. For instance, a community would decide to build a school or a clinic before ensuring that the departmental agency responsible for assigning teachers or nurses would staff the new building. Commonly problems arose when certain communities presented lists of demands for basic services without considering the limited resources available to meet those needs. In addition, inadequate provisions were made to meet the needs of women and indigenous groups. The study also found that the projects identified in the 5-year plans often never were incorporated into the Annual Operating Plans (AOPs) or carried out by the municipality. Finally, participatory planning processes had not been carried out in the countries largest municipalities. A second study found that in 80% of the municipalities the oversight committees did not participate in writing the MDPs (MDSP-VMPPFM, 1998). In half of the municipalities in this study neither the oversight committees nor the GTOs took part in the development of the AOPs.[20]

As is often the case, the introduction of formal democratic institutions does not guarantee substantive democratic practice. Outcomes depend, instead, on a range of specific factors, including the relative strength of local elites and grassroots organizations, support of NGOs, the presence of charismatic leaders, and access to international development funds. In some municipalities, traditional party clientelistic politics prevail, local elites co-opt new institutional structures and corruption, not democracy, flourishes (Blanes, 1997; Booth, Clisby & Widmark, 1996; Kohl, 1999a,b).[21] In others, strong civic organizations, whether peasant or neighborhood organizations, show signs of achieving a more equitable distribution of economic resources among rural and urban populations. Municipalities where grassroots territorial organizations (GTOs) act directly rather than through third parties show a greater propensity for effective governance[22]. NGOs play key roles in some com-

[19] The government unit responsible for implementing the Law of Popular Participation has changed names since the law was passed in 1994. Initially, the unit was called the National Secretariat for Popular Participation (SNPP). On assuming office in 1997, the Banzer administration reorganized the government, incorporating the SNPP into the Ministry of Sustainable Development and Planning as the Vice Ministry of Popular Participation and Municipal Strengthening (VMPPFM). The VMPPFM maintains a website, www.VMPFM.gov.bo that allows access to studies on the implementation of the LPP.

[20] This is not surprising given the profound level of the changes the LPP entailed. Substantial progress in adapting to the new forms of planning, however unevenly, has been made in many municipalities, yet there is still much to learn.

[21] The Research Group at the SNPP reported at a 1997 seminar that during 1995 and 1996 120 accusations of corruption were serious enough to be investigated by the Controlaría General (General Accounting Office) (VMPPFM, 1998a,b). In addition, 241 Mayors were removed from office in 1996 and 1997, the majority accused of corruption (MDSP-VMPPFM, 1999, p. 17). In the case of El Alto, a 1995 audit showed that 25% of all registered expenses were either inappropriate, e.g. illegal payments for expenses, or simply did not have receipts. In one case, the municipality of El Alto made a $920,000 payment to a company that never performed any work (Manai, 1997).

[22] The Chaparé, controlled by the Coca Growers' Federation, offers the best example of how effectively strong grassroots organizations can work (see Kohl & Farthing, 1997; Booth et al., 1997).

munities in designing and implementing municipal development plans, and, although public investments may be more efficiently allocated over the short term in cases where NGOs are given primary responsibility for defining investment, this scenario still leaves decision-making in the hands of outsiders (Kohl, 1999b).

Even though the participatory planning process was imperfect, the results—the projects actually implemented—are worth examining. In 1996 municipalities nationwide spent 80% of available funds in four categories: 32% on urban development (plazas, streets, and public buildings), 22% on education (mostly construction and rehabilitation of new school rooms), 16% on basic sanitation, and 10% on transportation (roads, bridges and boats) (MDH-SNPP, 1997). Additionally, there has been a push for smaller, predominantly rural municipalities to increase spending to support production and consider how to provide productive possibilities for rural populations (Arias, 1999).

Gonzalo Rojas, director of research of the SNPP from 1994 to 1997, relates common investment patterns:

> In the large municipalities—La Paz, Cochabamba, and Santa Cruz—the municipality really has little freedom in what they do with the money given the demands of the big cities. There the process is the same as always: neighborhoods fighting for resources, or in some cases [members of opposition political] parties trying to ensure that the ruling party doesn't steal too much. In the smaller, rural municipalities the patterns are different. First everyone does the plaza, redoes the school house, builds a health clinic—whether they have medicines or not—and maybe they buy a jeep for the Mayor. Then after a few years they start looking around to see what to do and think about investing in production. But it's really too early to tell what the long term effects are going to be (Rojas, 1997a).

