

Bolivia's *Proceso de Cambio*: Adjusting the Ideological Paradigm from Social to Economic

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Abstract

Bolivia's political transition in 2006 represented more than just a transfer of power. It also marked the arrival of a new political, economic and social paradigm. The newly elected leader (Evo Morales Ayma) and his political party, the Movimiento al Socialismo (MAS) brought with them an ambitious agenda for social change. Most of the initial efforts were aimed at responding to electoral promises and the demands from the myriad of social movements that supported Morales' ticket. As time progressed, the ideological components of the model were refined and transformed from an anti-neoliberal rhetoric to a comprehensive agenda of state reform. Part of the ideological components were rooted in the notion of "Vivir Bien" [Living Well], which in essence is a balanced approach for development considering human wellbeing in harmony with mother nature. The political challenge, however, has been the transformation of this holistic approach into a practical one and the policy implications that this entails –a particularly difficult issue in a country with weak institutional settings and limited state capacity. This article argues that although there have been many gains, particularly in reorienting the notion of the welfare state and in key economic and social areas, the model is still highly dependent on a neo-patrimonial state that relies heavily on a few commodities to support a growing social agenda.

Moreover, in the past years the political emphasis and efforts have favored economic reforms over social ones, which might jeopardize the whole model in the not so near future.

Keywords

Evo Morales, Living Well, Movimiento al Socialismo (MAS), neo-patrimonialism, social policies

Resumen

La transición política del 2006 en Bolivia significó mucho más que una simple transferencia de poder. Lo que representó fue la llegada de un nuevo paradigma político, económico y social. El nuevo líder electo (Evo Morales Ayma) y su partido político, el Movimiento al Socialismo (MAS), trajeron consigo una ambiciosa agenda de cambio social. La mayor parte de los esfuerzos iniciales estuvieron dirigidos a responder promesas electorales y demandas de una miríada de movimientos sociales que apoyaron la candidatura de Morales. Con el paso del tiempo, los componentes ideológicos del modelo fueron refinados y transformados de una retórica anti-neoliberal hacia una amplia agenda de reforma estatal. Parte de los componentes ideológicos se enraizaron en la noción del "Vivir Bien", que en esencia es una aproximación balanceada para el desarrollo que considera el bienestar humano en armonía con la madre naturaleza. El desafío político, sin embargo, ha sido la transformación de esta aproximación holística en práctica, y los efectos que esto implica en las políticas públicas –tema particularmente difícil en un país con marco institucional débil y un estado con capacidades limitadas. Este artículo sostiene que si bien se han dado ganancias significativas, particularmente reorientando la noción del estado de bienestar y en áreas económicas y sociales claves, el modelo todavía está subyugado a un estado neo-patrimonial dependiente de materias primas para sostener una creciente agenda social. Mas aún, en los últimos años, el énfasis político y los esfuerzos se han concentrado en favorecer reformas económicas a expensas de las sociales, lo que compromete la integridad del modelo a futuro.

Keywords

Evo Morales, Movimiento al Socialismo (MAS), neo-patrimonialismo, políticas sociales, Vivir Bien

Introduction

The arrival to power of Evo Morales and the Movimiento al Socialismo (MAS) in 2006 was more than just a government transition; it signified the arrival of a new ideological and historical paradigm. Morales' previous political campaigns and its related discourses made it clear that he arrived at the presidency with a broad agenda aimed not only at improving socio-economic conditions, but most importantly at reforming the state in its entirety and eventually society at large. The way to pursue this ideological quest was through a series of ambitious institutional reforms on a wide political front. While the ideological discourse seemed consistent –with its emphasis on historical re-vindications of historically marginalized social groups such as indigenous communities and the need to tackle pressing issues such as widespread poverty– the way to carry it out was not entirely clear.

Initially, MAS' efforts were the attempts of a party in charge of the government to fulfill a list of political demands from many sectors rather than a coherent political model. But Morales and the MAS leadership learnt the arts of statecraft swiftly; thus, realizing the need to expand and solidify the ideological model. It is at this early stage that the concept of *Vivir Bien*, in Aymara *Suma Qamaña*, in Quechua *Sumac Kausay*, emerges as some sort of ideological unifying glue. Like other complex terms,¹ there is not necessarily a single definition, however, its fundamental elements are somehow agreed. More specifically, the *Vivir Bien* notion spams from a philosophical view that values a symbiosis between humans and nature (represented by mother earth or *Pachamama*), and the need for societies to get organized with the purpose of satisfying individual needs but through a communitarian view. This rationale, therefore, assigns an egalitarian view between individuals, communities and environment, thus the needs of each one cannot supersede the rights of the others. Finding the right balance between these three elements, therefore, becomes the challenge. It is here that the state, through its institutions, emerges as some sort of balancing force. In this view, the role of the state is an acrobatic act juggling with institutional and policy options to satisfy the many social, economic and environmental needs of society.

¹ Some recent relevant pieces include Ruttenberg (2013), Prada Alcoreza (2014) and Schavelzon (2017) among many others.

