

THE MOBILIZATION OF THE LEFT AND THE NATIONALIZATION OF THE  
HYDROCARBON SECTOR:  
BOLIVIA'S TRANSITION FROM A PACTED DEMOCRACY

by

KATHERINE MCELROY

B.A., Chapman University, 2007

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## ABSTRACT

Throughout Latin America the conservative terms established at the outset of democratization, which often limited the scope of democracy for the preservation of stability, have been exhausted. Coinciding with the emergence of the Latin American left, the initial terms of democracy are being redefined through the reconstitution of the state and the renegotiation of the role of the state in the economy. These phenomena are presently and precipitously unfolding in Bolivia. Bolivia's failure to establish substantively democratic institutions resulted in a political-economy orientation incongruent to the preferences of the electorate. The electorate was forced to push their interests by means of increasingly assertive social movements, which coalesced, forming viable leftist party alternatives. Seeking to redefine the parameters of the state, the actualization of the left's nationalization agenda reversed decades-old policies of privatization that had been maintained through pacted executive-legislative relations. In redefining Bolivian democracy, the left has confronted a resistant opposition, which has thrust the country into a political impasse, the outcome of which has yet to be determined.

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## ABBREVIATIONS

|         |  |
|---------|--|
| MAS     | Movimiento al Socialismo                     |
| MIR     | Movimiento de la Izquierda Revolucionaria    |
| MNR     | Movimiento Nacionalista Revolucionario       |
| NPE     | Nueva Politica Economica                     |
| ADN     | Accion Democratica y Nacionalista            |
| COB     | Central Obrera Boliviana                     |
| MIP     | Pachakuti Movimiento Indígena                |
| UDP     | Unidad Democratica y Popular                 |
| UCS     | Union Civica Solidaridad                     |
| CONDEPA | Consciencia de la Patria                     |
| NFR     | Nueva Fuerza Republicana                     |
| PODEMOS | Poder Democratico y Social                   |
| YPFB    | Yacimientos Petroliferos Fiscales Bolivianos |

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## 1. INTRODUCTION

Latin America is experiencing the most substantive transformations since the region's contemporary transitions from authoritarianism during the late twentieth century. The conservative terms established at the outset of democratization, which limited the scope of democracy for the preservation of stability, have been exhausted. Coinciding with the emergence of the Latin American left, the initial terms of democracy are being redefined and the parameters of the state expanded through the reconstitution of the state and the renegotiation of the role of the state in the economy.

These dynamics are unfolding in Bolivia. While Bolivia's transition from authoritarianism enabled the establishment of a procedural democracy,<sup>1</sup> the informal institutionalization<sup>2</sup> of executive- legislative political pacts diminished accountability, desiccating formal institutions of popular representation.<sup>3</sup> Consequently, policies that solidified the political-economy orientation of the state have not reflected the preferences of the electorate, which has been forced to push their interests by means of increasingly assertive social movements. The encapsulation of social movements within the party system provided a viable leftist alternative that expressed "opposition to the liberal economic model and disenchantment with the institutions of political representation."<sup>4</sup> The nationalization of the hydrocarbon sector,

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<sup>1</sup> Procedural democracy is defined as a regime in which control over government decisions is constitutionally vested in elected officials who are chosen in frequent and fair elections relatively free of coercion in addition to universal electoral suffrage, right to run for elective office, right to expression, right to alternative sources of information and the right to form independent associations. See Philippe C. Schmitter and Terry Lynn Karl, "What Democracy Is...and Is Not," *Journal of Democracy* 2, no. 3 (1991): 81.

<sup>2</sup> Informal institutions are "socially shared rules, usually unwritten, that are created communicated and enforced outside officially sanctioned channels," established based on the inability of political actors to solve problems within formal institutions. See Gretchen Helmke and Steven Levitsky, "Introduction," in *Informal Institutions and Democracy: Lessons from Latin America*, ed. Gretchen Helmke and Steven Levitsky, 5. (Baltimore: The Johns Hopkins University Press, 2006).

<sup>3</sup> Pacted democracy assumes the existence of procedurally democratic institutions; however these institutions fail to adequately represent the preferences of the electorate, colluding for the purpose of actualizing alternative policy goals, creating a substantively deficient democracy.

<sup>4</sup> Pilar Domingo, "Democracy and New Social Forces in Bolivia," *Social Forces* 83, no. 4 (2005): 1739.

a central component of the left's agenda, reflected an alternative political-economy orientation. The actualization of the nationalization project reversed the economic model that had been sustained for decades by pacted executive-legislative relations, enabling the renegotiation of the parameters of the state in such a way that has redefined the terms of democracy. In transforming the development trajectory and redefining Bolivian democracy the left has encountered a resistant opposition, which has thrust the country into a political impasse. The future of Bolivian democracy hangs in balance between a historically excluded left venturing to redefine the parameters of the state and traditional political parties, vying for the maintenance of the status quo ante.

This paper seeks to analyze the nationalization of the Bolivian hydrocarbon sector and evaluate the implications of nationalization on democracy. This paper contends that the nationalization of the hydrocarbon sector was facilitated by the coalescence of the left into viable party alternatives, which have advanced a mandate that seeks to redefine the parameters of the state. This analysis will proceed as follows: first, a brief appraisal of the democratization literature will provide a theoretical foundation for understanding Bolivia's transition from authoritarianism and the conservative nature of the initial terms of democracy. Second, an overview of Latin American political trends will reveal contemporary dynamics that cannot be located within the democratization literature. Third, a brief evaluation of the hydrocarbon sector and the significance of sectoral control will provide a context for understanding the centrality of the sector to the project of the left. A discussion of Bolivia's pacted democracy will elucidate the causal factors contributing to the coalescence, formal political success and implementation of the agenda of the left. Finally, the significance of the nationalization project will be considered as it relates to the 2008 political crisis and the future of Bolivian democracy.

## 2. TRANSITOLOGY: A THEORETICAL FOUNDATION

Bolivian democratization has reflected an “installment plan,”<sup>5</sup> a transition from authoritarianism initiated by the formation and perpetuation of pacts between the incumbent regime and the democratic opposition. Pacted democratization involves an “explicitly, but not always publicly explicated or justified agreement among a select set of actors which seeks to define rules governing the exercise of power on the basis of mutual guarantees.”<sup>6</sup> Negotiated among an exclusive number of actors, pacts alter power relations and engage new political processes, determining the parameters of political activity. Pacted transitions are negotiations between actors contending for either regime change or regime preservation, orchestrated as temporary solutions to political instability, pacts “move the polity toward democracy by undemocratic means.”<sup>7</sup> While scholars suggest that the undemocratic process of negotiating pacts may be compatible with the development of a viable democracy, the nature of pacted transitions inherently complicates democratization as pacts, “might preclude the entry into politics of new groups and eventually become a form of exclusionary consociational authoritarianism.”<sup>8</sup>

While relevant actors include hardliners and reformers (within the authoritarian regime) and moderates and radicals (within the opposition), democratization can only result from negotiations between reformers and moderates. For a successful democratic transition, reformers must deliver the consent of the hardliners or promise their neutralization, while moderates must

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<sup>5</sup> Guillermo O'Donnell and Philippe C. Schmitter, *Transitions from Authoritarian Rule: Tentative Conclusions about Uncertain Democracies* (Baltimore: The Johns Hopkins University Press, 1986), 38.

<sup>6</sup> *Ibid.*, 37.

<sup>7</sup> *Ibid.*, 38.

<sup>8</sup> Juan J. Linz and Alfred Stepan, *Problems of Democratic Transition and Consolidation: Southern Europe, South America, and Post-Communist Europe* (Baltimore: The Johns Hopkins University Press, 1996), 56, 61.



control the radicals.<sup>9</sup> During the initial transition, the moderates must dissuade radicals from mobilizing for more profound reforms, as the radical push for more fundamental transitional terms may result in the entrenchment of the authoritarian regime.<sup>10</sup> Thus, the dynamics of democratization pacts work to the disadvantage of the left as contentious issues are ignored based on the logic of mutual accommodation.<sup>11</sup> According to Adam Przeworski the “ostensible purpose of such pacts is to protect embryonic democratic institutions by reducing the level of conflict over policies and personnel.”<sup>12</sup> Limiting the scope of the transition is necessary to protect nascent democratic institutions from pressures to which they cannot respond. The supposition of stability over inclusivity allows the state to limit the parameters of democracy, narrowing the scope of representation to the selection of elites through periodic elections.<sup>13</sup> While the maintenance of stability is the primary objective of transitional pacts, parties to these pacts extract benefits, which are subsequently protected through the exclusion of outsiders from political competition. Consequently, democracy risks deteriorating into the “private project of leaders of some political parties and corporatist associations, an oligopoly in which leaders of some organizations collude to prevent outsiders from entering.”<sup>14</sup> Even, the popular expansion of democratic values and practices has a “limited effect on elitist practices at the level of political regimes and even less in the domain of economic relations, where hierarchical forms of domination have been retained or accentuated.”<sup>15</sup>

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<sup>9</sup> Adam Przeworski, “The Games of Transition,” in *Issues in Democratic Consolidation*, ed. Scott Mainwaring, Guillermo O’Donnell, Samuel Valenzuela, 117. (South Bend: University of Notre Dame Press, 1992).

