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The United States and Bolivia

The Taming of a Revolution, 1952-1957

by
Stephen Zunes

In January 1954, while U.S. officials in Washington were developing plans to overthrow a left-wing nationalist government in Guatemala, a very different policy was developing toward the similarly inclined Movimiento Nacionalista Revolucionario (National Revolutionary Movement—MNR) then ruling Bolivia. The U.S. government seemed open to the possibility that that country required some radical reform that might challenge elite interests with which it had been on good terms. The U.S. counselor Edward Rowell wrote to the State Department from the embassy in La Paz (U.S. National Archives; General Records of the Department of State, Central Decimal File, 724.00/1-1354) that the MNR leadership was

> attempting to accomplish a real and profound revolution which has as its stated objective a material improvement in the standard of living of the country's proletarian groups and the incorporation into the social, economic, and political life of the country of the Indian masses which constitute 90% of the total population. Such a revolution cannot be accomplished without injuring, perhaps fatally, those economic and political sectors which previously controlled the destinies of the country. Such transformations also exact a price whose justification frequently can only be determined by history.

Such a balanced approach to a left-wing nationalist movement had rarely been expressed by an U.S. official, particularly during the era of McCarthyism. It was all the more striking in that, while the MNR leadership never envisioned a dramatic break with the West, the reforms it instigated were far more radical than those of such other populist nationalist governments as Mexico under Lázaro Cárdenas, Peru under Juan Velasco, or Brazil under Getúlio Vargas.

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revolution's goals and the need for continuity with previous governments (Malloy, 1970: 217).

Even prior to the revolution, the embassy predicted—despite its history of antagonism toward the MNR—that "while aggressively nationalistic, self interest would . . . counsel going along with the United States" (NA 724.00/2-652).

Bolivia had traditionally been the poorest country in South America. Though potentially wealthy because of its mineral resources, it had remained poor largely because "the extractive industry had tied itself into a world market, and its supplier position in that system, along with elite control, essentially determined Bolivia's failure to utilize the enormous surplus from resource extraction for capital formation" (Scott, 1972: 50). As the chief source of foreign aid for the hemisphere south of its border, the United States had on many occasions held the economy of Bolivia in the balance. This was particularly true in the years immediately following the MNR revolution.

The first question was recognition of the MNR by the U.S. government, a decision that had made the difference to the survival of a number of Latin American regimes. The first government to recognize the MNR junta—and for the first month the only government—was Guatemala, whose government consistently supported democratic revolutions against the old military oligarchs. The rest of the hemisphere appeared to be waiting for a decision from the United States, which was expected to have "a determining effect on the immediate political future of South America" because "the Bolivian coup d'état is part of a political intrigue with ramifications in various other Latin American countries" (summary of telegrams, Truman Presidential Library, 1952).

The United States decided to delay both recognition and tin negotiations until it was clear that there would be no immediate nationalization of the mines or other measures harmful to U.S. interests in the region (NA 724.02/4-2152). In addition, Secretary of State Dean Acheson ordered the suspension of bilateral technical assistance and military missions, although he decided to continue Point IV assistance (NA 724.00/4-1252). Within a week, in the wake of assurances by the MNR on major areas of concern, the outlines of U.S. policy began to take shape. The State Department realized that the continued delay in recognition would not help the more moderate elements in the government and the continued delay "might augment [the] disadvantages of nonrecognition and start [to] operate against our own interest" (NA 724.00/4-2752). The embassy concurred, reporting that many believed that delay could hurt the moderates (NA 724.00/2-652), and, by the third week of May, after numerous consultations, Acheson acknowledged that continued withholding of recognition might have the effect "of strengthening the radical elements in the government" (U.S. Department of State, 1983: 492). The United States recognized the MNR government that month.

For the Bolivians, the most urgent need was food. Andrade (1976: 161) admitted that "only the assistance of the United States could avoid a repetition of the famine which had occurred in our country during the War of the Pacific." The United States offered US$9 million in famine relief and other essential commodities, the start of a process that would make Bolivia the largest recipient of food aid per capita in the world (Dunkerley, 1984: 81-82). Truman administration officials recognized, however, that emergency food assistance alone would not solve the problem of potential instability (NA 724.00(W)/4-1053). Rollin Atwood, director of the State Department's Office of South American Affairs, noted that "the politically articulate portion of the population" was highly dependent on the mining industry, which was in turn dependent on Britain and the United States (NA 724.00/1-1453). Unlike the import of coffee from Guatemala, which was controlled by private companies, purchases of Bolivian tin for the strategic stockpile came directly from the U.S. government, which made the linkage of trade policies to immediate political considerations all the easier.

