

## The Political Economy of Decentralization in Bolivia

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**Abstract:** In these notes I outline some political economy factors relevant for the decentralization policy of Bolivia. Decentralization is an important change in political institutions which can improve the efficiency of the delivery of public services and can also promote democracy. However, even if efficient, since decentralization also redistributes political power and influence, it is unlikely to be unanimously supported unless a complex system of compensation is simultaneously introduced. I discuss who the central political groups are in Bolivia, what are their interests in decentralization and the instruments they can use to influence the outcome. I also discuss why the demand for decentralization is so intense now and whether or not promoting will help to solve the current political crisis in Bolivia.

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“In England after you sign a law the conflict stops. In Bolivia, after you sign a law the conflict starts.”

- Oscar Serrate<sup>2</sup>

## I. Introduction

The government of Bolivia is in the process of making a proposal to decentralize power and resources to the departmental level. This decentralization is taking place in the context of the previous 1994 decentralization of power and resources to the municipalities, the popular election of governors for the first time in August 2005, a proposed referendum on “autonomy” and “decentralization,” and a proposed Constitutional Assembly to meet possibly as early as the autumn. There is a clear sense of political crisis in Bolivia and a feeling that a new Social Contract needs to be negotiated to improve the prospects for future political stability and economic development. As yet just what this contract will look like is unclear and of course in the interim before the contract becomes crystallized it is quite likely that conflict will be intensified as different groups attempt to increase their bargaining power or influence the agenda in ways they consider to their advantage.

In this paper I provide an analysis of the political economy of Bolivia and how this influences demands for and supply of autonomy and or decentralization. I first focus on defining who the significant actors are, what their preferences and goals are, what levers or instruments they may have to achieve these goals, and how autonomy or decentralization may fit into their political strategies. From this we can distill such basic things as who is in favor of decentralization, who is against it, and who has the power to get what they want. Using this framework I then ask in section III why decentralization has become such a burning issue in Bolivia today. What accounts for the timing? Section IV expands on the nature of conflict and asks whether decentralization is an end in itself or simply a politically expedient tool for achieving something which could be achieved in other ways. Section V develops the institutional setting in greater detail and the final section examines the role of decentralization in the general political crisis in Bolivia. Will it help? Will it make things worse?

Before proceeding, it is good to emphasize that there is a great deal of ambiguity in the way some words are used in Bolivia. The word *autonomía*, which one can translate as “autonomy,” is much used, as is the word “decentralization.” Decentralization tends to

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<sup>2</sup> Interview in Santa Cruz de la Sierra, May 19, 2005.

conjure up connotations of moving the control of government services from the national to the regional level and shifts in the locus of responsibility for raising taxes or undertaking expenditures. Though these things are on the table it is not clear that this is what the debate is really about or what people are thinking of when they demand or reject *autonomía*. Indeed, demands for autonomy seem to be for fundamental changes in the balance of political authority.

## II. The Actors

Table 1 sets out the main actors involved in the process of decentralization in Bolivia, their interests in general, their interests in the status quo, and the levers or instruments that they can use to get what they want (their ‘power’). In general, a huge variety of groups, from the Drug Enforcement Agency to the Catholic Church might have preferences over the structure of political institutions in Bolivia, here I focus on those groups that appear both to have clear preferences, but more important, those who will likely be able to exercise influence over what happens.

At an abstract level several different types of groups might be important depending on the nature of political and social cleavages and identities in society. If cleavages are regional, then we might expect there to be regional groups with well defined preferences. This is indeed the case in Bolivia. Next, since Bolivia has been a functioning democracy since 1982, we would therefore expect political parties to be important players with preferences over political institutions. To some, perhaps surprisingly small extent, this is true. In addition, if cleavages are based on socio-economic status we might expect to find interests articulated in terms of capital and labor, as is in fact the case. Finally, groups may form on the basis of ideological orientation, religion, gender, or ethnicity. Groups of this type are relevant in Bolivia as well.

First, I consider regional actors. There are many reasons why these should form and have strong preferences over decentralization and regional autonomy. Since many public goods and forms of political representation are regionally specific, regional interests have an incentive to organize and demand decentralization as a way of improving service provision and political accountability. However, when government taxation and expenditure are determined at the national level there might be redistribution away from richer departments towards poorer departments. Greater decentralization, by increasing the powers of rich

departments over their own resources, might reduce such redistribution to the detriment of the poorer departments. Thus it is not immediate at all that the preferences of regionally based actors will be in favor of *greater* decentralization

The most important regional actors in Bolivia are in the department of Santa Cruz, particularly the Comité Cívico. Indeed, regional identities are so strong in Santa Cruz that the fact of being a *Cruceño* overrides most other group allegiances, whether it be to political parties, labor unions or business groups. As I discuss in more detail in the next section, the current debate about decentralization has to a large extent been driven and formed by the *Cruceños*. Santa Cruz was a frontier department which developed rapidly in the 1960s and 1970s under the encouragement of military governments. It now represents the most dynamic part of the Bolivian economy based on export agri-business and large capital intensive farms. There seems to be a great deal of consensus in the department that it wants greater political autonomy from the rest of the country and the ability to make local decisions about public policy without replying on La Paz. This involves control of education, health and infrastructure, but probably most of all it implies a decentralization of political authority. Aside from political decentralization implemented through popular election of the departmental governor (*prefecto*), one key demand of Santa Cruz is to withhold 66.6% of locally produced tax and customs revenue with 33.3% be transferred to the central government<sup>3</sup>.