<sup>10</sup> Ibid., 118.

<sup>11</sup> Kenneth M. Roberts, *Deepening Democracy? The Modern Left and Social Movement in Chile and Peru* (Stanford: Stanford University Press, 1998), 37.

<sup>12</sup> Przeworski, *The Games of Transition*, 125.

<sup>13</sup> Leonardo Avritzer, *Democracy and the Public Space in Latin America* (Princeton: Princeton University Press, 2002), 3.

<sup>14</sup> Przeworski, *The Games of Transition*, 124.

<sup>15</sup> Roberts, *Deepening Democracy?*, 11.

While the nature of democratic transitions impeded the capacity of the left, the context in which contemporary pacts emerged additionally discredited the left in Latin America. While international trends towards conservatism and ambivalence towards democracy weakened the electoral legitimacy of the left, the environment in which contemporary transitions were negotiated enabled conservative actors to dominate the initial terms of democracy.

The left was weakened first by the failure state-oriented development policies. From the 1930s, on the recommendation of the Economic Council on Latin America, countries throughout the region initiated Import Substitution Industrialization (ISI).<sup>16</sup> Local sources of capital were quickly drained and in order to sustain development, states sought international financing. Despite moderate growth, Latin America quickly became dependent on external sources of capital. The global recession in the 1970's and 1980's pulled the region into a debt crisis; countries lacked liquidity and were incapable of repaying international loans.<sup>17</sup> In order to restore economic stability, conservative neo-liberal economic policies dominated regional agenda. The failure of ISI to provide sustainable development served to discredit both regulatory economic policy and it's leftist advocates.

In addition to economic policy failures, the influence of the United States served to additionally promote regional conservatism. During the Cold War, the United States engaged in proxy wars throughout Latin America, attempting to eliminate the Western Hemispheric Communist threat. Throughout the region, the U.S sought to promote conservative regimes and preclude revolutionary takeovers.<sup>18</sup> The United States' emphasis on liberal democratic capitalism served not only to shape regimes during the Cold War, but shaped the region's

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<sup>16</sup> Harry E. Vanden and Gary Prevost, *Politics of Latin America: The Power Game* (New York: Oxford University Press, 2006), 159.

<sup>17</sup> Ibid., 161.

<sup>18</sup> Jorge I. Domínguez, "U.S.-Latin American Relations During the Cold War and Its Aftermath," *Columbia International Affairs Online Working Paper* 99-01 (1999), <http://www.ciaonet.org/wps/dji01/>.

transition to democracy. The end of the Cold War and the collapse of a viable alternative to liberal capitalism “deprived socialist parties all over the world of a minimally feasible alternative to a market economy.”<sup>19</sup> With the demise of Communism, even moderately socialist proposals came to be seen as un-viable.<sup>20</sup>

The United States additionally influenced regional conservatism through the provision of foreign democracy assistance. Despite attempts to maintain ideological objectivity and limit explicit political influence “aid is never a neutral endeavor.”<sup>21</sup> Despite an expectation of neutrality, the financiers of democratization were able to manipulate the recipient country through the incentive of aid provision.<sup>22</sup> The United States’ anti-narcotics policy served to further promote regional conservatism. In Bolivia, Colombia and Mexico the United States’ lucrative support for the eradication of the narcotics trade provided additional financial incentives for conservatism.

While the nature of democratic transitions impeded the capacity of the left, the context in which contemporary pacts were negotiated additionally discredited the left in Latin America. Throughout the region, conservative actors dominated the initial terms of democratization. The reemergence of the left in contemporary politics has transformed the dynamics of democracy, necessitating the renegotiation of these terms.

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<sup>19</sup> Kurt Weyland, “Growing Sustainability of Brazil’s Democracy,” in *The Third Wave of Democratization in Latin America*, ed. Scott Mainwaring and Frances Hagopian, 116. (Cambridge: Cambridge University Press, 2005).

<sup>20</sup> Ibid., 117.

<sup>21</sup> Sarah Henderson, *Building Democracy in Contemporary Russia: Western Support for Grassroots Organizations* (Ithaca: Cornell University Press, 2003), 65.

<sup>22</sup> Thomas Carothers, *Aiding Democracy Abroad: The Learning Curve* (Washington, DC: Carnegie Endowment for International Peace, 1999), 221.

### 3. POST-TRANSITION: A GAP IN THE DEMOCRATIZATION LITERATURE

Throughout Latin America, leftist presidents and parties currently hold substantial electoral power. These “left turns”<sup>23</sup> are indicative of a hemispheric trend away from conservative political-economy.<sup>24</sup> Although variation exists within the left, the regional movement can be loosely defined as egalitarian in nature, characterized by a resurgence of the state in the management in the economy, with an overall emphasis on the expansion of popular participation.<sup>25</sup> Latin America’s “left turns” have initiated a *post-transition period*, problematizing the democratization literature, which fails to provide an accurate description of regional dynamics.

Although many Latin American regimes exhibit qualities that suggest that democracy is “the only game in town,”<sup>26</sup> consolidation has been complicated by the narrow scopes of representation following from conservative democratic transitions. Popular dissatisfaction with representative institutions has stimulated new political actors to expand the formal political space through the reconstitution of the state, the reassertion of party-society linkages, renewed representative accountability and the renegotiation of the state in the economy. The *post-transition period* involves the renegotiation of the initial terms of democracy and the “re-founding of the constitutional order”<sup>27</sup> of the state. Democratization has been punctuated by a moment of uncertainty in which the transitional arrangement has been exhausted and the democratic trajectory of the state is redefined.

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<sup>23</sup> Cameron, Maxwell, Jon Beasley-Murray, and Eric Hershberg, “Left Turns: An Introduction” [unpublished manuscript]: 1

<sup>24</sup> Ibid., 1

<sup>25</sup> Maxwell Cameron “Latin America’s Left Turns: Beyond Good and Bad” (Paper presented at the Canadian Association of Latin American and Caribbean Studies meeting, Vancouver, BC June 6, 2008).

<sup>26</sup> Juan J. Linz and Alfred Stepan, “Toward Consolidated Democracies,” *Journal of Democracy* 7, no. 2 (1996): 15.

<sup>27</sup> Cameron, Beasley-Murray, and Hershberg, *Left Turns*, 2.

### 3.1 Origins of the Post-Transition in Bolivia

Despite the establishment of democratic institutions, popular sovereignty, “the essence of the democratic conception of governance,” has been notably absent in Latin America and elections have been ineffective instruments for translating citizens’ preferences into policymaking alternatives.<sup>28</sup> The resurgence of the left in Bolivia is a consequence of the transformation of the participatory dynamics of civil society vis-à-vis the encapsulation of social movements within the party system.<sup>29</sup> Responding to inadequacies in formal representative institutions, indigenous groups, labor, and the urban and rural poor have “demonstrated a renewed capacity to engage in collective action and political mobilization.”<sup>30</sup> Additionally, social movements have moved “beyond mass protests to develop overarching appeals, enter and contest the electoral arena, and capture state power by electoral means,”<sup>31</sup> transforming into leftist alternatives to traditional conservative parties. These parties have constructed effective congressional agendas that seek to expand the parameters of political activity through the reconstitution of the state and the renegotiation of the role of the state in the economy.

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<sup>28</sup> Roberts, *Deepening Democracy?*, 2.

<sup>29</sup> Kenneth M. Roberts, “Repolicizing Latin America: The Revival of Populist and Leftist Alternatives,” *Woodrow Wilson Center Update for the Americas* (2007): 2.

<sup>30</sup> *Ibid.*, 1.

<sup>31</sup> *Ibid.*, 6,9.

#### **4. FROM PRIVATIZATION TO NATIONALIZATION: THE HYDROCARBON SECTOR**

The Bolivian economy has historically depended upon primary commodities including silver, tin and hydrocarbon derivatives.<sup>32</sup> During the 1980's, the collapse of the international tin market, increasing oil prices and escalating global demand prompted almost exclusive domestic concentration on the hydrocarbon sector.<sup>33</sup> Bolivia's hydrocarbon resources are vast, second in Latin America only to Venezuela and the largest in the Southern Cone, making Bolivia the "gas hub"<sup>34</sup> of the region. The hydrocarbon sector is the most remunerative sector in the domestic economy and as energy costs have risen, so has the potential of the sector to contribute to domestic development.

The hydrocarbon sector is a microcosm for the normative appropriation of the role of the state in the economy. Founded in 1936, the state hydrocarbon corporation Yacimientos Petroliferos Fiscales Bolivianos (YPFB) sustained the domestic industry through the development of technology, expertise and infrastructure. While control of the hydrocarbon sector shifted intermittently from private to state control, since 1985 the sector has been predominantly controlled privately from abroad. Privately controlled, the hydrocarbon sector has provided insufficient benefits to the impoverished majority of the Bolivian population.

