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**Economic Adjustment  
and  
Ethnic Conflict in  
Bolivia, Peru, and Mexico**

Alison Brysk  
Assistant Professor  
Department of Politics  
Ponoma College  
Claremont, California

Carol Wise  
Assistant Professor  
School of Advanced  
International Studies  
Johns Hopkins University  
Washington, D.C.

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# ECONOMIC ADJUSTMENT AND ETHNIC CONFLICT IN BOLIVIA, PERU AND MEXICO

Alison Brysk  
Pomona College

Carol Wise  
Johns Hopkins University

## Introduction

On January 1, 1994, a band of about two thousand armed Indian peasants attacked four towns in the southeastern Mexican state of Chiapas. The attack was motivated largely by failures of both economic and political liberalization: the social costs of economic adjustment for Mexico's depressed rural sector--heightened by the prospect of the North American Free Trade Agreement (NAFTA), along with the government's refusal to loosen the authoritarian reins of the ruling party's (Partido Revolucionario Institucional, or PRI) regional bosses in Chiapas. The Chiapas uprising served as a dramatic reminder of the disruptive potential of groups marginalized by adjustment and the growing incidence of ethnic conflict in Latin America, despite the "end of history" axiom which declared such struggles resolved with the end of the Cold War.

Studies of the social effects of economic adjustment lead us to expect a differential impact by ethnicity, which may generate ethnic mobilization and conflict. Indigenous people in Latin America are the poorest of the poor, heavily rural or informal sector--one of every six rural Mexicans is indigenous.<sup>1</sup> Latin American Indians generally have little access to credit, underdeveloped human resources, and restricted geographic and occupational mobility. They are ill-equipped to cope with the kinds of change signalled by economic adjustment because they have fewer skills and

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<sup>1</sup> George Psacharopoulos and Harry A. Patrinos, (eds.), *Indigenous People and Poverty in Latin America: An Empirical Analysis*, Latin America Technical Department, Regional Studies Report No. 30, World Bank, August 1993; Harry A. Patrinos, "The Costs of Discrimination in Latin America" (Washington, DC: World Bank unpublished ms., June 1994).

disproportionately lower access to the categories of social spending which are most frequently cut. Economic crisis also contributes to ethnic conflict when it exacerbates psychologically powerful threats to the moral economy: adjustment programs affect traditional land rights, opportunities for upward mobility, and state programs for cultural and linguistic recognition.<sup>2</sup>

How and when do the impacts of adjustment generate ethnic mobilization? Most contemporary analysts combine cultural and economic variables, depicting ethnic identity as a socially rooted phenomenon which is catalyzed by changes in both economic and political conditions.<sup>3</sup> In this essay we adopt a similar approach and, taking the 1982 debt crisis as our baseline and triggering event, we examine the impact of economic adjustment on ethnic conflict in Bolivia, Mexico, and Peru--three states which account for the bulk of Latin America's indigenous population.

A comparative analysis of these three states provides some useful insights for explaining recent patterns of ethnic mobilization and conflict in Latin America. Interestingly, while recent data confirm that all states in the region suffered steep income losses in the wake of the post-1982 adjustment process, and that ethnic minorities universally comprised the poorest of the poor during this time period,<sup>4</sup> the three countries in this study actually registered very different levels and types of ethnic conflict. There is great variation, for example, between violent guerrilla insurgencies in Peru, hitherto peaceful protest in Bolivia, and emerging indigenous struggle in Mexico.

We trace these variations in ethnic mobilization and conflict to two intervening variables: the type of adjustment to economic crisis, and the institutional opportunities available for expressing and channeling economic

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<sup>2</sup> The influence of state cultural policy is treated in William Bloom, *Personal Identity, National Identity and International Relations* (Cambridge: Cambridge University Press, 1990), 142-150.

<sup>3</sup> Good starting points in reviewing this literature are: Thomas Hylland Eriksen, *Ethnicity and Nationalism* (London: Pluto Press, 1993), esp. p. 45; James Kellas, *The Politics of Nationalism and Ethnicity* (New York: St. Martin's Press, 1991); Daniel Patrick Moynihan, *Pandaemonium: Ethnicity in International Politics* (New York: Oxford University Press, 1993); and, Saul Newman, "Does Modernization Breed Ethnic Political Conflict?" *World Politics* 43 (April 1991), 451-478.

<sup>4</sup> George Psacharopoulos and Harry A. Patrinos, (eds.), *Indigenous People and Poverty in Latin America*, and Harry A. Patrinos, "The Costs of Discrimination in Latin America."

and political demands. As for the type of economic adjustment, political economists now generally agree that to postpone or delay the implementation of necessary macroeconomic measures is the most costly of all options.<sup>5</sup> That is, on hindsight, states that have postponed macroeconomic adjustment have registered the highest inflation and the worst income gains of all. There is, however, still no consensus as to whether the required adjustments should be implemented in a rapid "shock" fashion, or more gradually.<sup>6</sup> A generally overlooked point in this debate is that economic adjustment and restructuring in Latin America are occurring during a period of growing ethnic identification, and that the differentially harsh impacts of adjustment on indigenous minorities are at least partially fueling today's mobilizations.

As for our second intervening variable, both the economic adjustment and the ethnic conflict literatures identify political institutions and channels as key factors which condition the mobilizing effect of relative deprivation.<sup>7</sup> The emergence of indigenous identity and the grievances of adjustment have yet to be adequately recognized by state organizations, class-based opposition parties, or urban-biased elections. At the same time, by strengthening executive autonomy and exacerbating rural-urban conflicts, the adjustment process itself has further narrowed the political space for peaceful expression of indigenous demands. In short, the availability of government, opposition party, grassroots, and extrasystemic channels will determine both the incidence of mobilization and the scope and form of expression of the grievance.

Briefly, these two intervening variables have interacted in our three cases in the following ways. In Peru, the combination of delayed economic adjustment throughout the 1980s and the government's failure to

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<sup>5</sup> See the essays in Rudiger Dornbusch and Sebastian Edwards, (eds.), *The Macroeconomics of Populism in Latin America* (Chicago: University of Chicago Press, 1991).

<sup>6</sup> These debates are reviewed in Manuel Pastor, *Inflation, Stabilization, and Debt: Macroeconomic Experiments in Peru and Bolivia* (Boulder, Colo: Westview Press, 1992).

<sup>7</sup> See Joan Nelson in "Poverty, Equity, and the Politics of Adjustment," in Stephan Haggard and Robert R. Kaufman, (eds.), *The Politics of Economic Adjustment* (Princeton: Princeton University Press, 1992), 221-269; Crawford Young, *The Politics of Cultural Pluralism* (Madison: University of Wisconsin Press, 1976); and, John Coakley (ed.), *The Territorial Management of Ethnic Conflict* (London: Frank Cass, 1993).

incorporate ethnic groups and sufficiently address their demands goes a long way toward explaining the disproportionately violent trends which have plagued that country. At the other extreme, Bolivia forged ahead with a shock strategy of economic adjustment in the mid-1980s, which was buffered by the simultaneous implementation of a Social Emergency Fund and by a more highly institutionalized model of incorporation which dates back to the 1952 revolution. With regard to the Bolivian case, we argue that these contingencies facilitated more peaceful patterns of challenge until recently. In Mexico, a more gradual and seemingly interminable program of adjustment and austerity, combined with the dissolution of the PRI's traditional corporatist pillars (peasants and workers in particular) over the past decade, have led to a highly visible increase in both independent indigenous mobilization and extrasystemic armed activity.

By way of comparative analysis, we elaborate on these trends in the following manner. First, we present a brief overview of the situation and grievances of indigenous peoples in Latin America, highlighting factors common to all three cases. Then, we analyze the magnitude of the economic crisis, the respective policy responses, and the social consequences of adjustment in Bolivia, Mexico, and Peru. Next, we describe and compare the modes of incorporation, channels for political participation and patterns of ethnic mobilization in the three cases. In concluding, we review the collective lessons from our cases, as well as their implications for better informing state policy.

### **Latin American Indians: Identity and Grievances**

Thirty-four to forty million Latin Americans speak an indigenous language and/or identify themselves as ethnic minorities. Bolivia, Mexico, and Peru together house about three-quarters of Latin America's Indians; Mexico's twelve million indigenous people constitute the largest population in any Latin American state. Native peoples' relationship to the dominant Iberian population varies demographically, socially, and politically. While Mexico's Indians are a geographically distinct minority (14 percent),



indigenous people form a dispersed majority in Bolivia (56.8 percent).<sup>8</sup> Andean Indians in Peru and Bolivia are mostly Quechua and Aymara--inheritors of the Inca empire who have been in contact with Hispanic culture, states and markets since the Conquest. In Mexico, indigenous peoples are concentrated in the south (Oaxaca, Veracruz, and Chiapas) and come from a wide variety of groups, which are generally more Westernized than their Andean peers--from Yucatecan Maya to Chiapan Tzotzil to Oaxacan Zapotec.

Substantial proportions of each state's citizenry identify with Indian cultures, but indigenous identity is articulated differently in each society. In Peru, ethnicity has been suppressed, stigmatized, and stratified.<sup>9</sup> By contrast, Bolivia's Indian communities are characterized by a majoritarian consciousness based in the geographic and political center of the country. Mexico displays an intermediate pattern in which Indian identity has been both repressed and coopted, through contradictory practices of *indigenismo* which celebrate the Indian past while denying the Indian present.<sup>10</sup>

Despite these variations, Latin American Indians share a history of poverty and disenfranchisement. The initial sixteenth-century contact with Europeans brought political subjugation, economic displacement, and demographic disaster--including 50-90 percent population losses. Revolutionary experiences and associated agrarian reform in Mexico (1910-20), Bolivia (1952) and Peru (1968) only partially ameliorated second-class citizenship: until Peru's 1980 Constitution enfranchised illiterates, most Indians in that country still could not vote. Although migration to cities and towns allowed acculturated Indians some social mobility through reclassification as *mestizos*, discrimination and lack of education relegated

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<sup>8</sup> Shelton Davis and William Partridge, "Promoting the Development of Indigenous People in Latin America," *Finance and Development*, March 1994, 38; Nathaniel C. Nash, "Latin American Indians: Old Ills, New Politics," *New York Times*, August 24, 1992. Measurement of Indian populations is complicated by social markers of identity which supersede racial identification, and devaluation of indigenous cultures which encourages self-reporting as *mestizo*.

<sup>9</sup> See Bernard E. Segal, "The Politics of Unanticipated Trickle: Penetration, Permeation, and Absorption in Peru," in Raymond Hall (ed.), *Ethnic Autonomy--Comparative Dynamics* (New York: Pergamon, 1979); Pierre L. Van Den Berghe, "Ethnicity and Class in Highland Peru," in Leo A. Despres (ed.), *Ethnicity and Resource Competition in Plural Societies* (The Hague: Mouton Publishers, 1975).

<sup>10</sup> See Florencia Mallon, "Indian Communities, Political Cultures, and the State in Latin America, 1780-1990," *Journal of Latin American Studies*, Vol. 24, No. 5 (1992), 35-53.

many indigenous urban migrants to the informal sector as street vendors, maids, porters and beggars.<sup>11</sup> By the 1970s, indigenous activists and their international allies had formed an Indian rights movement throughout Latin America, seeking land rights, relief from human rights abuses, preservation of native languages and cultural practices, and autonomy.<sup>12</sup>

Latin America's Lost Decade of the 1980s exacerbated endemic problems and created new ones, despite the political opening and widespread transitions to democracy. In the Andean and Mexican highlands (and Bolivia's Chapare region), the erosion of agricultural reform and a growing world market for drugs encouraged the commercial cultivation of traditional medicinals such as coca leaf (opium in Mexico)--which then caught Indian communities in the crossfire between drug traffickers and counter-insurgency forces. In the Amazonian lowlands and Mexico's South, debt-backed development programs brought displaced settlers, national oil companies, and multinational timber concerns into tribal peoples' areas, uprooting villages while usurping and polluting resources. Rural crisis, provoked by chronically unfavorable food pricing policies, also increased permanent migration to urban shantytowns, seasonal migration to plantations, and international migration by doubly displaced Indians (from Mexico to the U.S. and Bolivia to Argentina). Throughout Latin America, cuts in social services impeded indigenous peoples' access to cheap food, rural clinics, and bilingual education: during the 1980s Bolivia--Latin America's most Indian country--regressed to 50 percent illiteracy, 200 per thousand infant mortality, and a life expectancy of only fifty years.<sup>13</sup>

### **Crisis, Adjustment, and Social Impacts**

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<sup>11</sup> See J. Burger, *Report From The Frontier: The State of the World's Indigenous Peoples* (London: Zed Books, 1987); Independent Commission on International Humanitarian Issues, *Indigenous Peoples: A Global Quest For Justice* (London: Zed Books, 1987); and J.R. Martinez Cobo, *Study of the Problem of Discrimination Against Indigenous Populations* (New York: United Nations, [E/CN.4/Sub.2/1986/7/Add.4], 1986).

