

## ■ BOLIVIA

# Demands for participation in decisions and economic benefits



Implementation of neoliberal programmes has thwarted hopes and increased poverty and social inequality in Bolivia. The focal point of the social mobilizations of 2003 and 2005 was to demand reforms to economic policy and representative democracy which would formally include social participation for development purposes and ensure a fairer distribution of benefits arising from the exploitation of natural resources.

Centro de Estudios para el Desarrollo Laboral y Agrario (CEDLA)

Ten years have passed since 186 governments committed themselves at the UN Copenhagen Summit to promote social development. Based on the rhetoric of "poverty relief", these commitments left nothing but unfulfilled hopes. The discourse on equity turned into structural adjustment, liberalization of markets and the resulting impact of increased poverty and inequity.

In Bolivia, the neoliberal creed of structural adjustment programmes attacked the structure of state capitalism on all flanks and laid the basis for a free-market economy. This resulted in huge social costs while the main problems of the country's economy are still to be solved.

### How to weaken the State

The reform of the State was aimed at excluding the State itself from all economic activity and changing its roles; and introducing strong fiscal vulnerability and high social and financial costs, which at present are the main threats to the country's economic and political stability.

The shutting down or privatization of state companies and the high costs incurred in the process led to the loss of sources of income, which placed the State in a permanent situation of insolvency and fiscal deficit. Between 1980 and 1986, 77% of common public revenues came from state companies, falling to 23% in the last decade.<sup>1</sup>

In order to reduce the deficit, cuts were made to resources allocated to social needs (health, education, housing, etc.). This undermined the universal coverage of many public services and paved the way to their privatization.

Also, a severe tax reform was implemented in 1987, which has not yet been completed. Taxes became the main source of state revenues (54% of all revenues), through a regressive policy that taxes low income more heavily than high income. In the last five years, 72% of tax collection came from consumers and 28% from companies. Contributions from the main five privatized companies turned out

to be minimal, since they only declare 5% average annual profit.<sup>2</sup>

The expenses of reforms suggested by international financial institutions were increased. The privatization of the pension system, for example, represented 60% of fiscal deficit in 2003,<sup>3</sup> even when these figures were not in the International Monetary Fund (IMF) projections.

Furthermore, the increase in public deficit led to higher external indebtedness. Between 2000 and 2003, in its capacity as a heavily indebted poor country, Bolivia incurred a new debt of USD 2.23 billion, which added to the internal debt places fiscal sustainability at risk and limits the flexibility of public expenditure.

In 2004 the external debt amounted to USD 7.07 billion (88% of GDP) and its service represented USD 758 million, equivalent to 134% of average public investment in the last four years.<sup>4</sup>

### Trade openness, imported agricultural products

Following the tendency of the Washington Consensus (regarded as the paradigm of neoliberal policies in the 1980s and early 1990s), successive Bolivian governments imposed the liberalization of markets and opened up the market for trade.

This brought disastrous results to the production structure and the economy. The national industry is extremely weak and initially leaned on state protectionist policies. From 1985 it faced strong competition from imported products, under the assumption that the opening up of trade would bring about its transformation upon the arrival of capital and technology.

Twenty years of this adventure have passed and the situation of Bolivian industry proves that the policies were wrong, and the sector now shows increasing signs of regression. It still has a limited participation in the country's economy, representing 17% of GDP and contributing a meagre 15% to national exports.

At the same time, industrial activity is still fo-

cused on the production of consumer goods, which accounts for 60%, while 37% is engaged in intermediate goods and 2% in capital goods. What is worse, poor industrial productivity remains tied to the growing participation of small economic units which employ less than 10 workers, accounting for 95% of production units within the sector and absorbing 49.5% of employment.<sup>5</sup>

State production enterprises, which in the late 1980s represented about 3%, have disappeared, while private enterprises fell from 36% to only 26% at the end of the 1990s, and informal enterprises, which in the late 1980s represented 61%, reached 73% in the 1990s.<sup>6</sup>

Faced with this extreme opening up of the market, businessmen sought to reduce labour costs by imposing false competitiveness which has had huge social costs without solving the problem of poor technological investment.