The main reasons for these demands seem to be; first, the view that La Paz does not care enough about the needs of Santa Cruz and central politics is too distant, inefficient and corrupt; second, the viability of the economy in Santa Cruz and the stability of property rights are threatened by the central government; third, the probably mistaken impression that decentralization will allow Santa Cruz to benefit from having to redistribute less income to other poorer departments; and forth, the desire to retain more of the revenues from hydrocarbons in the department (though this factor is quite marginal in Santa Cruz compared to Tarija).

Though most *Cruceños* appear to believe that the department can only gain from decentralization, they do clearly benefit in some ways from the current situation. First, because of the intensive use of diesel fuel in mechanized agriculture, the farmers benefit

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<sup>3</sup> Out of the 66.6% of locally withheld revenue a 10% share (of the total tax and customs revenue) would be destined for redistribution purposes among departments.

greatly from national diesel subsidies, among other subsidies in the productive sectors. Second, there are no personal income taxes in Bolivia, and a fiscally feasible decentralization may lead to the introduction of such taxes, which will effect the richer elites of the department. Third, decentralization may either force a division of responsibility for the national debt,<sup>4</sup> which the richer departments might want to avoid given their greater ability to pay; or it may force a recognition of domestic and external debt that is currently held by departmental governments. Finally, many aspects of the current fiscal system actually redistribute more to richer departments, rather than poorer ones, and this is another reason why Santa Cruz benefits from the status quo.

The main levers that Santa Cruz has to get what it wants are firstly, its relative homogeneity, and secondly its rising economic power. The first factor allows the *Cruceños* to solve the collective action problem much more effectively than other regional interests. For example, *Cruceño* groups within the main political parties appear to be highly effective at persuing the interests of the department and indeed identify more with the region than their specific party. The main importance of the second is that it makes autonomy viable for the department. The wealth of Santa Cruz means that it could pay the fixed costs of providing public goods currently provided by the central government and it can credibly threaten to withhold tax remittances and “go it alone.” Additional benefits of its economic power are that it allows them to control the national media and offer side payments to other departments to bring them onboard the decentralization coalition.

Santa Cruz is not proposing succession or even federalism and they know they have to worry about things that go on elsewhere in Bolivia. For example, the more relatively prosperous Santa Cruz becomes the more they will experience in-migration from the rest of the country. Such a process could lead the current elites to lose control of departmental politics implying that even autonomy might not be sufficient to avoid, say, agrarian reforms. Hence Santa Cruz knows that it has to play a crucial part in helping other regions develop their economies and improve the efficiency of their governments.

Other departments also have regionally defined interests, but their relative heterogeneity has made it difficult to solve the collective action problem and none have such a unified front and well articulated strategy as Santa Cruz does. The partial exception is Tarija. Because of its great hydrocarbon wealth, Tarija is the other department that might

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<sup>4</sup> The Ministry of Finance has already elaborated such a proposal (*departamentalización de la deuda*).

clearly benefit from a redistribution of resources that might accompany decentralization. Current estimates suggest that between 60-80% of hydrocarbon production will come from Tarija (with perhaps 10-20% from Santa Cruz). The other departments in the lowlands, Beni and Pando, are less well represented in national politics and seem likely to be very marginal players in the decentralization process. They will likely accept a Santa Cruz proposal for *autonomía* if they can improve their political and financial position, but they do not have sufficient levers to stop Santa Cruz from getting what it wants either. Highland departments, such as Oruro or Potosí, appear to have much less well defined positions, though it is possible that they will lose if a large redistribution of tax revenues is the outcome of decentralization. The position of La Paz seems difficult to characterize because of the conflict between El Alto and the city. La Paz does not have a strong regional identity in the way Santa Cruz does because of the cross-cutting cleavages in the department. Nevertheless, the central government bureaucracy housed in La Paz will likely be one force within the department which will oppose decentralization or *autonomía*.

The general sense here seems to be that the interests of departments other than Santa Cruz in autonomy is inversely related to how they are influenced by the status quo, particularly the distribution of taxation and expenditures.<sup>5</sup> None has such strong views with respect to property rights as Santa Cruz. For example, Tarija may benefit from 'holding-up' foreign investors in order to extract more hydrocarbon rents and departments on the altiplano may favor land reform at the expense of Santa Cruz if it benefits their citizens.

Another important set of regionally articulated actors have coalesced around the municipalities and the winners from the 1994 reforms. Decentralization to the municipalities is widely seen as successful, promoting both democratic accountability and the improvement of services (Faguet, 2000). These groups, such as the Federación de Asociaciones de Municipios, are broadly in favor of decentralization, but seem to regard decentralization to the regional levels as threatening since powers and resources may be taken from them and given to the departments. Their main ability to influence the process is the level of public support and their good track record since the passing of the LPP.

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<sup>5</sup> Unfortunately it is highly problematical to calculate at the departmental level "how much taxes they pay" and "how much public expenditures they get in return." The existing discussion in Bolivia is very simplistic, since it ignores some very difficult methodological questions in the calculation of the contribution of each department to national taxes. As I noted earlier, the current system of transfers, rather than being redistributive, actually increases inequalities between departments.