An important component brought by the *Vivir Bien* holistic view is the role of the state providing welfare. The issue at stake, however, is not necessarily the type of social needs to be addressed but the way in which these will be addressed. This means not only choosing a sound and feasible combination of policy options to achieve socioeconomic goals, but also restructuring the state in such a way so it generates the necessary resources to fund these policy options and the social needs that those represent. Therefore, the additional need for resources required a state involved in the economy at different levels; thus, reassuming a role that has been common for the Bolivian state throughout history. The appropriation of national resources by the state, where the nationalization of hydrocarbons is perhaps the most salient example, and its direct use of the controlling bureaucracy fits relatively well under the notion of neo-patrimonialism.

This article focuses on recent economic changes and social adjustments, arguing that as years pass by the MAS administration has had an adjustment of its initial paradigm. Some recent evidence suggests that state is steadily moving from a socially oriented agenda, more in tune with the *Vivir Bien* approach, to a pragmatic one focused on economic reforms in a neo-patrimonial way that paradoxically contradicts some of the fundamentals of this philosophical view.

A New Welfare Vision

As discussed above, an important ideological shift brought by MAS was the envisioned role of the state providing welfare. When MAS arrived to power, however, this vision was blurry at best. It took some time for MAS to evolve from a rudimentary and broad idea of social needs to a more comprehensive and holistic model of welfare provision. An initial dilemma, therefore, was identifying the best way to carry out a process of state reform that included a coherent welfare model. An early response came in the form of a political discourse that highly criticized the previous seemingly damaging state model strongly rooted in neo-liberal precepts. Under this logic, the old model had to be dismantled and replaced by revolutionary ideas, not only at the surface but through profound institutional changes that would offer the opportunity of re-founding of the state, or as MAS defined it a whole 'process of change' [*proceso de cambio*], which also included propositions on how to de-colonize society at large. An initial step on this direction taken by MAS was the ambitious process

of re-writing of the constitution through a Constituent Assembly.² The process itself was *conflictive* and intense, but the end result was a new constitution that incorporates, for the most part, some of the important precepts of the *Vivir Bien* approach. Moreover, throughout the discussions during the Constituent Assembly process the notion of *Vivir Bien* emerged as a fresh ideological proposition. Evidently, this was not necessarily a new and much less a local idea, as other countries such as Ecuador were already giving shape to the concept. What is important for the case of Bolivia, is that the initial discussions focused on giving policy coherence to a relatively abstract and philosophical view. During this exercise the concept of *Vivir Bien* gained wide acceptance not only among MAS supporters but also among the opposition, in part because of its cultural appeal. One of the clear indications of the concept's appeal is the constitutional text, where *Vivir Bien* is part of the chapter on the principles, values and purpose of the state and is explicitly mentioned six times throughout the constitutional text. In terms of policy, these ideas materialized in the government's 2007 PND (Plan Nacional de Desarrollo: Bolivia Digna, Soberana, Productiva y Democrática para Vivir Bien) and subsequent development plans.

The political energy at the initial state reforms, therefore, focused on the efforts of the state to reshape its relationship with society at the same time of justifying its role in the economy. At the political level this stage also meant the consolidation of MAS as a political force and into power. There were already some longstanding reforms, like decentralization through popular participation, but MAS appropriated that political space taking over the political agenda in order to make substantial changes and reforms.

Bolivia's Neo-Patrimonial State

Patrimonialism is a term that has been in the social sciences' jargon for a while. An initial use of this concept can be attributed to German sociologist Max Weber, who used this term to refer to a political system of traditional domination applicable to Europe's enduring monarchies. In simple terms, the patriarch, embodied in the figure of a monarch, rules the government through a system of dense social relationships, many of them based on kinship, which allows him/her to control de state and its related resources, social, political and

² For related work on the ideological motivations of Bolivia's constitutional process see Borzutzky and Zwart (2009), Schilling-Vacaflor (2011) and Mendoza-Botelho (2016) among others.

economic. The recent analysis by Sell (2017) helps to clarify some of the gaps left by Weber's analysis. As he argues, a key distinction is related to the issue of legitimacy, where the 'pure' type of patrimonialism refers to a total domination (in Weber's typology described as sultanism). This form is what might explain the traditional ruling of monarchies. For the purposes of this analysis, however, Sell's second interpretation related to the organizational aspects of the state is more relevant. In this case, what defines a patrimonial state is a complex administrative structure that exercises domination over a political system. The classic notion of patrimonialism, therefore, tends to be personalistic as the power is seen controlled by the monarch or ruler, who takes advantage of a dense and reciprocal social networks (key political allies). In this view, the state is 'entitled' to appropriate any resource that is seen as part of its patrimony, such as public sources of revenue (such as taxes) and natural resources.

Jumping to the 21st century, Weber initial observations might be translated as the attempts of an organized bureaucracy to gain control of the state resources for varied reasons, among them ideological or political ones. This view follows the early work of Eisenstadt (1973) and his pioneer use of the term neo-patrimonialism defined as a mixed system that combines patrimonial rule with bureaucratic appropriation.³ This process, however, is very difficult to achieve as it entails the reorientation of the entire state apparatus towards consolidation goals. In the case of Latin America, the bureaucratic realignment challenges decades of neo-liberal reforms precisely designed to detach the state from this type of control. Different than traditional patrimonialism, the state control is accomplished through a loyal bureaucracy (sometimes ideologically driven but not always) that shares part of benefits. Thus, patrimonialism might entail clientelist practices needed to secure bureaucratic support. In this scenario, different forms of corruption such as misappropriation of public funds or nepotism might be used to secure bureaucratic control. In other cases, ideology may also play a role to secure a stable and cooperative bureaucratic clientele. This is precisely one of the elements in the notion of the modernization of the state hindered by neo-patrimonialism as it favors dependent/ideologically driven bureaucracies over impersonal, meritocratic and professionalized ones. An additional relevant idea in this discussion is what some social scientists define as the "rentier state"

³ For relevant discussions on neo-patrimonialism see Bach (2011), Mkandawire (2015) and Sigman and Lindberg (2017) among others.

