

# The economics of drugs: bonanza for the banks,

by Dennis Small and Peter Rush

Sprawling 6,000 miles across a continent, the illegal narcotics growing, refining, and transporting "industry"—Dope, Inc.—presently infests the entirety of Ibero-America. Over the last decade, it has more than doubled in dollar value, and embedded itself deeply in the economic and social structures of almost every country in the region. Four countries account for the vast bulk of cocaine, heroin, and marijuana produced in the continent, Bolivia, Peru, Colombia, and Mexico; but virtually every country in Ibero-America is now heavily involved in either transshipment, refining, or laundering of drug dollars, with deleterious and rapidly worsening effects in all host countries—not to mention the epidemic growth of drug consumption itself across the continent.

By the nature of the beast, there are no "official" statistics for production, shipment, and sale of these drugs, either in Ibero-America, or in the countries of final consumption. Nonetheless, using what estimates are available from official agencies, largely from the U.S. Drug Enforcement Administration (DEA), it is possible to estimate rough magnitudes and discover trends. The results obtained stagger the imagination.

EIR's calculations, which if anything are too conservative, indicate that the street value of the drugs produced in the four major Ibero-American countries in 1987 was almost \$130 billion, a sum equivalent to 15% of the entire Gross Domestic Product of the whole continent—and 30% of its productive portion. In three of the four prime producing countries (Peru, Bolivia, and Colombia), the retail value of the drugs dwarfs the productive GDP. (It should be emphasized that while no more than 10-20% of this money ever returns to the producing countries, the retail value of the drugs is what the annual production is worth to the drug mafias, most of which also ends up in foreign banks.)

A closer look at the figures for the last decade allows us to answer the fundamental question regarding the drug trade, *cui bono?*—who benefits? The simple answer is: the banks. Such an analysis also provides us with decisive evidence to document the following conclusions:

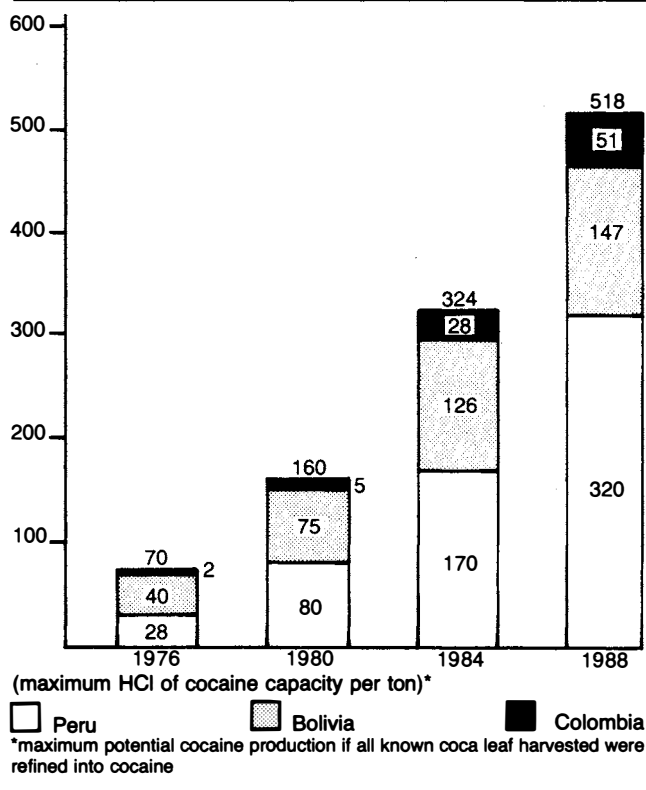
- 1) The policies of the International Monetary Fund (IMF) promote the drug trade;
- 2) The drug revenues which do return at all to the producing countries, do not help Ibero-America at all; in fact, the narco-economy has been a parasite whose growth has destroyed the productive sectors of the economy; and
- 3) Black money derived from the drug trade is, along

with flight capital, the major cause of monetary and financial chaos in Ibero-America, including devaluations, inflation, etc.