The rural economy, main provider of consumer goods for a domestic market of 3.1 million people (37.7% of the country's population),<sup>7</sup> was also undermined by trade openness and remained on the brink of bankruptcy in many of its sectors. Agricultural production reduced its offer of many products, including main crops like potatoes, cassava, onions and rice. This reduction was covered by foreign offer, with annual imports of agricultural products increasing ten-fold during the neoliberal period as of 1985.<sup>8</sup>

The steady extermination of rural production resulted in an emptying of the countryside, particularly the Altiplano (high plateau) region, leading to emigration towards urban areas and neighbouring countries.

### Schizophrenic privatization

Privatization of state companies, promoted by the discourse of "capitalization", was the hardest blow to the national economy and the State. The transfer of state property and economic surplus to foreign

1 CEDLA. "Impuestos a los ingresos: Un fácil recurso para un Estado insolvente". *Boletín Control Ciudadano*. No 5. September 2003, p. 2. [http://cedla.org/boletin/lista\\_especific.php?tipo\\_boletin=8](http://cedla.org/boletin/lista_especific.php?tipo_boletin=8)

2 CEDLA. "Análisis comparativo del Presupuesto General de la Nación 2000-2005". January 2005. [http://cedla.org/pub/lista\\_especific.php?tipo\\_publicacion=10](http://cedla.org/pub/lista_especific.php?tipo_publicacion=10)

3 Espada, Juan Luis. "La vieja sujeción de la política fiscal". In *Economía y sociedad boliviana después de octubre de 2003*. Documento de coyuntura No 9. CEDLA, 2004, pp. 13-19.

4 CEDLA (2005), *op cit*.

5 Escóbar, Silvia and Lourdes Montero. *La industria en su laberinto. Reestructuración productiva y competitividad en Bolivia*. La Paz: CEDLA, 2003.

6 *Ibid*.

7 National Institute of Statistics. "Population and Housing Census 2001". [www.ine.gov.bo](http://www.ine.gov.bo)

8 Pérez, Mamerto. *Apertura comercial y sector agrícola campesino. La otra cara de la pobreza del campesino andino*. La Paz: CEDLA, 2003.



investors was aggravated by its failure to bring new revenue into the State's coffers owing to the form of association adopted between the State and foreign capital.

Foreign capitalists invested an amount similar to the initial capital in exchange for more than 51% of shares plus the management of the privatized companies, while the amount of initial capital, in the form of shares, was handed over to the companies managing the pension funds of Bolivian citizens, who became the beneficiaries of the companies' future dividends.

Thus privatization adopted a schizophrenic character as it went in two different directions. On the one hand, the economy was supported by the domestic market and specific sectors of the market, made up of technologically backward medium-sized or informal enterprises with low levels of productivity and products aimed at a market of extremely low purchasing power, but with a strong demand for workforce.

On the other hand, the economy consisted of very large companies, with high productivity and the latest technology, catering to external markets of high purchasing power or domestic monopolies granted by the State, loosely linked to the rest of the economy, barely linked to the rest of the economy, with the added disadvantage of a very low workforce demand.

This dichotomy can be noticed in the vast differences in productivity. While in 1997 the average productivity (measured in constant 1990 BOB per worker) in agriculture, industry and construction, stood at BOB 2, BOB 8.7 and BOB 3.9 respectively, the productivity of sectors with considerable participation of foreign capital such as mining or quarry extraction, electricity and water, and financial entities, stood at BOB 31.3, BOB 38.1 and BOB 31.4, respectively.<sup>9</sup>

The great importance given to the hydrocarbons industry (in particular the exploitation of natural gas) reintroduces the establishment of pockets within a backward economy, with weak links to the rest of the country's economy, a positive but irrelevant effect on social conditions (employment or salaries) and a debatable impact on state finances.

### What about social development?

The implementation of policies imposed by multilateral financial institutions caused a drastic change in employment and labour conditions, characterized by job insecurity.