<sup>12</sup> Rudolfo Stavenhagen, *Derecho indigena y derechos humanos en América Latina* (Mexico: Instituto Interamericano de Derechos Humanos/ Colegio de Mexico, 1988); Alison Brysk, "Turning Weakness Into Strength: The Internationalization of Indian Rights," *Latin American Perspectives* (1995).

<sup>13</sup> See Waltraud Queiser Morales, *Bolivia: Land of Struggle* (Boulder, Colo: Westview, 1992), 131-135.

While the force of the 1982 external debt shocks hit all of the Latin countries in Table 1 with equal magnitude, the responses to economic crisis across the region could not have been more diverse. In this section we briefly describe the state of the domestic political economy in each country as it entered the volatile 1980s and then analyze the respective adjustment strategies in Bolivia, Peru, and Mexico, which have been outlined in Table 2. Finally, we explore the social impact of adjustment, the types of remedial social policies that were embraced by each government, and the effects of these adjustment strategies and social policies on the indigenous population.

Turning to the Bolivian case, as Table 1 shows, the country's performance under the thrust of exogenous debt and mineral price shocks in the early 1980s registered some of the most dramatic trends in the region. Underpinning the economy's collapse into an unprecedented bout of hyperinflation by 1985 were two realities, one economic and the other political, from which Bolivian policy makers could no longer escape. On the economic front, the early 1980s heralded the demise of Bolivia's traditional state capitalist model, which had been the guiding development strategy since the 1952 revolution.<sup>14</sup> Oriented around mineral and natural gas exports, and highly dependent on foreign financing, the bottom literally dropped out of this model when the external crisis hit. The failure of six successive stabilization plans from 1982-1985, and the government's highly inflationary resort to the printing press in the mean time, reflected the low levels of state capacity and political cohesion which continued to plague Bolivia. On the political front, an inverse relationship had been firmly established, whereby each attempt at stabilization was undermined by ever-higher levels of popular protest, led mainly by the COB (Bolivian workers' confederation). As price inflation hit an annual rate of over 8,000 percent in 1985, it had become clear that nothing short of a radical solution was required.

In August, 1985, the recently re-elected President, Victor Paz Estenssoro, stepped into the country's political economic vacuum and launched a stabilization shock plan that was introduced to the nation as the "New

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<sup>14</sup> See Arthur J. Mann and Manuel Pastor, "Orthodox and Heterodox Stabilization Policies in Bolivia and Peru: 1985-1988," *Journal of Interamerican Studies and World Affairs*, Vol. 31, No. 4, (1991), 163-192.

Economic Policy" (NEP). Like many civilian leaders faced with policy gridlock and economic crisis in the 1980s, Paz Estenssoro relied on a combination of multilateral support and advice in formulating the content of the NEP, while also assembling a small insulated team of well-trained technocrats to implement the shock plan.

The overriding goals of the NEP policy package were economic stabilization and the restoration of growth, with inflation reduction the most urgent task at hand. As can be seen in Table 2, with the exception of the multilaterals' condonement of Bolivia's moratorium on debt service payments, the NEP adjustment strategy basically followed the textbook orthodoxy of the IMF.<sup>15</sup> The most unique feature of this program was the simultaneous implementation, in late 1985, of a World Bank-funded Emergency Social Fund (ESF) to provide some minimal cushion for society's poorest sectors, the results of which we address further on.

In implementing the NEP shock program, Paz Estenssoro utilized three main coalitional strategies which are of relevance to our argument concerning Bolivia's more channeled and effective modes of interest articulation for its majority ethnic population. Given the tendency of hyperinflation to wipe the slate clean in terms of standing political alliances and cleavages, the President moved quickly to recreate a coalitional base to support his shock program. In nearly one fell swoop, Paz Estenssoro forged a pact with the political opposition in Congress, usurped the power of organized labor through massive layoffs in mining and the state sector, and courted the large indigenous constituency that had formed the original core of Bolivia's revolutionary coalition (that had supported Paz's first presidency) over four decades ago.<sup>16</sup>

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<sup>15</sup> Manuel Pastor, *Inflation, Stabilization, and Debt*, 88-101, and Jeffrey Sachs, "The Bolivian Hyperinflation and Stabilization," Working Paper No. 2073, National Bureau of Economic Research, 1986.

<sup>16</sup> James M. Malloy, "Democracy, Economic Crisis and the Problem of Governance: The Case of Bolivia," *Studies in Comparative International Development*, Vol. 26, No. 2, (Summer 1991), 54-55; Carol Graham, *Safety Nets, Politics, and the Poor: Transitions to Market Economies* (Washington, DC: The Brookings Institution, 1994), 56-57.

As Table 1 shows, the NEP shock plan did succeed in bringing inflation down rapidly, and the freeing of public sector prices did restore central government income. Unfortunately, the NEP has failed in achieving some of the main goals of a stabilization plan, which are the reactivation of growth through higher levels of investment and trade. Thus far both have been restrained by onerous interest rates and an overvalued exchange rate, rendering the NEP's general macroeconomic returns as stagnant at best.<sup>17</sup>

What about the social costs of economic adjustment, and the toll that has been taken on the indigenous population? Table 1 lists general trends for per capita GDP and state expenditures on education, health, and welfare services, as well as the external debt as a percentage of GDP. The data speak strongly for themselves: first, there was a steep decline in per capita GDP through 1996 and then a mild recuperation which still lagged substantially behind global GDP growth rates. Moreover, the share of state resources devoted to two of the three social categories mentioned above fell; and second, contrary to recent wishful thinking on the part of the "Washington Consensus" that the debt crisis has been resolved,<sup>18</sup> there continues to be an unmistakable trade-off between external debt service payments and social spending. Of particular concern here is Bolivia's deterioration in education expenditures, as recent research strongly indicates that the quickest way to ameliorate poverty and increase income, especially in indigenous areas, is through improved access to education.<sup>19</sup> Interestingly, although Bolivia saw a decline in educational expenditure in the wake of the debt crisis, policy makers simultaneously increased their commitment to bilingual education and decentralization of educational access so as to better integrate the indigenous and popular sectors into the national economy.<sup>20</sup>

As for the more specific impacts of Bolivia's adjustment program on indigenous groups, the data indicate the following. First, the bottom 20

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<sup>17</sup> Manuel Pastor, *Inflation, Stabilization, and Debt*, 100.

<sup>18</sup> John Williamson, "In Search of a Manual for Technopols," in John Williamson, (ed.), *The Political Economy of Policy Reform* (Washington, DC: Institute for International Economics, 1994), 18-28.

<sup>19</sup> George Psacharopoulos and Harry A. Patrinos, (eds.), *Indigenous People and Poverty in Latin America*, 232.

<sup>20</sup> "Financial Times Survey: Bolivia," *Financial Times*, November 9, 1994.

percent of the income pyramid disproportionately bore the burden of adjustment in Bolivia;<sup>21</sup> and second, as Table 3 shows, 64 percent of the population below the poverty line in Bolivia is indigenous. Underlying Table 3 is an insidious dynamic, whereby individuals with less schooling are strongly disadvantaged with respect to employment and earnings, and the majority of those that fall into this category are indigenous. Moreover, while indigenous workers earn just 60 percent of what non-indigenous workers earn, it is estimated that as much as 28 percent of this earnings gap is due to labor market discrimination.<sup>22</sup>

As for the rural sector, all signs indicate that the impacts of economic crisis and Bolivia's chosen adjustment strategy were especially tough on the rural indigenous population. First, economic crisis intensified rural displacement and loss of peasant titles in the 1980s, leaving 90 percent of the land owned by just 7 percent of the population; second, production in the peasant agricultural sector has been choked off through high interest rates, tight credit, and the drastic slash in public investment for rural infrastructure.<sup>23</sup> These latter trends reflect the need to reform the "revolutionary" land reforms of 1953, but in a manner which strengthens peasant producers and modernizes agricultural production. Unfortunately, the current thrust toward liberalizing the agricultural sector offers little in the way of a badly needed rural policy proper.

However, the implementation of the Emergency Social Fund (ESF) simultaneously with the NEP program helped to mitigate and rechannel the kinds of ethnic conflict that have plagued Peru and Mexico in the context of their recent economic adjustment efforts. The ESF differed from Bolivia's usual pork barrel patron-client social programs in at least three significant ways.<sup>24</sup> First, the ESF was established as a temporary financial entity that was

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<sup>21</sup> Nora Lustig, "Measuring Poverty in Latin America: The Emperor Has No Clothes," (Washington, DC: The Brookings Institution, unpublished ms., 1994), 3.

<sup>22</sup> George Psacharopoulos and Harry A. Patrinos, *Indigenous People and Poverty in Latin America*, chapter 5.

<sup>23</sup> Juan Antonio Morales, "Structural Adjustment and Peasant Agriculture in Bolivia," *Food Policy*, Vol. 16, No. 1 (February 1991), 65-66.

<sup>24</sup> This section on Bolivia's Emergency Social Fund draws from John Newman, Steen Jorgensen, and Menno Pradham, "How Did Workers Benefit from Bolivia's Emergency Social Fund?" *The World Bank*

completely independent from the state bureaucracy and the ruling political party; second, the ESF was "demand-driven," which means that local governmental and non-governmental (NGO) agencies generated their own proposals for small-scale, labor-intensive projects and bid competitively for ESF contracts; finally, approved projects were executed by private sub-contractors working under the supervision of the ESF management team, which means that the ESF did not directly employ project participants. With a planned operating budget of \$180 million--\$8 million of which the Bolivian government provided--ESF funds sponsored projects in the areas of economic and social infrastructure, social assistance, and production support.

Although the ESF was not successful in reaching the most economically marginalized segments of the population who were least capable of submitting viable proposals, it did provide relief to those poor within the income deciles just above the most marginalized. Now institutionalized into a permanent Social Investment Fund, the ESF attracted \$239.5 million in foreign resources, mainly in grants, and from Bolivia's population of seven million, it reached more than one million poor either directly through hiring or indirectly through the program's various multiplier effects. On hindsight, whatever drawbacks the ESF may have had in terms of outreach, it appears that the symbolic gesture of a social cushion for adjustment went a long way in ameliorating adjustment-related political conflict.

Just as importantly, the ESF served as a catalyst for strengthening the participation of NGO's in Bolivia, some of which have joined with the government in implementing development projects explicitly tailored for the indigenous poor. This is true, for example, with the establishment of BancoSol in 1991, a jointly sponsored development bank which currently processes some twelve thousand mini-loans each month to provide working capital for the country's army of primarily indigenous informal sector entrepreneurs.<sup>25</sup>

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*Economic Review*, Vol. 5, No. 2 (May 1991), 367-393; and Carol Graham, *Safety Nets, Politics, and the Poor*, chap. 3.

<sup>25</sup> See, "Financial Times Survey: Bolivia," *Financial Times*, November 9, 1994.

The Peruvian case represents another world altogether. Like Bolivia, the 1982 external shocks signalled the end of the debt-backed state capitalist model that had been implemented single-handedly by the "Revolutionary Government of the Armed Forces" in 1968. With the return to civilian rule in 1980, the Belaunde government had already begun to liberalize the economy and abandon import-substitution (ISI), with the explicit goal of revitalizing the primary export-led development strategy that had delivered such high growth rates until the 1960s. Unhappily, however, the debt crisis hit Peru at a moment when domestic markets had been freshly exposed to foreign competition, but the vestiges of inefficient state intervention were still quite strong.

Unlike their Bolivian counterparts, Peruvian policy makers--caught awkwardly between a liberal policy approach and a statist economy--procrastinated in devising and implementing a coherent economic adjustment program in response to the debt crisis. The postponement of economic adjustment stemmed partly from the inability of the executive office to exercise the necessary leadership, and from politicians' fear of voter revenge at the polls, as Peru faced its first mid-term nation-wide municipal elections since the 1960s. As Table 1 shows, this policy paralysis could not have been more costly: in terms of global and per capita growth, and inflation, Peru registered one of the most dismal post-1982 economic performance in the region.

The actual adjustment strategies which accompanied these trends are detailed in Table 2.<sup>26</sup> Apart from the erratic swings between policy approaches during the 1980's, ranging from populist neoliberalism under Belaunde (1980-1985) to a heterodox shock plan under the subsequent Garcia administration (1985-1990), the Peruvian and Bolivian adjustment efforts differed in two key ways. First, was the former's inability to reach out effectively to the country's mass of indigenous and popular sector poor as an integral part of any of the half-hearted adjustment strategies that were

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<sup>26</sup> This analysis of Peruvian economic adjustment in the 1980's is based on Carol Wise, "Peru Post-1968: The Political Limits to State-led Economic Development," PhD dissertation, Columbia University, 1990, chapters 3-5; and Manuel Pastor and Carol Wise, "Peruvian Economic Policy in the 1980's: From Orthodoxy to Heterodoxy and Back," *Latin American Research Review*, Vol. 27, No. 2 (1992), 83-117.



attempted; second, was the failure to provide a credible social cushion to alleviate the adjustment burden on the poor. Ironically, as policy makers shunned the responsibility of economic adjustment for fear of rousing a diverse and polarized electorate, it would now be difficult to imagine a more conflictual outcome. A closer look at the social consequences of delayed adjustment helps explain why.