## 'Growth Industry'

As dramatic as the growth of drug revenues has been over the past ten years, it pales in comparison to the figures of *tonnage* produced. Take the case of cocaine. Figure 1 shows the incredible growth of cocaine production between 1976 and 1988. From a maximum likely production of 70 tons in 1976, Peru, Bolivia, and Colombia expanded production to 518 possible tons in 1988 (see note for methodology and

FIGURE 1  
Volume of cocaine production in Peru, Bolivia, and Colombia



Sources: DEA, State Department, Government of Peru, EIR.

sources for these and all other drug-related calculations). In other words, output grew more than *seven-fold* in 12 short years! The difference between this rate of increase and the slower growth rate of total drug retail and wholesale values, is accounted for by the sharp and continuous drop in the price of cocaine since the mid-1970s, a drop that has escalated in the last two years with the advent of "crack" on a mass scale. The price drop has all the earmarks of a deliberate policy by the drug mafias that control its distribution, to make cocaine the mass drug of choice among as wide a population as possible.

As Figure 1 indicates, by 1987, Peru had assumed the lion's share of coca production, followed by Bolivia and Colombia. However, the bulk of all the refining of coca paste or base into pure cocaine is done in Colombia, followed secondarily by Bolivia and Peru, which refine only a small portion of their coca base. Therefore, Figure 1 should not be misunderstood to imply the primacy of Peru in terms of, the value of the trade to the local traffickers, which place is held

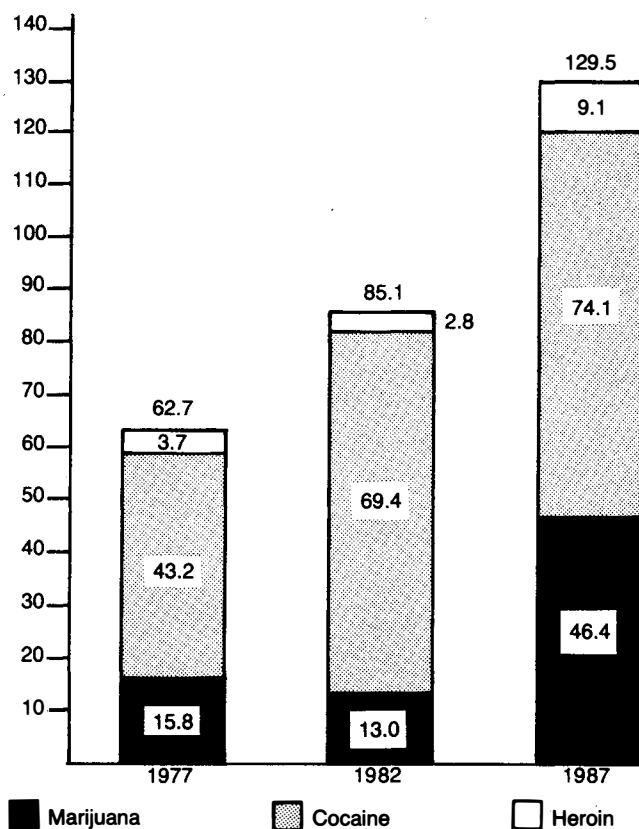
by Colombia and its notorious drug "cartels."

Figure 2 shows the estimated retail, street value of all of this cocaine, as well as marijuana and heroin, the other two principal drug exports from Ibero-America, in 1977, 1982, and 1987. The figures were arrived at by deducting 25% of the total physical crop grown for assumed losses caused by spoilage, stockpiling, local consumption, and eradication and seizures by producing and consuming countries, and any other losses in transit; and then multiplying the remaining 75% of production by street prices. The numbers in Figure 2 therefore reflect the continuous price drop of cocaine over the decade, a sharp rise in marijuana prices between 1982 and 1987, and relative stability in heroin prices.

