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## **The Pitfalls of Neoliberal Policies and the Rise of Morales’ Socialism in Bolivia: Successes and Challenges**

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### Abstract

Evo Morales became the first indigenous president of Bolivia in the midst of a growing repulsion against neoliberal policies in Latin America in the period 1998-2009. The leftist revival in the region came on the back of failed US economic and political leadership as demonstrated by the failure of the neoliberal policy model to bring about equal distribution of wealth in the world's most socially uneven region<sup>1</sup>. The Morales government with its socialist policies has transformed Bolivia's landscape with regard to strategic affairs. The initial part of this policy piece is dedicated to a brief history of Bolivia and to framing out the pitfalls of neoliberal policies in the country. The second part focuses on the land issue and in addressing the successes of Morales's strategic economic model of development that features nationalization and redistribution of wealth. The final part look at some of the challenges facing the leftist regime.

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provide members of the  
policy community with  
concise but trenchant  
analyses of topical  
issues. Comments and  
suggestions are invited.*

## Brief History of Bolivia

To understand contemporary Bolivia, one needs to track the country's long history. Bolivia is a country where conundrums of more than five centuries ago still persist. Some scholars even go as far as to describe it as a territory in permanent rebellion<sup>2</sup> since its conquest by the Spaniards was an irreversible fact against which the peoples' resistance was of no avail, given the might of the former. Legend has it that Tupac Catari, leader of an indigenous rebellion whose body was ripped apart by Spanish colonists as an example to defiant Indians, pronounced the now famous phrase "I shall return and I will be millions"<sup>3</sup>. This utterance demonstrates the deeper societal feelings towards the changes that Bolivia is currently undergoing. In light of this manifestation one asserts that after Morales the first indigenous President, Bolivia's history will never be the same.

The government of Morales' decision to nationalise the country's economic sector is not without precedence. A wave of strict state control measures over the extractive sector transpired in 1937 in the wake of the great depression, a period when the world order generally welcomed greater state intervention in the economy. And after a slow but steady drift to the right, a revolution in 1952 led by the Nationalist Revolutionary Movement (MNR), overthrew a rightist military regime and nationalised the country's mining sector and introduced extensive land reform policies.<sup>4</sup>

Thus, Morales' coming to power coincided with the rise of indigenous consciousness, especially since the 500th anniversary of colonial subjugation in 1992, which stirred memories of the horrific exploitation that was entailed in the extraction of vast resources during the conquest, an epoch which transformed the natives into impoverished slaves. Hence, the indigenous peoples' and social movements proposal for the new Bolivia is summed up in the slogan "To Live Well", which implies an unceasing struggle for equality. In essence the indigenous view aspires to redefine a new, more equitable equilibrium that

necessarily implies income redistribution instead of competitiveness and the law of the strongest that governs the world markets<sup>5</sup>.

## Pitfalls of Neoliberal Policies

Latin America's shift to the Left beginning with the election of Hugo Chavez in 1998 marshalled in a fresh landscape with regard to strategic affairs. This was quite evident in the case of Bolivia, where after a millennium of conquest and exploitation the majority population mobilized through democratic channels to redefine essential matters of political economy and strategic affairs<sup>6</sup>. The 1980s signaled a major turning point for the region, as the debt crisis that hit the Third World facilitated the neo-liberalization of Latin America through the restructuring policies of international financial institutions, namely the World Bank and IMF. Gonzalo Sanchez de Lozada became Bolivian President in 1993, and as a former planning minister to the 1980s' economic shock introduced sweeping waves of privatisation policies. These allowed foreigners to own half of state enterprises in strategic sectors such as petroleum and telecommunications. From the onset popular protests marked Lozada's restructuring policies.

The energy sector was privatized through the Hydrocarbons Law No. 1689 of 1996 in a move that was greatly endorsed by multilateral institutions as part of a neoliberal reform strategy of enhancing foreign investment in those industries. However, the result of such moves was the division of YPF (Bolivia's state owned petroleum company) into three companies with 50 % of the shares sold to the private sector. The recipients of this move such as Shell, Enron and Repsol YPF, were not asked to pay for their shares; instead they merely dedicated themselves to investing a portion of their share that was equivalent to the sale "price" of energy resources over a period of seven years<sup>7</sup>. This demonstrates the essence of neoliberal governments giving away state assets.