Despite the emergence of a more socially stratified and complex set of economic groups and sub-classes by 1982, on the eve of the debt crisis Peru still exhibited a dualistic income structure akin to that of the 1960s, not to mention the high concentration of national resources in the urban coastal centers.<sup>27</sup> This meant that 25 percent of those working in the modern and primarily coastal sector of the economy contributed 64 percent of value-added to GDP, while the remaining 75 percent of the workforce in the traditional sector contributed just 36 percent.<sup>28</sup>

These trends are doubly alarming, given the strong emphasis that military reformers had placed on income redistribution and regional decentralization ten years earlier. The failure to deliver on the earlier social promises, combined with continuing rigid income structures and regional disparities, meant that the stage was set: the Belaunde government's regressive and poorly implemented IMF stabilization measures quickly fueled the guerrilla violence that first erupted in 1980, and then paved the way for the APRA's (American Popular Revolutionary Alliance) Alan Garcia and his heterodox experiment in 1985.<sup>29</sup>

Garcia made clear that his sympathies lay with that larger 75 percent of the working population who reaped the fewest rewards for their labor.

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<sup>27</sup> Patricia Wilson and Carol Wise, "The Regional Implications of Public Investment in Peru, 1968-1983," *Latin American Research Review*, Vol. 21, No. 2 (1986), 93-116.

<sup>28</sup> Richard Webb, "Stabilization Policy: Peru, 1980-1985," (World Institute for Development Economics Research, unpublished ms., 1987), and Carol Wise, "The Politics of Peruvian Economic Reform: Overcoming the Legacies of State-led Development," *Journal of Interamerican Studies and World Affairs*, Vol. 36, No. 1 (Spring, 1994), 100-103.

<sup>29</sup> For more detail on the Garcia period see Ricardo Lago, "The Illusion of Pursuing Redistribution Through Macropolicy: Peru's Heterodox Experience," in Rudiger Dornbusch and Sebastian Edwards, (eds.), *The Macroeconomics of Populism in Latin America*, 263-330, and Manuel Pastor, *Inflation, Stabilization, and Debt*, chap. 5.

However, his reliance on wage and price controls, coupled with reckless fiscal and monetary policy, quickly led to hyperinflation. The Garcia administration did launch an emergency temporary employment program (PAIT) targeted toward the extreme urban poor; yet, because the program was run directly by APRA party bosses, and thus mainly an instrument of patronage, it failed to achieve the kinds of regional outreach, impact and symbolic weight of Bolivia's ESF.<sup>30</sup> In the end, Garcia's measures were hardest on those whom they were most intended to help: the number of Peruvians living below the poverty line slipped from 17 percent to 44 percent over the course of the Garcia administration.

As in Bolivia, those within the bottom 20 percent of the income scale in Peru were hurt disproportionately by the pattern of economic shocks and failed adjustment during the 1980s,<sup>31</sup> and as Table 3 shows, 79 percent of this group is indigenous. On balance, Peru's expenditures on housing, social security, and welfare were some of the bleakest in the region, although Table 1 does show that the country did maintain its commitment to education expenditures, low to begin with, through the decade. Again, while time series data confirm that education expansion has an equalizing effect on income distribution,<sup>32</sup> there are two trends which suggest that educational expenditures in Peru have done little to lower the index of income inequality for the indigenous population.

The first is the low level and even lower rate of return to schooling which appears in Table 3; whereas indigenous workers earn approximately 61 percent of what their non-indigenous brethren earn in Bolivia, by 1991 this figure was still just 43 percent for Peruvian indigenous workers. Moreover, it is estimated that as much as 50 percent of this wage differential for Peru stems from labor market discrimination. The second trend is the heavy concentration of educational and other social expenditures in Peru's coastal

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<sup>30</sup> Carol Graham, "The APRA Government and the Urban Poor: The PAIT Programme in Lima's Pueblos Jovenes," *Journal of Latin American Studies*, Vol. 23, No. 1 (1991), 91-130.

<sup>31</sup> Nora Lustig, "Measuring Poverty in Latin America," 3-4.

<sup>32</sup> George Psacharopoulos, "Time Trends of the Returns to Education: Cross National Evidence," *Economics of Education Review*, Vol. 8, No. 3 (1989), 225-231.

urban centers, where the incidence of social spending is strongly biased in favor of the *criollo* and *mestizo* middle classes.<sup>33</sup>

In all, in terms of the interplay between economic adjustment and ethnic conflict, Peru is surely the worst-case scenario of what went wrong in the 1980s. By the time the country finally buckled down to adjust in 1990, there were few options but to stage a Bolivian-style shock. Like President Paz Estenssoro, Peru's newly elected President Alberto Fujimori took advantage of the coalitional void which hyperinflation had created, and forged a new stabilization alliance outside of the traditional political parties. But in contrast to Paz, who cast his coalitional net widely, Fujimori surrounded himself with a small group of politically independent personal allies who supported his ambitious program of liberalization, deregulation, and privatization.

In its zeal to restore Peru's credibility with the international financial community, the Fujimori team took a hard orthodox line in adjusting the economy, knowing full well that--because of the country's highly distorted price structure--the social costs would be far worse than those normally expected.<sup>34</sup> Indeed, in the first two years of the program, the real income of all Peruvians dropped by a third. Puzzlingly, even though multilateral and funders from non-governmental organizations (NGO's) were poised to assist the country with the Peruvian equivalent of Bolivia's ESF, the administration showed little interest in constructing a safety net for adjustment.

Instead, when the usual adjustment-related conflicts ensued, the Fujimori government increased its strong-arm tactics and finally installed a military-backed civilian dictatorship in April 1992. Having re-written the constitution so that he could run for a second term in 1995, Fujimori revamped his fledgling National Fund for Development and Social Compensation (FONCODES) which, like the APRA's PAIT, is run directly from the President's office and thus all too tied to the exigencies of patronage

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<sup>33</sup> See Patricia A. Wilson and Carol Wise, "The Regional Implications of Public Investment in Peru."

<sup>34</sup> Carlos Paredes, "Epilogue: In the Aftermath of Hyperinflation," in Carlos Paredes and Jeffrey Sachs, (eds.), *Peru's Path to Recovery* (Washington, DC: Brookings Institution, 1991), 303.

and party politics.<sup>35</sup> Having succeeded in the restoration of economic growth, albeit at high social costs, the Fujimori government now projects an image of having ended Peru's vicious cycle of poverty-related violence. Unfortunately, however, such "success" has been claimed with little change in the actual conditions that initially gave rise to a political economy of violence in Peru, and at the expense of the very participatory structures and institutional channels upon which any authentic resolution of these problems must ultimately rest.

Mexico's economic adjustment strategy represents a hybrid of the two approaches just reviewed. Similar to Bolivia and Peru, the 1982 debt shocks closed the last chapter on Mexico's "Stabilizing Development" import-substitution model, which by the 1970s had already wound down from its earlier high growth rates. And like these other cases, as a result of the 1982 economic crisis and more than a decade of attempts at adjustment, the Mexican political economy has been permanently transformed. Whereas Bolivia, on the one hand, has managed to regroup and establish a comparatively viable post-debt crisis set of state-societal relations, and Peru, on the other hand, postponed this challenge by installing an authoritarian regime, Mexico is still struggling between these two extremes in its efforts to construct a state-societal relationship which is compatible with the post-1982 political economy.

As in Bolivia, in Mexico a well-trained technocratic team closed ranks behind a highly insulated executive and initially responded to the debt shocks by implementing a strict orthodox adjustment program beginning in 1983. When that strategy ultimately failed to reduce inflation and restore growth (see Table 1), President Miguel de la Madrid (1982-1988) shifted to a more heterodox approach in 1987 which, as Table 2 shows, combined trade liberalization and wage and price controls, with a tight fiscal and monetary policy under the auspices of a new Economic Solidarity Pact.<sup>36</sup> This later

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<sup>35</sup> Carol Graham, *Safety Nets, Politics, and the Poor*, 106-112.

<sup>36</sup> For more detail on the Mexican economic adjustment program see Edward F. Buffie, "Economic Policy and Foreign Debt in Mexico," in Jeffrey D. Sachs, (ed.), *Developing Country Debt and Economic Performance* (Chicago and London: University of Chicago Press, Volume 2, 1989), and Nora Lustig, *Mexico: The Remaking of an Economy* (Washington, DC: Brookings Institution, 1992).

phase also included a social adjustment component, the National Solidarity Program (PRONASOL), run by President Carlos Salinas (1988-1994) directly out of the executive office since 1988. PRONASOL has provided a mix of ESF-style demand-based social and economic relief, while also serving a patronage function for the PRI similar to the role that Peru's FONCODES program plays for President Fujimori.<sup>37</sup>

Of interest here is the manner in which the different phases of economic adjustment in Mexico have resulted in the dissolution of the PRI's ties with its traditional base constituency,<sup>38</sup> which heretofore had always included the indigenous population in political terms, while excluding it economically. As Table 3 shows, although the percentage of the population below the poverty line in Mexico is less than half of that in Bolivia and Peru, over 80 percent of Mexico's below-poverty-line poor are indigenous. Moreover, whereas indigenous workers in Bolivia and Peru earn 61 percent and 43 percent, respectively, of what non-indigenous workers make, this figure plummets to 30 percent for Mexico's indigenous workforce.

Although the PRI's relationship with its traditional constituency--workers, peasants, ISI entrepreneurs, and the middle classes--had already begun to hit rough ground during the chaotic Lopez Portillo administration (1976-1982),<sup>39</sup> it was the De la Madrid adjustment program that quickly ruptured a set of political and socio-economic bonds that the PRI had cultivated since its founding over six decades ago. The still-disputed outcome of the 1988 presidential elections, where Salinas was barely declared the winner against the backdrop of widespread allegations of voting fraud, reflected just how alienated the PRI's traditional bases of support had become. In line with the ruling party's historical ability to regroup and renovate itself

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<sup>37</sup> Carol Graham, "Mexico's Solidarity Program in Comparative Context," in Wayne Cornelius, Ann Craig, and Jonathan Fox, (eds.), *Transforming State-Society Relations in Mexico* (La Jolla: Center for U.S.-Mexico Studies, University of California at San Diego, 1994).

<sup>38</sup> Denise Dresser, "Embellishment, Empowerment, or Euthanasia of the PRI? Neoliberalism and Party Reform in Mexico," in Maria Lorena Cook, Kevin J. Middlebrook, and Juan Molinar Horcasitas, (eds.), *The Politics of Economic Restructuring: State-Society Relations and Regime Change in Mexico* (La Jolla: Center for U.S.-Mexico Studies, University of California at San Diego, 1994).

<sup>39</sup> David Mares, "Explaining Choice of Development Strategies: Suggestions From Mexico, 1970-1982," *International Organization*, Vol. 39, No. 4 (Autumn 1985), 667-697.

institutionally,<sup>40</sup> Salinas moved quickly in several directions. First, by reincarnating the Economic Solidarity Pact into an ongoing wage-and-price Pact for Stability and Growth (PECE), Salinas consolidated a new relationship with those outward-oriented representatives of the country's largest companies and conglomerates--the very coalition that enabled the executive to forge ahead with a sweeping program of deregulation and privatization, and that helped usher the country into NAFTA.<sup>41</sup>

At the same time, by launching PRONASOL and by attempting to create a new urban mass-based organization (UNE or Citizens in Motion), Salinas sought alternative PRI patron-client channels for reincorporating those that had been abruptly displaced by liberalization, inflation and austerity. As in Bolivia, the president legitimated his program by symbolically linking the distributive ideals of the Mexican revolution with the goals of economic liberalization. Unfortunately, however, Salinas failed to adequately include the indigenous population in the PRI's new grand coalitional scheme and, like Peruvian leaders during the 1980s, miscalculated the volatile repercussions that this would eventually have.

Turning more specifically to the social impacts of economic adjustment in Mexico, and to the effects on the indigenous population, as Table 1 shows, the restoration of growth of GDP during the late 1980s outpaced any recuperation in per capita growth. While Mexican policy makers have prided themselves on implementing budgetary reductions which are "the equivalent of three Gramm-Rudman cuts,"<sup>42</sup> the combination of these cuts with seven years of wage controls has had a devastating effect on Mexico's middle and lower income groups. At the same time, as the income held by the lowest 40 percent of the distributional pyramid declined from 14.3 to 12.9

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<sup>40</sup> See Roberto Newell and Luis Rubio, *Mexico's Dilemma: The Political Origins of Economic Crisis* (Boulder, Colo: Westview Press, 1984).