Sir John Lomax, the British ambassador to Bolivia, interpreted these initial diplomatic attitudes toward the MNR government as evidence of the need to show Bolivia's rulers that they needed American help (Whitehead, 1969: 8). Up to this point, the United States was making spot purchases of tin but refusing to sign a long-term contract. Its aid was enough to prevent the country from falling into chaos but not to get the economy on its feet (NA 724.0 MSP/10-2353). More substantial aid would be forthcoming, but at a price.

COMPENSATION AND DEPENDENCE ON EXPORTS

Acheson informed the embassy in September 1952 of the State Department's concern that signing a long-term contract might be interpreted by the Bolivian government as "green light to confiscatory nationalization," and that "this would have [a] bad effect in other countries where U.S. property rights are at stake." Furthermore, he called on the embassy to reiterate to President Paz Estenssoro what the consequences of nationalization would be were the contract not signed (U.S. Department of State, 1983: 502-503). Assistant Secretary of State for Inter-American Affairs E. G. Miller wrote Acheson in October 1952 (NA 724.12/10-752):

> Our principal bargaining points with the Bolivians are their hope of further financial assistance from us and our ability to abstain from signing a long-term

denied them any kind of aid that would raise the cost of imported commodities (Wilkie, 1969: 92).

José Núñez Rosales, as vice president of a government-run mining company, stated that Bolivia agreed to compensate U.S. stockholders "only because Bolivia had to eat." The leading Bolivian left-wing party denounced the agreement as "Yankee imperialism," an attempt to "starve Bolivia into submission" (NA 724.00 [W]/4-3053). The MNR ideologue Carlos Montenegro accused the United States of attempting to "foster the oligarchy and the enslavement of the popular classes for the benefit of Wall Street" (Weston, 1968: 97). The revolutionary leadership was forced to rely on aid that required depleting its resources (Eckstein, 1976: 45). The U.S. government forced Bolivia to use its scarce capital not for its own development but to compensate the former mine owners and repay its foreign debts.

THE IMPACT OF U.S. AID

In July 1953, Milton Eisenhower, the president's brother, visited Bolivia, where the government spelled out its desperate economic situation. This came to be seen as a turning point in U.S.-Bolivian relations. Eisenhower (1963) noted that Bolivia had to import about 50 percent of its food and argued that there should be a dramatic increase in aid. Such generous support, particularly from a Republican administration, could be justified by Washington policy makers only if it had clear political advantages.

During the early phase of U.S. assistance, the United States certainly could not yet control the MNR government. However, according to the British economist Lawrence Whitehead, within six months of the revolution, "worried by their weakness in the face of popular pressures, and alarmed by the economic and administrative dislocation of the revolution, few MNR leaders were inclined to reject helpful advice out of hand" (Whitehead, 1969: 11). By January, the British embassy could report to the Foreign Office that Paz Estenssoro was "getting a lot of help and advice from the Americans and knew when to bend his knee" (British Foreign Office Archives #AX1051/1). Thus, from early on, Bolivia's economic weakness and its own economic power allowed the United States to establish clear guidelines for the revolution.