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<sup>32</sup> Hydrocarbon derivatives include energy resources such as coal, petroleum, and natural gas and are the main source of the world's energy and heat sources. In Bolivia, the majority of the resource is concentrated in gaseous geologic hydrocarbons (natural gas).

<sup>33</sup> Christian Velasquez-Donaldson, "Analysis of the Hydrocarbon Sector in Bolivia: How are the Gas and Oil Revenues Distributed?" *Institute for Advanced Development Studies: Development Research Working Paper Series* 6 (2007): 10-11.

<sup>34</sup> Willem Assies, "Bolivia: A Gasified Democracy," *European Review of Latin American and Caribbean Studies* 76 (2004): 28.

Contention relating to the private governance of the resource has contributed to recurring demands for nationalization, in part based on YPFB's former success in sustaining the industry.<sup>35</sup>

The hydrocarbon sector has come to be seen as "a symbol of all past resources lost and possible wealth for the future."<sup>36</sup> The nationalization of the hydrocarbon sector, central to the left's agenda, necessitates the reversal of the political-economy orientation solidified against the interests of the majority population. The restructuring of the economy is profoundly political and a vital component of economic restructuring is the alteration of political institutions that shape economic policy.<sup>37</sup> The restructuring of the Bolivian economy is possible only through the rupturing of pacted executive-legislative relations; thus, the nationalization project reflects a general dissatisfaction with both the management of the economy and the nature of government decision-making.

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<sup>35</sup> Benjamin Dangl, *The Price of Fire: Resource Wars and Social Movements in Bolivia* (Oakland, CA: AK Press, 2007), 120.

<sup>36</sup> *Ibid.*, 123.

<sup>37</sup> Terry Lynn Karl, *The Paradox of Plenty: Oil Booms and Petro-States* (Berkeley: University of California Press, 1997), 240.

## 5. BOLIVIA'S PACTED TRANSITION TO DEMOCRACY

Bolivia has enjoyed extended periods of peaceful civilian government throughout history, first from 1880 to 1930 and again from 1952 to 1964. Between 1978 and 1980, the country initiated a pacted democratization, however severe political turmoil, economic chaos, and state disintegration prevented the success of this transition.<sup>38</sup> Disorganized elections in 1978 and 1979, characterized by fraudulence and factionalism, failed to produce viable civilian coalitions or support for a single party, resulting in a brief militaristic interval.<sup>39</sup> Elections in 1980 resulted in a victory for Siles Zuazo of the Movimiento Nacionalista Revolucionario (MNR), however, the military brutally seized power, closing the 1978-1980 democratization chapter.<sup>40</sup>

By 1982, opposition to the military regime had gained momentum and civilian political parties successfully brokered an agreement with the military government to restore constitutionality through the installation of Siles Zuazo.<sup>41</sup> The spectacular failure of the 1978-1980 democratization episode legitimized the pacted-installation of the executive in 1982. A pacted transition from authoritarianism was orchestrated by a coalition of civilian political parties, including the Movimiento de la Izquierda Revolucionaria (MIR), Movimiento Nacionalista Revolucionario (MNR), and Accion Democratica y Nacionalista (ADN). The MIR, MNR and ADN entrenched themselves as major political actors, capturing legitimacy in a nascent democracy.<sup>42</sup> Although the pacted transition allowed for the establishment of democratic institutions, executive-legislative pacts came to define Bolivian politics between

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<sup>38</sup> Mayorga, Rene Antonio, "Bolivia's Silent Revolution," *Journal of Democracy* 8, no. 1 (1997): 142.

<sup>39</sup> Laurence Whitehead, "Bolivia's Failed Democratization, 1977-1980," in *Transitions from Authoritarian Rule: Latin America*, eds. Guillermo O'Donnell, Philippe C. Schmitter, and Laurence Whitehead, 62, 63. (Baltimore: The Johns Hopkins University Press, 1986).

<sup>40</sup> *Ibid.*, 66,67.

<sup>41</sup> Laurence Whitehead, "Bolivia and the Viability of Democracy," *Journal of Democracy* 12, no. 2 (2001): 7.

<sup>42</sup> Merilee S. Grindle, "Shadowing the Past?: Policy Reform in Bolivia 1985-2002," in *Proclaiming Revolution: Bolivia in Comparative Perspective*, eds. Merilee S. Grindle and Pilar Domingo, 320. (Cambridge: Harvard University Press, 2003).



1985 and the 2005.<sup>43</sup> These mechanisms simultaneously accelerated the capacity of traditional parties to pass legislation, while reducing the capacity of civil society to impact decision-making institutions, contributing to a crisis of representative accountability.

### 5.1 The Origin of Pacted Politics

Executive-legislative pacts were initially utilized to mediate conflicts, which could not be solved through formal institutional mechanisms. In 1985, Bolivia sought to alleviate its economic crisis through the implementation of fiscal austerity measures. Powerful social movements, including the labor union Central Obrera Boliviana (COB), vigorously opposed fiscal austerity. Bypassing the legislature and political parties, organizations pressed their demands directly on the executive.<sup>44</sup> The first executive-legislative arrangement, the Pacto por la Democracia, between the MNR and ADN reinforced the office of the executive to withstand popular demands, stabilizing nascent institutions between 1985 and 1989.<sup>45</sup> The Pacto por la Democracia, additionally restored order through the implementation of a state of siege,<sup>46</sup> which provided government with extraordinary power to respond to political protest, effectively neutralizing the labor movement.<sup>47</sup> Most importantly, the Pacto por la Democracia secured legislative support for fiscal austerity.

Although the Pacto por la Democracia effectively solved the political impasse, the complex, hybrid presidential system forced parties to replicate political pacts in order to govern. Political pacts secured an executive majority in congress, concentrating power in the executive,

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<sup>43</sup> See Appendix A for political pact chronology.

<sup>44</sup> Eduardo A. Gamarra, "Hybrid Presidentialism and Democratization: The Case of Bolivia," in *Presidentialism and Democracy in Latin America*, eds. Scott Mainwaring and Matthew Shugart, 371. (Cambridge: Cambridge University Press, 1997).

<sup>45</sup> The Pacto por la Democracia additionally stipulated the division of state patronage among party members, ensuring the rotation of the presidency between the MNR and the ADN.

<sup>46</sup> Repeated declaration of the state of siege in 1987, 1989, 1996 and 2000 damaged the political capacity of the COB and other social movements.

<sup>47</sup> Gamarra, *Hybrid Presidentialism*, 374.

allowing the president to overcome conflict with legislative opposition.<sup>48</sup> The selection of the executive also necessitated pacted relations. According to the 1967 Constitution, when no presidential candidate receives an absolute popular majority, the National Congress must elect a president from the top three candidates.<sup>49</sup> Candidates were required to build coalitions to achieve and sustain political power, a defining feature of democratic party-systems. However, pervasive clientelism emerged from these coalitions and it became impossible to secure legislative support without exchanging a share of state patronage.<sup>50</sup>

## **5.2 Nueva Política Económica: The Foundation of Privatization**

Executive-legislative pacts were necessary “to deepen stabilization and restructuring measures while simultaneously keeping the democratization process alive.”<sup>51</sup> The Nueva Política Económica (NPE) was an ambitious collection of neo-liberal stabilization policies, aimed at curbing hyperinflation. The program required the immediate reduction of the fiscal deficit through a sharp increase in public sector prices, a public sector wage freeze as well as the reconstruction of the domestic tax code that broadened the tax base and raised revenue. The NPE also included a standby arrangement with the International Monetary Fund, arranging the rescheduling of government debt payments. The NPE additionally mandated the liberalization of trade and the decentralization or privatization of state enterprises.<sup>52</sup>

In 1989, President Jaime Paz Zamora established the Acuerdo Patriótico, an executive-legislative pact between MIR and ADN. Through the Acuerdo Patriótico fiscal austerity policies of the previous administration were entrenched through the ratification of the main premises of

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<sup>48</sup> Gamarra, *Hybrid Presidentialism*, 375.

<sup>49</sup> The 1967 Bolivian Constitution stipulated that the National Congress would select from among the top three candidates, a 1990 Constitutional Amendment changed the selection to the top two candidates.

<sup>50</sup> Gamarra, *Hybrid Presidentialism*, 366.

<sup>51</sup> *Ibid.*, 364.