Compared to Santa Cruz, the role of the political parties in discussions of autonomy or decentralization has been muted. Since their inception, all of the major political parties have opposed decentralization. From the late 19<sup>th</sup> century, political parties in Bolivia have been relatively personalized coalitions designed to capture the central state and use the perquisites of office to reward clients and supporters (Gamarra and Malloy, 1995). Though projects of decentralization have often arisen from popular demands, they never succeeded. However, starting in 1994 with the passing of the Law of Popular Participation (LPP), a process of decentralization to the municipalities took place. This surprising measure, promoted by the MNR (Movimiento Nacionalista Revolucionario) government under Gonzalo Sánchez de Lozada, appears to have been the result of two processes. First, a defensive measure to avoid decentralizing to the regions. There was a great deal of pressure to decentralize, but the MNR saw decentralization to the municipal level as much less threatening to the power of the central state than decentralization to the departments. Second, a strategic political gamble based on the anticipation that although the MNR might lose power at the national level, it was in a good position to control many of the municipalities (this thesis is developed by O'Neill, 2005).

O'Neill's thesis suggests that the MNR ought to oppose decentralizing to the departments on the grounds that it cannot gain any electoral advantage. Indeed, she argues that the decision to decentralize to the municipalities, but not the departments in 1994, entailed exactly this calculation. Logically then, if the MNR stands to lose by such decentralization, one might expect some national party to be in favor of it. In fact, this appears not to be the case. The major 'traditional parties' the leftish MIR (Movimiento de Izquierda Revolucionario), and the rightish ADN (Acción Democrática Nacional), are at the moment undecided as to whether to support decentralization. The MAS (Movimiento al Socialismo) and its leader Evo Morales, are adamantly opposed to it. As I shall discuss, the reason for these preferences differs.

In the current political turmoil in Bolivia, all three of the MNR, MIR and ADN have weakened significantly. The political gridlock which has overtaken Bolivia over the past few years and a rising tide of disillusionment with these parties who have governed Bolivia since the return to democracy, appears to have severely weakened their political support. The strongest evidence of this is the rise of MAS who won 27% of the vote in the last

presidential election (however support for MAS is highly concentrated around Cochabamba and otherwise highly fragmented territorially).

The MNR, MIR and ADN may oppose decentralization for several reasons. First, and most important, since their political strategy has been traditionally based on attempting to control the central state, they may see a reduction of the power of the central state as intensifying their political debilitation and reducing their access to patronage. Second, regional decentralization may lead to the formation of new political parties which may challenge the influence of the old ones. This is certainly going to happen in Santa Cruz and will likely lead to the split of most of the Santa Cruz members from the national parties. Indeed, the decentralization to the municipalities after 1994 opened up a political space that the traditional political parties quite singularly failed to occupy, which suggests that they will be unable to take advantage of the space opened up by departmental decentralization. To the extent that the parties were ever able to take advantage of the types of intertemporal trade-offs discussed by O'Neill, they are no longer able to do so.

On the other hand, one could argue that the control of the elected departmental governments could allow the national parties a new base from which to renew themselves and indeed Jaime Paz Zamora, the leader of MIR, is running for the governorship of Tarija, presumably on the grounds that the extra resources which he anticipates will be retained locally will provide a useful base for strengthening his national political power. Nevertheless, such a move may just reinforce the move towards regional parties, rather than national political parties.

Whatever their interests, the traditional parties seem to have few levers to pull to achieve what they want. They are declining in influence and do not have the sort of recourse to collective action that has worked so powerfully for MAS.

Though the preferences of MAS with respect to decentralization may be similar to those of the traditional parties, the reasons for this are different. MAS is concerned both with winning power and implementing the policies it prefers. Two main factors influence its induced preferences with respect to *autonomía* and decentralization. First, MAS does not believe it can gain electorally by having departmental elections and in consequence it does not believe that it will control decentralized resources. Turning O'Neill's logic on its head, since MAS anticipates that it can win the next presidential election, it wants to maximize the power of a central state which it anticipates controlling. Second, giving departments

autonomy may stop it getting things that it wants, for example hydrocarbon revenues from Tarija, and land reform in Santa Cruz.

At the moment MAS has far more power to get what it wants than the other parties. Not only does it have growing electoral support, but it has also developed the ability to paralyze La Paz and other major cities with collective action. Moreover, MAS anticipates that the proposed Constitutional Assembly will be a way to get many things that it wants.

I next consider the actors representing labor and capital with respect to decentralization. With respect to labor, though the old union movements such as the COB (Central Obrera Boliviana) and the miner's union, the FSTMB (La Federación Sindical de Trabajadores Mineros de Bolivia) are now very weak, there are strong unions in the public sector, particularly in health (the Confederación de Trabajadores en Salud) and education (the Confederación Sindical de Maestros). The objectives of these last two unions are the usual ones of better wages and conditions of employment for their members. Their ability to achieve these goals depends on their bargaining power which has been traditionally based on their control of central government institutions. These unions oppose decentralization because they believe (probably correctly) that this will reduce their bargaining power. The instruments they have at their disposal are the classical ones of demonstrations and strikes. The power of regional allegiance becomes evident in this context because while the national unions may oppose decentralization, it appears that their affiliated branches in Santa Cruz will not. To the extent that groups such as the COB are able to influence the process of decentralization they will oppose it because they see it as a process which will reduce the resources available to the highland departments, such as Potosí and Oruro, in which they have members.