The influence of the United States over Bolivia was enhanced greatly when, between March and July 1953, the price of tin dropped by one-third (NA 724.5-MSP/7-1453). The Bolivians were desperate for large-scale financial assistance. In a memo to President Dwight Eisenhower, Secretary of State John Foster Dulles argued that additional loans for Bolivia should be postponed until further political and economic stability provided a clearer view of the country's development and payment prospects (Dulles Papers, Eisenhower Presidential Library, October 13, 1953). After a pair of particularly radical speeches by Paz Estenssoro and the leftist leader Juan Lechín during the 1953 May Day celebration (NA 724.00(W)/5-853), Acting Secretary of State Walter Bedell Smith encouraged U.S. Ambassador Edward J. Sparks to "warn such a campaign might so antagonize American people and Congress as to endanger substantial United States assistance already being given Bolivia and future assistance such as long-term tin contract which Bolivian Government desires" (NA 724.11/5-753). In a memo to Cabot from Deputy Director of the Office of South American Affairs W. Tapley Bennet Jr. in preparation for the assistant secretary's meeting with Bolivian Ambassador Andrade and National Economy Minister Cuadros Sanchez, Bennet noted that in formulating the details of a food grant to Bolivia "we may . . . want to exact some quid pro quo from the Bolivians—such as disassociation from Communist influences and progress toward agreement on the value of expropriated American mining properties" (NA 724.5-MSP/9-1453). Dulles, in preparation for a meeting with Bolivian Foreign Minister Walter Guevera, was advised by Cabot (NA 724.5-MSP/11-1953) to let the foreign minister know that Bolivia's chances of receiving aid would be enhanced if it were able:

> (a) To dispel strong suspicions, still held by some sectors of American opinion, that the Bolivian Government is dominated by communist influence;
> (b) To reach a prompt and just final settlement of claims arising from the nationalization of mining properties in which there is an American interest.

With regard to the question of communist influences, Dulles telegraphed the embassy in September 1953 that he would not recommend further assistance to the Bolivian government until the moderate elements were clearly in control (NA 724.5-MSP/9-2953). A joint telegram from Dulles and the Foreign Operations Administration encouraged the ambassador to advise the Bolivian government to make a formal request for aid, with a note including a "reiteration [of] Bolivia's adherence to [the] Free World and [a] desire [to] cooperate toward mutual security" (NA 724.5-MSP/9-2853). Cabot told Dulles, "We have repeatedly stressed both here and in La Paz the importance of continuing action by the Government to make its non-communist position perfectly clear" (NA 724.5-MSP/11-1953).

The strategy worked. After Paz Estenssoro announced cabinet changes in late October 1953 that shifted the government to the right, Counsellor Rowell observed (NA 724.13/11-453):

exchange earnings from its tin, on which, he emphasized, it was solely dependent, were insufficient to meet the population's most basic needs and that only U.S. aid had prevented the country's total collapse (NA 724.00/1-2654). A report of the Bolivian Planning Board noted that U.S. aid "represented a means only of preventing worse deterioration in the situation as it existed" (Wood, 1969: 24).

As a result, in subsequent years, it was possible to extract even greater economic concessions. For example, the Petroleum Code of 1955, written by Americans and enacted without any public debate or alterations by the Bolivian authorities, forced the Bolivian government to forgo its oil monopoly (Whitehead, 1969: 11). Offers by the Soviet Union to assist Bolivia with its nationalized oil industry were met by a threatened withdrawal of U.S. aid (Scott, 1972: 54). Similarly, the United States and Bolivia signed an agreement in 1955 to encourage foreign investment (Blasier, 1985: 78). It was only because of the desperate need for additional sources of foreign exchange and pressure from the U.S. government that the once strongly nationalistic MNR agreed to these concessions (Alexander, 1958: 168-169).

By this time, it appears, the United States had effective veto power over even the composition of the Bolivian cabinet. Lechín resigned as Minister of Mines when Congress was considering continuing aid to Bolivia, a move that Bolivians later claimed had been an explicit condition. It is believed that he would have made a bid for the presidency in 1956 had he not recognized the need for continued U.S. assistance; indeed, he may have preferred that Paz Estenssoro's vice-president, Hernán Siles Zuazo, rather than himself bear the disgrace of implementing American orders (Whitehead, 1969: 18).

The following year, the United States took more direct control over Bolivia's economy with the appointment of George Jackson Eder to head an economic stabilization program—a decision, according to Eder (1968: 479), that the MNR government made "virtually under duress, and with repeated hints of curtailment of U.S. aid." Eder was executive director of the Stabilization Commission, every member of which had to be "persona grata to the U.S. embassy." The program, which bore a striking resemblance to the structural adjustment programs that have since been imposed on dozens of debt-ridden countries in Latin America and elsewhere, consisted of the following (Scott, 1972: 55):

> The boliviano was devalued, and export/import controls were removed. Price controls and government subsidies on consumer goods were removed, while wages and salaries were frozen. To reduce government spending, educational outlays were slashed, the program of colonizing the lowlands was stopped, and efforts at industrial diversification were halted. Practically all social welfare allocations were terminated.