<sup>41</sup> Manuel Pastor and Carol Wise, "The Origins and Sustainability of Mexico's Free Trade Policy," *International Organization*, Vol. 48, No. 3 (Summer 1994), 478-480.

<sup>42</sup> Rudiger Dornbusch and Alejandro Werner, "Mexico: Stabilization, Reform, and No Growth," *Brookings Papers on Economic Activity* 1 (1994), 260.

percent during the 1980s, those within the top 10 percent increased their share of national income from 32.8 to 37.9 percent.<sup>43</sup>

Thus far the data and the analyses presented for the Bolivian and the Peruvian cases have indicated a pattern, whereby ethnicity has been intimately associated with poverty and disadvantage, but that ethnic inequalities are also amenable to such public policies as educational attainment and explicit poverty alleviation schemes. Of the three cases reviewed here, the Mexican case represents perhaps the most dramatic variation on this theme. As Table 3 shows, apart from the comparatively low minority/majority earnings ratio in Mexico already noted above, the indigenous population's level of schooling falls far behind these other two less developed states; interestingly, however, because of the much larger and more diverse Mexican economy, the rate of return for schooling is higher in Mexico. Although access to formal education has improved in Mexico, and illiteracy has decreased to 12.4 percent in 1990, the disproportionately higher rate of illiteracy amongst the indigenous population remains a serious obstacle to economic advancement.<sup>44</sup>

What role has PRONASOL, the government's poverty alleviation program, played in mitigating the harsh social effects of economic adjustment for the indigenous population? Despite the claims of PRI technocrats that PRONASOL's \$11.9 billion in expenditures from 1989-1993 reversed the decline in per capita income displayed in Table 1,<sup>45</sup> the results with regard to the indigenous population have been quite mixed. While PRONASOL did take an innovative approach in channeling, through the National Indigenous Institute (INI), around \$100 million 1989-1992 in Regional Solidarity Funds for infrastructure and productive projects to indigenous communities, some of these efforts were bogged down by PRI authoritarian

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<sup>43</sup> Nora Lustig, *Mexico: The Remaking of an Economy*, 92; Carol Wise and Manuel Pastor, "Mexico: The Challenge of Income Inequality," Paper presented at the "Seminar on Sustainable Development in Latin America," Salomon Brothers, Inc., August 15, 1995, New York City.

<sup>44</sup> Harry Anthony Patrinos and Alexis Panagides, "Poverty and Indigenous People in Mexico," *Akwe:kon Journal*, Vol. XI, No. 2 (Summer 1994), 71-77.

<sup>45</sup> Jose Cordoba, "Mexico," in John Williamson, (ed.), *The Political Economy of Policy Reform*, 268-272.

governors at the state level.<sup>46</sup> More significantly, PRONASOL was not able to counteract longstanding regional inequalities, such as those that epitomize the indigenous state of Chiapas, which were further aggravated by reform of the *ejido* land tenure system in the early 1990s.

### Political Channels and Mobilization

Incorporation, despite Bolivia's greater poverty, chronic instability and higher proportion of indigenous people than Mexico or Peru, indigenous mobilization there has been the most peaceful and effective because of the variety and persistence of institutionalized channels for political participation. Bolivia's 1952 Revolution incorporated Indians as workers by nationalizing the tin mines, as peasants through massive land reform, and as citizens through granting universal suffrage; the revolution's slogan was, "Mines to the state, land to the Indians!"

After widespread peasant-initiated land seizures, the revolutionary party MNR (Movimiento Nacional Revolucionario) sought to co-opt indigenous violence after the 1952 revolution following the "Mexican model" of corporatism. Peasants were granted sacrosanct land rights and organized into rural unions (*sindicatos*) which built on traditional village structures, while the Indian proletariat (miners) became state employees and members of a state-sponsored labor confederation (Confederación Obrera Boliviano, COB).

But unlike Mexico's ruling PRI, Bolivia's MNR could not sustain the necessary resources to cement a worker-peasant alliance. Thus, the ruling party consistently favored (and even mobilized) Indian peasants over the more militant and independent Indian miners. In return, as in Mexico, most of the rural population passively supported any government which did not disturb land holdings, while state-privileged traditional leaders avoided dissent. However, despite these apparently propitious conditions, agrarian

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<sup>46</sup> Jonathan Fox, "Targetting the Poorest," in Wayne Cornelius, Ann Craig, and Jonathan Fox, (eds.), *Transforming State-Society Relations in Mexico*, 196-204.



reform did not lead to rural development in Bolivia, due to the lack of infrastructure and the sporadic supply of credit.<sup>47</sup>

By the 1960s, the MNR had ceded power to a succession of military leaders. As in Peru (and unlike most of Latin America), military populists like General René Barrientos (1964-69) forged an explicit alliance with the peasantry (*el pacto campesino-militar*). This pact did not break down until the late 1970s, due to the unusually repressive dictatorships of General Hugo Banzer (1971-78) and Luis Garcia Meza (1980, the "cocaine coup"), along with the rise of the *katarista* alternative.<sup>48</sup>

*Katarismo* is a specifically Bolivian indigenist social movement and political party sector which seeks the promotion and restoration of Inca culture and communal social organization among the Andean peasantry. The most influential strain of *katarismo* promoted a dual analysis of class and ethnic exploitation, which it called "seeing with both eyes." The Kataristas grew into a family of parties and movements which took over most of the government peasant unions by the end of the 1970s, organized an alternative union confederation with a membership of three million (CSUTCB), or Syndicated Confederation of Peasant Workers of Bolivia, and began to place in national elections. The Indian-based MRTK (Tupaj Katari Revolutionary Movement) party received 2 percent of the vote in 1985 and now forms part of the ruling coalition.<sup>49</sup>

These channels provided the vehicle for a response to austerity. As part of the ongoing liberalization drive, Paz Estensorro introduced the Agropoder rural development plan in 1986: a package of measures which, by disadvantageously reorganizing the peasantry and increasing property taxes, clearly contradicted Paz's earlier political commitments to the indigenous population. Through mobilization, the CSUTCB essentially blocked

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<sup>47</sup> According to Dwight R. Hahn, *The Divided World of the Bolivian Andes* (New York: Crane Russak, 1992), 50-70, an estimated 45% of peasants benefitted from land reform; also see Herbert Klein, *Bolivia: The Evolution of a Multi-Ethnic Society* (New York: Oxford University Press, 1992), 234.

<sup>48</sup> Dwight R. Hahn, *The Divided World of the Bolivian Andes*, 74-78.

<sup>49</sup> On government unions and MRTK electoral performance, see Herbert Klein, *Bolivia: The Evolution of a Multi-Ethnic Society*, 273; on CSUTCB membership, see Queiser Morales, *Bolivia: Land of Struggle*, 114.

implementation of the plan, and stalled a similar rural privatization proposal in 1989. Similarly, roadblocks, occupations and hunger strikes in opposition to government coca eradication programs forced a greater emphasis on crop substitution (legislation was adopted in 1987).<sup>50</sup> By the late 1980's, a combination of frustration from unimplemented governmental concessions during the early 1980s and internal divisions in the indigenous *katarista* movement shifted mobilization to the Amazonian groups.

Bolivia's Amazonian population of over 200,000 organized social movements which quickly formed alliances with the Andean groups--despite conflicts of interest between lowland natives and highland settlers displaced into eastern Bolivia. The three most important organizations for the thirty four eastern ethnic groups are the tribal APG (Asamblea del Pueblo Guarani, established in 1987), the regional CPIB (Central de Pueblos Indigenas del Beni, established in 1990), and the umbrella group CIDOB (Confederacion de Indigenas del Oriente Boliviano, established in 1980). In 1986, the cash-strapped Bolivian government had opened the Chimán Forest reserve to timber concessions, while unemployed miners and landless peasants poured into the Amazon seeking livelihoods in ranching and coca production.

The response--1990s March For Territory and Dignity--marked the emergence of the lowland movement and a broadening of indigenous mobilization. Throughout August of 1990, over 300 Amazonian Indians marched more than 600 kilometers to the capital of La Paz--in some cases, barefoot across the Andes. The lowland marchers were welcomed, supplied and sometimes joined by Quechua and Aymara highland peasants, so that over seven hundred arrived in the capital thirty two days later. The March received extensive publicity, national support from the Church and a network of one hundred NGOs, and international solidarity. In response, the government granted five new indigenous territories to three ethnic groups and a new Indian Law for the Eastern region.<sup>51</sup>

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<sup>50</sup> Dwight R. Hahn, *The Divided World of the Bolivian Andes*, 122; Waltraud Queiser Morales, *Bolivia: Land of Struggle*, 115; Juliana Strobele-Gregor, "From Indio to Mestizo to Indio: New Indianist Movements in Bolivia," *Latin American Perspectives*, Vol.21, No. 2, (1994), 106-123.

<sup>51</sup> See James Jones, "A Native Movement and March in Eastern Bolivia: Rationale and Response," *Development Anthropology Network* 8(2), Fall 1990; Kitula Libermann and Armando Godinez, (eds.),

The relative efficacy of Indian rights activity in Bolivia has been facilitated by the support or neutrality of powerful outside actors, helping to counterbalance the negative influence of adjustment pressures and providing additional channels for participation. Key figures within the Bolivian Church actively supported both Amazonian protesters and Andean rural demands for social justice.<sup>52</sup> Transnational Indian rights groups like COICA (Amazon basin Indian confederation) and indigenist advocates such as professional anthropologists further supported Bolivian indigenous organizations, notably CIDOB (Confederacion de Indigenas del Oriente Boliviano). Bolivia is one of a handful of countries to ratify the International Labor Organization's Convention 169 on indigenous rights. Bolivia also proposed and houses a new international organization, the Indigenous Peoples' Fund, which is partially financed by the Inter-American Development Bank.

During the 1990s, Bolivia's Indian rights movement diffused its platform and entered the mainstream. *Katarista* organizations gained a handful of seats in the Bolivian Parliament, while popular sector anti-austerity protests drew more and more on ethnic identity. Anti-Quincentenary protests in 1992 drew an estimated 30,000 people. Coca growers' associations mounted an ethnic critique of U.S.-backed drug eradication programs. Finally, in 1993 *katarista* leader Victor Hugo Cardenas was elected Vice-President, representing the MRTK Liberation wing on a coalition ticket with the post-revolutionary MNR party's neo-liberal Gonzalo Sánchez de Lozada. Although structurally limited by its own economic and organizational agenda, the new governmental coalition has linked decentralization proposals with indigenous demands for local autonomy,

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*Territorio y dignidad: Pueblos indigenas y medio ambiente en Bolivia* (Bolivia: Instituto Latinoamericano de Investigaciones Sociales, 1992).

<sup>52</sup> Kevin Healy, "Allies and Opposition Groups to the 1990 Indigenous Political Mobilizations in Ecuador and Bolivia." Paper presented at the XVII International Congress of the Latin American Studies Association, September 24-27, 1992, Los Angeles, California.

supports bilingual and intercultural education, and proposes increases in rural social services and local budgets.<sup>53</sup>

Nevertheless, continuing waves of privatization and restructuring in 1994 generated strikes, marches, and hunger strikes by urban workers, now joined by CSUTCB peasant protesters and coca growers' roadblocks. Initial government response was relatively accommodating: after months of escalating confrontations and some violence, the government granted pay increases for teachers and health workers, promised not to increase fuel prices, and forbid forced eradication of coca fields.<sup>54</sup> But the Sánchez de Lozada administration has now begun to trade political liberalization against economic liberalization, declaring a state of siege and arresting hundreds of labor leaders and activists in April 1995. Bolivia's Indian majority is evermore marginalized--and tiny indigenist guerrilla movements have begun to appear. One representative of the electoral left recently expressed the growing frustration with a life of seemingly endless austerity, and questioned the continuing efficacy of peaceful protest:

Won't this brutally excluding neoliberal model oblige us to seek solutions of force and violence? Will the march of indigenous peoples resolve the problem of dignity and cultural identity? Currently, the form of political representation of the [Indian] nationalities in this society is pressure.<sup>55</sup>

Peru presents a contrasting picture of the absence, closure or failure of political channels for Indian mobilization, leading to an uncontrolled explosion of guerrilla activity which had claimed some 25,000 victims and \$20 billion in infrastructure damage by 1992.<sup>56</sup> Geographic and social cleavages have stubbornly persisted in Peru, creating a divided polity in which a coastal

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<sup>53</sup> See Xavier Albó, "And from Kataristas to MNRistas? The Surprising and Bold Alliance between Aymaras and Neoliberals in Bolivia," in Donna Lee Van Cott (ed.), *Indigenous Peoples and Democracy in Latin America* (New York: St. Martin's Press, 1994).

<sup>54</sup> *Latin American Weekly Report*, May 12 and May 19, 1994.

<sup>55</sup> Leader of Eje de Convergencia Patriótica (Izquierda Unida), in Diego Cuadros, *La revuelta de las nacionalidades* (La Paz: UNITAS, 1991), 98 (author's translation).