Table 1 shows the figures graphed in Figure 2 according to country of origin. The decline in total street value of Bolivia's coca production masks an increase in the tonnage of production from 104 to 134 tons of cocaine equivalent, which was offset by a steeper drop in cocaine prices. The increase in street value of marijuana originating in Colombia from 1982-87 is entirely derived from price increases, as production was the same in 1982 and 1987, at about 8,000 tons. The drastic drop in marijuana and significant fall in heroin street values from product originating in Mexico between 1977 and 1982, is the result of a vigorous eradication effort that ended in that year, as detailed below.

The enormity of the retail value of the drugs produced in Ibero-America is shown in Figure 3, where the estimated annual take—at retail prices—for the drugs produced by the

FIGURE 2  
Retail value of Ibero-American marijuana, cocaine, and heroin production 1977-87 (billions of dollars)



Sources: DEA, State Department, EIR

TABLE 1  
Retail value of Ibero-American drug production by type and country of origin (billions of dollars)

	1977	1982	1987
<b>Cocaine</b>			
Peru	20.2	35.5	46.3
Bolivia	21.6	28.4	20.5
Colombia	1.4	5.5	7.1
Subtotal	43.2	69.4	74.0
<b>Marijuana</b>			
Mexico	6.4	0.9	18.8
Colombia	8.9	7.2	20.4
Jamaica	0.5	3.9	1.5
Other Ibero-America	—	1.0	5.8
Subtotal	15.8	13.0	46.5
<b>Heroin</b>			
Mexico	3.8	2.8	9.1
<b>TOTAL</b>	62.7	85.1	129.5

## Method of calculations

In making *Executive Intelligence Review's* calculations of quantities and values of drugs, as seen in the figures on these pages, we have based ourselves on figures published by the U.S. Drug Enforcement Administration (DEA), because it is the most consistent and extensive series.

Most of their figures are given as a range between two values; for the estimates of tons of coca leaf, marijuana, and poppy production, we have taken the highest figure within the range, because it seems far more likely that some portion of total production escapes detection, than that the production areas are overestimated.

To calculate wholesale and retail value, the average price as given by the DEA was used, and it was applied against 75% of the value of production, allowing 25% loss through seizures and other losses.

DEA officials consulted by *EIR* stressed that their figures are, at best, guesses, and true figures could well be very different. One U.S. official familiar with the DEA's figures, told *EIR* that "nobody really knows what the figures are." By way of illustration, this source referred to the case of a heroin seizure in Thailand within the last few years that was several times greater than the previous estimate for total heroin from Thailand for a year—and such degree of error is equally possible with marijuana and cocaine.

For example, the House Select Committee on Narcotics Abuse and Control publishes figures on U.S. marijuana imports (30-40,000 tons per year) which are more than *double* the standard DEA estimates.

The estimates of maximum possible production figures for cocaine, marijuana, and heroin are based on aerial estimates of area sown to coca leaf, marijuana, and poppy, confirmed by on-the-ground reconnaissance when possible (and often it isn't), to which are applied estimated yield figures for dried weight of plant, and for cocaine and heroin, conventional ratios for their reduction to pure cocaine and heroin (marijuana needs no refining).

four major producers is graphed against the total gross domestic product of the wealth-creating sectors of their respective economies (the sum of GDP in agriculture, mining, manufacturing, electricity, construction, and transportation). The annual retail value of the drugs is consistently more than double the productive portion of Peru's economy, while it is 13 times greater in Bolivia in 1977, and 7 times greater in 1987. Except for 1982, the productive and drug economies are almost identical in size in Colombia, and only in Mexico is the productive economy significantly greater than the value of Mexican drug production, with the greatest discrepancy being in 1982, the height of Mexico's oil-spurred growth and its war on drugs.

### Enter the banks

The \$130 billion of estimated drug revenues in 1987 is a sum larger than the Gross National Product of all but about a dozen countries in the world. It is larger than the GNPs of all countries but Mexico and Brazil in Ibero-America, and is 15% of the \$850 billion combined GNP of Ibero-America in 1987.