Funding was limited: even at its 1998 peak of US$31 per person, a municipality of 10,000, for example, received funds of only US$310,000. With these funds, the government also transferred responsibility for the construction and maintenance of schools, clinics, secondary roads, sports facilities, and micro-irrigation systems and other productive projects to municipalities. Not only does the law determine the types of projects that can be financed but it also defines the amount that can be spent on new construction—85%—limiting the amount available for maintenance and salaries to 15%. In the best of cases revenue-sharing funds are not the only source of support for rural municipalities, but are used to raise project funds from NGOs and international development agencies. In a handful of municipalities, astute municipal managers, often supported by NGOs, have been able to leverage funds by a factor of 10 (Blanes et al., 2000; Booth et al., 1996; Gannitsos, 1998).

Even though one goal of decentralization has been to reduce the size of government, ironically, the LPP has created more jobs than has Capitalization. Between 1994 and 1996 municipalities created more than 32,000 jobs, the largest share of them relatively temporary, low-paying jobs for semi-skilled construction and maintenance workers (MDH-SNPP, 1996). Still more jobs have been created by the LPP given that the majority of municipalities used their revenue-sharing funds to contract private firms to build thousands of plazas, schools, and health clinics nationwide. The growth is reflected in an 11% increase of construction jobs between 1996 and 1997, compared to 1% increases in both total workforce and manufacturing jobs (INE, 1998). Given that total revenue-sharing per capita for 1998 was only $31, it is unlikely that the construction boom in rural municipalities will be enough to spark ongoing development in these areas.

While administrative decentralization and a more equitable distribution of public revenues are significant events, alone they are not enough to achieve local development without access to natural resources, skilled labor, and working capital. The existence of local democratic institutions does not provide the tools to overcome structural limitations imposed by national economic policies that exclude local communities from key fundamental economic processes. For example, the LPP mandates that municipalities and local organizations "[p]articipate and promote actions related to environmental management, ecological equilibrium, and sustainable development" (GOB, 1994a, Art. 7, Para. b), yet other laws specifically exclude municipalities from controlling the oil and gas, mineral, and hydraulic resources that could be used to achieve these goals. Even given the increase in municipalities' ability to create jobs over the short term, if they are blocked from exploiting local resources they have very limited opportunities to promote meaningful local economic development over the long term.

Undoubtedly participatory planning has been imperfect from the start. Yet for many Bolivians it created the sense for the first time that as citizens they were entitled them to make demands on their government (Booth et al., 1996; Medina, 1997a,b; Rojas and Verdesoto, 1997). In neighborhood or communities when calls for new schools, streets or water systems were incorporated into 5-year MDPs, residents felt some new sense of entitlement, and an accompanying sense of frustration when these demands were not met. In some areas indigenous groups have formed separate indigenous municipal districts, which allow them to opt out of their respective municipalities and gain control over their share of revenue-sharing funds. It was this sense of entitlement that would complement a new focus on local demands that have shaped ongoing social protests.

The combined effect of capitalization and popular participation

More significant than the level of economic growth or administrative efficiency achieved by the Law of Capitalization and the LPP, is that the two combine to support a neoliberal agenda that aims to guarantee transnational firms access to low-cost Bolivian natural resources and labor while also creating the social stability those firms need to operate. While Capitalization opens the country's borders to global capital, the LPP refocuses the attention of popular movements from national to local arenas. Indeed, the LPP successfully changed the direction of much of the popular resistance to recent neoliberal programs by allocating enough resources to municipalities to attract the attention of local populations, which has also served to redefine the spaces for opposition. Until 1985 opposition to the social impacts of economic restructuring and austerity plans was national and class-based. When the Bolivian Workers' Federation (COB), one of the strongest union federations in the world, called for a general strike to oppose price hikes the country would screech to a halt. As the LPP directed attention away from national processes to local ones, opposition became fragmented and more closely tied to Grassroots Territorial Organizations, while municipal struggles for limited resources became increasingly local in focus. In the words of ex-mining leader Filemón Escobar, currently an advisor to the coca-producers union, "With Popular Participation, we're fighting for pennies while Capitalization has taken all the dollars off the table" (Kruse, 1997).

This change in the spaces of social action also affected the types of actions undertaken. In 1990, for example, indigenous groups from the eastern lowlands came together for a 600-km March for Life and Territory, which resulted in the creation of several indigenous territories (Lijerón Casanovas, 1993). Quechuas from the north of Potosí joined together in 1994 to march on La Paz to demand recognition of their indigenous form of social organization, the *ayllus*, as a Grassroots Territorial Organization.[23] The *ayllus* successfully brought their demands to the attention of the national government and won the right for indigenous groups throughout Bolivia to form indigenous districts to administer their share of revenue-sharing funds. After the LPP, however, these struggles for power have primarily moved from national to municipal arenas.