The preferences of business groups appear to be split on regional lines. Business groups in Santa Cruz are very concerned with the sanctity of property rights and the improvement in public service provision. They see autonomía and decentralization as the way to secure these things. Business groups elsewhere, such as the national Confederación de Empresarios Privados de Bolivia (CEPB), strongly support stable property rights, but also resent what they see as subsidies to Santa Cruz (for example with respect to diesel fuel). They are also concerned about other changes that may be necessary to make decentralization feasible, for example the introduction of an income tax. These groups are able to influence outcomes to the extent that their wealth can be used to advance political goals. Since, as I

discussed above, the growing political power of Santa Cruz is closely linked to its growing economic power, the preferences of business interests in Santa Cruz, for instance the Cámara de Industria, Comercio, Servicios y Turismo de Santa Cruz (CAINCO), have had a large impact in driving forward the process of decentralization.

Finally, there are other social groups who have well defined preferences and may be able to influence the process of decentralization and the creation of *autonomía*. The Consejo Nacional de Ayllus y Marcas del Qollasuyo (National Council for indigenous communities) is an important organization in the countryside. It advocates for the rights of indigenous peoples and in particular for their rights to lands. This issue is particularly important in Tarija, where much of the land where the natural gas is located is on lands claimed by the Guarani. It is also significant in Santa Cruz where indigenous peoples have also made large land claims. The Consejo opposed *autonomía* because it believes, probably correctly, that the departmental governments in Santa Cruz and Tarija will not support the claims of the indigenous peoples. Another significant player is the Federación de Juntas Vecinales El Alto (association of districts in El Alto) which has been an important winner from the LPP. It opposes *autonomía* because it has come to exercise considerable influence through collective action over the central state.

Finally, given the history of Bolivian politics, one might be interested in the preferences of the military towards *autonomía* and decentralization. To the extent that this can be identified, the military appear to be in favor of a strong central state. Nevertheless, the military are also concerned about the political stability of the country and to the extent that this can be promoted by decentralization, will tolerate if not support it. It seems unlikely at the moment that the military will be an important player in the process. The staggering corruption and ineptitude of the last military governments, particularly that under General Luis Garcia Meza between 1980 and 1981, has severely discredited the military as a viable political alternative.

### **III. Why is Decentralization Happening in Bolivia Now?**

As a prelude to examining various explanations for the timing of the move towards decentralization, it is useful to consider general rationales for decentralization. Implicit in these are theories of timing. From a normative point of view the reason that there might be a demand for decentralization is clear. People within one country are heterogeneous in tastes

and endowments, and this heterogeneity often has a geographical aspect. Though in principle one could imagine that anything a regional government could do a central one could mimic, in practice this appears not to be the case. There could be many reasons for this, for example local politicians may have better information about preferences or abilities that are not easily transmitted to the center. Alternatively, with agency problems in politics, the incentives of local politicians may be better aligned with the preferences of local citizens which may mitigate agency or commitment problems. These ideas give rationales for decentralization, not succession, because there are other countervailing effects – for instance some public goods like national defense may be efficiently shared over jurisdictions much larger than a department.

There are of course disadvantages of decentralization apart from potentially reducing the ability to spread the costs of public goods. It is by no means guaranteed that decentralization will lead to a closer correspondence between the preferences of politicians and citizens because local governments may be captured by local elites who would not be able to capture the central government (Bardhan and Mookherjee, 2000).

From a positive point of view decentralization may arise because of the way it allows different groups in society to get what they want. This does not apply simply to interests articulated on a regional basis, but to any group. Decentralization is a change in political institutions and political institutions determine how preferences get mapped into policy outcomes (Romer and Rosenthal, 1978, Shepsle, 1979, Shepsle and Weingast, 1984). Decentralization therefore naturally influences the distribution of political power in society. While the normative perspective suggests that decentralization might be Pareto improving, for example if there are big efficiency gains in public service provision, the positive perspective leads more towards the idea that, as with any process of institutional change, there will be winners and losers.

Bolivia has traditionally been a highly centralized, if weak state. Despite large regional disparities and a society with important ethno-linguistic differences, the central state has persistently opposed decentralizing power. The move towards autonomy and regional decentralization now seems to stem from several interrelated factors largely unrelated to the type of electoral strategizing which O'Neill hypothesized induced the MNR to pass the LPP in 1994.

The first and most fundamental factor driving the debate on autonomy and decentralization is the growing relative prosperity of Santa Cruz. Just as historically the rise in the economic power of the tin barons relative to the silver barons led to a major reorganization of political power in Bolivia, in particular the shift of the political capital from Sucre to La Paz in 1899 (Klein, 2003, Chapter 6), so the rise in the Santa Cruz economy is now leading to a new reallocation of political power in Bolivia.