[*estado rentista*], understood as a state highly dependent on royalties coming from key natural resources (the rent), which is common in countries with weak institutional settings and in those with authoritarian regimes.

The characteristics of a neo-patrimonial state, therefore, can be summarized as a systematic appropriation of key resources by the ruling class (the nation's patrimony), normally through laws or constitutional provisions (different than arbitrary appropriation through a mere rentier state), and through semi-modern/rational institutional settings rather than traditional ones. Rather than a monarch, neo-patrimonialism relies on a legitimate ruling leader or oligarchy, for the former perhaps in the sense of Rousseau's legislator, is a leader that bases its legitimacy and rule through agreed legislation and even democratic support. The difference of style, however, does not hinder the same assumption that the ruler class establishes direct claims over the state patrimony. The bureaucracy needed is loyal and relatively efficient but highly dependent on the ruling class, in many cases ideologically driven. The authority of the ruler(s) for the redistribution of resources (political compromise) must remain unchallenged. Established redistribution mechanisms (not necessarily redistribution goals) exist and in some cases, those are for the exclusive access of the extended clientele. The dependence on rents also reduces the need for taxation, thus hindering state modernization.

Although it is not the purpose of this article to dig deep on the evolution of the Bolivian state, some key historical markers are important in order to understand its evolution as summarized in Figure 1. The starting point for the most significant state reforms emerges during Bolivia's historical 1952 Revolution. The nationalist sentiment that fueled the revolution was related to an attempt to alter this country's societal structure from the core, an effort that demanded an increasing role of the state in society and the economy. The state, therefore, transformed from a patrimonial one controlled by a traditional elite to an ideologically driven one (national-popular) led by the emblematic party of the revolution, the Revolutionary Nationalist Movement [*Movimiento Nacionalista Revolucionario* – MNR]. The overall economic restructuring relied heavily on a rentier state model dependent on the recently nationalized mining industry. The subsequent failure of the MNR to consolidate this extractivist model, diversify the economy and create a modern/rational state led to a change of political model from proto-democratic to an increasingly authoritarian one. From 1964 onwards, the rentier state expanded and became increasingly dependent on the emerging

oil industry and its appropriation by an authoritarian-controlled state (mild neopatrimonialism). This model continued with different nuances well into the 1980s, when neoliberal reforms (ironically also implemented by a transformed MNR) diminished the economic role of the state reducing its direct access to the nation's patrimony but not its reliance of new forms of rent, such as the income from privatization schemes and royalties on key industries. This period can be seen as some sort of adjusted form of neo-patrimonialism under market reforms.

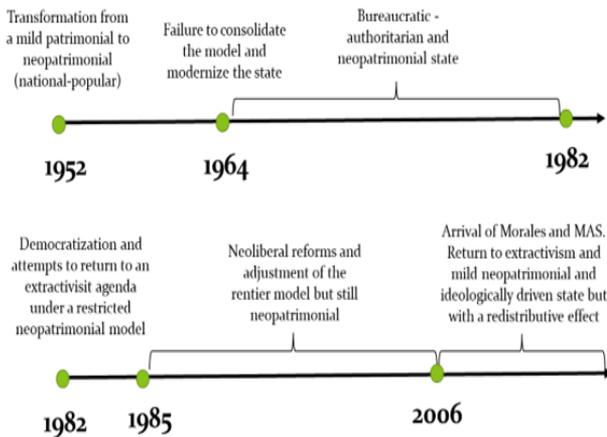


Figure 1: Bolivia's Recent Neo-patrimonial Path
Source: Author's own elaboration

The neoliberal reforms aimed at modernizing the state, however, produced mixed results but overall failed not only to transform the state and its reliance on basic commodities and produce the much-needed economic growth, but also to provide urgently needed social reforms. The exhaustion of this economic paradigm became evident in the early 2000s through a climate of enormous political instability and social unrest. These political conditions were propitious for the emergence of alternative ideological views, such as those of MAS. Thus, since the arrival of Morales to power in 2005, the state returned to an extractivist agenda under a mild neo-patrimonial state model.

Moreover, the transformation has been, for the most part, ideologically driven and redistributive in essence. The focus has been mostly on immediate policy goals, some of them relatively successful (for example the visible results in the reduction of overall levels of poverty and decreasing inequality), but with several shortcomings transforming and modernizing the state in its core.