Foreign investment and production increased and new natural gas deposits were found but the public sector's

chronic fiscal deficit worsened. Instead of raising taxes in the highly profitable hydrocarbons industry, the government announced that it would create an income tax (impuestazo) in 2003, in the back drop of prevailing low wages, high unemployment and poverty levels. The “impuestazo” was the 12.5% super-tax levied on the salaries of 20% of Bolivians who remain employed after 5 years of devastating recession<sup>8</sup>. The tax was imposed as an effort to reduce the country's fiscal deficit of 8.6%.

A clear watershed of the failure of neoliberal policies in Bolivia occurred in 1999-2000 with the privatization of water resources. Within a few months of the project water prices rose sharply and triggered violent protests. This “water war” as it was known, resulted in the cancellation of the water privatization scheme and empowered anti-neoliberal movements. Again neoliberalism's feebleness appeared in 2003, amid growing social protests concerning the exploitation of the country's vast gas resources and over a proposed natural gas pipeline to Chile. Bolivia's majority feared that the exportation of gas to Chile was just another scheme that extracted Bolivia's natural resources to benefit transnational corporations and foreigners. These were heightened by public demonstrations over the Lozada government's submissiveness to the Bush administration's pressure to forcibly eradicate the country's vast coca crops, on which the livelihood of tens of thousands of Bolivians depended on.

Neoliberalism did not bring the proclaimed foreign investment but rather resulted in the auctioning off of Bolivia's natural resources and state corporations, while the majority of the dominant sectors continued to live from the State and transnationals as parasites<sup>9</sup>. Social differences and dissatisfaction continued to increase and the failure of the government in 2004, to heed the calls by the masses in an 80% referendum vote to nationalize the country's energy resources led to paralysing nation-wide protests which forced Carlos Mesa to resign as president and paved the way for the subsequent rise of social movements and the election of Evo Morales in the 2005 presidential elections<sup>10</sup>.

## **The Land Issue**

One of the problems facing Bolivia is the unequal ownership of land and this forms part of what the current Morales regime seeks to redress. The country undertook an Agrarian Reform in 1953, which partly resolved the issue but also created another one<sup>11</sup>. The 1953 Agrarian Policy did not recognize indigenous peoples and it gave the government more power in terms of land ownership. As such, successive governments and military dictatorships of the seventies, distributed the land along family and political affiliations. Thus, between 1953 and 2002, 51% of the land had been distributed to large and medium enterprises, while peasants and small farmers were assigned no more than 5%. When Morales first assumed office, the majority poor and small farmers owned only 1.4% of arable lands, while rich estate proprietors owned 85% of them<sup>12</sup>.

In 2002, the National Agrarian Reform Institute (INRA) was established and had the calibre to recognize the existence of indigenous peoples and the Original Community Land Grants that is communal indigenous ownership of lands but because it was subjected to the World Bank's concept of market-assisted agrarian reform (regularization of lands) had short comings<sup>13</sup>. Its greatest short coming was its inability to establish an effective mechanism to recover lands but instead it defined a procedure that favoured their legalization. In other words, the INRA Law provided for the reversal of lands with indemnification only in the case of abandoned lands. Put simply, it promoted a sort of “willing seller willing buyer system”<sup>14</sup>.

As such, nationalization and the recovery of state resources and enterprises is the lever of Morales's strategic economic model of development and redistribution.

## **Morales's Strategic Path of Development (Nationalization)**

President Morales came into power in Bolivia in 2006 amid widespread discontent.

