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No. 1035/74

INTELLIGENCE MEMORANDUM

SUBJECT: Bolivia: Banzer and the Politics of
InstabilityIntroduction

The disruptive nature of politics in Bolivia has earned it the reputation for being one of the most turbulent countries in Latin America. Hardly a five-year period has passed without a major uprising--sometimes two or more have occurred within a year. Paradoxically the internal effects of this instability have been limited. Most of the disturbances have been restricted to La Paz, with much of the country unaware of them until they were over.

Even though capital cities throughout Latin America have always exercised a predominant influence, La Paz for more than a century has been especially outstanding in this respect. The disproportionate amount of political power wielded by La Paz is in fact one of the major causes of instability. In addition to serving as the breeding ground for political parties, La Paz is the center where most political decisions have been made--including the selection of provincial Senators and Deputies. The length of tenure for dictators as well as elected officials has depended upon their ability to satisfy this urban constituency. Its geographic isolation from other population centers and its position as military headquarters for the nation has facilitated frequent armed intervention in the affairs of state.

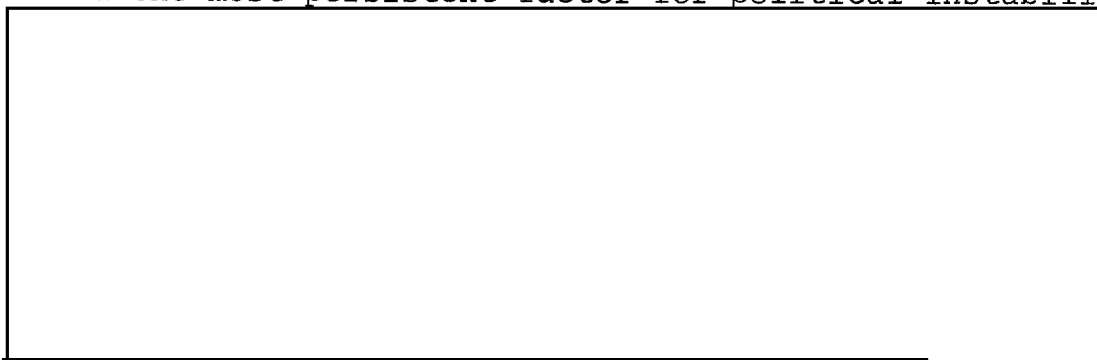
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Since the Chaco War of the 1930s the army has been both the best organized political institution and the most persistent factor for political instability.

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[redacted] The standard of living for the average indian peasant has improved as a result of the important 1952 land reform, but he has not become culturally assimilated. Consequently the unstable political environment has little effect on the majority of Bolivians, for whom politics is a luxury they do not understand.

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Political Scene

The current chief of state, retired Colonel Hugo Banzer, rose to power in typical Bolivian fashion through a military-civilian revolt almost three years ago. Since then he has survived several attempts to overthrow him.

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Banzer has proven remarkably adept in thwarting plots to unseat him by striking against his enemies before they have been able to move. [redacted]

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Indeed, except for the army, which has been the chief prop of all governments during the past decade, there are no strong political institutions. Much of the chronic instability that has characterized Bolivian history must be attributed to reliance on individual leaders and the subsequent power and policy vacuums created by their overthrow.

Friend or Foe

The coalition that Banzer formed after moving into the presidency, the Nationalist Popular Front, has never amounted to more than a fragile alliance between the army and the two major political groups--the Nationalist Revolutionary Movement (MNR) and the Bolivian Socialist Falange (FSB). The Front has remained a paper organization and, in fact, most of the President's serious political problems have been caused by lack of cooperation from his alleged supporters. This has forced his government into a repetition of the pattern that all recent Bolivian governments have fallen into: suffering from internal disintegration rather than from the growth of an overwhelming opposition.

Although the MNR is still the majority party, it retains little of the strength or reformist zeal that characterized its revolutionary phase, which ended in 1964 when its leader Victor Paz Estenssoro was ousted from the presidency by a military coup. The labor and socialist wings split away and formed an independent party--which is now in exile. Early this year, the MNR, rent with continuing factional strife, was further weakened when former President Victor Paz withdrew his support from Banzer and was forced into exile.