Recent Evolution

As discussed above, a central component of the MAS' administration has been the notion of the welfare state. What the evidence suggests is that the envisioned model, rooted on the precepts of the *Vivir Bien* philosophy and its emphasis on collective wellbeing, is somehow contrasted by a harsh pragmatic reality where short-term political and economic goals prevailed over long-term objectives of deeper institutional reforms. Thus, although Bolivia is going through a process of internal transformation, the level of institutionalization or that of state-building as some scholars will define it, is relatively weak; and despite new constitutional settings. The recent scenario goes along with Bolivian scholar Roberto Laserna's comment from a previous work (2010) that this is a country where everything happens, but nothing changes [*pasa de todo pero no pasa nada*]. In other words, although there has been some social and economic progress, some of the expected institutional reforms are not taking roots. This aspect is visible in some of the recent social and economic policies implemented by the government. Another element to be considered is the sustainability of the reforms. Part of the success of recent social policy changes relied on favorable international economic conditions for Bolivia's primary commodities, among them hydrocarbons and the soybean market. In addition, MAS' ambitious social agenda did not fully crystalized, and although it is evident that there have been large and positive social changes, the progress fell short of what many inflamed discourses labeled as a complete "social revolution."

In terms of process, the ideological evolution of MAS followed an identifiable sequence. The first stage, their arrival into power, was characterized by extensive discussions at different levels on the best way to carry out the expected institutional, social and economic reforms. The dominant discourse was contestatory in reaction to the previous and perceived as highly damaging a neoliberal model rather than providing new propositions. The expectations of the new model, therefore, had to either revolutionize current conditions, or provide alternative paradigms. Moreover, in this initial

stage it was important for MAS to consolidate power at all institutional levels, from the national to the regional and municipal. As mentioned before, it is here where the *Vivir Bien* notion emerges as a viable ideological/philosophical construct with its most significant byproduct in the form of a progressive constitution. At this initial stage, most political energies were focused on efforts to reshape the state and its dynamics with society at large. At the political level it also meant the consolidation of MAS as a political force and into power. But MAS did not start from scratch, instead it built from several longstanding reforms, like decentralization, or *Participación Popular* [Popular Participation] in the Bolivian jargon. On this front, MAS was relatively successful appropriating the political space, a necessary condition for subsequent institutional, social and economic reforms.

The second stage was, perhaps, more complex and was characterized by efforts of transforming institutional changes into policy options. One of the critical areas was the envisioned economic transformation amid a contestatory politics scenario. The strengthening of the state in its economic role relied heavily on recently discovered gas deposits. As Gray Molina (2010) argues, this strategy seemed risky as it perpetuated the cycles of mono-export boom and bust that Bolivia experienced many times in the past. As he argues, this country's economic base is very narrow and leaves the whole economy highly dependent thus vulnerable. In the past decade, the largest percentage of exports come from sell of natural gas to neighboring countries, and the government revenue is extremely dependent on those resources. In other words, Bolivia continues to be dependent on a couple of commodities and particularly on the conditions of two key markets, Brazil and Argentina. Moreover, the country has been benefiting directly and indirectly from the large economic expansion of China in the global economic arena and its appetite for raw commodities. Although these propitious economic conditions have been beneficial, Bolivia's narrow base limits this country's possibility to generate further economic resources, including fiscal resources that eventually could be used to expand social expenditure in many areas in need such as healthcare and education. What is even more risky in this case, as the numbers below show, is that Bolivia's public expenditure has been moving from socially to economically oriented. In simple terms, Bolivia is moving its eggs from a social to an economic basket.

In terms of the efforts of building a solid welfare state, Bolivia faces the same dilemmas of every society: finding a balanced provision of welfare through the state, markets and society. In this case, the emphasis has been

placed on the state through formal government provisions. For the purposes of this succinct analysis, some evidence is presented, acknowledging that a deeper understanding of welfare provision in this country, or any other for what matters, would require a larger and comprehensive analysis that should incorporate many other elements such as pension reforms and other specific social safety mechanisms. One of these important components is education expenditure.⁴ Overall, the level of expenditure in this sector, measured as a percentage of the Gross Domestic Product (GDP) has increased, as shown in Figure 2.

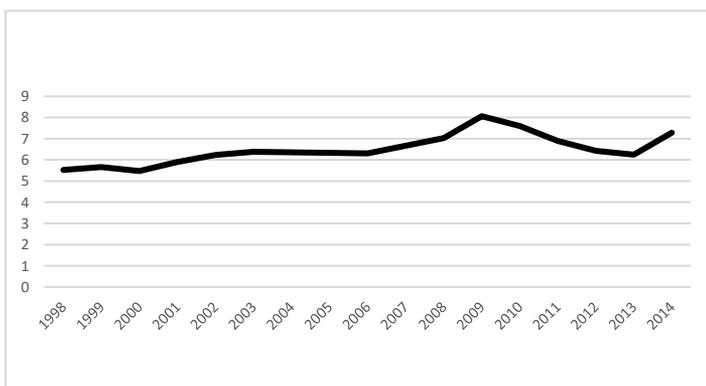


Figure 2: Government Expenditure on Education in Bolivia, Total (% of GDP)
 Source: Author's calculation with World Bank data 2018

The expenditure during the MAS administration, however, has not been entirely increasing, with a peak in 2009 and decline thereafter. A large portion of this expenditure has been related to much needed infrastructure, however, other areas, such as the number of teachers in proportion to the population or efforts to enhance education quality have not grown significantly. A good example is the number of primary education teachers that has decreased from 87,486 in 2011 to 74,246 in 2015. On the positive side, there have been strong

⁴ Most of the data comes from the International Monetary Fund (IMF) 2017 and World Bank 2018, although the author acknowledges that there might be some discrepancies between these numbers and official figures produced by the Bolivian government.

efforts to make education more inclusive. Evidently, the education sector in a country like Bolivia demands enormous resources, but the point is that the level of education has not necessarily increased in a radical way.