The country had been experiencing long-term economic turmoil with income per capita lower than it was 27 years prior to privatization efforts which were also widely unpopular. The Morales regime signaled a major turning point in Bolivia. The economy grew, experiencing its fastest growth in decades. The country intensified its sovereignty over economic policy and sharply increased its revenues; absolute poverty declined by 43%, real minimum wages increased by 87.7% and social spending has increased by 45% from 2005-2011<sup>15</sup>. The key behind these achievements lies in the nationalization of energy resources particularly the mining and hydrocarbon sectors by decree early during his first term in office. This allowed his government to engage in effective redistribution and macroeconomic policies that sought to benefit the poorest segments of the society. The government has also efficiently used expansionary fiscal policy to counter-act some of the negative impacts from the world economic downturn<sup>16</sup>.

Nationalization in Morales's terms does not imply complete state control, rather it entails amassing "government's take". That is companies and corporations ought to pay a sizeable tax to the government and redefine their corporate responsibility at the community level<sup>17</sup>. In addition, mining companies are expected to provide clear social welfare and infrastructure projects to the communities which they operate<sup>18</sup>. Eventually, some mining executives have expressed sympathy for these objectives, both because they would probably yield greater political stability and because they wanted to be perceived as part of the social solution rather than as a political problem<sup>19</sup>.

For 20 years preceding the Morales regime, Bolivia was operating continuously under successive agreements with the IMF. Agreements with the IMF were de facto conditions for accessing funding from other sources, especially the World Bank and Inter-American Development Bank. Neoliberal policies were imposed on Bolivia by these credit cartels who

operated on fiscal and financial sector reforms and structural reforms. The World Bank advised Bolivian authorities on privatization including gas privatization in 1996. Hence, the nationalization of Bolivia's hydrocarbons sector in 2006, went against the recommendations of these international development institutions and the Washington Consensus<sup>20</sup>. In 2006, the World Bank even wrote that with nationalization in place, revenues to the government could diminish due to the fall of natural gas production.

Beyond the hydrocarbon and mining industries, the Morales regime has initiated a bold policy of land reform and between January and August 2006, more than 6 million hectares of land had been distributed. By the end of 2006, about 50 000 families were estimated to own about 90% of the country's productive land<sup>21</sup>.

### **Challenges for Morales' Socialist Bolivia**

To date, despite a pool of successes Morales and his Movement Towards Socialism (MAS) face a decline in support from leftist regimes in the region as has been witnessed by the current turmoil in Venezuela and the emergence of centre right governments in Argentina, Peru and Brazil. This leaves Bolivia in a vacuum in terms of regional strategic alignment. Domestically, Bolivians earlier this year narrowly rejected changes to the constitution that would have allowed President Morales to run for a fourth term in office.

Secondly, research has found that Bolivia has historically been a country with exploitable natural resources that depend on foreign capital for survival<sup>22</sup>. Her position in the global political economy thus represents a major barrier to any aspiration for building an alternative to capitalism. This partly explain the reluctance or inability of the Morales government to tackle 500 years of extractivism. At the same time, like many other countries in the global South, Bolivia faces enormous challenges in achieving sufficient levels of growth, while also protecting the environment.

Finally, Morales faces a potentially hostile situation due to declining gas prices on the world market. This may generate strains that will bring to the vanguard the government's inability to implement its plans for a plural, more diverse economy with massive job creation<sup>23</sup>. Such challenges, along with the fight against increasing corruption, even in organizations like the Indigenous Fund that was created to channel funding to development projects in rural communities, can prove fatal for a lonely indigenous socialist regime.

## Recommendations

- With the revival of centre-right politics in the region, threats from conservative and once politically powerful sectors of society that aim for a return to more market-oriented and less socially sensitive governance persist. As such, the Morales government and Bolivia's social movements should aim to defend the "process of change" by all costs. Meaning that Morales should soften his heart towards the new players in the region so as to avoid the isolation of Bolivia but also to attract their investments into the country's extractive industry.
- The Morales administration should first consult with the people that it claim to represent if it wants to raise prices of essential commodities like gas because, simply raising the prices of goods as most neoliberal governments do, weakens support for the government.
- For countries that face similar inequities as Bolivia in terms of land ownership and wealth redistribution, the Morales model of development and addressing historic injustices is a compelling approach to neoliberalism.

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