The following conditions stand out in urban employment: reduced state participation (from 25% to 12% of total workers between 1985 and 1995 respectively),<sup>10</sup> stagnation of private sector employment and uncontrolled growth of the informal sector.

Although labour conditions deteriorated, giving rise to a latent labour flexibility, the General Labour Law was not modified. Government after government allowed private businesses to increase their

profits, violating the rights acquired by workers, first by liberalizing the labour market and then by reforming parts of different sectoral regulations.

In addition to the reduction of salaries, the cancellation of collateral social benefits, the extension of the working day and the increase in temporary employment, the social security system was privatized leaving thousands of workers without the protection of a pension scheme.

These changes led to a process of increased poverty and social inequality to the extent that today, according to the national poverty line, 64.3% of the population are poor (53.5% in urban areas and 82% in rural areas) and the inequality of income distribution is evidenced by the fact that the wealthiest 20% of the population receive 57.9% of total labour income, while the poorest 20% only earn 3.15% of the total.<sup>11</sup>

In addition to this, and according to our estimates, the unemployment rate increased in the cities over the last five years. In 2001, the unemployment rate was 10.3%; in 2002 it was 11.7%; in 2003 it was 12.3%; in 2004 it was 11.6%; and the estimate for 2005 is 10.7%. For its part, the World Bank calculates this rate at 5% for 2001.

The informal sector still maintains a large share of the workforce (approximately 60% of the economically active population),<sup>12</sup> with worse levels in the quality of jobs, which turns the ratio between unemployment and sub-employment into a time bomb for the country's level of social conflict.

### Social mobilization: the demands

On 12 and 13 February 2003, popular protests and a mutiny of the police forces in La Paz and the adjacent city of El Alto against the implementation of a new tax on salaries were repressed by the Government of President Gonzalo Sánchez de Lozada with a death toll of 30.

In the week of 10-17 October, workers, peasants and inhabitants of El Alto and La Paz mobilized to complain against the sale of natural gas to the United States through a Chilean port demanding the return to the State of gas fields and their exploitation. The demonstration ended in a massacre in which 80 people were killed and several hundreds were injured. The popular uprising led to the resignation of Sánchez de Lozada, who was succeeded by Vice-President Carlos Mesa.

Political instability did not come to an end with Mesa as president. In spite of a governmental agenda that attempted to rescue the social demands proposed in October 2003, Mesa's government worsened the polarization within Bolivian society. The almost 20 months of his administration can be summarized as follows:

- A referendum was held on the hydrocarbons policy. It consisted in five confusing questions that instead of bringing the debate to an end left the fundamental demand on the recovery of hydrocarbons for the State unsolved.
- The approval - through a long, closed and confusing process - of a new Hydrocarbons Law by the Bolivian Congress and later its promulgation by the Executive Power<sup>13</sup> did not manage to stop the demand for nationalization of large sectors of the population, which intensified protests and ended up requesting the resignation of President Mesa, with road blockades and fences surrounding the government building.
- Regional demands for autonomy intensified in the departments of Santa Cruz, in the east, and Tarija, in the south, where most natural gas reserves are found. This led to polarization between these demands and those made by social movements in the west, which called for the nationalization of natural gas and the organization of an assembly to write a new constitution.

All this culminated in the resignation of President Carlos Mesa on 6 June 2005. His place was taken by the then President of the Supreme Court of Justice, Eduardo Rodríguez Veltzé, whose main agenda is focused on calling general elections for the end of 2005.

The popular uprisings in 2003 and 2005 mark the end of a historical period characterized by at least three phenomena: the crisis of the economic model, the re-composition of social forces and the crisis of the democratic and representative State. Although it involves voting, democracy does not ensure spaces to channel people's demands and participation. These phenomena cannot be understood without making reference to the imposition of the neoliberal model in the economic, social and political areas.

(Continued on page 254)

9 Arze, Carlos. "Ajuste neoliberal y mercado de trabajo en Bolivia". Global Policy Network, 2001. www.gpn.org

10 *Ibid.*

11 INE, www.ine.gov.bo; CEDLA, "Dossier de estadísticas de empleo, condiciones laborales y dimensiones de género", 2004, <http://cedla.org/pub/slideshow/inicio.htm>. According to the World Bank the Gini coefficient increased from 0.52 to 0.61 between 1985 and 2003. World Bank. *Country Assistance Strategy 2004*, p. 2.