Some additional data on education helps to visualize the discretionary aspect of expenditure on this sector. A good example is the government expenditure per student at primary and secondary levels (percentage of GDP per capita). As Figure 3 shows, the overall expenditure in primary and secondary education during the MAS administration initially increased proportionally until 2008, however, after this year these expenditures became inversely related, thus suggesting that increases in primary education came at the expenses of secondary one and vice versa. These numbers reflect more than just a mere accounting exercise, they reflect a cap in public education that limited further increases. This result is not necessarily negative, as governments need to balance their social budgets, but what they signal is that after 2008 there were no substantial per capita increases when these two levels, primary and secondary, are aggregated.

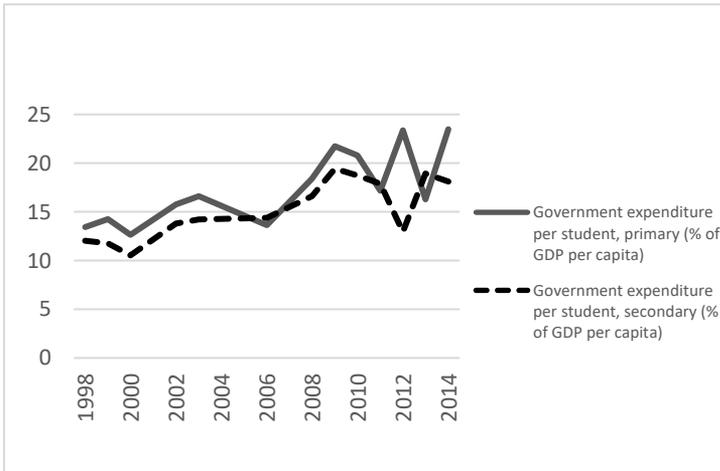


Figure 3: Government Expenditure per Student, Primary and Secondary (% of GDP per capita)

Source: Author's calculation with World Bank data 2018

The overall levels of expenditure in health follow a relatively similar pattern. More specifically, as seen in Figure 4, public health expenditure remained at similar levels of the pre-MAS period up until 2012, when there has been a slight increase. Nevertheless, this number has to be analyzed with care as it simply reflects the fiscal weight of this sector in the public budget and not necessarily its direct effect on health indicators. Overall, health conditions have been improving in Bolivia steadily during the past couple of decades, including the period of the MAS administration.

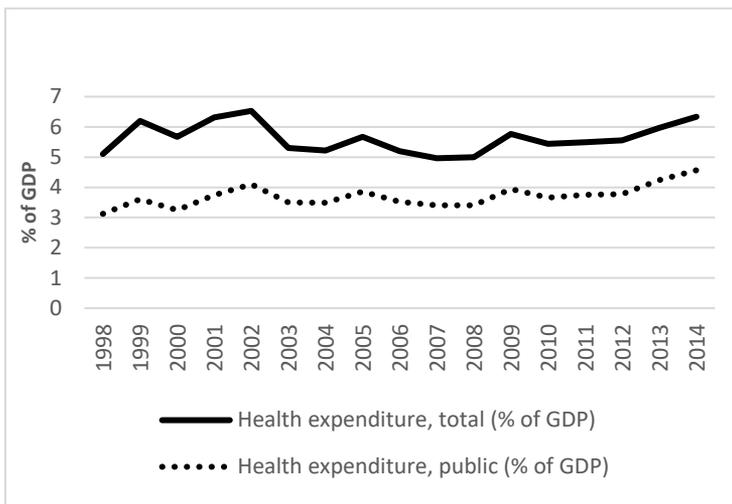


Figure 4: Bolivia: Expenditure in Health
Source: Author’s calculation with World Bank data 2018

The main issue here, however, is that there have been no large increases in health-related public expenses as initially expected. Moreover, healthcare in this country relies primarily in public expenditure, which in the last decade has been responsible of around 70% of the overall expenses in this sector (Figure 5). In this last point, during the MAS administration, up until 2014, the aggregated level of health expenditure of 6.33% of GDP, public and private, was still below its 2002 6.53% number. This means that public health expenditure has increased slightly but the private one has remained at similar levels, with the overall result that resources in healthcare are still below the

levels during previous administrations. In practical terms this means that in the past decade healthcare programs did not necessarily receive additional resources to cope with the great immediate needs. In terms of social policies clearly the 'devil is in the details' and budgetary decisions still remain at the center, more specifically at the heart of the executive, rather than responding to sectoral needs based on technical criteria. This is not entirely negative because at the end of the day all governments need to balance their budgets based on expected expenses and availability of resources. This is not new either, since policymaking in Bolivia has been traditionally done in this way and practically all previous administrations have used the same centralized approach. What this evidence reinforces is that policy decisions are still done under political rather than technical criteria. Public expenditure, however, is only one side, and the resources needed to cover those must come from somewhere. In the case of Bolivia, the additional resources have come mostly from extractive activities, primarily hydrocarbons. On the theoretical side, the way in which these resources are appropriated and redistributed suggests that the Bolivian state continues in a neo-patrimonial path as discussed next.