<sup>56</sup> Felipe Ortiz de Zevallos, "Solving the Peruvian Puzzle," in Twentieth Century Fund, (ed.), *The Shadow of the Debt* (New York: Twentieth Century Fund Press, 1992), 42.

*criollo* elite dominates urban *mestizos*, the coastal region dominates the Indian highlands, and neither region has much contact with the tribal peoples of the Amazonian lowlands. The combination of Indian communities' geographic isolation, an extremely urban Peruvian left, the push of intense racism and the pull of ethnic mobility ("choloization") has led to an emphasis on class rather than ethnic identification throughout Peruvian politics.

Peru never developed a strong peasant movement. Sixteen years after Bolivia's revolution, Peru's 1968 military "revolution from above" attempted to co-opt growing rural rebellion through the establishment of a Mexican-style corporatist state. The administration of General Juan Velasco Alvarado (1968-75) granted legal status to Indian communities, established a national peasant union, and formed an umbrella popular-sector organization to promote and channel grassroots mobilization (SINAMOS), or National System to Support Social Mobilization. But Peru's land reform program substituted state cooperatives for *haciendas*, affecting coastal plantations more than the highlands and denying peasants individual plots. The attempt to reorganize the Indian community structures was largely resisted, and many peasants were excluded from the new cooperatives. Even this reform stalled when the revolutionary phase of Peru's twelve-year military regime was thwarted by the more conservative administration of General Francisco Morales Bermudez (1975-80), which outlawed its own peasant union and gutted SINAMOS. Thus, the "Peruvian experiment"<sup>57</sup> replicated patterns of *mestizo* domination and inefficiency, and nowhere was this more apparent than with the failed land reform program.<sup>58</sup>

Lacking an ethnic movement like *katarismo*, Peruvian Indians found little solace in mainstream political parties. Even the populist APRA (American Popular Revolutionary Alliance) party, inspired by the Marxist indigenism of José Mariategui, eventually became essentially a vehicle for

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<sup>57</sup> Abraham F. Lowenthal, (ed.), *The Peruvian Experiment: Continuity and Change Under Military Rule* (Princeton: Princeton University Press, 1975).

<sup>58</sup> Cynthia McClintock, *Peasant Cooperatives and Political Change in Peru* (Princeton University Press, 1981), and José Maria Caballero, "El fracaso del modelo agrario del regimen militar," in *Realidad del Campo Peruano Despues de la Reforma Agraria* (Lima: Centro de Investigación y Capacitación, 1980), 67-104.

urban *mestizos*.<sup>59</sup> Since illiterates could not vote until 1985, political parties had few electoral incentives to organize the highlands, where clientelism reigned unchallenged. A viable leftist alternative, the six-party coalition which comprised the Izquierda Unida (IU), did not gain electoral force until the early 1980s. Based in Lima's universities and shantytowns, the IU also slighted the rural sector. Extremely intense land competition in the Peruvian highlands produced a high level of inter-village conflicts, impeding the formation of regional organizations; in the Peruvian Andes, all politics is local in the worst sense.<sup>60</sup>

Very high levels of migration reflected the option of "exit" over "voice." Between 1960 and 1980, Peru's urban population grew from 46 percent to 67 percent of the national total, incorporating 2.8 percent annual population increases.<sup>61</sup> Civil conflict during the 1980s accelerated urban migration to epic proportions--between 1981 and 1990 Lima grew from 4.5 to 7 million inhabitants, and twice as many Peruvian Indians now live in cities as in rural communities.<sup>62</sup> Besides displacing villages, impoverishing refugees, and swelling shantytowns, migration has also drained the countryside of civil society and its capacity for the formation of alternatives to guerrilla violence. In some areas, conversion to fundamentalist Protestantism serves as an alternative form of psychological exit from rural crisis.<sup>63</sup>

While economic decline and guerrilla violence are commonly depicted as phenomena of the 1980s, both have roots in earlier failures, including repeated unsuccessful adjustment programs and failed corporatism prior to the debt shocks. The Shining Path guerrilla movement (Sendero Luminoso) was founded during the late 1960s by faculty at the regional University of Ayacucho, as a Maoist offshoot of the Communist Party of Peru. Guerrilla

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<sup>59</sup> See Jose Maria Caballero, "El fracaso del modelo agrario del regimen militar," 74.

<sup>60</sup> See Tome de Wit and Vera Gianotten, "The Center's Multiple Failures," 45-57, and Billie Jean Isbell, "Shining Path and Peasant Responses in Rural Ayacucho," 59-81, both in David Scott Palmer (ed.), *Shining Path of Peru* (New York: St. Martin's Press, 1992).

<sup>61</sup> Magnus Morner, *The Andean Past: Land, Societies and Conflicts* (New York: Columbia University Press, 1985), 246.

<sup>62</sup> Xavier Albó, "El retorno del indio," *Revista Andina* (Cuzco, Peru, 9.2, 1991), 299-366, esp. 321.

<sup>63</sup> See William P. Mitchell, *Peasants on the Edge: Crop, Cult, and Crisis in the Andes* (Austin: University of Texas Press, 1991), for a study of both kinds of exit in one region.

activity was initiated in 1980, and the extremely dogmatic, violent group gained rural support throughout the highlands during the 1980s. Sendero assassinated village "class enemies" such as merchants and cattle thieves, organized peasants into communal work brigades, ousted local officials and bombed government offices, clinics, power stations and development projects.

By the mid-1980s, state counterinsurgency efforts placed almost half of Peru under a state of emergency, with concomitant militarization, increase in Sendero's level of coercion, systematic human rights abuses by state and guerrilla forces, and tens of thousands of peasant casualties. Sendero expanded into Lima and the coca-growing Huallaga Valley by the end of the decade; shantytowns were rent by guerrilla organizing and assassinations, Lima was rocked by bombings, and the Shining Path gained a revenue base by taxing coca-growing peasants. Until the capture of Sendero leader Abimael Guzman in 1992, state responses were erratic, bloody, and basically ineffectual.<sup>64</sup>

From the massive literature on Sendero Luminoso, the following points seem to substantiate our hypotheses. First, the emergence of the guerrilla movement is directly related to growing inequalities and impoverishment in the highlands, and to the lack of benefit from land reform in particular. The movement spread as conditions elsewhere caught up to the misery of Ayacucho. Second, while Sendero is not an ethnic or indigenist movement, but rather a *mestizo*-led Maoist group, it strategically manipulated selected Indian vocabulary, customs, and grievances to increase its following.<sup>65</sup>

Cadres of the Shining Path are drawn disproportionately from first-generation peasant migrants to rural towns, frustrated in their social mobility

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<sup>64</sup> On the Shining Path, see Deborah Poole and Gerardo Renique, *Peru: Time of Fear* (London: Latin America Bureau, 1992); Americas Watch, *Peru Under Fire: Human Rights Since the Return to Democracy* (New Haven: Yale University Press, 1992).

<sup>65</sup> Cynthia McClintock, "Why Peasants Rebel: The Case of Peru's Sendero Luminoso," *World Politics*, Vol. 37, No. 1 (Fall 1984); David Scott Palmer, "Rebellion in Rural Peru," *Comparative Politics*, Vol. 18, No. 2 (January 1986); Ronald H. Berg, "Peasant Responses to Shining Path in Andahuaylas," in David Scott Palmer, (ed.), *Shining Path of Peru*, 83-104.

and seeking a rationalistic analysis of their continued subjugation (the same group who are "ethnic entrepreneurs" elsewhere).<sup>66</sup> Unlike nationalist or popular revolutionary forces (such as the Nicaraguan Sandinistas or the Mexican Zapatistas), Peru's guerrilla movement clearly represents an alternative to--not a final elaboration of--other forms of mobilization. Sendero Luminoso is weakest in provinces or sectors where other forms of participation exist, and for that reason has mounted assassination campaigns against rival leftist, peasant and Indian leaders.

Meanwhile, as in Bolivia, Peru's Amazonian Indians have established ethnic, territorial and regional associations, many founded during the military's twelve-year "Peruvian Experiment." But in distinction from Bolivia, the Amazonian groups have been unable to forge an alliance with Andean residents--partly because the two Belaunde administrations (1963-68, 1980-85) deliberately promoted Amazonian colonization as a solution to Andean land shortages, pitting highland Indians against their lowland counterparts.<sup>67</sup> Amazonian ethnic federations did offer active resistance to the predations of Sendero and grassroots economic development alternatives. Amazonian Indian federations have used land title struggles, land invasions, product diversification schemes, marketing "strikes," and transportation networks to improve Indian welfare and defend cultural autonomy.<sup>68</sup>

Highlands village self-defense societies (*rondas*) have also increased mobilization in recent years. The peasant *rondas* began during the early 1970s as a parallel, autonomous security force during an era of growing crime and unresolved land claims. The self-defense squads grew during the 1980s as a response to the guerrillas, and in some cases came to replace murdered or exiled village authorities; their status was legally recognized in 1986. But state attempts to organize or control peasant *rondas* as a counterinsurgency strategy

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<sup>66</sup> See Enrique Mayer, "Patterns of Violence in the Andes," *Latin American Research Review* Vol. 29, No. 2, (1994), 141-71.

<sup>67</sup> Francisco Ballón Aguirre, *Política de la supervivencia: las organizaciones de los pueblos indígenas de la amazonia peruana* (Lima: Centro de Investigación y Promoción Amazonica, 1988).

<sup>68</sup> On Amazonian mobilization, see Michael Brown and Eduardo Fernández, *War of Shadows: The Struggle for Utopia in the Peruvian Amazon* (Berkeley: University of California Press, 1991), 207-209; on development alternatives, Richard Chase Smith, Alberto Chirif Tirado, and Pedro García Hierro, *El Indígena y Su Territorio Son Uno Solo* (Lima: OXFAM/COICA/Epigraf, 1991), esp. 103-106.



led to widespread human rights abuse. Participation was often coerced, poorly armed peasants were sent out as cannon fodder to battle the guerrillas, and some rondas used counterinsurgency resources to pursue inter or intra-village grievances with false accusations of guerrilla activity.<sup>69</sup>

State response has generally been limited, as root causes of rural underdevelopment, ethnic domination, and economic crisis have not been addressed. In contrast to Bolivia, there has been little outside pressure from Peruvian institutions or counterbalancing international actors to respond to Indian demands. Despite the recent decapitation of the guerrilla movement, amnesties, and concomitant decline in Sendero violence, Fujimori's policies offer little hope for long-term resolution of grievances or peaceful channels for mobilization. As in Mexico, economic liberalization has shifted resources away from the countryside, while Constitutional changes permit the sale of communal Indian lands (predicted to lead to an increase in landlessness). Pressure for debt payments has led to privatization of the state oil company, a new oil development law and leasing of vast amounts of Amazonian lands to foreign companies--producing protests and lobbying by the Amazonian Indian federations.<sup>70</sup> One small sign of Peru's prospects can be seen in the transformation of the traditional Andean myth of the *pishtaco*, a white marauder who captures Indians and extracts their body fat. Traditionally, the *pishtaco* was believed to extract the marrow of natives to build Churches--now, human flesh is said to be used to pay the foreign debt.<sup>71</sup>

Mexico presents an intermediate scenario, with the recent collapse of a long tradition of state incorporation and its replacement by an unclear mixture of new opportunities and new constraints. Mexico's Revolution produced a 1917 Constitution which restored land to Indian villages (about 85 percent of the land distributed) via state owned *ejidos* which subdivided large estates into individual small plots. Limits and reversals of land reform were followed by successive waves of additional redistribution in 1940 under

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<sup>69</sup>. See Xavier Albó, "El retorno del indio," 324; Americas Watch.

<sup>70</sup> Nativenet, Oct. 21, 1993, Edward Hammond, "Indians Seek Changes to Peru's Pending Hydrocarbons Law."

<sup>71</sup> Enrique Mayer, "Patterns of Violence in the Andes," 152, and Billie Jean Isbell, "Shining Path and Peasant Responses in Rural Ayacucho," 74.

Cárdenas and during the 1970s under Echeverría, both attempting to form truly collective *ejidos* with little success.

Northern Mexico quickly developed commercial agriculture which circumvented limits on holdings, while the heavily indigenous South reverted to a pattern of subsistence smallholdings (sometimes formally *ejidos*) interspersed with large estates. As in Bolivia, Mexico's ruling post-revolutionary party (the PRI) established a national peasant union which became a pillar of the corporatist system.<sup>72</sup> The Mexican regime outlawed ethnically based groups and dominated any space for cultural mobilization through the National Indian Institute and policies of *indigenismo*: selective promotion of Indian cultural practices by sympathetic intellectuals (and later bilingual elites), along with limited and paternalistic rural development initiatives. While the Mexican state hegemonized both class and ethnic channels for mobilization, contradictions between these channels were often visible.<sup>73</sup>

Under this system, as in Peru, social channels for challenge to state policy were absent or ineffective. Autonomous peasant organizations were coopted or repressed, as were indigenous cultural associations. The regime manipulated peasant leaders through state control of *ejidos*, rural credit and resources, individual land titles, and clientelistic relationships between rural elites and the PRI. Traditional organs of civil society like churches and political parties exercised little influence (and even if they had, both were largely oblivious to Indian concerns). In contrast to its Andean counterparts, the Mexican military was firmly subordinated to the ruling party. As in Peru, migration drained the countryside of organizers. Mexico's inward-looking development model and nationalist foreign policy limited opportunities for the types of outside pressure which had increased state responsiveness in Bolivia.<sup>74</sup>

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<sup>72</sup> See Roger Bartra, *Agrarian Structure and Political Power in Mexico* (Baltimore: Johns Hopkins University Press, 1993).