12 CEDLA, *ibid.*

13 According to this new law, the property of hydrocarbons is not recovered in all steps of the production chain as nationalization demands requested. It only imposes a 32% Direct Tax on Hydrocarbons, which would supplement the already existing 18% of royalties, reaching 50%. However, "the government proposed a mixed regime of royalties and taxes: 18% of royalties and a 32% Complementary Tax on Hydrocarbons (ICH). This tax would be imposed gradually over time according to the production level for each field (from 5% to 36%, in the case of natural gas), it would also be paid per field and not per company and, finally, it could be credited against the Company Profit Tax. Due to the high levels of production existing within the scale, many smaller fields would not be paying the ICH; besides, tax crediting would cause the Company Profit Tax never to be paid on account of being, logically, lower than the ICH. Thus, in this case 18 plus 32 would not be 50%". Arze, Carlos and Pablo Poveda. *La nueva Ley de Hidrocarburos*. Documento de coyuntura Nº 10. CEDLA, 2005, pp. 4-5.

## BOLIVIA

(continued from page 161)

In spite of not being explicitly stated, the demands made by social movements point the way to substantial changes in the reforms implemented since 1985. The different conflicts the country has gone through in the last five years show that Bolivian society and its social organizations have set themselves challenges:

- To recover ownership of hydrocarbons in general and of gas in particular. Bolivian society demands a new state and regulatory framework in which the exploration, exploitation and ownership of deposits, the privileges, taxes and opportunities of industrialization are defined by the authority of Bolivian people, in terms of their national interests.
- To change international trade rules to allow the State to provide new conditions for national production. National industries and small producers should be protected to afford a more inclusive vision and development, which will not subject equity to the protection of foreign investments and to the interests of national companies linked to international trade, thus promoting the overexploitation of labour.
- To implement State reform, expressed in the demand for a Constituent Assembly, which would modify the state's structure in order to include the participation of representatives from ethnic and regional groups and challenge the socio-economic basis of the political system as well as the legitimacy of representative democracy. In other words, a reform that would seek the true participation of workers, rural and indigenous organizations, as well as the use of productive resources and a system of social protection that will allow changes in people's material living conditions.
- To de-commodify basic services. The intention is to cancel contracts that privatized water and sewage services and subjected an essential service to the profitability of multinational companies.
- To cancel the external debt. The State's fiscal feasibility requires the total cancellation of external debt. Until now, ineffective relief mechanisms have proved insufficient to achieve macroeconomic balance and reduce poverty.
- To implement tax reform. The current system only requires minimum contributions from transnational companies and high-income sectors of the population.

The fulfilment of these objectives would draw Bolivia closer to the achievement of the UN Millennium Development Goals. ■

### References

Arze, Carlos. *Fin de la era neoliberal en Bolivia: las rebeliones populares y la demanda de nacionalización de los hidrocarburos*. Inédito. La Paz: CEDLA, 2004.

Several social organizations. *Manifiesto de las organizaciones e instituciones de la sociedad civil frente al próximo Grupo Consultivo para Bolivia*, La Paz, 2005. [www.wemos.nl/Documents/cg-bolivian-manifiesto-march-2005.pdf](http://www.wemos.nl/Documents/cg-bolivian-manifiesto-march-2005.pdf)

## CANADA

(continued from page 169)

### Missing in action: National unity of purpose

For the first time in 25 years, Canadians are governed by a minority federal government,<sup>16</sup> and the possibility of progressive social policy has been catapulted again onto centre stage.

At the same moment, the very *raison-d'être* of the Canadian federation is being challenged by political representation that is regionally divided. There is no national party that can win seats in all parts of the country, when not so long ago there were two. Canada has been wracked by regional static: Quebec separatism,<sup>17</sup> Western alienation,<sup>18</sup> Ontario's new what's-in-it-for-me attitude. Each provincial protest has resulted in more federal cash for the jurisdiction in question.