<sup>52</sup> Natalia Springer, “Bolivia: A Situation Analysis” Report to the *United Nations High Commissioner for Refugees* (New York: United Nations, 2005), 4.

the Nueva Politica Economica and the establishment of mining codes and hydrocarbon governance.<sup>53</sup> In 1992, Zamora passed the Law of Privatization, facilitating the privatization of many state-owned enterprises, providing important development revenue.<sup>54</sup> In 1994, the Pacto por el Cambio enabled President Gonzalo Sanchez de Lozada to institute the Law of Capitalization, mandating the capitalization of state operated telecommunication, transportation, utility and natural resource sectors, provoking rapid in-flows for foreign direct investment.<sup>55</sup> In contrast to privatization, capitalization provided no expendable revenue, instituted as a means of attracting foreign investment and improving economic management.<sup>56</sup> Executive-legislative pacts in 1997 and 2001 solidified the development trajectory, legislating the further privatization, capitalization and liberalization of the economy.<sup>57</sup>

Structural adjustment, fiscal austerity and liberalization successfully curtailed hyperinflation, however the policies failed to produce sustainable development.<sup>58</sup> The policies additionally failed to diminish poverty and mitigate severe economic inequality; 35 percent of the Bolivian population subsists on an income of less than one dollar per day and the richest 20 percent of the population control 63 percent of the country's wealth.<sup>59</sup> Frozen salary increases, salary decreases, and ongoing price increases for basic services gradually "converted services

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<sup>53</sup> Gamarra, *Hybrid Presidentialism*, 380.

<sup>54</sup> Grindle, *Shadowing the Past?* 320.

<sup>55</sup> Dangel, *The Price of Fire*, 120.

<sup>56</sup> Capitalization and privatization are similar and will be used interchangeably throughout this analysis. Under capitalization, the state transfers shares equivalent to 50 percent of the firm to the investor with the winning bid, yielding about 45 percent to private pension fund administrators. The remaining five percent accrues to the company's employees. Despite lack of full ownership, the investor gains the right to manage the enterprise and commits to investing its capital contribution, in enterprise development. See Gover Barja and Miguel Urquiola "Capitalization and Privatization in Bolivia: Approximation to an Evaluation" (Cornell University 2003): 4.

<sup>57</sup> Rene Antonio Mayorga, "Bolivia's Democracy at the Crossroads," in *The Third Wave of Democratization in Latin America*, ed. Scott Mainwaring and Frances Hagopian, 164. (Cambridge: Cambridge University Press, 2005).

<sup>58</sup> Domingo, *Democracy and New Social Forces*, 1727, 1728.

<sup>59</sup> James Dunkerley, "Evo Morales, the 'Two Bolivias' and the Third Bolivian Revolution," *Journal of Latin American Studies* 39, no. 1 (2007): 133,134.

such as electricity, education and health care into luxuries”.<sup>60</sup> Through privatization and capitalization “the wealth that used to form part of the public patrimony”<sup>61</sup> was transferred to private sector, stripping the country of its livelihood.

### **5.3 The Privatization of the Hydrocarbon Sector**

Prior to the restructuring of the economy, the hydrocarbon sector was controlled by the state-owned enterprise and vertically integrated monopoly, Yacimientos Petroliferos Fiscales Bolivianos (YPFB). Based on the capital-intensive and ineluctable nature of hydrocarbon resources, YPFB required foreign investment for resource exploitation. Investment contracts disproportionately favored international interests as investment was allocated to simple resource extraction and exportation lacking regulatory frameworks stipulating requirements for infrastructural development and domestic industrialization.<sup>62</sup>

The trajectory of hydrocarbon governance was solidified in 1996 by the pivotal Hydrocarbons Law, which dissolved the exploration, production and commercialization capacity of YPFB. According to the Hydrocarbons Law, the state was entitled to 50 percent of the value of production from fields discovered prior to 1996, only 18 percent of the value of production from fields discovered after 1996 would be allocated to the state. Corporations operating in the sector were required to pay a 25 percent profit tax, a 25 percent surtax and a 12.5 percent remittance tax.<sup>63</sup> In 1997, YPFB, which had been restructured and divided into three capitalized enterprises, was auctioned. Amoco Corporation was awarded the exploration unit at Chaco field; and an Argentinean consortium acquired the exploration and production unit at the Andina

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<sup>60</sup> Oscar Olivera, *Cochabamba: Water War in Bolivia* (Cambridge: South End Press, 2004),15.

<sup>61</sup> Ibid., 119

<sup>62</sup> Dangel, *The Price of Fire*, 123.

<sup>63</sup> Gover Barja and Miguel Urquiola, “Capitalization and Privatization in Bolivia An Approximation to an Evaluation” (Cornell University, 2003): 8.

field.<sup>64</sup> Ownership of the domestic network of natural gas pipelines was transferred to TRANSREDES S.A., a consortium of corporations and investors including Enron, Shell, and the Bolivian pension fund.<sup>65</sup> Due to the influx of foreign investment and exploratory capacity, between 1997 and 2003, the official amount of known natural gas in Bolivia increased ten-fold; between 1997 and 2005 foreign direct investment exceeded \$4 billion.<sup>66</sup> However based on hydrocarbon governance, the financial benefits of natural gas exploitation were overwhelmingly accrued by foreign interests; in 2003 the Bolivian operations of “BP Amoco and Repsol YPF benefited from the world’s lowest operating costs for oil and gas exploration and production.”<sup>67</sup>

The 1996 Hydrocarbons Law reflected a political-economy model designed by executive-legislative pacts without regard for the interests of the electorate. Popular discontent over neo-liberalism was distilled by the strategic decentralization of representation. Decentralization inhibited the organization of civil society against neo-liberal policies, while providing a semblance of representative accountability.

#### **5.4 Decentralization: Support or Subversion of Popular Participation?**

The promotion of neo-liberalism through the NPE problematized civil society’s guarantee of a basic livelihood, eliminating their main institutional means of engaging the state.<sup>68</sup> Decentralization attempted to recover mechanisms for engaging the state, delegating varying degrees of power to local units, creating a local space for coalescing individual preferences, calculating decisions, and implementing policies, thus establishing more possibilities for

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<sup>64</sup> Bill Hinchberger, “Bolivia Embraces Capitalism” *Institutional Investor* 31 (1997).

<sup>65</sup> Lykke E. Andersen and Mauricio Meza, “The Natural Gas Sector in Bolivia: An Overview,” *Instituto De Investigaciones Socio-Economicas, Universidad Catolica Boliviana Andean Competitiveness Project* (2001): 5.

<sup>66</sup> Eugenio Cerutti et al., “Bolivia: Selected Issues,” *International Monetary Fund Country Report* No. 07/249 (2007): 29.

<sup>67</sup> Thomas Perreault, “From the Guerra Del Agua to the Guerra Del Gas: Resource Governance, Neoliberalism and Popular Protest in Bolivia,” *Antipode* 28, no. 1 (2006): 160.

<sup>68</sup> Deborah J. Yashar, “Democracy, Indigenous Movements, and the Postliberal Challenge in Latin America,” *World Politics* 52, no. 1 (1999): 80.

representative accountability.<sup>69</sup> However, decentralization can also destabilize and fragment national civil society.

Such is the case with Bolivia's 1994 Law of Popular Participation (LPP), which decentralized the central government, providing greater decision-making capacity to local governments, while simultaneously limiting the scope of inclusion at the national level. The LPP divided the country into 311 townships and established the direct election of municipal councils and mayors. Previously, Bolivia held local elections only in larger cities and suburban neighborhoods, thus the LPP represented a significant effort at reengaging the rural electorate. The LPP additionally mandated the transfer of 20 percent of national revenue to municipal governments, providing greater economic autonomy from the central government.<sup>70</sup> Although the LPP symbolized a *prima facie* improvement in representation, certain restrictions problematized the expansion of popular participation.

While the LPP expanded political participation, the means through which individuals and organizations could engage the state were restricted. First, local candidates were required to affiliate with a national party in order to compete for local office. Alternatively, the formation of new local and national political parties required vast popular-support, limiting the development of locally organic political parties.<sup>71</sup> Second, refocusing attention on local political processes and away from national political institutions, the LPP served to destabilize the national organization of social movements, resulting in the fragmentation of national government opposition. The allocation of financial resources to municipalities attracted the "attention of

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<sup>69</sup> Yashar, *Democracy, Indigenous Movements, and the Postliberal Challenge*, 86.

<sup>70</sup> Christopher Sabatini, "Decentralization and Political Parties," *Journal of Democracy* 14, no. 2 (2003): 145.

<sup>71</sup> Formation of a new political party required the collection of a number of signatures from the previous elections valid votes, however the number of signatures required rose from .5 percent to 2 percent, further challenging the establishment of new political parties.

local populations while simultaneously redefining the spaces for opposition,”<sup>72</sup> redirecting popular resistance to neo-liberalism away from the state. Finally, while the LPP mandated the participation of local and municipal organizations in regional development actual control over regional development was limited. While local decision-making structures were encouraged to construct development strategies, “other laws specifically exclude[d] municipalities from controlling the oil and gas, mineral, and hydraulic resources,”<sup>73</sup> essential for development. Although the central government decentralized decision-making, the capacity to actualize decisions remained concentrated in the state.

Decentralization and the expansion of formal representation created a perception that the political system was open and legitimate. However, Bolivian decentralization “probably had the opposite effect, reinforcing among citizens the subjective sense of a crisis of representation.”<sup>74</sup> Thus, while the LPP failed to alleviate blockages in the system of representation, it may have played an important role setting the stage for popular backlash.