<sup>73</sup> Julio Tresierra, "Mexico: Indigenous Peoples and the Nation-State," in Donna Lee Van Cott (ed.), *Indigenous Peoples and Democracy in Latin America*, 187-210.

<sup>74</sup> See Roderic Camp, *Politics in Mexico* (New York: Oxford University Press, 1993); Alan Knight, "State Power and Political Stability in Mexico," in Neil Harvey, (ed.), *Dilemmas of Transition* (New York: Institute of Latin American Studies, University of London and the British Academic Press, 1992).

Ethnically specific Indian rights mobilization began during the 1960s and 1970s--a time of overall growth but widening inequalities. Many of the early Indian rights movements were ultimately captured by the state, which founded its own National Indigenous Movement in 1973 and sponsored national congresses in 1974 and 1975.<sup>75</sup> Nevertheless, truly autonomous challenges were mounted at the local level in several regions. In Oaxaca, coastal Zapotecs organized a peasant-worker-student movement (Coalición de Obreros, Campesinos y Estudiantes del Istmo, or COCEI) in 1973; after more than a decade of protest, cultural assertion, and persistent electoral pressure, the movement gained control of twenty seven municipalities and instituted significant reforms.<sup>76</sup> By the 1980s, there were ongoing conflicts in at least half of Chiapas' municipalities and dozens of new organizations throughout Mexico (although many were socio-economic campaigns involving Indian populations rather than ethnic-framed indigenous rights groups). Chiapas' organizations represent a microcosm of strategies, ranging from mobilization for negotiation (the Unión de Uniones Ejidales) to organization for electoral challenge (the CIOAC) to confrontational direct action (Organización Campesina Emiliano Zapata).<sup>77</sup>

Mexico's political transformation of the 1980s has opened some new channels for participation and given new meaning to perennial forms of resistance, but the rupture of incorporation has not yet fostered systematic and accountable institutional mechanisms. Preexisting peasant/indigenous organizations such as the Frente Independiente de Pueblos Indios have assumed a more combative role vis-a-vis state policy, while other local groups have merged into composite organizations like Chiapas' Organización

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Evidence on the exit of organizers through migration stems from authors' confidential interviews conducted within Mexico's Ministry of Social Development, Mexico City, June 1995.

<sup>75</sup> Julio Tresierra, "Mexico: Indigenous Peoples and the Nation-State," 197-99.

<sup>76</sup> See Jeffrey W. Rubin, "Indigenous Autonomy and Power in Chiapas: Lessons From Mobilization in Juchitán," in Neil Harvey, (ed.), *Rebellion in Chiapas: Rural Reforms, Campesin Radicalism and the Limits of Salinismo* (La Jolla: Center for U.S.-Mexico Studies, University of California at San Diego, 1994); Manuel Ballesteros, "Indigenous Resistance and Self-Management," in *Indigenous Self-Development in the Americas: Proceedings of the IWGIA Symposium at the Congress of Americanists, Amsterdam, 1988* (Copenhagen: International Work Group for Indigenous Affairs, 1989).

<sup>77</sup> Thomas Benjamin, *A Rich Land, A Poor People: Politics and Society in Modern Chiapas* (Albuquerque: University of New Mexico Press, 1989), 236; Neil Harvey, "Rebellion in Chiapas," in Neil Harvey (ed.), *Rebellion in Chiapas*, 46.

Campesina Emiliano Zapata. New groups have been founded in the new political space opened up by the decline of PRI hegemony, such as the Maya Organization for the Liberation of the Mayan People (COLPUMALI) (1990) and the Comité de Defensa de la Libertad Indígena (1992). In 1990, the state founded its own umbrella indigenous organization (Congreso Indio Permanente), which inspired the formation of a counter-federation by twenty three NGOs.<sup>78</sup> All of these organizations gained relative space within the opposition as well as absolute presence, as non-ethnic popular sector organizations often failed to mobilize in response to adjustment. The 1992 anti-Quincentenary protests in Chiapas' provincial capital of San Cristobal de las Casas drew almost ten thousand, with tens of thousands more in Mexico City.<sup>79</sup> Echoing Bolivia's March for Territory and Dignity, four hundred Indians marched from Palenque to Mexico City in 1992 to protest violent evictions, gaining national attention.<sup>80</sup>

But the main beneficiaries of regime-level electoral democratization have been opposition political parties, which have not connected with rural Indian communities until quite recently. As in Peru, the leftist opposition (PRD--Partido Democratico Revolucionario) was urban-based and lacked electoral opportunities to mobilize the fraud-racked countryside. In general, Mexico's leftist parties have not fully resolved or articulated their relationship with social movements such as the Indian groups.<sup>81</sup>

Furthermore, Mexican political elites have crafted new, non-party forms of control within the parameters of the democratic opening. In 1990, the state responded to rural advances by the PRD by creating a new peasant federation (CAP) to incorporate independent peasant organizations which had been allowed to grow outside of the officially sanctioned one (the CNC). Similarly, a new state-linked indigenist umbrella group was formed to "coordinate" half a dozen autonomous Indian organizations. Other

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<sup>78</sup> See Julio Tressiera, "Mexico," 206.

<sup>79</sup> Heidi Moksnes, "Indigenous Mobilization in Mexico," *IWGIA Newsletter*, No. 1, Jan/Feb./March 1993, 55-57.

<sup>80</sup> Neil Harvey, "Rebellion in Chiapas," 34.

<sup>81</sup> Sergio Sarmiento Silva, "Movimientos indígenas y participación política," in Arturo Argueta and Arturo Warman, (eds.), *Nuevos enfoques para el estudio de las etnias indígenas* (Mexico: UNAM, 1991).

independent popular organizations are offered new rewards for signing "concertation" agreements supporting state economic policies--including preferential channeling of funds from the National Solidarity Program created to buffer economic adjustment. Rural clientelism has been bolstered in some areas by a combination of pork-barrel carrots (PRI, Solidarity, and INI funds) and the stick, as reported rural violence has increased dramatically.<sup>82</sup> The Salinas government attempted to address some indigenous cultural and legal demands without granting access to the centers of economic decision-making. Thus, the 1991 Constitutional reform of Article 27 permitting the sale of *ejido* lands was "balanced" by a reform of Article 4 recognizing Mexico as a pluricultural state--but the new Article guaranteeing their cultural rights was drafted without the participation of indigenous people themselves.<sup>83</sup>

Changes in the Mexican political landscape have breached the hermetically sealed PRI system and opened it to some counterbalancing influences from outsiders, although less than in Bolivia. Mexican clergy such as Bishop Samuel Ruiz have played a role as Indian rights advocates (and later Chiapas peace negotiator with the government). In some areas, Protestantism has served as a form of resistance to coopted local Indian authorities, resulting in over fifteen thousand violent expulsions of evangelical/dissidents in Chiapas.<sup>84</sup> While the implementation of NAFTA on January 1, 1994, catalyzed the mobilization of the Zapatista guerrillas, it also focussed international media attention on Mexico which probably helped to reduce the level of repression--allowing the rebellion to grow into a political movement.<sup>85</sup> Mexico's growing role as a regional power has strengthened its "progressive" declaratory foreign policy stance; like Bolivia,

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<sup>82</sup> See Neil Harvey, "The Limits of Concertation in Rural Mexico," in Neil Harvey, (ed.), *Dilemmas of Transition*, 199-217. Judith Adler Hellman, "Mexican Popular Movements, Clientelism, and the Process of Democratization," *Latin American Perspectives*, Vol. 21, No. 2, (Spring 1994), 124-142; and, Jonathan Fox, "Targeting the Poorest: The Role of the National Indigenous Institute in Mexico's Solidarity Program," in Wayne Cornelius, Ann Craig, and Jonathan Fox, (eds.), *Transforming State-Society Relations in Mexico*.

<sup>83</sup> Julio Tresierra, "Mexico," 201-203.

<sup>84</sup> See Oliver Tickell, "Indigenous Expulsions in the Highlands of Chiapas," *IWGIA Newsletter*, Vol. 1, No. 2, Sept-Oct. 1991, 9-14.

<sup>85</sup> Juanita Darling, "Mexico Rebels See U.S. as Key to Peace Agreement," *Los Angeles Times*, February 24, 1994, A7.

Mexico has also ratified ILO Convention 169 and served as an advocate for indigenous rights at the United Nations.

Unlike Peru's guerrilla movement, Mexico's Zapatista uprising was the culmination of decades of peasant mobilization and embryonic but vital grassroots Indian movements, firmly rooted in a mass base.<sup>86</sup> Mexico's Zapatista movement also differs from the Shining Path in its tactics, strategy, and demands. In contrast to Sendero, Mexican rebels used violence sparingly, clearly targetting state authorities in pursuit of a reformist political program. Zapatista demands include repeal of the *ejido* reforms, fair elections, indigenous autonomy, and improvements in food, health, housing and education programs.<sup>87</sup>

But the EZLN does share structural roots with Sendero: an impoverished and isolated regional base which has been differentially disadvantaged by economic adjustment and the failure or closure of channels for peaceful change. Chiapas is by any measure Mexico's poorest region, rich in natural resources but historically hobbled by neo-feudalistic structures and failures of land reform. The recent *ejido* reforms hit Chiapas especially hard; first because nearly 54 percent of this state's land was designated as government sponsored *ejidos*, and second, the state still suffers a huge backlog of unresolved land titles. Moreover, for the many landless of Chiapas, the *ejido* reform symbolized the end of the hope of securing land ownership via legal channels. Although the liberalization of land ownership and agricultural trade has already begun to exert massive pressures for urban migration, the government has offered very little in the way of compensatory incentives for those most affected. Repeated waves of peaceful popular responses to these destructive trends were blocked in Chiapas. Even officials of the government's own Indigenous Institute were jailed by PRI

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<sup>86</sup> See Neil Harvey, "Rebellion in Chiapas," 28-35, on the connections between the Zapatistas and previous or concurrent forms of peasant organization.

<sup>87</sup> For general accounts of the uprising, see George Collier, *Basta: Land and the Zapatista Rebellion in Chiapas* (Oakland: Institute for Food and Development Policy, 1994); Stephen J. Wager and Donald E. Schulz, *The Awakening: The Zapatista Revolt and Its Implications For Civil-Military Relations and the Future of Mexico* (U.S. Army War College, 1994).

representatives in Chiapas state for supporting independent peasant associations.<sup>88</sup>

The critical question for Mexico--as it was for Peru--then becomes, "How generalizable are conditions in Chiapas?" Although Chiapas has suffered an extreme combination of negative consequences of liberalization, core elements such as privatization of *ejido* lands, cuts in agricultural credit, and declines in cash crops such as coffee are predicted to have similar effects on a lesser scale throughout rural Mexico.<sup>89</sup> Whereas just 3 percent of the working population in the U.S. still works the land, the equivalent for Mexico is 26 percent--a figure which drives home the drastic need for transitional relief within the agricultural sector.<sup>90</sup> Against this backdrop, the rebels' appeal to both class and ethnicity, combining political and economic demands, has resonated widely in a system where access to economic decision-making has been routinely denied, identities have been hegemonically imposed, and rural adjustment assistance sorely lacking. For the country's increasing number of landless, the situation is even more dire. It is not surprising, then that a February 1994 national opinion polls showed 75 percent support for the Zapatistas' grievances and program (although not for armed struggle).<sup>91</sup> The rebellion has inspired or encouraged protests by independent indigenous groups and their supporters throughout Mexico: in Mexico City, Chiapas, Oaxaca, Morelia, Tampico, Sonora, Tamaulipas, and Guerrero. Local landowners and officials have organized paramilitary squads, leading to increasing clashes with militant peasants and several deaths of indigenous leaders.<sup>92</sup>

As the social consequences of past adjustment feed back to the prospects for future economic liberalization, the recent conflict is partially responsible

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<sup>88</sup> See Neil Harvey, "Rebellion in Chiapas," 1-43, and Luis Hernandez Navarro, "The Chiapas Uprising," 44-56, both in Neil Harvey (ed.) *Rebellion in Chiapas*.

<sup>89</sup> Santiago Levy and Sweder van Wijnbergen, "Transition Problems in Economic Reform: Agriculture in the Mexico-U.S. Free Trade Agreement," Policy Research Working Papers, Country Department II, Latin America and the Caribbean, The World Bank, August 1992.