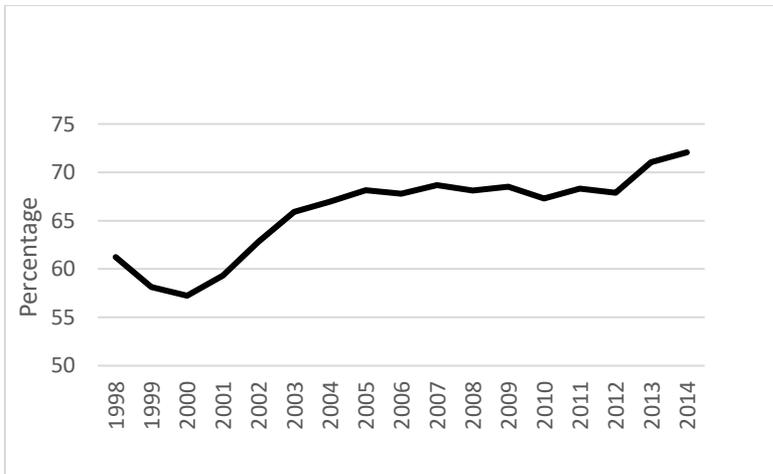


Figure 5: Bolivia: Health Expenditure, Public (% of Total Health Expenditure)
Source: Author's calculation with World Bank data 2018

Bolivia's Neo-patrimonial Path

A proper discussion of Bolivia's fit (or not) into a neo-patrimonial label would require much more information to what can be provided in this short article. There is some evidence, however, to validate some of the initial assumptions of a neo-patrimonial case. More specifically, the appropriation of natural resources by the state, with support of a loyal bureaucracy, and its redistribution through relatively informal mechanisms (weak institutionalization). It is also important to point out that while the state continues in a neo-patrimonial path in certain areas, there have also been institutional improvements in others. A clear improvement from previous administrations has been the cautious macroeconomic management led by the previous Minister of Economics Luis Alberto Arce Catacora (in office 2006-2017). His classic and cautious approach, based on macroeconomic responsibility, has translated into economic stability. This approach has paid enormously and has allowed Bolivia not only to become one of the most dynamic economies in the region, but also to cope in better terms with the global economic downturn of the last couple of years. Therefore, Bolivia's macroeconomic management has been sound so far. The model, however, was built under the premise that external and internal conditions would not change, but as the International Monetary Fund (IMF) 2017 Report argues, external conditions are changing and will continue to do so. The recent negotiations between IMF officials and Bolivian authorities have resulted in two distinctive views; with the former adamant to point out that conditions will continue changing, and with the latter arguing that they will change but not enough to alter overall conditions. This seemingly meaningless impasse between bureaucrats is more than just political bickering, it reflects the reality that the whole fiscal (and its tied social agenda) in this country rely on 'unknown' external factors related to key commodities.

In terms of fiscal health, Bolivia has slipped slowly but steadily from a robust surplus a bit higher than 4% in 2006, to a less than sustainable deficit projected at around 7.5% in 2017 (Figure 6). The reality of this figure is that Bolivia's fiscal health depends highly on the income coming from hydrocarbons, which is by far the most important asset in its patrimony (but not the only one). As many analysts have pointed out, this decline is related to external conditions, such as decreasing prices in hydrocarbons in general, and internal conditions such as bottlenecks in the extraction of these resources, such as exploration issues related to the discovery and exploitation of new gas wells. But the overall productive agenda of the Morales'

administration is not restricted to hydrocarbons. Among other options, the government has favored the reactivation of mining resources in response to favorable international prices through its (until then) almost defunct Bolivian Mining Corporation [*Corporación Minera de Bolivia – COMIBOL*] and has expanded its energetic role through the National Electricity Company [*Empresa Nacional de Electricidad – ENDE*] in addition to other minor joint ventures.

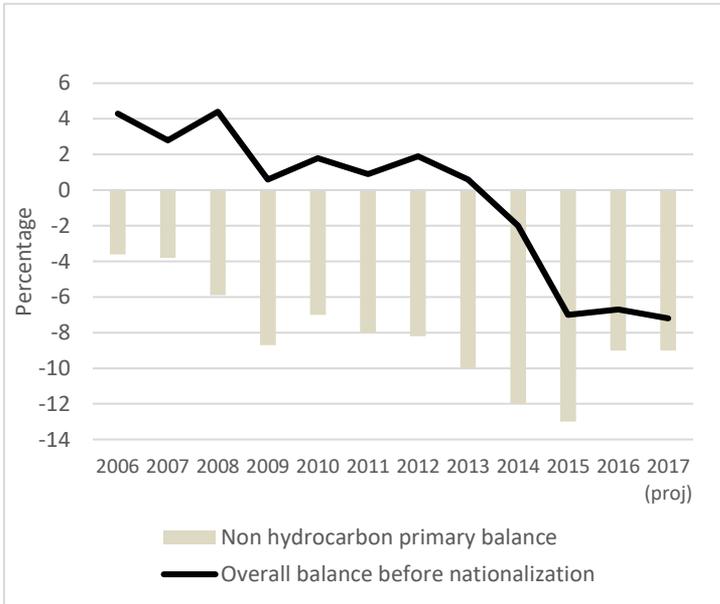


Figure 6: Bolivia: Fiscal Balance (% GDP)
Source: IMF 2017

The economic expansion of the state, that gained momentum after 2012, has produced mixed results. What is evident, however, is that the largest public enterprises have not been as profitable as initially expected (Figure 7). Even the once highly productive Bolivian oil company [*Yacimientos Petroliferos Fiscales Bolivianos – YPF*] has been struggling to generate profits (part of this situation is related to high exploration and development costs that have not yield dividends yet in many of the potential new wells). In other areas, such as mining and electricity generation and distribution, the losses are much more

noticeable for public companies. In simple terms, the public economic investment is not paying off.