The increasing economic differentiation between Santa Cruz and the rest of the country has several effects. First, it makes autonomy more viable for Santa Cruz. Second, though Santa Cruz has long protested its differences from the rest of the country, these differences have undoubtedly grown larger, particularly with the rise of the *Cocaleros* (the collective term for the coca growers) and MAS as a powerful national force after the 2002 elections. MAS and other indigenous social movements are committed to radical socialistic policy agendas and their rhetoric is based on the notion that they represent the exploited members of Bolivian society. The economy of Santa Cruz is based on capitalistic export agriculture and large capital intensive farms which are the result of land allocation policies in the 1960s and 1970s (i.e., after the agrarian reform policies which followed the 1952 Revolution and which affected only the highlands and not the Eastern Llanos). Though much of this land was distributed in dubious ways by the military on the basis of political connections and favors, there is little doubt that this has led to the most dynamic part of the Bolivian economy far different from the economy of the Altiplano, or even El Alto. This means that the policy agenda of MAS and related groups is radically different from the preferred policies of political elites in Santa Cruz who see them as a threat to their property rights.

As Santa Cruz has diverged, it has also increasingly lost its ability to control the central government through the traditional political parties as the authority of the central state has crumbled. In the past the *Cruceño* elite seems to have been able to exercise a great deal of control over key government policies, for example since re-democratization in 1982 the Minister of agriculture has always been a *Cruceño*. This is one of the most important driving forces behind decentralization at the moment and the reason why the first decentralization proposal on the table was one formulated by Santa Cruz and it was Santa Cruz that collected the 500,000 signatures needed under the Constitution to force a referendum on the issue of autonomy.

The demand for decentralization (or more generally autonomy) by Santa Cruz now is related to another factor – the threat of the Constitutional Assembly. At the moment the exact date and composition of this Assembly has not been decided, nor has the agenda. MAS are demanding that representatives to the Assembly be elected to the basis of pre-assigned representation for different interests – indigenous people, women etc. Others demand one person, one vote representation. Nevertheless, it is clear that Santa Cruz fears that their interests will be very under-represented in such an Assembly, probably no matter how it is constituted. This may lead to outcomes they very much fear, such as proposals for agrarian reform, and it may not even lead to decentralization. In consequence they view the referendum and a prior process of decentralization, including crucially the election of mayors as absolutely crucial in creating ‘facts on the ground’ before the Assembly meets. They also think that a yes vote in the referendum will make it impossible for the Assembly to decide against decentralization or autonomy.

It should be emphasized here that the exact phrasing of the referendum has yet to be decided, but it will probably ask for a quite vague endorsement of *autonomía*. This will be regional specific in the sense that if a majority of the people in Santa Cruz vote in favor of autonomy then this will give them autonomy even if a majority of people in other regions or even the country as a whole vote against it (this type of “asymmetric decentralization” was followed by Spain and others which is precisely one of the models for the Santa Cruz leaders).

To sum up, decentralization is being driven by Santa Cruz and the collapse of the traditional parties. Though MAS, trade unions and possibly some municipality organizations are against it, it seems unlikely that they will be able to stop it. The main issue then is what form it will take and what will be decentralized. I return to these questions from a positive angle in the last section.

#### **IV. Is it really about Decentralization?**

There is a great deal of highly polarized political conflict in Bolivia. Above I discussed some of the different politically relevant groups in Bolivian society and their interests and goals, but I did so in the context of how these interests were reflected in the debate over decentralization or maybe the vaguer concept of autonomy. But is autonomy

and decentralization really a major source of conflict in Bolivian society? Is the current confrontation over decentralization really about decentralization or something else?

The answer to these questions is both yes and no. Any set of institutions is potentially a locus of conflict because of the way it influences political power and the distribution of resources. To the extent that interests are regionally articulated, as they clearly are in the case of Santa Cruz, decentralization is a natural political issue. Any group generally wants more power, if that group is regionally based then it naturally specifically favors decentralization since this directly increases its power. This does not of course imply that implementing decentralization reduces conflict. Sometimes giving a group what it wants only induces them to demand more, as is perhaps the lesson from the passing of the recent hydrocarbon law which seems to have increased the demand for nationalization. Moreover, giving one group more political power simultaneously reduces the power of others. In particular if decentralization gives *Cruceños* what they want, it may also deny MAS what they want. Such a situation seems unlikely to lead to less conflict.

Nevertheless, as I discussed above, there are good normative reasons for believing that decentralization is desirable, and the track record of the LPP is that decentralization to the municipalities has promoted democracy and to a lesser extent efficiency. It seems quite likely that this will happen at the departmental level as well, at least as long as some basic pre-requisites are fulfilled, such as improving institutional arrangements among national and departmental levels, improving transparency and strengthening the capacity of departmental administrations. Of course the discussion suggests that 'decentralizing' the provision of education, health and infrastructure is certainly not the main bone of political contention, though this may be important for the public sector unions. Rather, decentralization seems better thought of as a conflict over political authority and the source of legitimate political power. On balance, given the heterogeneity of Bolivian society, it seems reasonable to see greater political autonomy of departments as an important part of a new social contract. Indeed, one could argue that this is about time. To be implementable at the moment however, such a contract will probably involve credible side payments to those who oppose it, or at least some methods of co-opting the opponents. One highly plausible form of potential way of generating side-payments would be the introduction of an income tax.