<sup>90</sup> Gary Clyde Hufbauer and Jeffrey J. Schott, *North American Free Trade: Issues and Recommendations* (Washington, DC: Institute for International Economics, 1992), 279, 294-295.

<sup>91</sup> Tim Golden, "Rebels Battle For Hearts of Mexicans," *New York Times*, February 26, 1994, 5.

<sup>92</sup> *Latin American Weekly Report*, February 24, March 17, April 21, 1994.

for the faltering of investor confidence in Mexico and the flight of billions of dollars in portfolio investment funds which, in turn, precipitated a 40 percent decline in the value of the peso by early 1995. Now more than ever, the restoration of political stability in Mexico depends on greater participation and accountability--but in this particular case economic liberalization has increasingly conflicted with political liberalization. Indeed, although the government of Ernesto Zedillo has little left but political concessions to offer the Zapatistas in the wake of the peso crisis, international financial markets have thus far responded to such peaceful gestures with ambivalence.<sup>93</sup>

## Conclusion

As large portions of the world struggle with the triple challenges of economic adjustment, political liberalization, and ethnic integration, the experiences of Bolivia, Mexico, and Peru offer valuable insights. First, contrary to much of the new post-cold war common wisdom, we see that the growing influence of market forces does not automatically or necessarily imply support for democratization and political stability. Particularly in the developing country context, economic and political liberalization are likely to conflict when shrinking the state also removes channels for popular participation and accountability.

This trend is evident in Peru where, despite the enormous strides that have been made with economic restructuring, the Fujimori government has procrastinated in carving out a viable everyday role for the country's indigenous peoples. Part of this is a generalized problem, whereby communication channels between the executive office and societal groups are still rigidly controlled, even though the country has officially returned to civilian rule.<sup>94</sup> However, given that relations between the Peruvian state and indigenous groups were tense to begin with, such liberalizing measures as the removal of all limits on the size of land ownership--a bill passed by the Peruvian Congress in 1995 with minimal debate and no consideration for preserving the indigenous communities located in the *sierra* and the

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<sup>93</sup> Tod Robberson, "Recall Mexican Army, Chiapas Rebels Warn," *The Washington Post*, February 17, 1995, A28.

<sup>94</sup> Cesar Arias Quincot, *La modernizacion autoritaria* (Lima: Fundacion Friedrich Ebert, 1994).



Amazonian regions--have only increased pre-existing levels of distance and distrust.<sup>95</sup> The Bolivian experience, on the other hand, has shown us that such a standoff is not structurally predetermined. There, state responsiveness to ethnic constituencies and socially conscious adjustment strategies have helped to mitigate violence in even an apparently worst-case situation.

A second insight is that when those who bear most of the adjustment burden are also challengers to national identity, states ignore this challenge at their peril. As Bolivia's Aymara Vice-President Cardenas has summed up the situation:

Where does exclusion lead? Sooner or later to confrontation between Bolivians. Because when the excluded lack channels of expression within the political system, they seek other methods. Indigenous and non-indigenous must unite to transform the structure of our country.<sup>96</sup>

In Peru, Cardenas' warning came to life in 1980, with Sendero Luminoso's first acts of violence against the state, and in Mexico with the Zapatista uprising on January 1, 1994. In the former case, there is no doubt that the tendency for political leaders during the 1980s to disavow violent ethnically-based opposition groups as freak phenomena only spawned further violence; even now, despite the capture of Sendero's leader in 1992 and the Fujimori government's widespread claim to have restored "the rule of law," intense conflict between state forces and guerrilla insurgents continues in parts of the countryside.<sup>97</sup> Our point is that, because so little effort has been made to address the underlying political and economic problems which gave rise to violent ethnically-based opposition in the first place, it is simply too soon to declare the problem resolved.

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<sup>95</sup> "First Reactions to the Land Law," *The Peru Report*, Vol. 9, No. 5 (1995), 23-28.

<sup>96</sup> The quote is cited in Richard Bauer, "Symbols are Important," *Financial Times*, November 9, 1994; also see Jack Epstein, "Reversing its History, Bolivia Gives Power to Indigenous People," *The Christian Science Monitor*, February 16, 1995, 7.

<sup>97</sup> Carlos Tapia, "Balance de la lucha contrasubversiva durante el primer gobierno de Fujimori," *Socialismo y Participacion*, No. 70 (Junio 1995), 33-40; *Latin American Weekly Report*, June 16 and May 19, 1994, March 23, 1995.

In the Mexican case, policy makers appear to have under-estimated the disruptive impact that the liberalization of agricultural credit, prices, and land ownership would have on the indigenous population, while also over-estimating the propensity and ability of these groups to defend their economic interests within the country's burgeoning urban informal sector.<sup>98</sup> To the surprise of the country's elite, rather than exiting peacefully from the countryside, the Zapatistas have now cast a long shadow over Mexico's future as a successful NAFTA partner. Because of this, the manner in which this conflict is finally resolved could permanently transform the domestic political economy in a direction more favorable to indigenous groups.

Finally, the good news is that policy matters. Our analysis has identified education investment and rural property rights as key variables in ameliorating the ethnic impact of adjustment policy. Recent research on education policy has shown that, while all three of the cases discussed here have suffered from low scholastic achievement, poor teaching quality, and the lack of physical facilities and support materials, a substantial increase in education investment can quickly turn the situation around.<sup>99</sup> The long-run return to increased state subsidization of primary education, even at the expense of cutting university subsidies, is indisputable, both in terms of higher worker productivity, and as the figures for Bolivia and Mexico in Table 3 show particularly in terms of the corresponding income gains for indigenous groups.

As for rural property rights, there are two main policies which pertain to an improvement in the status of indigenous groups. The first concerns some preservation of indigenously-held lands, challenges which are especially urgent in the Mexican and Peruvian cases. In both instances, the rapid liberalization of land tenure rights has rapidly outpaced the actual distribution of property titles, leaving each country's indigenous population hard pressed to secure land rights. A second policy concerns the need for

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<sup>98</sup> Jonathan Fox, "Political Change in Mexico's New Peasant Economy," in Maria Lorena Cook, Kevin Middlebrook, and Juan Molinar Horcasitas, (eds.), *The Politics of Economic Restructuring: State-Society Relations and Regime Change in Mexico* (La Jolla: Center for U.S.-Mexico Studies, University of California at San Diego, 1994), 268-270.

<sup>99</sup> These findings on the impact of education investment are discussed in George Psacharopoulos, "Time Trends of the Returns to Education," 225-231.

vigorous public infrastructure investments geared toward major land improvements (e.g., roads, irrigation, drainage) in all three of the countries considered here, which could quickly increase the value and the productivity of those lands worked by the indigenous poor.<sup>100</sup>

To conclude, this comparative analysis has illustrated that even though market reforms can be quite costly--in terms of welfare, political discord, and social cohesion--state policy makers need not cave in to those costs in the name of economic restructuring. Even in a highly competitive liberalizing world, there is still ample leeway on the domestic front for cultivating and maintaining the kinds of participatory mechanisms and remedial policies which can help channel ethnic strife in a manner which renders free markets and democratic politics more compatible. What these three cases have shown us is that the relationship between open markets and open politics is far more complicated than today's reformers have allowed, and that the option of ignoring ethnic demands in hopes that they will dissipate is now foreclosed.

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<sup>100</sup> See Santiago Levy and Sweder van Wijnbergen, "Transition Problems in Economic Reform: Agriculture in the Mexico-US Free Trade Agreement."