-3-

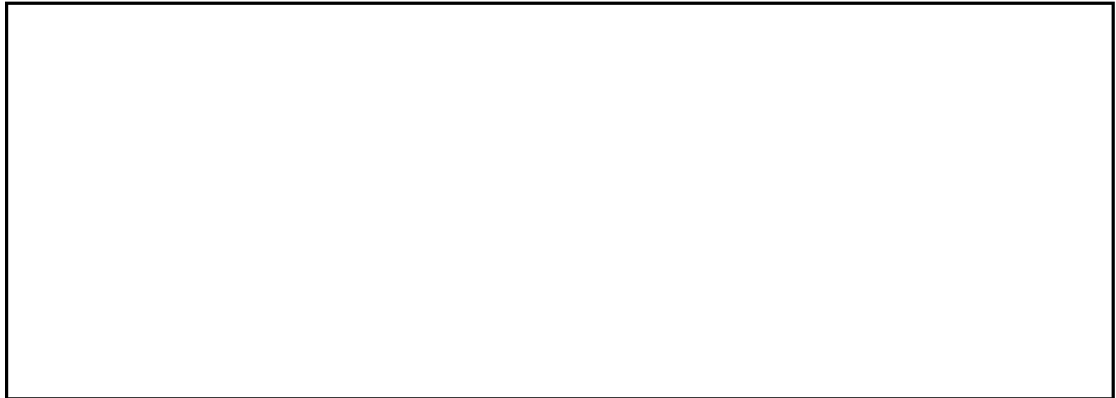
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On the other hand, the Falange has always been a small right-wing group. Formed in imitation of European fascist parties of the 1930s, the FSB now contains a diversity of political views, all reflecting an elitist distaste for popular values and democratic rule. Banzer is not a formal member of the FSB, but has seemed to prefer it as a propaganda vehicle to the mildly reformist MNR.



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Economic Picture

With no important sectors pushing for basic socio-economic reforms, Banzer has stressed broad economic development and foreign policy issues. In both fields he has sought to increase public confidence in his administration by making optimistic pronouncements. To date, however, there has been little meaningful change, even though Banzer has improved his ties with the US and Brazil, and is seeking a reconciliation with Chile.

Bolivia has abundant natural resources, but is still the poorest country in South America. Its inability to exploit hydroelectric potential and iron ore deposits (including one of the world's largest) and to make full use of its petroleum and natural gas supplies, is largely explained by lack of trained manpower, and inhospitable terrain combined with inadequate transportation facilities. [REDACTED]

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-4-

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By simply providing continuity of administration for nearly three years, the Banzer government has had a positive effect on the business climate, but its efforts to foster economic growth have not been notably successful. Banzer's early moves to stimulate investment and provide employment caused large budgetary deficits and heavy losses of international reserves. As a remedy, the government introduced a "Stabilization and Development Plan" in October 1972 that included a devaluation of the peso by nearly 41 percent and additional taxes on traditional exports. The devaluation greatly aggravated domestic economic problems, however, because increases in the cost of imports have led to heightened demands for wage hikes. At the same time, the budget deficit has continued to grow because of bloated expenditures and lax collection of taxes. Moreover, despite rising prices, exports have been constrained by capacity limitations.

In spite of record high prices for exports and increased demand for its products, especially oil and natural gas, Bolivia continues to suffer from poor economic management, [REDACTED] It is therefore doubtful that any economic reform would have a noticeable impact in the near future. [REDACTED]

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Foreign Posture

The aberrations that distinguished the regimes of Banzer's immediate predecessors, Ovando and Torres, would make Banzer's foreign policy appear successful. He has improved relations with the United States by limiting gratuitous anti-American rhetoric and by arranging compensation for the nationalization of various US businesses. At the same time, he has improved ties with his more conservative neighbors--forging a mutually advantageous economic relationship with Brazil and attempting to reopen long broken relations with Chile. [REDACTED]

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-5-

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[Redacted] Bolivia has few persistent foreign relations problems that cannot be resolved by reasonableness in La Paz, and Banzer has done his best in this area.