### **5.5 A Crisis of Representative Accountability**

Despite the establishment of procedurally democratic institutions, the informal institutionalization of political pacts problematized representative accountability.<sup>75</sup> Reducing vertical accountability, the degree to which citizens were able to reward or punish officials for their performance in office, elected officials routinely betrayed their mandates and ignored

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<sup>72</sup> Benjamin Kohl, “Democratizing Decentralization in Bolivia: The Law of Popular Participation,” *Journal of Planning Education and Research* 23 (2003): 161.

<sup>73</sup> Benjamin Kohl, “Stabilizing Neoliberalism in Bolivia: Popular Participation and Privatization,” *Political Geography* 21 (2002): 465.

<sup>74</sup> Scott Mainwaring, “The Crisis of Representation in the Andes,” *Journal of Democracy* 17, no. 3 (2006): 24.

<sup>75</sup> Willem Assies, “Bolivia: A Gasified Democracy,” *European Review of Latin American and Caribbean Studies* 76 (2004): 31.

constituents' demands.<sup>76</sup> Party-system patronage provided an incentive for political pacts as congressional support was often rewarded with prominent posts or leadership positions within the executive branch or the National Congress.<sup>77</sup> Executive-legislative pacts constituted the primary obstacle to desirable political outcomes; unregulated, pacts lacked the transparency essential for accountability.

Executive-legislative pacts precipitated the disintegration of party-society linkages, perpetuating a crisis of representative accountability. Political parties make democracy viable, contribute to democratic stability and are "essential to achieving, maintaining, and improving the quality of democracy."<sup>78</sup> The practicality of political parties is contingent upon its linkages with civil society. When political parties are oligarchic, "channels of access and the scope of competition are reduced, and the gap between elites and mass publics tends to widen," enabling the electorate to conclude that "politicians are unrepresentative, corrupt, or unconcerned with the public interest."<sup>79</sup> In order for democracy to preserve electoral legitimacy, parties must be inclusive, maintaining effective linkages with civil society, representing a broad range of policy alternatives.<sup>80</sup> If political parties fail to maintain effective linkages, the electorate may become dissatisfied with the narrow spectrum of political alternatives offered by a party system.<sup>81</sup>

Traditional Bolivian political parties have failed to establish or maintain societal linkages and represent "cartels of incumbents... created to restrict competition, bar access and distribute

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<sup>76</sup> Gretchen Helmke and Steven Levitsky, "Introduction" in *Informal Institutions and Democracy: Lessons from Latin America* eds. Gretchen Helmke and Steven Levitsky, (Baltimore: The Johns Hopkins University Press 2006), 9.

<sup>77</sup> Gamarra *Hybrid Presidentialism*, 370.

<sup>78</sup> Steven Levitsky and Maxwell A. Cameron "Democracy without Parties? Political Parties and Regime Change in Fujimori's Peru," *Latin American Politics and Society* 45, no. 3 (2003): 5.

<sup>79</sup> *Ibid.*, 4.

<sup>80</sup> Frances Hagopian, "Conclusions Government Performance, Political Representation, and Public Perceptions of Contemporary Democracy in Latin America," in *The Third Wave of Democratization in Latin America*, eds. Frances Hagopian and Scott Mainwaring, 359 (Cambridge: Cambridge University Press, 2005).

<sup>81</sup> Whitehead, *Bolivia and the Viability of Democracy*, 9.



the benefits of political power among the insiders.”<sup>82</sup> Consequently, according to the disenfranchised electorate, democracy is regarded fraudulent, having been “devalued and usurped.”<sup>83</sup> Extreme economic inequality has further problematized the capacity of traditional political parties to build bridges to society as these parties have been historically connected to the wealthy eastern lowlands, charged with responding only to elite interests.<sup>84</sup> Oligarchic in nature, these parties were able to manipulate Bolivian democracy through the “co-option of large sections of the indigenous movement [based on] false discourse of multiculturalism and clientelistic relationships.”<sup>85</sup> While Bolivia may have developed a multiparty system, the failure of political parties to maintain societal linkages has resulted in disenchantment with political parties as representative institutions; generating a popular perception that political decision-making cannot be restricted to parties.

Executive-legislative pacts enabled the restructuring of the economy in a way that failed to favor the majority. Blockages in the system of formal political representation forced the majority to seek alternative modes of representation, pushing their interests by means of increasingly assertive social movements. Advocating an alternative economic model, the “explosion of a huge informal civil society”, which “considered itself excluded from the formal political party mechanisms of interest representation,” burst onto the political scene.<sup>86</sup>

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<sup>82</sup> Roberts, *Deepening Democracy?*, 37.

<sup>83</sup> Olivera, *Cochabamba*, 131.

<sup>84</sup> Olivera, *Cochabamba*, 130.

<sup>85</sup> Federico Fuentes, “The Struggle for Bolivia’s Future,” *Independent Socialist Magazine* July/August (2007): 100.

<sup>86</sup> Eduardo A. Gamarra, “The Construction of Bolivia’s Multiparty System,” in *Proclaiming Revolution: Bolivia in Comparative Perspective* eds. Merilee S. Grindle and Pilar Domingo (Cambridge: Harvard University Press, 2003): 301.

## 6. THE RISE OF THE LEFT IN BOLIVIA

The nationalization of the hydrocarbon sector was the result of converging domestic phenomena. An economic model incongruent to the preferences of the majority and dissatisfaction with formal institutions of representation formed a bedrock of discontent. The disenfranchised electorate sought to advocate their interests through social movements, mobilizing in response to contestation over natural resource governance. Informal success and broader policy objectives provided the impetus for the encapsulation of social movements within the party system, providing a viable leftist alternative to traditional political parties. The electoral success of the left provided an opportunity to actualize a nationalization agenda.

### 6.1 Indigenous and Impoverished Consciousness

Throughout Latin America and especially in Bolivia, social movements promoting indigenous identity and the expansion of indigenous rights reemerged in the twenty-first century. Bolivia's population is disproportionately indigenous; the Quechua, Aymara, and Guarani indigenous movements in Bolivia are some of the most powerful and radical in the Americas, located principally in the western altiplano.<sup>87</sup> The global proliferation of neo-liberalism, according to Deborah Yashar, unintentionally challenged local autonomy, politicized ethnic identity, and catalyzed indigenous movements.<sup>88</sup> Consequently, indigenous movements have demanded individual rights and have called for the accommodation of diverse identities, units of representation, and state structures.<sup>89</sup> The encapsulation of indigenous movements within the party system has had generally positive implications for democracy. Indigenous movements not

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<sup>87</sup> Donna Lee Van Cott, "Latin America's Indigenous Peoples," *Journal of Democracy* 18, no. 4 (2007): 128.

<sup>88</sup> Yashar, *Democracy, Indigenous Movements, and the Postliberal Challenge*, 76.

<sup>89</sup> *Ibid.*, 88.

only improve representation in party systems, they also increase political participation, reduce party system fragmentation and minimize electoral volatility.<sup>90</sup>

Indigenous movements have engaged other organizations representing the interests of the marginalized, including the cocaleros who have been targeted by aggressive coca eradication policies. Vigorously challenged by Plan Dignidad, a multifaceted effort to eradicate illegal coca production by 2002, coca unions or sindicatos, were formed for the purpose of protecting crop cultivation and the cocaleros' livelihood. Sindicados consolidated, establishing the Coordinating Committee of the Six Federations of the Tropics of Cochabamba, an advanced umbrella union 40,000 members strong.<sup>91</sup> The leader of the Committee of the Six Federations of the Tropics of Cochabamba, Evo Morales re-founded the Movimiento al Socialismo, transforming the cocalero movement into a massive, national social movement, centered around coca rights, advocating a broader leftist political agenda through party encapsulation.

## **6.2 The Water War: Social Movement Mobilization**

Conflicts over the control of strategic natural resources provided an impetus for civil society mobilization. In 1999, Aguas del Tunari, a consortium of international and domestic interests, secured control over the water system in the central Bolivian department of Cochabamba. According to the contract, regardless of corporate resource management or service quality, Aguas del Tunari would average a 16 percent rate of return per annum on its investment and exclusive rights over water distribution authorized the consortium to control resource access and pricing. Conflict erupted between the central government and the inhabitants of Cochabamba, who demanded the revocation of the privatization contract. According to activists,

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<sup>90</sup> Raul Madrid, "Indigenous Parties and Democracy in Latin America," *Latin American Politics and Society* 47, no. 4 (2005): 161.