## **VI. The Institutional Setting**

Political conflicts play themselves out within an existing set of institutions. There are several important features about Bolivian institutions that are relevant to the discussion. First, it is intrinsic to a unitary state, as opposed to a federal state, that there is no formal decision-making power at lower levels in the national level of government. In consequence, lower levels have to find other means to make their voices heard and get what they want. This can often take place through political parties, but in Bolivia the parties have been so centralized and personalized that they have not provided a vehicle for such voices. This creates pressures which are a potent source of political instability.

A central institutional feature of Bolivian politics is the intractable nature of executive-legislative relations (see Gamarra, 1997). This forces presidents to rule by decree and leads to extended periods of political gridlock with presidents unable to muster a coalition to pass important measures. Such relations have been particularly bad since the 1967 constitution which introduced a rule that if no presidential candidate won 50% of votes in the election congress would choose the president from the three candidates with the most votes. Though this law was amended in 1994 to include just the top two candidates, it has had profound implications. Congress has chosen every president since 1982, and this has often not been the candidate who polled the most votes. For example, in 1989 Jaime Paz Zamora ended up as president despite coming third and receiving less than 20% of the vote. In consequence, the legitimacy of congress has been greatly strengthened while that of the president diminished. In a presidential system this has seriously undermined governance.

The nature of the parties is a further institutional problem in Bolivia. Though the MNR has recently implemented policies to create a more democratic party structure, the parties remain highly personalized political machines relying highly on clientelism as a political strategy. As is well understood, this leads to very poor incentives to provide the sorts of public goods necessary for a prosperous society. The debilitating effects of clientelism are starkly illustrated in the context of the much lauded policy reforms undertaken after 1985 by Víctor Paz Estenssoro's MNR government under the tutelage of Jeffrey Sachs. In order to pass the reforms Paz Estenssoro had to enter into a coalition with Hugo Banzer's ADN, doling out administrative posts and all sorts of special favors in order to maintain their support in congress. While hyperinflation was conquered, the log-rolling needed probably actually led to further intensification of clientelism and deterioration of governance.

A key currently institutional feature of Bolivian politics is that much politics has become *la Política en las calles* (Sábato, 1998). The rise to power of MAS has to a large extent moved political decisionmaking into the street. Such a situation is decried by many but reflects the fact that many groups feel that their interests and ideas have not been reflected in the policies of the traditional parties. It is not inevitable that the power of social movements will become institutionalized since they may disintegrate, but the power of MAS in congress and the likelihood of a Morales presidency mitigates against this. Indeed, the portents which follow MAS becoming a more conventionally organized political party are somewhat optimistic. As Shefter (1994) famously pointed out, one of the stylized facts historically about the transition from clientelistic to programmatic politics is that it comes when a political party mobilizes from 'outside' the system. According to these ideas, MAS has to adopt a different, non-clientelistic political strategy which it will not find it rational to change when it gets into power. This is a very optimistic interpretation of what is going on since according to anyone's definition, an improvement in governance in Bolivia is going to entail a switch away from the endemically clientelistic practices that have dominated Bolivian national politics. A recent encouraging example along these lines in Latin America is the rise of the PT in Brazil and the terrific success of the administration in Porto Allegre.

## **VII. Can Decentralization Help Overcome the Crisis of Governance in Bolivia?**

From a normative point of view decentralization may or may not be a good idea. From a positive point of view it may or may not happen. In this section I conclude by asking what role decentralization can play in solving the crisis of governance in Bolivia and moving Bolivian society to a new and workable social contract.

In discussing these issues it is important to be clear about what improved governance entails. First, it entails an end to the political instability that currently grips Bolivia. The most important part of a new social contract is finding a set of political rules and institutions that all of the actors are prepared to work within. It seems unlikely that good governance will emerge via the continual threat and exercise of collective action. Second, it implies that the outcome from the new set of rules and the decisions made by those who it empowers, lead to a more efficient and more accountable state in Bolivia.

It is also important to stress that any predictions about what will happen when decentralization takes place are fraught with uncertainty. What happens depends not just on

the formal rules that are proposed or the specific set of institutions, but also on the strategies that political parties and other groups adopt. Any new social contract or constitution will be inherently incomplete and depending on how the relevant groups behave, different outcomes may be consistent with the same set of institutions. Thus what I say here must be regarded as highly tentative conjectures.

One could plausibly argue that the right place for negotiating a new social contract is the Constitutional Assembly and that any decisions about regional autonomy or decentralization ought to be deferred until then. Nevertheless, given the current conflicts in Bolivian society, it is unclear that a free ranging the Constitutional Assembly will be able to produce a coherent negotiated social contract between all sectors of Bolivian society. First, the process of the election of delegates to the Constitutional Assembly may be biased in a way that some people's voices will not be heard. Second, basic ideas from the theory of social choice suggest that there may exist no such agreement when all preferences are freely at play (e.g., Arrow, 1951).