The combined losses of the public enterprises have generated a big stress in Bolivia’s public budget. With very limited fiscal income from other sources such as taxation, the MAS administration has had no choice but to recur to international reserves to cover this gap. From 2014 to 2016 the level of net foreign reserves dropped from 15.1 billion dollars to 10.1 billion.

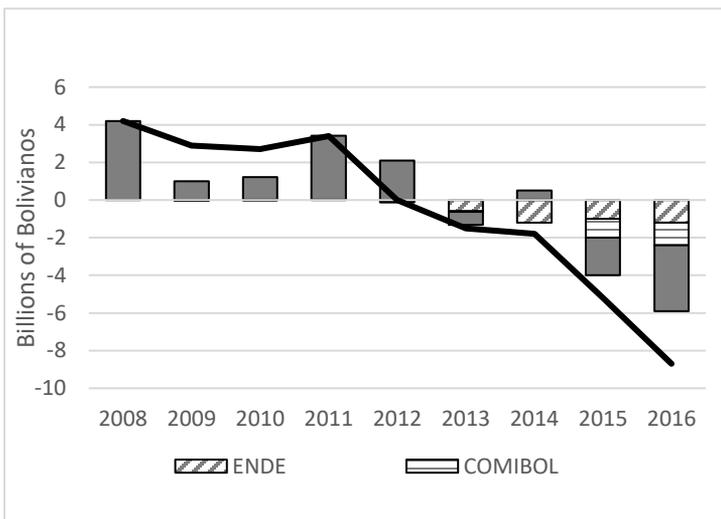


Figure 7: Public Enterprises Overall Fiscal Balance
 Source: IMF 2017

Evidently, the drain of reserves cannot continue indefinitely at this rate. Moreover, the level of imports has been growing faster than the level of exports, thus creating additional pressure on international reserves. In addition to the financial aspects, this situation has had important institutional implications because it has compromised the expected independent role of the Central Bank. It is not that MAS is not doing what previous administrations have done, one way or another. This scenario simply reinstates the fact that the central administration has almost unrestricted and direct access to resources perceived as part of the larger patrimony; and with very limited checks and balances. A clear sign of this situation is the increasing lending by

the Central Bank to the public sector. Since 2011, the central government has been borrowing resources from the Central Bank to fund state-owned enterprises. Specifically, the level of internal debt used to fund these public enterprises has grown from 0 in 2010 to around 27 billion Bolivianos in 2017 (around \$US. 3.9 billion). This high debt is unlikely to be repaid by the central government. While this seems just an accounting exercise, after all these are public resources, the reality is that the central government has been funneling enormous amounts of funds directly from the Central Bank to fund public enterprises. This is a risky gamble because if these companies do not become self-sufficient at least (ideally profitable), the gains from the few profitable companies will be lost in a relatively short period. Moreover, if the economic situation deteriorates further, Bolivia will be on the verge of a significant economic crisis that could potentially evolve into a political one.

The macro view presented here focuses on aggregate economic indicators, but perhaps a specific example would help to illustrate on institutional conditions in practice. An emblematic program of the MAS administration has been the *Bono Juancito Pinto*, a conditional cash transfer (CCT) scheme similar to those implemented by Brazil and Mexico already in the 2000s, which is aimed mostly at improving retention in schools.⁵ The cash transfer is accessible to children attending public school in the country and consists of a fixed amount of 200 Bolivianos (around \$US 29) per year as long as they demonstrate regular school attendance. The resources assigned to this program in 2017 were 461 million Bolivianos (around \$US 66.5 million). This popular social program has been a relatively successful way to redistribute resources due its low administrative costs and has given MAS great political gains; although the evidence is mixed in terms of doing what it was designed to do: improving retention and enrollment rates. As President Morales pointed out many times, this program was in part possible because of the availability of additional resources coming from the recently (re)nationalized public enterprises and particularly from YPFB. The relevance of this specific program in this discussion is the way in which this program is funded. To guarantee its expediency—because this program also carries a great political value—the MAS administration operates it through direct transfers from public companies. In other words, public companies are expected to transfer financial resources directly to the program. As seen in Figure 8 below, YPFB was the largest

⁵ The other important CCT program in Bolivia is the Bono Juana Azurduy de Padilla aimed at reducing maternal and infant mortality through cash incentives for regular medical checkups and intervention.

contributor in 2014 but not necessarily the only one as the bill was shared among other public enterprises and even the Armed Forces Development Corporation [*Corporación de las Fuerzas Armadas para el Desarrollo Nacional, COFADENA*] and the organism in charge of administering border customs. The neo-patrimonial notion emerges here in the sense that this emblematic program has not been fully institutionalized in its respective area, in this case the Ministry of Education. Instead, the state has been operating this program directly and on a discretionary basis with minimal checks and balances. As mentioned before, this is not necessarily a costly program and considering the potential level of utilities of a company like YPFB or its high exploration and exploitation costs, these expenses are a drop in the bucket. The problematic aspect of this approach is the weak institutional elements that allow a state to appropriate public resources and use those in a discretionary fashion with very limited internal control mechanisms, regardless of the important policy objectives.