The same groups that successfully pressured presidents to create indigenous territories in 1990 and recognize *ayllus* in 1994 have, for the most part, been unsuccessful in promoting their demands at the municipal level. In the Amazonian municipality of Rurrenabaque, the local indigenous group receives a fraction of municipal resources that their communities are entitled to on a per capita basis. Instead, the Mayor convinced the Municipal Council and Oversight Committee to ignore the rural sector and invest in sewers, a water system, and a public market to serve residents of Rurrenabaque's urban core (Kohl, 1999a, pp. 183–190). This pattern is repeated throughout the majority of the country's smaller municipalities in which local elites have coopted the participatory planning process (Blanes, 1997; Booth et al., 1996). Indigenous groups have been more successful when they have been able to form municipal indigenous districts than when they have had to negotiate with regional elites in their respective municipalities.

The problem of equitable distribution of resources can be attributed, in part, to a history of unequal power relations between the urban and small town elites and the urban and rural poor (Zorn, 1997). The results show that simply instituting participatory planning is not enough. Often, as part of projects in rural municipalities, when I invited indigenous women to attend planning meetings at the town hall, they would tell me, "No, we can't go, they never let us in there." After repeated invitations, men and women from outlying communities began to understand that they have a right to be represented in municipal planning and budgeting. While it is difficult to

[23] Ayllus, a nested moiety system, refer to traditional social organizations of different levels of size and complexity (Platt, 1982).

measure, it appears that this understanding is spreading, although slowly and unevenly, throughout much of the country. As this awareness grows, GTOs increasingly focus their attention on the municipality to win their share of local resources.

Capitalization has resulted in a similar refocusing of popular resistance to economic policies and a consequent fragmenting of opposition. Labor strikes, marches, hunger strikes, and road blockades were almost daily occurrences during the sale of each of the individual firms, but these actions were generally small and limited to the individual sector affected by a particular sale. Unlike the general COB strikes of the early 1980s, which would effectively shut down the country, the sectoral strikes of the mid-1990s were little more than inconveniences.

The LPP generates its own set of contradictions. While decentralization programs aim to reduce the role of the central government, just as Slater (1989) found in Tanzania, this may lead to a relocation rather than a weakening of the state itself. In fact, the LPP appears to have brought state authority to areas of the country previously unaffected by events in the nation's capital. Miller (1990) and Rose and Miller (1992) come to similar conclusions, although via different arguments. They claim, following Foucault, that the technologies of governance themselves—essentially the toolkit of public administration skills—serve to create a citizenry that is easier to control. In the Bolivian case the availability of revenues for local investment is subject to the adoption of certain standardized notions of development and well defined procedures. Potentially dissenting voices are controlled, as they must use the language and tools of dominant groups to participate. Democratic participation, then, becomes a competition for limited revenues—fighting for pennies left on the table—at a local level.

The *Plan de Todos* was designed to modernize Bolivia by turning productive industries over to multinational capital and devolving responsibility for reproduction of social infrastructure to municipalities. It has achieved these goals, although unevenly. Many of the long-term impacts of Capitalization and Popular Participation have only begun to be felt, and it is possible that the most important changes, as in many restructuring programs, will be unanticipated. On one hand, Capitalization holds little promise for job creation and equitable growth in an economy that continues to depend on the extraction of natural resources. On the other, even if only partially, Popular Participation has begun to change the conception of citizenship and has served to generate a new set of expectations from those who are receiving, for the first time, direct benefits from their government. The rhetoric of Popular Participation is introducing a new dimension into public debate, which may be enough to catalyze poor rural and urban populations to contest the right of international firms to take advantage of the economic laws that so favor them.

Contradictions within both Capitalization and Popular Participation lead to increasing social tensions, which may eventually threaten the stable investment environment sought by international development agencies. Capitalization has led to a decline in government revenues, which resulted in the imposition of an economic stabilization plan in December of 1997 and a subsequent escalating cycle of protest. Increasingly, protestors call for an end to globalization as they recognize the links between the hardships they experience and the government's neoliberal policies. The water wars of February 2000 have been the most visible sign of contradictions in a model that simultaneously promotes privatization on one hand and broader social participation on the other (Farthing & Kohl, 2001; Kruse, 2001; Schultz, 2000). The success of the Cochabamba protest may, in part, be due to the limited territorial nature of the dispute. When the entire city united around a single issue the force was great enough to win concessions from the government. Yet the victory remained a local one and attempts by other sectors to build on the momentum were less successful. Subsequent protests had a greater impact on the country as a whole, but also failed to win fundamental changes in national economic and social policies. It appears that until leaders in the regional movements can pull together to achieve the universal support seen in Cochabamba, fragmented social movements will have little hope of changing the neoliberal policies that shape daily life in Bolivia.

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