Banzer's Gambit

Following a cordial meeting between Banzer and Chilean junta President Pinochet, held recently in Brasilia, both presidents announced that they were moving to resolve longstanding differences between their countries. The two nations broke relations more than a decade ago as a result of a dispute over the use of water resources. Even before that, however, ties had been strained for almost three quarters of a century because of Bolivia's claims to territory on the Pacific Coast conquered by Chile during the War of the Pacific that ended in 1884.

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While Pinochet may have encouraged Banzer's hopes of regaining an outlet to the sea through the northern Chilean port of Arica, this is former Peruvian territory and Chile is committed by a treaty signed in 1929 to consult with Peru before ceding any territory in the area to a third power. The chances of Bolivia's recovering its lost port, Antofagasta, are almost nil because such a settlement would divide Chilean territory.

Current Problems

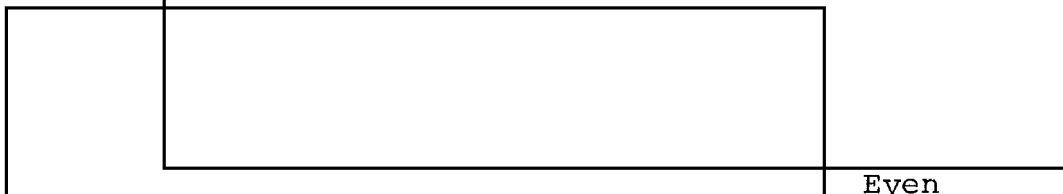
Although peasant demonstrations against rising food prices that rocked the government last January have not reoccurred, residual problems and grievances

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remain.



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Even though the President subsequently met with peasant leaders to patch up relations and promise assistance, continuing inflationary pressures are likely to provoke similar protests. Food shortages will persist because PL-480 commitments for fiscal years 1974 and 1975 have been scaled down and there is uncertainty that Argentina will meet all of its 1975 commitment of 120,000 tons of wheat. Prices of other commodities, although officially frozen, will gradually creep upward because of hoarding and speculation.

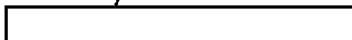
The Nationalist Revolutionary Movement (MNR) has refrained from open criticism of Banzer since he banished Victor Paz last January, but resentment has hardened among Paz's supporters toward both the government and those MNR leaders who continue to maintain relations with Banzer. The efforts of MNR leader Ciro Humboldt to project himself as Paz's successor have not won popular acceptance and he has failed to reunite the movement. During the most recent party assembly, widespread disaffection with party leadership was evident. Despite the current schisms within the movement, however, its reformist tradition continues to sustain the organization, and whoever succeeds Banzer will have to deal with the MNR.

Prospects for Banzer

Under Banzer's rule Bolivia has continued to stagnate. Seen in perspective, his government represents a return to the generally conservative type of leadership that has prevailed throughout most of Bolivia's political history. The preceding unstable governments of Generals Ovando and Torres were exceptions to this conservative trend, and the ease

-7-

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with which they were ousted demonstrates that even they were unable to maintain popular support. The hope of a new deal for Bolivia has not been realized, and Banzer has been unable to create an administrative institution that could survive his personal rule. Like most of his predecessors, the President is forced to deal almost exclusively with immediate problems, and is unable to formulate long-range plans or strategies.

His repressive measures against the far left have effectively checked any threat from that sector, but he has not been able to prevent opposition from forming within his own coalition. The unity that once held the disparate groups together has long since vanished. Without the fear of the left to keep them together, they are competing for the available spoils that come with power.

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[REDACTED] Banzer may be able to maintain himself in office for many more months, even though few Bolivians are now willing to rest their hopes with his government. The longer elections are postponed, the greater the chance that one of the officers, who feels it is his turn to be president, will move against him.

At some point Banzer probably will leave office in the same extra-constitutional fashion in which he took power. His ouster will be swift, and major disturbances will most likely be limited to the capital. Whoever replaces him will be supported by the army and probably will provide the same kind of conservative, pro-US leadership that characterizes the Banzer government.

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