<sup>91</sup> Dangl, *The Price of Fire*, 39.

the *Water War* had just as much to do with affordable resource access as it did with the “nature of government decision-making.”<sup>92</sup>

Rather than appeal to the formal institutions of representation, civil society mobilized outside of formal institutions, engaging in protests, roadblocks, and sporadic violence, which provoked state militarization. Aggressive police aroused violence and a popular backlash against the state ensued. On April 6<sup>th</sup> 2000, the state declared martial law as protesters occupied the city of El Alto, fortifying road blockades and contributing to general instability.<sup>93</sup> An ad hoc grassroots organization opposed to the privatization of water, the Coordinadora de Defensa del Aguas y de la Vida (Coalition in Defense of Water and Life) was established to negotiate with the state, constituting an important challenge to the formal institutions of representation.<sup>94</sup> Reluctantly, the central government allowed representatives of the Coordinadora to engage in negotiations and on April 10<sup>th</sup> 2000, the contract was repealed and the water system re-nationalized.<sup>95</sup>

The mobilization of civil society revealed the failure of formal institutions to mediate the interests of the electorate.<sup>96</sup> Despite the capacity of social movements to impact public policy, more comprehensive reforms, including the nationalization of the hydrocarbon sector, required the transformation of the participatory dynamics of civil society. The preferences of the electorate could not be satisfied through the informal mechanisms of protest and social instability, necessitating the coalescence and party encapsulation of the left.<sup>97</sup>

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<sup>92</sup> Olivera, *Cochabamba*, 11.

<sup>93</sup> Dangl, *The Price of Fire*, 66-67.

<sup>94</sup> Ibid., 27.

<sup>95</sup> William Assies, “David versus Goliath in Cochabamba: Water Rights, Neoliberalism, and the Revival of Social Protest in Bolivia,” *Latin American Perspectives* 30, no. 3(2003): 32.

<sup>96</sup> Robert R. Barr, “Bolivia: Another Uncompleted Revolution,” *Latin American Politics & Society* 47, no. 3 (2005): 77.

<sup>97</sup> Assies, *David versus Goliath*, 34.

### 6.3 The Party Encapsulation of the Left: Movimiento al Socialismo<sup>98</sup>

The Movimiento al Socialismo (MAS) emerged as an expression of organized groups directly engaged in social struggles outside of institutional politics. Although established long before the Bolivian resource wars, MAS was born from social movements that had relied on informal means of political activity. Through party encapsulation, the MAS grew to represent the formal instrument of the left. Unlike traditional political parties, MAS' "party members and leaders [were] drawn directly from social movements rather than from the ranks of a separate, professional political caste."<sup>99</sup>

Whereas traditional political parties were formally organized, officially sanctioned, created through established party channels according to party statute guidelines and recognized by official party authorities, MAS was by nature a social movement and distinct from traditional parties with regards to its informal organization.<sup>100</sup> MAS' organization was defined by well established informal structures, limited internal rules, characterized by an informal decision-making structure, decentralized party bureaucracy, autonomous local organization, un-enforced party hierarchy, limited member obligation and informal channels of finance.<sup>101</sup> While informal party structures can be inimical to democracy, in the context of an exclusionary regime MAS' informal party structure was critical for the mobilization of the disadvantaged electorate.<sup>102</sup> The encapsulation of the left within the party system represented a "change in the dominant strategy that the left would use to seek state power, shifting from a reliance on social movements and

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<sup>98</sup> Although other leftist parties exist, MAS' broad policy objectives have solidified its role as the formal instrument of the left.

<sup>99</sup> Roberts, *Deepening Democracy?* 75.

<sup>100</sup> Flavia Friedenberg and Steven Levitsky "Informal Institutions and Party Organization in Latin America" in *Informal Institutions and Democracy: Lessons from Latin America*, eds. Gretchen Helmke and Steven Levitsky, 180 (Baltimore: The Johns Hopkins University Press, 2006).

<sup>101</sup> Friedenberg and Levitsky, *Informal Institutions and Party Organization*, 180- 186.

<sup>102</sup> *Ibid.*, 196.

mass mobilization to electoral politics within the institutional framework of the existing liberal democratic system,”<sup>103</sup> transforming the representative dynamics of the state.

In the 2002 general election, despite its nascent party status, MAS received 20.9 percent of the popular vote, second only to the long-established MNR. The success of MAS dramatically impacted the capacity of traditional parties to ignore the electorate; MAS’ political strategy utilized informal and formal mechanisms, including a refusal to negotiate with traditional parties, social mobilization and the use of parliamentary veto power.<sup>104</sup> Despite this binary strategy, the MNR, MIR, and UCS eventually formed the Gobierno De Responsabilidad Nacional.<sup>105</sup> The 2002 election represented the beginning of the end for powerful pacted coalitions between traditional ruling parties as increasingly capable social movements gained power within formal representative institutions. While pacted executive-legislative relations would persist as long as political elites gained enough the popular support to engage in pacted politics, the *Gas Wars* precipitated the demise of the exclusionary political strategy.

#### **6.4 The Gas Wars: 2003-2005**

Erupting in response to extensive resource exportation and the failure of government to secure domestic access to hydrocarbon derivatives or capture resource rents, the *Gas Wars* were violent and enduring. The foundation of the *Gas Wars*, was established in 2002, when a consortium of the transnational energy corporations proposed extensive resource exportation. Repsol YPF, British Gas, and Pan-American Energy, established Pacific LNG, for the purpose of transporting natural gas from the southern department of Tarija via pipeline through Chile to the Pacific where it would be converted into liquefied natural gas (LNG) and exported to markets in

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<sup>103</sup> James Petras and Henry Veltmeyer, *Social Movements and State Power: Argentina Brazil Bolivia, Ecuador* (London: Pluto Press, 2005), 191.

<sup>104</sup> Mayorga, *Bolivia's Democracy at the Crossroads*, 176.

<sup>105</sup> Matthew M. Singer and Kevin M. Morrison, “The 2002 Presidential and Parliamentary Elections in Bolivia,” *Electoral Studies* 23 (2004): 180, 181.

Mexico and the United States.<sup>106</sup> Despite rejection by the Bolivian armed forces, nationalist politicians and the majority of the electorate, hydrocarbon governance prioritized private interests and the Pacific LNG consortium moved forward with the proposal.<sup>107</sup> Domestic access to hydrocarbon derivatives was problematized by the resource's high export value.<sup>108</sup> While natural gas is typically "distributed locally... due to the expensive process of compression and liquification," prior to 2006, approximately 90 percent of Bolivia's natural gas was exported, problematizing domestic access to gas related resources.<sup>109</sup>

The hydrocarbon sector boasted an average annual growth rate of 7.5 percent during the 1990s and by 2003 natural gas became Bolivia's main export product, accounting for 21.6 percent of total exports.<sup>110</sup> Although the hydrocarbon sector accounted for only two percent of the country's employment, critics of hydrocarbon governance contended that additional sectoral revenue could provide the country with supplementary capital for domestic investment. Increases in natural gas prices made control of the sector even more salient as natural gas was sold on the market "at more than twenty times the price paid to the Bolivian government"<sup>111</sup> for resource access.

In response to perceived deficiencies in hydrocarbon governance, social movements demanded the expropriation of foreign companies operating in Bolivia, the revocation of the 1996 Hydrocarbon Law and the re-nationalization of the hydrocarbon sector.<sup>112</sup> Like preceding resource conflicts, the *Gas War* "reflected the cumulative failings of a fragile and incomplete

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<sup>106</sup> Perreault, *From the Guerra Del Agua*, 161.

<sup>107</sup> The hydrocarbon conflict was centered around the economic model and the deficiency of democracy, however, that the pipeline was to run through Chile, to whom Bolivia lost its ocean access in the 1870's created additional unrest.

<sup>108</sup> Dangl, *The Price of Fire*, 122.

<sup>109</sup> Ibid., 122

<sup>110</sup> Assies, *Bolivia: A Gasified Democracy*, 29.

<sup>111</sup> Dangl, *The Price of Fire*, 121.

<sup>112</sup> Dangl, *The Price of Fire*, 123.

democracy.”<sup>113</sup> MAS’ combined institutional and informal strategy culminated in the resignation of President Gonzalo Sánchez de Lozada and the installation of Vice- President Carlos Mesa as president.<sup>114</sup> In July 2004, Mesa organized a referendum on hydrocarbon governance, including five questions regarding the reinsertion of the state in the management of the sector.<sup>115</sup> Over 75 percent of the electorate approved all five initiatives, producing a promising framework for reclaiming control of the sector.<sup>116</sup>

Failure to legislate the hydrocarbon initiatives resulted in the eruption of civil unrest in March 2005, prompting Mesa’s resignation. Refusing to accept Mesa’s initial resignation, the National Congress slowly legislated the initiatives, constructing a new Hydrocarbons Law. The 2005 Hydrocarbons Law mandated additional taxes and royalties and the restoration of former state-owned enterprise YPFB, which was sanctioned to intermediate all natural gas exportation contracts and designated as the only importer and wholesale domestic distributor of fuel products. The Hydrocarbons Law also required the renegotiation of existing hydrocarbon production contracts based on the framework of the new legislation.<sup>117</sup> Despite this progress, social movements continued to demand sectoral nationalization. In June 2005, the National Congress finally accepted Mesa’s resignation, installing Supreme Court Chief Justice Eduardo Rodríguez as interim president, who mandated early general elections in December 2005.