For example, Assistant Secretary of State Richard Rubottom said in reference to one Bolivian development plan, "We had to tell the Bolivian Government that they couldn't put their money into it and we weren't going to put ours into it" (U.S. House of Representatives, 1960: 847).

Though nominally a technical adviser, Eder, a strong advocate of monetarism, believed that Bolivia would have been better off leaving the economy entirely in the hands of private enterprise. He was contracted and paid by the U.S. government at the behest of the International Monetary Fund to acquire direct administrative control of the economy (Dunkerley, 1984: 86). This gave the U.S. government unprecedented power to control the course of the Bolivian revolution.

Eder has written a detailed account of how he—as an agent of the U.S. government—was able to implement a program which, in his own words, "meant the repudiation, at least tacitly, of virtually everything that the Revolutionary Government had done over the previous four years." Eder explained that his goal was to convince the new MNR administration that stabilization would be possible only through a total transition to a free market economy (1968: 87-88). He insisted that government business be returned to private hands, that compensation be guaranteed in the event of any future nationalizations, and that all price controls be repealed (Scott, 1972: 55). Eder's prescription for the favorable investment climate that he considered necessary was a stable political environment, a strong currency, and labor conditions that minimized the risk of interference from labor or political leaders (Eder, 1968: 695).

Furthermore, there was never any doubt about the fate of the revolution should the MNR refuse: "I suggested that they had better make their plans on the basis of what Assistant Secretary Holland had specifically told all of them" or it would be "extremely difficult" for them to receive further U.S. aid (Eder, 1968: 159). Similar pressures, predicted Eder (1968: 141, 143),

> would provide the leverage that would be needed later to obtain enactment of certain rather drastic measures, necessary for monetary stabilization but hardly popular or politically easy. . . . There would be no difficulty in getting Bolivia to agree in advance to conditions that would ensure a return to a free enterprise economy.

The effect was not only to redirect the economic priorities of the revolution but to alter the revolution's political structure by effectively curbing the power of the trade unions and displacing socialist-leaning leaders of the MNR. This was important because it had become clear to American officials that there had to be some changes in the internal structure of Bolivian politics.

The United States chose to influence the direction of the MNR through large-scale financial support to the revolutionary government. Indeed, its influence over the Bolivian government was greater than it had been prior to the revolution, since the old ruling class—tied to the tin barons—had been in conflict with the United States over the price of tin (Whitehead, 1969). The National Security Council saw the successful handling of the Bolivian situation as a model (OCB Central File 091.4 Latin America [File #3] [3], February 3, 1955, 8), and it was one that would be exploited to the fullest in Latin America and elsewhere.

Scott (1972: 53) and others have argued that the United States could tolerate the Bolivian revolution because of the lack of large-scale direct private investment in the country. However, the lack of large-scale direct private investment in Iran during the same period did not prevent it from intervening to help overthrow the government, nor did the relatively small amount of U.S. investment in Nicaragua minimize the hostility toward the Sandinista regime during the 1980s. In part, there was great concern over the precedent that nationalization and other radical initiatives might set elsewhere in Latin America and beyond. U.S. perceptions of the willingness of the Bolivian government to address the nationalization issue in what was considered to be a responsible manner, one in large part dictated by the United States, made such economic nationalism tolerable.

In many respects, U.S. policy toward Bolivia proved to be a harbinger of contemporary U.S. policy toward Latin America in this age of globalization, in which the so-called Washington consensus, backed by U.S.-supported international financial institutions, has institutionalized economic leverage to the point that more overt forms of intervention to advance strategic or economic interests are no longer necessary. Though the outcome of this policy was not as dramatic as what transpired in Guatemala during the same period, the impact on the people of Bolivia in terms of the human costs of living within a system in which once-promised social, economic, and political rights were subsequently denied to the majority of the population was no less severe. With the globalization of the economy, most Latin American countries now have as few choices in choosing their economic policies as did Bolivia in the 1950s.

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