However, contrary to popular mythology, very little of this money actually returns to Bolivia, Peru, Colombia, or Mexico. A certain amount is the "take" of the distributors and local mafias who import the drugs and get them out to the final consumer, while a fraction, generally small, is paid to the producers, and somewhat more to the refiners in the producing countries. But the remainder, probably 80-90% of the total, is directly "laundered" outside continental Ibero-

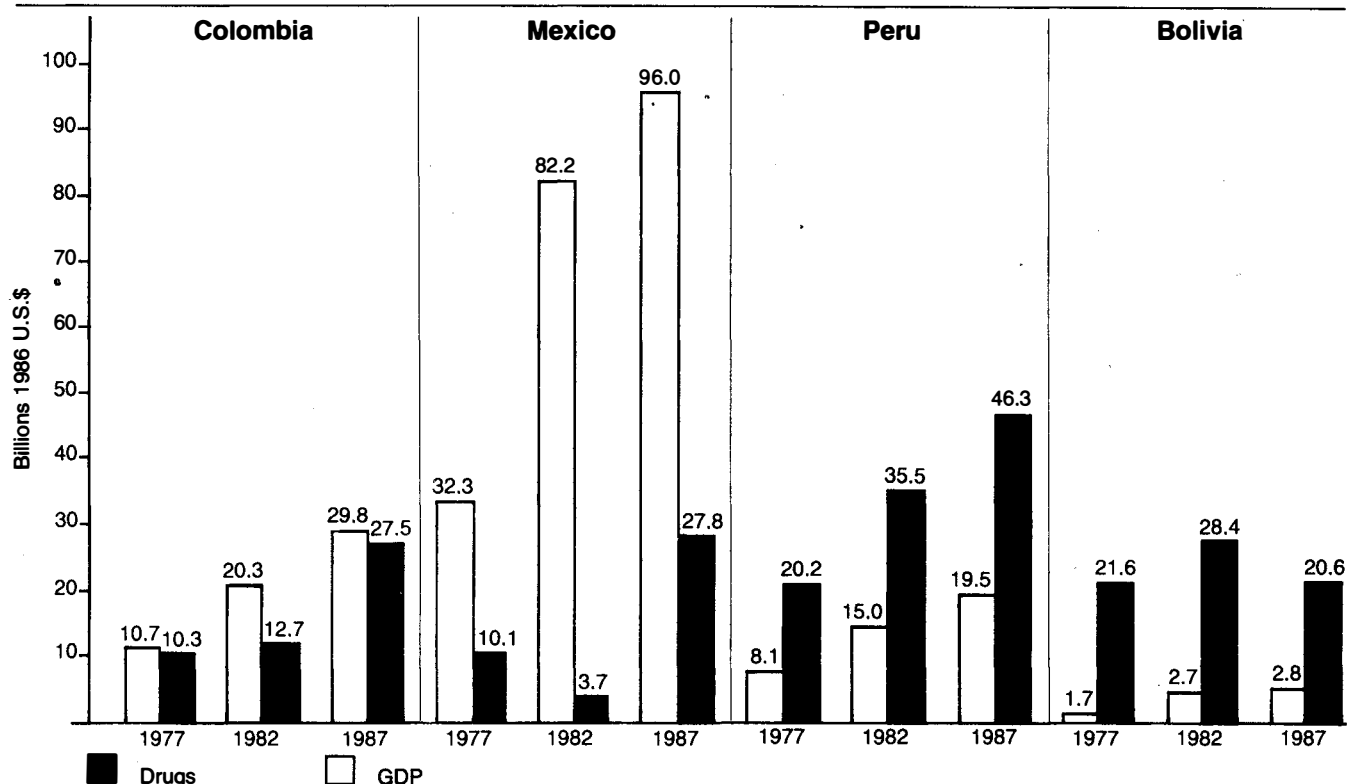
America by the powerful international mafias, of which the so-called "Medellín cartel" is the most significant.

Consequently, *it is the banks through which this money is laundered, and in which most of the money is ultimately deposited, who are the primary beneficiaries of this \$130 billion annual bonanza from Ibero-American drugs*—which of course is only a fraction of the estimated \$500 billion in total world-wide drug revenues captured by Dope, Inc. every year.