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<sup>113</sup> Domingo, *Democracy and New Social Forces*, 1729.

<sup>114</sup> Dangel, *The Price of Fire*, 149-150.

<sup>115</sup> The five referendum initiatives included: 1) Do you agree that the Hydrocarbons law approved by Gonzalo Sanchez de Lozada should be repealed?; 2) Do you agree that the state should recover ownership over all hydrocarbons at the well head?; 3) Do you agree that YPFB should be re-founded, recovering the state’s ownership of stakes held in the part-privatized oil companies, so that it can take part in all stages of the hydrocarbon production chain? 4) Do you agree with President Carlos Mesa’s policy of using gas as a strategic resource to recover sovereign and viable access to the sea? 5) Do you agree that Bolivia should export gas under a national policy framework that ensures supplies for Bolivians; encourages the industrialization of gas on national territory; levies taxes and/or royalties on oil companies up to 50 percent of the production value of oil and gas; and earmarks resources from the export and industrialization of gas mainly for education, health, road and jobs?

<sup>116</sup> “Bolivia’s referendum: Counter-reform-or muddle along?” *The Economist*, July 15, 2004  
<[http://www.economist.com/world/la/displaystory.cfm?story\\_id=E1\\_NJNNJJP](http://www.economist.com/world/la/displaystory.cfm?story_id=E1_NJNNJJP)>.

<sup>117</sup> Cerutti, et al., *Bolivia: Selected Issues*, 36.



## 6.5 Renewed Representation: Hydrocarbon Nationalization

The 2005 election was pivotal; MAS secured 54 percent of the popular vote. Party leader Evo Morales was elected president and began his term on January 22<sup>nd</sup> 2006. For the first time since 1985, the executive received enough votes to bypass congressional confirmation, enabling the party to legislate the preferences of the electoral majority without forming executive-legislative pacts. Almost immediately, Morales authorized the restoration of state control over the hydrocarbon sector.

On May 1<sup>st</sup> 2006, Morales declared the nationalization of the hydrocarbon sector. According to the May 1<sup>st</sup> decree, “the state recovers title, possession and total and absolute control over [hydrocarbon] resources.”<sup>118</sup> The decree required private corporations to return control of hydrocarbon reserves to YPFB. Corporations operating in the hydrocarbon sector were required to become state-owned through the mandatory sale of 50 percent plus one share to the government. The decree also stipulated the direct and indirect government control of 81 percent of total gas production and 56 percent of gas reserves, establishing YPFB as the pivotal sectoral actor, regulating prices and establishing production volumes, as well as negotiating terms of exportation and distribution.<sup>119</sup> Finally, the decree established a six month period, between May and October 2006, for the negotiation of new hydrocarbon production contracts; during this negotiation period, the corporations operating the two main natural gas fields of San Alberto and San Antonio were required to pay an additional 32 percent of the value of production to YPFB, raising the overall royalty and taxation capture to 82 percent; taxation and royalty rates on other fields remained at 50 percent.<sup>120</sup>

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<sup>118</sup> “Now it's the People's Gas,” *The Economist*, May 4, 2006.

[http://www.economist.com/opinion/displaystory.cfm?story\\_id=6888567](http://www.economist.com/opinion/displaystory.cfm?story_id=6888567)

<sup>119</sup> Cerutti et al., *Bolivia: Selected Issues*, 36.

<sup>120</sup> Cerutti et al., *Bolivia: Selected Issues*, 36, 37.

The party encapsulation of social movements reestablished linkages between political parties and civil society, reflecting the importance of political parties to the functioning of Bolivian democracy.<sup>121</sup> Prior to the election of Morales and the nationalization of the hydrocarbon sector, “any notion of including the concerns of the general population in the welfare and decision-making of the state [had] eroded and disappeared,” the nationalization of the hydrocarbon sector represented the reclamation of “decision-making and through it...[the] recovering [of] alienated social wealth.”<sup>122</sup> Additionally, that MAS actualized campaign promises to nationalize the hydrocarbon sector renewed popular confidence in formal institutions of political representation.

The institutionalization of the nationalization project is indicative of a new moment in the country’s development trajectory, made possible only through the rupturing of pacted executive-legislative relations. A persistent representative deficit and dissatisfaction with the political-economy orientation provided the impetus for civil society to coalesce into “relatively stable and politically sophisticated organizations,”<sup>123</sup> within the party structure. The initial terms of democratization have been exhausted and the parameters of the state are being redefined through the reconstitution of the state and the renegotiation of the role of the state in the economy. While it has been suggested that, “outsiders often tend to disregard what they view as the inconvenient restrictions of constitutional procedure,”<sup>124</sup> the left has operated within the existing institutional framework, working to strengthen and expand rather than dismantle the constitutional infrastructure.

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<sup>121</sup> Mayorga, *Bolivia’s Democracy at the Crossroads*, 176.

<sup>122</sup> Raquel Gutierrez Aguilar, “The Coordinadora: One Year After the Water War,” in *Cochabamba: Water War In Bolivia*, ed. Oscar Olivera, 55. (Cambridge: South End Press, 2004).

<sup>123</sup> Salman. *Bolivia and the Paradoxes*, 123.

<sup>124</sup> Whitehead, *Bolivia and the Viability of Democracy*, 15.

## 7. THE RENEGOTIATION OF BOLIVIAN DEMOCRACY

The electoral success of the left and the implementation of the nationalization agenda has punctuated Bolivia's democratic trajectory. Navigating the *post-transition*, the left has faced a combative opposition. The re-founding of Bolivian democracy has sparked fundamental political contention between the left and traditional parties regarding the reconstitution of the state and the terms of hydrocarbon nationalization. The outcome of the *post-transition* period in Bolivia will "depend on how well the country's political class is able to respond to the challenge"<sup>125</sup> of civil society.

### 7.1 Political Contestation & Departmental Autonomy

In March 2006 Morales approved the Ley de Concocatoria, convoking the Constituent Assembly<sup>126</sup> for the creation of a new constitution. There exists strong polarization between MAS and the opposition regarding the development of the new state constitution which enshrines the political capacity of the indigenous majority, institutes land reform, and mandates state control of industrial and natural resource sectors.<sup>127</sup> The political battle lines have been drawn between two divergent Bolivia's: the poorer, mainly indigenous majority in the western highlands and the prosperous mestizo population in the eastern lowlands.<sup>128</sup> This political battle has deteriorated into a constitutional crisis.

While constitutional ratification requires popular referendum approval, the Constituent Assembly must first approve a draft constitution. In December 2007, the Constituent Assembly presented a draft constitution to the Bolivian National Congress. Opposition to the draft

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<sup>125</sup> Whitehead, *Bolivia and the Viability of Democracy*, 16.

<sup>126</sup> The Constituent Assembly is a representative body convened to rewrite the Bolivian constitution. The Constituent Assembly is dominated by MAS, which holds 137 of 255 seats.

<sup>127</sup> George Gray Molina, "Bolivia's Long Winding Road," *Inter-American Dialogue: Andean Working Paper* July (2008): 7.

<sup>128</sup> "Double or quits; Bolivia," *The Economist*, December 13, 2007.

[http://www.economist.com/world/americas/displaystory.cfm?story\\_id=10286261](http://www.economist.com/world/americas/displaystory.cfm?story_id=10286261)

constitution claimed that MAS violated legal precedent on constitutional reform, when in October 2006, the Assembly changed constitutional reform laws, mandating the requirement of a simple, rather than a two thirds majority for draft approval; the opposition has rejected the validity of the new constitution on the basis that it lacked the required two-thirds approval of the Constituent Assembly.<sup>129</sup> The opposition objects to the constitution based on state limits to regional autonomy and the distribution of natural resource royalties.

Most hydrocarbon resources are concentrated in the *Media Luna*, the eastern Bolivian departments of Santa Cruz, Chuquisaca, Tarija, Pando and Beni. While previous hydrocarbon legislation secured favorable terms for the *Media Luna*, the nationalization statute mandated the equitable distribution of hydrocarbon revenues across the country. The *Media Luna* has contented that the terms of nationalization are unreasonable based on the allocation of resource royalties and have consequently sought greater autonomy from the central government.<sup>130</sup> In May 2008, the department of Santa Cruz held the first of four unofficial referenda on central government autonomy.<sup>131</sup> Voters approved the establishment of an elected regional assembly, which would assume many central government responsibilities. The sparsely populated departments of Beni and Pando also held successful autonomy referenda in May 2008 and in June 2008, the department of Tarija, in which 85 percent of the country's natural gas is concentrated, also held a popular referendum in which 80.3 percent of voters supported autonomy.<sup>132</sup> While these referenda lacked legal force, they effectively polarized the country, creating a political impasse and complicating the reconstitution of the state.

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<sup>129</sup> The Assembly lacked six additional votes of approval as only 164 of the 255 members backed the proposed constitution.