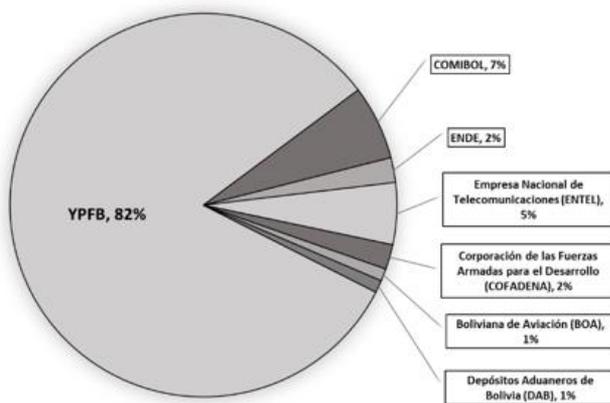


Figure 8: Funding Structure *Bono Juancito Pinto* (2014)
 Source: Author’s elaboration with data from **Ministerio de Economía y Finanzas Públicas (2014)**

Realigning the Ideological Paradigm

The broad social and economic aspects discussed above suggest a recent change of ideological paradigm, from the social to the economic. MAS arrived to power with the intention of championing an ambitious social agenda aimed mostly at creating a more inclusive and socially sensible state. This political objective gained ideological content through the notion of *Vivir Bien*, that among other elements envisions an active welfare state. Therefore, the initial policy approach favored a broad social agenda. As time passed, however, MAS' political objectives moved towards an economic/productive agenda. Evidently, there are many reasons that could explain this policy adjustment, ranging from external factors related to this country's main commodities to internal political elements and social pressure. Nevertheless, the numbers on public investment (Figure 9) show that economic expansion has come at the expenses of the social sector.

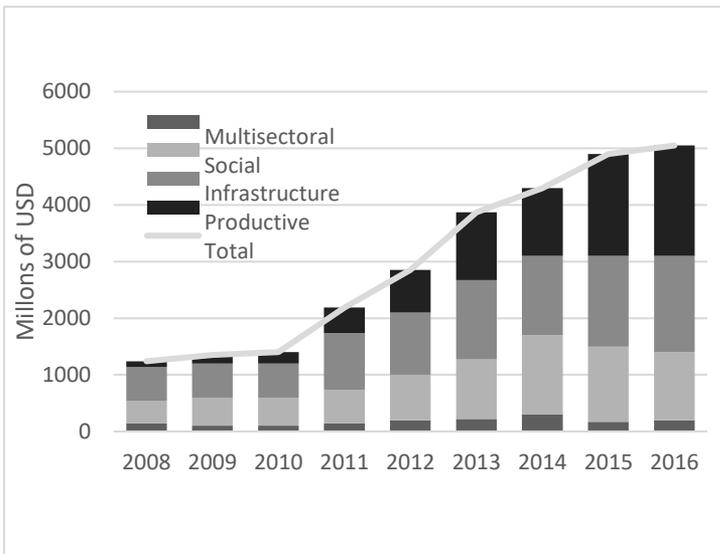


Figure 9: Bolivia: Public Investment (2008-2016)

Source: IMF 2017

These results validate the idea that Bolivia continues in a neo-patrimonial path, where the state still operates as the custodian and user of the national patrimony, using those resources in a discretionary manner with very little institutional constraints. This result is not necessarily a negative one, as long as there is clarity of social objectives to be pursued and how state resources can help to accomplish those, but it is risky because it relies on the good will of the rulers to use resources in a responsible manner. In the case of Bolivia, and particularly since 2012, that does not seem to be the case anymore. The state continues its economic expansion focused on state enterprises that for the most part are not profitable, not even self-sufficient. The social cost has been high, as public investment in this sector has steadily diminished in the past years, which might not only have a negative effect in the near future but also may erode some of the important social gains of recent years. This change of paradigm may also reflect internal ideological inconsistencies within MAS. On the one hand, those favoring a neo-developmental view that sees the exploitation of natural resources and the involvement of the state in the economy as the primary strategy for progress, and another one that would prefer a socialist path based on the holistic *Vivir Bien* approach. These two perspectives require a highly involved (and hopefully efficient) state. Bolivia's institutional history, however, has proven time and again the chronic shortcomings and vulnerability of its institutions. Moreover, despite democratic gains, the state is still susceptible to appropriation by relatively small political elites, either from the left or right of the political spectrum. Once in power, these political elites seek direct access to national resources in pursuance of particularistic objectives, taking advantage of relatively weak and manipulatable bureaucracies and incipient control mechanisms.

As discussed earlier, the outcomes may not be entirely negative, as long as the goals of the ruling elites are aligned with social and economic needs. Unfortunately, this is not always the case in developing societies, and until strong efforts are carried out to modernize the states and their core institutions, following the rule of law, this neo-patrimonialist path is likely to continue.

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