What the "oil shocks" of 1974 and 1979 did for the banks in the 1970s, the "drug shock" has performed in the 1980s, dumping huge and growing deposits of money into the multi-trillion dollar "money-go-round" known as the international financial system. Especially as the price of oil leveled off, and then plummeted, "narco-dollars" have taken the place previously held by "petrodollars." In fact, according to *Fortune* magazine, the estimated 25 million regular consumers of drugs in the U.S. spend twice as much per year on narcotics as they do on oil purchases! And it is the international banks who benefited from this, who have encouraged the restructuring of the economies of Ibero-America into narco-economies, using "structural adjustments" to impose austerity, collapse the productive economy, and increasingly leave people nowhere to turn but the drug trade. The end result has been that the banks are today as addicted to the flow of drug dollars as an addict is to heroin.

**Table 2** represents a rough estimate of the cumulative total retail value of drugs from Ibero-America from 1977-87—i.e., what the banks have gotten from Ibero-American

FIGURE 3  
**Retail value of drug production vs. productive GDP\*:**  
**Colombia, Mexico, Peru, and Bolivia 1977-1987**  
 (billions of dollars)



\*Productive GDP—GDP from agriculture, mining, manufacturing, electricity, construction, transportation

Sources, drug revenues: DEA, State Department, Inter-American Development Bank, *EIR*; GDP: DEA, State Department, *EIR*

drugs over the decade. The first three columns reproduce the total revenue figures from Table 1. Column 4 shows the approximate cumulative total of revenues for the ten years 1978-87: *just under a trillion dollars of retail drugs of Ibero-American origin have been sold worldwide!* Figure 4 compares this amount with total foreign debt of the continent over the same period, which clearly pales in comparison. Even more than the foreign debt, drugs has been the main method whereby the international banks have propped up their crumbling credit system by looting Ibero-America dry.

### The IMF pushes drugs—the Mexican case

Since the mid-1970s, the international banks and the IMF have systematically and deliberately destroyed the financial systems and economic structures of every single Ibero-American economy. In the late 1970s through 1982, the banks promoted massive flight capital from Argentina, Venezuela, Brazil, Mexico, and most other countries, and at the same time freely extended loans to the central banks and governments to capitalize this flight capital, temporarily discarding

all economic criteria for loan approvals. This saddled the continent with an unpayable mountain of debt against which little investment in physical capital was made that would permit repayment.

Total debt increased from \$120 billion to \$360 billion in a mere six years, 1976-82. Then, in 1982, the banks and the IMF suddenly turned off the spigot and began demanding servicing of the by then enormous loan burden. To comply, the major economies of the region immediately shut down the process of economic growth, slashed internal investment, cut imports by as much as two-thirds (in the case of Mexico), and began systematically lowering real income levels, which in many cases are now a wrenching 50% of 1982 levels. Lawfully, the drug trade throughout Ibero-America has shot up incredibly as the direct result of this post-1982 bankers' austerity. Mexico is a perfect case study.

Beginning in 1975 under President Luis Echeverría, and continued under the government of Jose Lopez Portillo from 1976-82, Mexico carried out a remarkably successful program of eradication of marijuana and opium-heroin produc-

TABLE 2

### Retail value of Ibero-American drug production by country of origin 1977-87

(billions of dollars)

	1977	1982	1987	Cumulative 1978-87
Peru	20.2	35.5	46.3	357
Bolivia	21.6	28.4	20.6	247
Colombia	10.3	12.7	27.5	167
Mexico	10.1	3.7	27.8	122
Jamaica	0.5	3.9	1.5	25
Other	—	1.0	5.8	22
Total	62.7	85.2	129.5	940

Sources: DEA, State Department, *EIR*

tion. As **Figure 5** shows, Mexican heroin production plummeted from almost 7 tons in the mid-70s (when it was supplying most of U.S. consumption), down to 1 ton by 1979, and stabilized at about 1.6 tons in 1982. Marijuana fell from more than 5,000 tons to a mere 400 tons by 1981 over the same period.