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Table 1

Macroeconomic Performance and the Social Impacts of Adjustment in Latin America 1980-1990																	
		Y/Y	PCY/PCY	(G/NFS) X/Y	(G/NFS) M/Y	(G/NFS) TB/Y	GDI/GDP	PRV/GDP	PUB/GDP	REER	INFLATION	DFI	EDU	HEALTH	HSSW	EXDBT	
Argentina	1980	1.9	0.4	8.0	17.2	-9.2	22.8	13.9	8.9	47.7	87.6	\$568	100.0	1.4	34.2	17.6	
	1981	-6.9	-8.4	9.1	16.7	-7.6	20.1	11.5	8.6	60.1	131.3	\$730	89.4	1.4	34.2	28.7	
	1982	-5.5	-7.0	10.0	10.2	-0.2	15.3	8.2	7.1	126.5	209.7	\$197	65.6	1.1	29.4	76.6	
	1983	2.9	1.5	10.5	9.4	1.0	14.1	7.6	6.5	115.7	433.7	\$183	85.9	1.4	33.9	70.8	
	1984	0.9	0.9	10.2	9.8	0.4	12.5	7.9	4.6	100.6	688.0	\$268	82.9	NA	NA	62.6	
	1985	-4.8	-6.2	12.0	8.8	3.2	11.6	7.6	4.0	113.1	385.4	\$919	69.9	1.8	38.3	77.4	
	1986	6.0	4.7	10.4	9.8	0.6	8.9	4.3	4.6	97.2	81.9	\$574	66.4	1.3	33.0	66.6	
	1987	2.4	1.1	10.4	10.4	0.0	13.3	7.6	5.7	100.0	174.8	(\$19)	73.5	1.9	32.7	72.6	
	1988	-3.0	-4.3	12.8	9.2	3.6	11.5	5.4	6.1	86.6	387.8	\$1,147	67.5	2.1	32.0	62.6	
	1989	-4.1	-5.3	13.9	7.9	6.0	8.8	4.1	5.0	135.4	4923.3	\$1,028	55.5	2.0	40.9	107.6	
1990	-0.5	-1.8	16.3	8.0	8.3	7.5	4.5	3.0	79.9	1343.9	\$2,008	NA	2.0	40.9	58.7		
Bolivia	1980	-0.9	-3.6	13.8	17.5	-3.7	14.4	7.4	7.0	81.8	23.9	\$47	100.0	7.2	2.7	53.9	
	1981	0.9	-1.7	13.1	23.9	-10.7	11.5	4.0	7.5	65.0	25.1	\$76	78.5	7.2	2.7	46.3	
	1982	-4.4	-7.0	14.0	15.6	-1.6	11.4	5.7	5.7	75.2	296.6	\$31	75.4	2.0	1.2	56.9	
	1983	-4.5	-7.1	14.6	17.0	-2.4	7.0	2.8	4.2	72.7	328.7	\$7	70.2	3.1	18.0	69.4	
	1984	1.0	-1.6	14.0	14.1	-0.0	6.0	3.4	2.6	69.2	2176.2	\$7	92.8	NA	NA	67.8	
	1985	-0.7	-3.2	13.3	20.1	-6.8	4.5	2.3	2.2	85.0	8170.4	\$10	NA	1.5	5.4	93.9	
	1986	-3.2	-5.7	15.9	20.2	-4.3	4.9	2.4	2.5	105.4	66.0	\$10	50.0	1.4	6.0	143.6	
	1987	2.6	0.1	15.1	21.4	-6.2	3.0	2.0	3.2	100.0	10.7	\$36	62.5	NA	NA	135.4	
	1988	3.8	1.3	15.5	18.4	-2.9	5.9	2.0	3.9	105.2	21.5	(\$12)	61.3	1.9	25.6	110.8	
	1989	2.9	0.4	18.8	19.9	-1.2	6.1	2.0	4.1	111.5	16.6	(\$25)	66.1	6.6	14.6	91.7	
1990	2.4	-0.1	21.2	21.4	-0.2	5.9	1.9	4.0	118.5	18.0	\$26	65.0	2.3	17.9	94.9		
Brazil	1980	9.1	6.8	6.4	8.9	-2.5	22.9	14.7	8.2	92.7	86.3	\$1,544	100.0	8.0	32.0	29.8	
	1981	-4.4	-6.7	8.1	8.1	0.0	22.9	13.8	8.1	86.3	100.6	\$2,313	106.6	7.4	34.8	30.7	
	1982	0.6	-1.7	7.3	7.6	-0.3	21.4	13.0	8.4	82.8	101.8	\$2,534	128.7	7.8	35.6	33.0	
	1983	-3.4	-5.7	8.6	6.5	2.1	18.1	11.5	6.6	112.2	177.9	\$1,373	97.4	7.3	35.1	48.4	
	1984	5.4	3.2	10.0	6.0	4.0	16.9	10.9	6.0	117.8	208.7	\$1,556	83.8	NA	NA	50.5	
	1985	7.9	5.8	9.9	5.5	4.4	16.9	10.5	6.5	118.5	248.6	\$1,267	103.4	7.6	32.7	47.6	
	1986	8.0	6.0	8.2	6.6	1.6	19.1	12.5	6.6	103.4	63.5	\$177	135.6	6.4	23.7	42.4	
	1987	3.3	1.4	9.5	6.2	3.3	22.3	15.2	7.1	100.0	432.3	\$1,087	175.3	NA	NA	42.1	
	1988	-0.2	-2.1	10.7	6.1	4.6	22.8	15.5	7.4	92.9	1006.4	\$2,794	191.7	9.5	24.2	35.2	
	1989	3.3	1.4	10.9	6.5	4.4	24.9	18.6	6.2	74.0	1759.2	\$744	270.3	6.1	21.0	24.9	
1990	-4.2	-6.0	10.8	7.4	3.4	21.7	15.0	6.6	69.3	1657.7	\$236	147.0	7.2	20.1	24.6		
Chile	1980	7.8	6.2	23.7	30.4	-6.7	21.0	15.6	5.4	54.8	31.2	\$213	100.0	7.4	37.1	43.8	
	1981	5.5	3.9	20.4	33.3	-12.9	22.7	17.5	5.2	53.3	9.5	\$383	110.8	6.4	42.6	48.0	
	1982	-14.1	-15.8	24.9	24.7	0.2	11.3	6.5	4.8	62.6	20.7	\$401	108.5	6.8	45.1	71.1	
	1983	-0.7	-2.4	25.2	21.1	4.1	9.8	4.9	4.9	77.6	23.1	\$135	92.4	6.0	45.7	90.7	
	1984	6.3	4.6	25.3	23.1	2.2	13.6	7.3	6.3	86.9	23.0	\$78	93.6	NA	NA	102.8	
	1985	2.4	0.7	26.4	20.1	6.3	13.7	6.8	6.9	106.4	26.4	\$14	91.4	6.1	43.8	127.4	
	1986	5.7	4.0	27.5	20.9	6.6	14.6	7.0	7.6	103.8	17.4	\$116	88.9	6.0	42.6	125.7	
	1987	5.7	4.0	28.3	23.1	5.2	16.9	10.3	6.6	100.0	21.5	\$230	84.0	6.0	42.6	113.4	
	1988	7.3	5.7	28.0	24.1	3.8	17.0	8.2	8.8	95.8	12.7	\$141	76.3	6.3	39.2	88.7	
	1989	10.0	8.4	29.5	27.5	2.1	20.3	13.7	6.6	96.2	21.4	\$184	NA	5.9	33.9	71.1	
1990	2.1	0.5	31.0	27.0	3.9	20.2	15.6	4.6	93.0	27.3	\$249	NA	5.9	33.9	68.8		
Colombia	1980	4.1	1.9	15.0	16.0	-0.9	19.0	11.4	7.6	75.9	25.9	\$51	NA	3.9	21.2	20.8	
	1981	2.1	-0.1	13.0	16.4	-3.4	20.6	12.0	8.6	77.7	26.3	\$228	NA	NA	NA	24.0	
	1982	1.0	-1.2	12.7	17.6	-4.9	20.5	11.1	9.4	74.7	24.1	\$337	NA	NA	NA	26.4	
	1983	1.6	-0.6	12.4	15.7	-3.4	19.9	11.0	8.9	77.3	16.6	\$514	NA	NA	NA	29.5	
	1984	3.6	1.5	13.2	14.6	-1.4	19.0	10.0	9.0	83.0	18.3	\$561	NA	NA	NA	31.5	
	1985	3.3	1.3	14.6	13.2	1.4	19.0	9.4	9.6	93.5	22.5	\$1,016	NA	NA	NA	40.8	
	1986	6.1	4.2	16.6	12.9	3.6	17.7	9.2	8.5	96.2	20.9	\$642	NA	NA	NA	44.0	
	1987	5.4	3.5	16.9	12.9	4.0	17.4	8.3	9.1	100.0	24.0	\$293	NA	NA	NA	46.8	
	1988	4.1	2.3	16.3	13.2	3.1	19.5	11.0	8.5	100.4	28.2	\$159	NA	NA	NA	43.3	
	1989	3.4	1.7	17.1	12.4	4.7	18.0	9.6	8.4	108.1	26.1	\$547	NA	NA	NA	42.7	
1990	4.0	2.2	19.2	13.2	6.0	16.0	8.5	7.5	114.3	32.4	\$484	NA	NA	NA	42.8		
Mexico	1980	8.4	5.9	11.7	23.5	-11.8	24.8	13.9	10.9	58.1	29.8	\$2,156	100.0	2.4	18.5	29.5	
	1981	8.8	6.4	12.0	25.5	-13.5	26.4	14.3	12.1	53.7	28.7	\$2,835	124.0	1.9	18.8	31.3	
	1982	-0.6	-2.9	14.7	15.9	-1.2	23.0	12.8	10.2	78.4	98.9	\$1,655	129.4	1.3	12.9	49.5	
	1983	-4.2	-6.4	17.5	11.0	6.5	17.6	11.0	6.6	88.7	80.8	\$461	89.7	1.2	12.5	62.4	
	1984	3.7	1.6	17.8	12.5	5.3	17.9	11.3	6.6	79.8	59.2	\$390	92.4	NA	NA	54.0	
	1985	2.7	0.8	16.6	13.5	3.0	19.1	12.5	6.6	77.7	63.7	\$491	94.4	1.5	11.9	52.5	
	1986	-3.9	-5.8	18.1	12.3	5.8	19.4	12.9	6.5	103.4	105.7	\$1,523	81.0	1.4	11.4	77.9	
	1987	1.8	0.0	19.5	13.4	6.1	18.4	12.9	5.5	100.0	159.2	\$3,246	79.7	1.3	8.5	78.2	
	1988	1.2	-0.5	20.4	18.1	2.3	19.1	14.7	4.4	86.0	51.7	\$2,594	75.7	1.1	9.3	58.9	
	1989	3.4	1.6	20.3	21.3	-1.0	18.2	14.4	3.8	78.1	19.7	\$3,037	84.6	1.7	10.3	46.6	
1990	4.5	2.7	20.1	24.2	-4.1	18.9	14.8	4.1	71.6	29.9	\$2,632	79.0	1.9	13.0	40.3		
Peru	1980	3.1	0.5	14.7	16.6	-2.0	NA	NA	NA	94.0	60.8	\$27	100.0	5.6	0	45.1	
	1981	7.4	4.9	13.8	18.4	-4.6	28.8	21.5	7.3	91.7	72.7	\$125	100.2	5.3	1.1	34.5	
	1982	-1.5	-3.8	14.8	18.9	-4.1	29.7	21.3	8.5	92.8	72.9	\$48	NA	NA	NA	43.2	
	1983	-12.3	-14.5	15.2	16.0	-0.9	23.7	15.0	8.7	107.0	125.1	\$38	125.1	6.2	0.8	59.4	
	1984	6.7	4.5	15.5	12.1	3.4	21.0	12.8	8.1	112.6	111.5	(\$89)	125.0	NA	NA	61.3	
	1985	2.0	-0.2	15.6	10.9	4.7	18.2	12.0	6.2	140.9	158.3	\$1	118.5	NA	NA	79.8	
	1986	7.7	5.5	12.6	12.6	0.0	20.5	15.1	5.4	102.1	62.9	\$22	161.0	NA	NA	63.9	
	1987	9.8	7.6	10.9	12.6	-1.7	19.8	15.3	6.8	100.0	14.5	\$32	116.9	NA	NA	63.0	
	1988	-8.2	-10.3	10.6	12.0	-1.3	22.1	17.9	4.2	147.3	1722.1	\$26	100.5	5.8	NA	6.2	
	1989	-11.8	-13.9	14.9	11.6	3.3	16.2	12.7	3.5	86.3	2775.3	\$59	91.2	5.5	NA	75.3	
1990	-4.4	-6.4	14.1	13.9	0.2	14.2	12.0	2.3	70.7	7649.7	\$41	NA	5.1	0.1	82.3		

Y/Y = Percent Change in GDP.  
PCY/PCY = Percent Change in per capita GDP (% change in RGDP -% change in population).  
G/NFS = Goods and Non-Financial Services.  
X/Y = Export earnings on goods and non-financial services as percent of GDP.  
M/Y = Imports of goods and non-financial services as percent of GDP.  
TB/Y = Trade balance of goods and non-financial services as percent of GDP (Exports-Imports/GDP).  
GDI/GDP = Gross Domestic Investment as a percent of GDP.  
PRV/GDP = Domestic Private Investment as a percent of GDP.  
PUB/GDP = Domestic Public Investment as a percent of GDP.  
REER = Real Effective Exchange Rate.  
Inflation = December to December percent change in consumer prices.  
DFI = Direct Foreign Investment in millions of \$US  
EDU = Index of per capita expenditure on education (1980 = 100)  
HEALTH = Percentage of government expenditure  
HSSW = Percentage of government expenditure on housing, social security, welfare  
EXDBT = External Debt as percent of GDP

All figures except inflation and GDI/GDP are compiled from the World Bank's World Tables 1993. GDI/GDP figures are from Guy P. Pfeffermann and Andrea Madarassy, Trends in Private Investment in Developing Countries 1993 (Washington, DC: The World Bank, 1993), pp. 14-17. Brazil figures for GDI/GDP are separate World Bank estimates. Inflation is compiled from data found in IFS CDROM 1993.

\*The real effective exchange rate was calculated using the conversion factor and GDP deflator found in the World Tables and the US Wholesale Price Index found in IFS.

() Signifies deficit.

Table 2

Patterns of Economic Adjustment								
1982	1983	1984	1985	1986	1987	1988	1989	1990
Bolivia: Shock	1982-1985			1985-1986				
	<ul style="list-style-type: none"> <li>•Six failed stabilization plans launched</li> </ul>			<ul style="list-style-type: none"> <li>•Tight monetary policy</li> <li>•Freeing of public prices</li> <li>•Exchange rate unification (managed exchange rate)</li> <li>•Trade liberalization</li> <li>•Tax reform</li> <li>•Renegotiation of external debt</li> <li>•Privatization</li> <li>•Emergency Social Fund launched 1985</li> </ul>				
Mexico: Gradual	1983-1985			1986-1987			1987-Present	
	<ul style="list-style-type: none"> <li>•Tight fiscal and monetary policy</li> <li>•Freeing of public sector prices</li> <li>•Dual exchange rate</li> <li>•Trade liberalization</li> <li>•Debt restructuring</li> </ul>			<ul style="list-style-type: none"> <li>•Tighter fiscal and monetary policy</li> <li>•Acceleration of trade liberalization</li> <li>•Exchange rate devaluation</li> <li>•Financial reform of state companies</li> <li>•Further debt restructuring</li> </ul>			<ul style="list-style-type: none"> <li>•Further cuts in fiscal deficit</li> <li>•Tighter monetary policy</li> <li>•Crawling peg exchange rate</li> <li>•Completion of trade liberalization</li> <li>•National Solidarity Program launched</li> <li>•Wage and price controls negotiated between government, business and labor ("Economic Solidarity Pact")</li> <li>•Debt and debt service reduction under Brady Plan</li> <li>•Privatization</li> </ul>	
Peru: Delayed	1982-1985			1985-1989			1990-Present	
	<ul style="list-style-type: none"> <li>•Fiscal expansion</li> <li>•Erratic monetary management</li> <li>•Trade Liberalization</li> <li>•Crawling peg exchange rate</li> <li>•Increased public borrowing</li> <li>•Promotion of primary exports</li> </ul>			<ul style="list-style-type: none"> <li>•Expansionary fiscal and monetary policy</li> <li>•Wage and price controls</li> <li>•Trade protection</li> <li>•Multiple exchange rate</li> <li>•Unilateral debt moratorium</li> <li>•Redistributive rhetoric</li> </ul>			<ul style="list-style-type: none"> <li>•Tight monetary policy</li> <li>•Freeing of public prices</li> <li>•Tax and banking reform</li> <li>•Trade liberalization</li> <li>•Floating exchange rate</li> <li>•Debt renegotiation and resumption of payments</li> <li>•Privatization</li> </ul>	

Table 3

Earnings, Schooling, Other Characteristics of Adult Males in Latin America by Ethnic Group, Country and Estimates of Discrimination							
Country and Ethnic Group	% of Population below Poverty Line	Minority/ Majority Earnings Ratio	Age (years)	Schooling (years)	Rate of Return to Schooling	Upper Bound Discrimination (percent)	N
<i>Urban Bolivia (1989)</i>	52.6						
Indigenous	64.3		38.5	7.4	5.7		2394
Non-Indigenous	48.1	.61	36.0	10.1	8.6	28	4070
<i>Rural Bolivia (1966)</i>	N/A						
Indigenous	N/A			1.2			675
Non-Indigenous	N/A	.66		4.5		12	421
<i>Mexico (1989)</i>	22.6						
Indigenous	80.6		34.5	3.8	8.7		476
Non-Indigenous	17.9	.30	33.6	7.3	9.3	48	8343
<i>Peru (1991)</i>	53.0						
Indigenous	79.0		39.3	6.7	2.6		316
Non-Indigenous	49.7	.43	37.6	10.0	6.2	50	1863

Source: Harry Patrinos, "The Costs of Discrimination in Latin America,"  
(Washington, DC: World Bank, unpublished manuscript, June, 1994), 3,16.