<sup>130</sup> Kathleen Schroeder, "Economic Globalization and Bolivia's Regional Divide," *Journal of Latin American Geography* 6, no. 2 (2007): 106.

<sup>131</sup> See Appendix B.

<sup>132</sup> "Bolivia's Tarija Votes Overwhelmingly for Autonomy," *Agence France Presse*, June 22, 2008. <http://afp.google.com/article/ALeqM5j268DwsFvlf11NStXhGv9Xb3hHtw>.

## 7.2 The 2008 Vote of Confidence

In response to this political impasse, Morales engaged direct democracy calling for a vote of confidence in the form of a popular referendum in August 2008, promising elections if confidence was not imbued upon the executive and department governors.<sup>133</sup> Three scenarios characterized the potential outcome of the 2008 referendum. First, the balance of power between MAS and the opposition could remain the same, perpetuating the stalemate. Alternatively, an overwhelming show of support for Morales could destabilize the *Media Luna*, isolating MAS opposition and proponents of regional autonomy. Finally, if the opposition successfully argued for the constitutional validity of autonomy referenda, supporters of regional autonomy could draw the country into political turmoil.<sup>134</sup> On August 10, 2008 Bolivians cast their votes.

Morales received the overwhelming confidence of the population; over 63 percent of voters confirmed their support of his executive mandate. The departmental governors of Santa Cruz, Beni, Pando and Tarija were also confirmed, while opposition governors in Oruro and Cochabamba as well as the governor of La Paz, a MAS advocate, were rejected.<sup>135</sup> Shortly following the announcement of results, Bolivian Nationalization Minister Hector Acre, suggested that, “the mandate implicit in the vote, for whoever looks at it calmly and impartially, is dialogue, consensus-seeking...lots of people voted for the president, but lots of people also voted (for some governors), so people are demanding dialogue.”<sup>136</sup> Alternatively Presidential Minister Juan Ramon Quintana advocated a more heavy-handed approach based on the clear confidence of the population in the executive’s mandate, suggesting a 2009 “referendum on whether to approve the

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<sup>133</sup> “Morales Sets Bolivia Recall Date,” *BBC Worldwide Limited*, May 12, 2008.  
<http://news.bbc.co.uk/2/hi/americas/7396809.stm>

<sup>134</sup> Molina, “Bolivia’s Long Winding Road,” *Inter-American Dialogue: Andean Working Paper* July (2008): 14, 15.

<sup>135</sup> See Appendix C.

<sup>136</sup> Simon Gardner, “Bolivia’s Morales Pushes Reforms After Vote Win,” *Thompson Reuters*, August 11, 2008.  
<http://www.reuters.com/article/worldNews/idUSN1134394720080811?feedType=RSS&feedName=worldNews>

state's new constitution policy,”<sup>137</sup> a strategy that would largely ignore the preferences of the opposition. While the results of the referendum failed to resolve the political impasse, the consequences of the outcome largely defied speculation, as evidence of deep polarization stimulated forthright negotiations between MAS and the opposition.

While the political crisis has the potential to provoke an undemocratic or premature change in governance, both central and departmental governments seek to engage democracy and proceed according to the will of the electorate. The reaction of ousted governors has been optimistic and provides evidence of this democratic confidence. Although opposition governor of Cochabamba, Reyes Villa initially deemed the referendum illegal, vowing to maintain his position, he later announced his resignation, citing that he doesn't want “the Bolivian family to fight.”<sup>138</sup> Despite optimism however, alleviating the cavernous polarization that has divided the country will undoubtedly require more than hopeful sentiment, requiring rigorous negotiation and concession between MAS and the opposition.

### **7.3 Towards a Viable Democracy?**

Operating within existing democratic institutions, MAS has attempted to redefine the constitutional order of the state. Averse to the principles of the new constitution, a resistant opposition is appealing to the same institutions that it had once failed to substantively uphold. While executive-legislative relations deteriorated the accountability of representative institutions, coalitions by nature did not usurp accountability; paradoxically, executive-legislative coalitions were both the “principal strength and main weakness,”<sup>139</sup> of the Bolivian party-system. Imbued with the confidence of the electorate, MAS has the capacity to disengage from traditional

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<sup>137</sup> Ibid.

<sup>138</sup> “Rebel Bolivia Governor Steps Aside After Recall” *Thompson Reuters*, August 12, 2008.  
<http://www.reuters.com/article/latestCrisis/idUSN12490553>

<sup>139</sup> Gamarra, *Hybrid Presidentialism*, 375.

political parties and advance its mandate. However, dialogue between the majority and the opposition is necessary to maintain political stability; an excluded opposition, regardless of its political persuasion, is capable of overturning the regime. The proverbial tables have turned and MAS now has the opportunity to proceed democratically, engaging the opposition or participate in the same exclusionary politics of its predecessors.

## 8. CONCLUSION

The reemergence of the left has precipitated the alteration of democratization dynamics. Throughout Latin America, democratic regimes are engaging the *post-transition* through the renegotiation of the initial terms of democracy. The expansion of the formal political space through the reconstitution of the state, the reassertion of party-society linkages, renewed representative accountability and the renegotiation of the state in the economy have enabled Latin American democracies to move towards consolidation. Despite these positive objectives, engaging the *post-transition*, as demonstrated by the case of Bolivia, can undermine stability, creating a moment of great uncertainty for the future of democracy.

Bolivia is experiencing the most substantive transformations since the country's contemporary transition from authoritarianism in 1982. While Bolivia's transition from authoritarianism enabled the establishment of a procedural democracy, executive- legislative political pacts desiccated formal institutions of popular representation. The resultant political-economy orientation failed to reflect the preferences of the electorate. The mobilization of the left and the actualization of the nationalization agenda reversed decades-old policies of neo-liberalism that had been maintained through pacted executive-legislative relations.

In considering the nationalization of the hydrocarbon sector, we are drawn into a complex story of a democracy incomplete. Facilitated by the coalescence of the left into viable party alternatives, advancing a mandate that sought to expand the parameters of political activity, the trajectory of Bolivian democracy has been altered. In reestablishing the development trajectory and redefining Bolivian democracy, the left has encountered a robust opposition that has propelled the country into a tenuous political crisis. Bolivia remains polarized, as the majority and the opposition advance their respective mandates. Despite this polarization, both the



majority and the opposition have the capacity to engage formal institutions and have actively sought to democratically resolve the political impasse. Presently, while prospects for the establishment of a more robust democracy are bleak as sporadic outbursts of violence and popular frustration has engulfed the country, the rupturing of Bolivia's pacted democracy has, at the very least, established the conditions for the founding of a viable democratic regime.

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Appendix A<sup>140</sup>

Chronology of Political Pacts 1985-2002

| POLITICAL PACT                       | ELECTORAL CYCLE | PARTICIPATING PARTIES       | SIGNIFICANT POLICIES   |
|--------------------------------------|-----------------|-----------------------------|--|
| Pacto por la Democracia              | 1985-1989       | MNR, ADN                    | Nueva Politica Economica<br>State of Siege   |
| Acuerdo Patriotico                   | 1989-1993       | MIR, ADN                    | Continuation of NPE<br>State of Siege<br>Law of Privatization  |
| Pacto por el Cambio                  | 1993-1997       | MNR, MRTKL, MBL, UCS        | Law of Capitalization<br>Law of Popular Participation<br>Constitutional Reform<br>Law of Administrative Decentralization<br>State of Siege |
| Compromiso por la Democracia         | 1997-2001       | ADN, UCS, CONDEPA, NFR, MIR | Plan Dignity<br>Economic Recovery and Social Development Plan<br>State of Siege  |
| Gobierno De Responsabilidad Nacional | 2001-2002       | ADN, UCS, MIR               | N/A  |

<sup>140</sup> Grindle, *Shadowing the Past*, 320-311.

## Appendix B

This material has been removed due to copyright restrictions.

The information removed is a map of Bolivia featuring the departments backing autonomy from the central government and can be obtained through The Economist article “Bolivia: Carry on Voting,” July 31, 2008.

[http://www.economist.com/world/americas/displaystory.cfm?story\\_id=11848460](http://www.economist.com/world/americas/displaystory.cfm?story_id=11848460).



## Appendix C<sup>141</sup>

### 2008 Vote of Confidence Results

|                    |      |
|--------------------|------|
| Mandate Confirmed  |      |
| Executive: Morales | 63.1 |
| Potosi             | 75.9 |
| Santa Cruz         | 66.6 |
| Tarija             | 64.5 |
| Beni               | 61.2 |
| Pando              | 56.3 |
| Mandate Revoked    |      |
| Oruro              | 45.6 |
| La Paz             | 42.3 |
| Cochabamba         | 39.3 |

<sup>141</sup> “El referéndum fortalece al Presidente y a la media luna,” *La Razon Edición Digital*, August 11, 2008.  
[http://www.la-razon.com/versiones/20080811\\_006361/nota\\_249\\_649342.htm](http://www.la-razon.com/versiones/20080811_006361/nota_249_649342.htm)