During the Echeverría (1970-76) and Lopez Portillo (1976-82) administrations, a nationalist, high-growth economic policy was adopted, and the IMF was not allowed to dictate policy for the country. Then, in 1982, the banks, supported by the U.S. government, launched all-out economic warfare and capital flight against Lopez Portillo to force a return to the IMF. This pressure led to the wholesale adoption of the IMF's program for Mexico from the beginning of 1983. The resulting boom for the drug trade is dramatically evident in **Figure 5**.

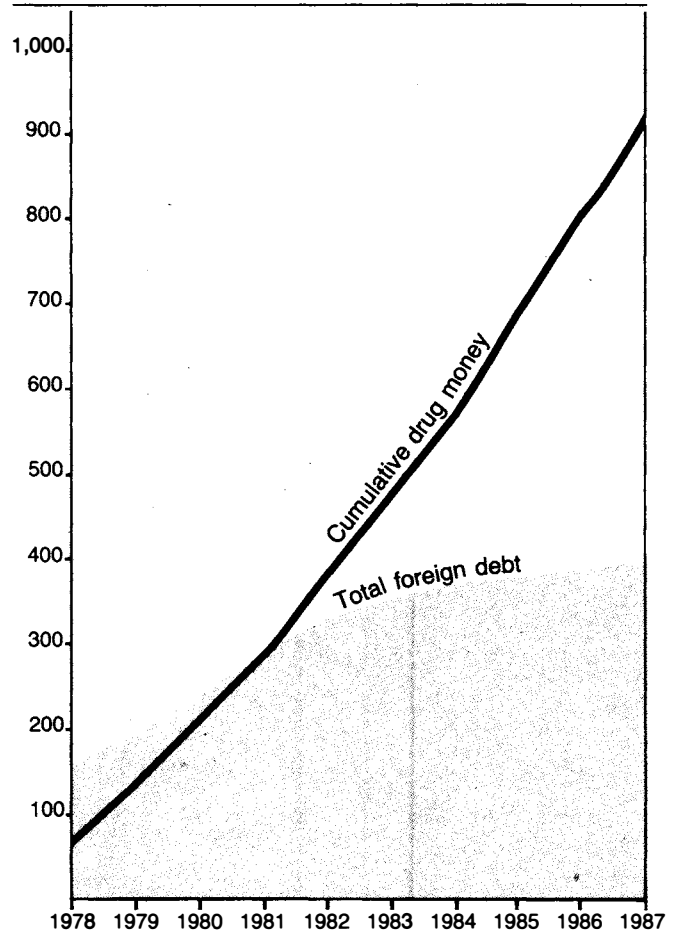
Over the last five years under IMF policies, the Mexican economy has been shattered. Measured in constant 1986 dollars, gross fixed capital investment, one of the best measures of development, soared under the previous government, growing 85% in the five years to 1981, before falling sharply due to the bankers' financial warfare in 1982, and crashing in 1983, as President de la Madrid slashed the development budget. It has stayed slashed ever since. Real wages have fallen to about half of their 1982 levels, while inflation took off, followed by huge devaluations of the peso.

Drug trafficking has filled the vacuum, as shown, with both heroin and marijuana production shooting up to nearly their pre-1976 levels. This has been caused by a combination of cuts in the government budget for drug eradication, as part of the IMF-austerity program, and by the skyrocketing numbers of Mexicans driven into the drug producing and transporting network out of dire necessity, as they find themselves unable to make a legitimate living under the De la Madrid regime.

FIGURE 4

### Ibero-American total foreign debt vs. cumulative retail value of drug production 1978-87

(billions of dollars)

Sources: Inter-American Development Bank, *EIR*

It should be added that **Figure 5** undoubtedly understates the real growth of the drug trade in Mexico today, because transshipment of cocaine through Mexico is not reflected in the figures, for lack of reliable data. But it is known that at present a great quantity of South American cocaine travels through Mexico to the United States, in exchange, often, for weapons for the drug mafias and their terrorist allies.