National programs have been jeopardized. After more than a decade of bitter disputes between federal and provincial authorities, the federal Government increased cash transfers to the provinces for health care and childcare but it has been reluctant to specify the terms and conditions of the new cash. The federal Government is turning into a head waiter to the provincial demands of the day. Each province has different views on how to address social needs. But virtually all provinces want to deliver balanced budgets and tax cuts. Over the past decade, all provinces have reduced tax rates and reigned in the growth of spending just like the federal Government. Taken together, provincial and federal governments offered USD 205 billion in tax cuts between 1996 and 2004. In contrast, USD 88.5 billion went to new health expenditures, the single greatest social priority for Canadian citizens.<sup>19</sup>

There is, however, some hope. Current political dynamics have shifted the balance towards more spending. While staying within its self-prescribed 12%-of-the-economy limit, the latest federal budget was relatively heavier in spending than past budgets, including a USD 4.1 billion package for childcare. Budgetary amendments ultimately reallocate some elements of the original plan - notably deferring some corporate tax cuts - to add another USD 3.8 billion over two years for housing, infrastructure, student assistance, the environment and international assistance.

What impact will this have on Canadians living in different parts of the country? Housing, childcare,

tuition fees are controlled by the provinces, which see the balance between markets and public provisions in these domains quite differently. The only nationally consistent rhetoric around improving access to basic needs is to shorten waiting times for health care. Even this objective is unfolding through a range of public initiatives and public-private sector deals. Will the new money improve access for all?

Without a coherent vision based on key human rights objectives, Canada may collapse into a loose collection of balanced budget states. The devolution of responsibility for public provisions has made it difficult for Canada to set and meet key national priorities. Until we unite in our purpose, it will be difficult to gain ground on the big ideas of our time - the reduction of poverty and inequality, at home and around the world. ■

## INDIA

(continued from page 189)

### Women in politics

In the field of political empowerment we find that while there is indeed a revival at the grassroots level, the representation of women is still very minor at higher levels of decision-making. Despite all the economic and social structural hurdles, some organized and unorganized women's groups are taking initiatives in political and social fields.

The 73<sup>rd</sup> and the 74<sup>th</sup> Constitutional Amendments of 1992 have proven to be a major step towards the political empowerment of women. By these amendments one-third of positions in local institutions at all levels are reserved for women.<sup>31</sup>

The Panchayati Raj<sup>32</sup> institutions have become effective vehicles for the political empowerment of women by broadening women's leadership and giving them statutory powers of decision-making at local levels. "Women head about 175 District Panchayats,<sup>33</sup> more than 2,000 Block Panchayats and about 85,000 Gram Panchayats".<sup>34</sup> Some states, such as Kerala, Karnataka, Andhra Pradesh, Tamil Nadu and Madhya Pradesh, have more

16 On 28 June 2004 Paul Martin's Liberal Party won a minority government - a government in which the ruling party has not elected more members than all other parties and Independents combined - with 135 seats in the House of Commons.

17 The Quebec nationalist movement which has led to 2 provincial referendums on the region's sovereignty.

18 The sentiment in Canada's western provinces that the federal Government does not properly address their concerns.

19 Armine Yalnizyan, *Can We Afford to Sustain Medicare?* Ottawa: Canadian Federation of Nurses Unions, July 2004, p. 8.

31 Statement by the Hon Dr Murlidhar Joshi Minister for Human Resource Development at *Women 2000: Gender Equity, Development and Peace for the Twenty First Century*, 5 June 2000.

32 The 73<sup>rd</sup> Constitutional Amendment Acts of 1992 introduced the concept of Panchayati Raj - that villagers should think, decide and act for their own socioeconomic interests. It is a form of village self-governance.

33 A *panchayat* is a council. Each state in India is divided into districts, each district into blocks and each block into *grams*, and councils exist at each level.

34 Kumar, Shradha and Sanjay Upadhyaya, "Grassroots Democracy: Local Governance Watch", 28 December 2004; [www.socialwatchindia.com](http://www.socialwatchindia.com)