To illustrate this second point it is useful to consider the political process that led up to the 1991 Colombian Constitution. After the assassination of three Presidential candidates in the 1990 elections a state of political crisis descended on Colombia. In response, the Supreme Court allowed a Constitutional Convention to be formed to re-write the Constitutions. Such a move was actually unconstitutional under the 1886 Colombia Constitution (as the proposed Constitutional Assembly in Bolivia apparently is under the current Bolivian Constitution). The Constitutional Convention was made up of approximately 1/3 Liberals, 1/3 Conservatives and 1/3 members of M-19, the former guerilla army which had become a political party. Delegates were unable to agree on what the Constitution should look like and the result was that everyone got to write their mutually inconsistent ideal points into the document. Napoleon notoriously said that constitutions should be short and vague. The Colombian constitution is long with many details, many of which contradict each other. The resulting mess was then passed to the Constitutional Court to interpret. Can we expect anything different from the Constitutional Assembly in Bolivia under the current circumstances?

In light of this analysis, one view would be that if the Constitutional Assembly is to take place, it would be very good to attempt to narrow the agenda in some ways. A natural way to do this would be effectively to take the issue of autonomy or decentralization off the

table by having the referendum in advance and moving ahead with the decentralization program. Such a view is not definitive of course. One can imagine scenarios in which having more things to bargain over at once increases the change for a negotiated agreement. For instance, if Santa Cruz get most of what they want in advance, they will be less willing to compromise on other issues (for example the redistribution of current underutilized land held for speculative purposes). I would suggest that the way to deal with this problem is to anticipate it and bundle decentralization together with other issues, for example an income tax.

There are several other important considerations in addition to the issue of setting the agenda for the Constitutional Assembly. Though I mentioned above some caveats with normative justifications of decentralization, such as the capture of institutions by local elites, I did not emphasize this given the apparently good track record of the LPP. Indeed, if decentralization really leads to big efficiency gains and greater democratic accountability then it can greatly contribute to improved governance and help to restore the faith of Bolivians in their political institutions.

Nevertheless, the prospect of decentralization to the departments raises the issue of much more dysfunctional types of decentralization or federalism. Such possibilities are hardly theoretical ones in the Latin American context and there is now a large academic literature on this (e.g., Gibson, 2004, Montero and Samuels, 2005). The Brazilian financial crisis in 1999 was triggered by a state government defaulting on its debt and the great autonomous power of state governments in Argentina is widely seen to be a cause of the fiscal problems of that country and even being a key feature of Argentina's dysfunctional political economy. Finally, outside of Latin America, many argued that the independence of regional governors in Russia in the 1990s was responsible for the macroeconomic and fiscal problems of the central state (Shelifer and Treisman, 2000, Chapter 6). The rise of Putin has seen a reversal of the power of these governors who are now appointed by Putin, rather than elected as before. Though this is rightly argued by many to be a reversal of democracy, it does seem to be correlated with much more stable central government policy and radically improved central government finances.

If the outcome of increased regional autonomy and decentralization in Bolivia is the creation of 9 feudal Lords playing a non-cooperative game then it seems unlikely that governance will be improved or political conflicts calmed. Indeed the empirical results of

Treisman (2002) suggest that it is precisely the type of decentralization now being considered in Bolivia that leads to the worst outcomes! If the main source of conflict in Bolivian society was the unmet demands of regional interests, which is to some extent true, then decentralization might surely help. The demands of Santa Cruz are clearly a source of conflict as is the sense that there exists the view of the “occident” and the view of the “orient.” Decentralization might take this conflict off the table, but it might also intensify it if Santa Cruz, by getting what they want, stop others getting what they want (say land in Santa Cruz). Alternatively, if the source of conflict in Bolivia is not regional, but rather poor versus rich, or indigenous versus others, then it is hard to see how decentralization will stop the protests in La Paz and the collapse of central governments.

I see two caveats here. First, the strength and articulation of interests is not independent of the political institutions. Decentralization changes incentives and makes it more attractive for groups to reform along regional groups since they have the ability to capture regional governments. Such a force might naturally tend to weaken interests articulated along other lines, such as the MAS or indigenous movements. Relatedly, decentralization may undermine the bargaining power of interests organized on the basis of national institutions, such as trade unions. Second, it is possible that decentralization will lead to a revitalization of the party system as new parties emerge to contest power at the local governments. No doubt the traditional parties will attempt to stop this, but in their current debilitated state they are unlikely to succeed. Also, decentralizations lowers barriers to entry into the decision-making arena, but this can exacerbate governance problems if there is no simultaneous reform of the political system so it can handle the new demands and actors.

The general conclusion here is that it is likely that decentralization and greater autonomy can play a role in solving the crisis of governance in Bolivia, but only in conjuncture with other measures which guard against potential pathologies and which simultaneously reconcile others to measures they see as diluting their influence. At least this is the case with respect to the role of decentralization in a new social contract. One might also hope that, given the limited experience from municipal reforms, decentralization will also promote the other facet of governance I stressed, accountability and the efficient delivery of services by the state. Nevertheless, in the long-run, given the existence of critical public goods that have to be provided at the national level, what will really help is the

recrudescence and rehabilitation of national political parties. Whether or not this will happen as a consequence of decentralization is unclear and doubtless depends on exactly how it occurs.

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Table 1

Actors	Interests and Objectives	“Lever of Control”	Benefit from current arrangement
<b>Business groups</b>			
<i>Cámara de Industria, Comercio, Servicios y Turismo de Santa Cruz</i> (CAINCO)	Secure property rights. Withholding of locally produced tax revenue and royalties (gas, oil). <i>Autonomía</i> and popular elections of departmental governor ( <i>prefecto</i> ) as means to achieve it.	Credible threat to stop paying taxes. Public statements. Members of the <i>Comité Pro Santa Cruz</i> .	Low levels of taxation (no personal income tax). Subsidies from central state (gasoline, tax exemptions, others) for productive sector.
<i>Confederación de Empresarios Privados de Bolivia</i> (CEPB)	Rule of law. Favor <i>autonomía</i> . Privatization.	Threat to stop paying taxes. Well placed and connected to political elite. Control some media.	State subsidies for productive sector.
<b>Labor unions</b>			
<i>Central Obrera Boliviana</i> (COB)	Secure jobs. Better pay. Against decentralization, <i>autonomía</i> , and privatization (except in Santa Cruz and Tarija).	Demonstrations. Public statements.	Prefer the status quo in distribution of resources given their fear of exploitation by Santa Cruz.
<i>Confederación Sindical de maestros</i> (Teacher union)	Secure jobs. Better pay. Against decentralization, <i>autonomía</i> , and privatization (except in Santa Cruz and Tarija).	Strikes. Demonstrations. Public statements.	Bargaining power at the central level. Lack of transparency in teacher management. Patronage.
<i>Confederación de Trabajadores en Salud</i> (Health worker union)	Secure jobs. Better pay. Against decentralization, <i>autonomía</i> , and privatization (except in Santa Cruz and Tarija).	Strikes. Demonstrations. Public statements.	Bargaining power at the central level. Lack of transparency in health worker management.
<b>Civic groups and societal institutions</b>			
<i>Comité Cívico Pro Santa Cruz</i>	Withholding of locally produced tax revenue and royalties (gas, oil). <i>Autonomía</i> and popular elections of	Can mobilize large part of population and different social groups to claim <i>autonomía</i> .	Can hold central government responsible for inefficient services and distribution.

	departmental governor ( <i>prefecto</i> ) as means to achieve it.		
<i>Comité Cívico de Defensa de los Intereses de Tarja</i>	Withholding of a larger share of locally produced gas.	(Limited) ability to mobilize population and social groups.	Can hold central government responsible for inefficient services and distribution.
<i>Federación de Juntas Vecinales El Alto</i> (Association of districts in El Alto)	More popular participation and influence in decision-making. Strongly against <i>autonomía</i> . Nationalization of gas.	Demonstrations. Road blockades.	Favor current distribution of revenue given their fear of exploitation by Santa Cruz.
<i>Consejo Nacional de Ayllus y Marcas del Qollasuyo</i> (National Council for indigenous communities)	More popular participation. Against decentralization, <i>autonomía</i> , and privatization. Nationalization of gas.	Demonstrations. Road blockades.	Municipalities allow for participation in public affairs.
<i>Central de Pueblos Indígenas del Oriente</i>	Land ownership for communities (by means of Constitutional Assembly).	Demonstrations. Road blockades.	Benefit from municipal decentralization.
Catholic church	Strengthen democratic rules. Indifferent with regards to <i>autonomía</i> .	High level of public acceptance and trust. Role of mediator among competing groups.	Economic power. Influence in public affairs. Authority.
Military	National unity. Against some forms of <i>autonomía</i> .	Role of arbiter among competing groups. (Limited) possibility of seizing power in coup.	Authority originating in strong central state. Benefit from earmarked funds from hydrocarbons (oil and gas).
<i>Federación de Asociaciones de Municipios</i> (Municipal association)	Strong municipalities. Would favor departmental autonomy only if municipalities will not lose power.	Public statements. First-mover advantage implied in municipal decentralization.	Municipalities enjoy high level of public support and trust. Municipalities are the winners of the decentralization implemented since 1994.

<b>Political parties</b>			
<i>Movimiento Nacionalista Revolucionario</i> (MNR)	National cadre undecided regarding decentralization. Members of party in Santa Cruz, Tarija, and Pando in favor of <i>autonomía</i> .	Control some media. Political power (but declining). Limited influence in Congress (no congressional majority).	Municipal decentralization enacted in 1994 had benefited MNR on lower levels. Relative strong central state will prevent further decay of party's influence.
<i>Acción Democrática Nacionalista</i> (ADN)	National cadre undecided. Members of party in Santa Cruz, Tarija, and Pando in favor of <i>autonomía</i> .	Economic power of party members. Control some media. Limited influence in Congress.	Strong central state will prevent further decay of party's influence.
<i>Movimiento al Socialismo</i> (MAS)	National leaders (Evo Morales) strongly oppose <i>autonomía</i> . MAS in Santa Cruz is forced to favor <i>autonomía</i> . Nationalization of oil and gas.	Party largest faction in Congress. Evo Morales can mobilize indigenous communities and the underprivileged. Public statements. Demonstrations.	Strong position in Congress. Growing level of electoral and political support only at the national level (weak local support or highly concentrated).
<i>Movimiento de Izquierda Revolucionario</i> (MIR)	National cadre undecided regarding decentralization.	Limited influence in Congress (no congressional majority). Economic power of party members.	Strong central state will prevent further decay of party's influence.
<i>Movimiento Sin Miedo</i>	Moderate support for <i>autonomía</i> conditioned to Constitutional Reform process.	Negotiation as a way to create political alliances.	Enjoy certain level of political influence through strong central state.