Apart from the IMF-induced increase in drug production since 1982, another devastating consequence of these policies has been the very rapid rise in drug consumption within the continent. There are no reliable figures on this, but it is known that millions of people are involved in drug pushing, driven into it by the economic crisis, and that economic misery has created tens of millions of new users in recent

years, desperate to escape their horrible life situation, including in countries like Argentina that as recently as five years ago had almost no drug problem.

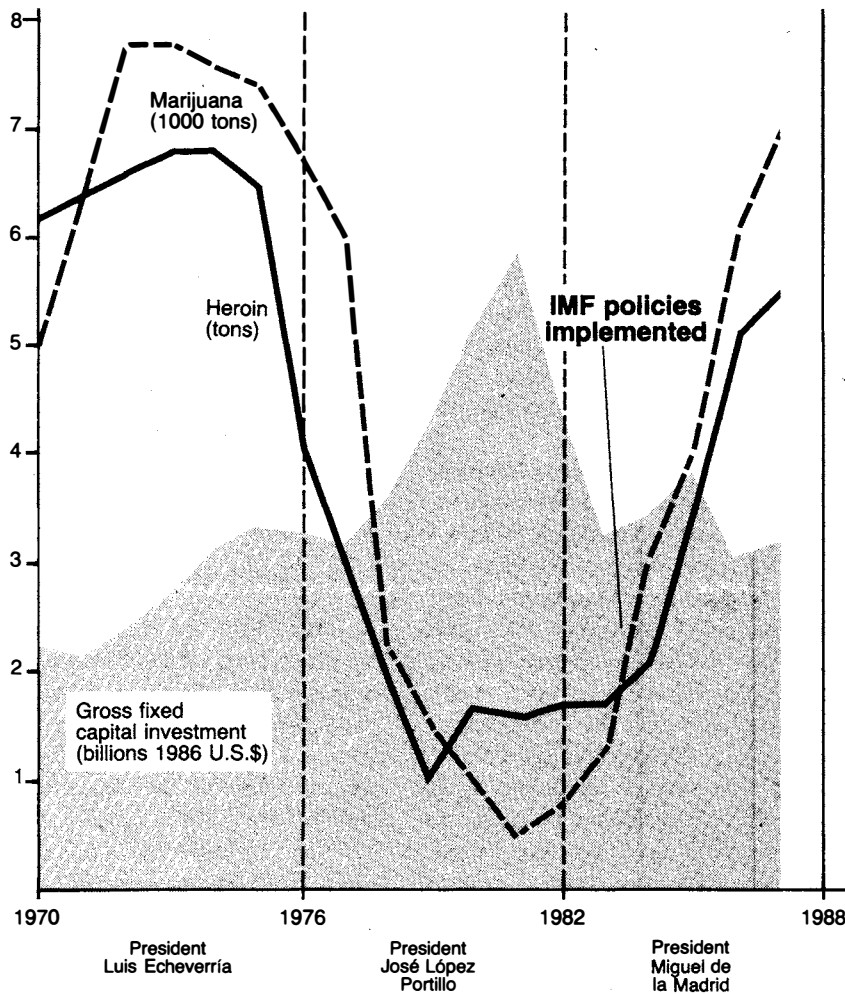
### Drugs an economic disaster, not a bonanza

The State Department statement quoted in the introduction to this Special Report, State Department, on the putative "positive" economic and financial consequences of the drug trade to the producing countries, is a monstrous lie. Nothing could be farther from the truth. There is not a single economic parameter that can be cited to show the positive effect of the drug trafficking "industry" on any economy in the continent. **Figure 6** reveals the growth in the retail value of Ibero-American drug production, graphed against calculations made by the Schiller Institute in *Integración Iberoamericana* for

real unemployment (which includes under- and mis-employment) in 1980 and 1985. This unemployment figure is probably the most meaningful measure of the true health of the economy. As can be seen, unemployment grew dramatically between 1980 and 1985—precisely the same period during which drugs were purportedly "benefiting" the Ibero-American economies.

**Figure 7** demonstrates the same point in two specific countries, Bolivia and Peru. In both cases, the collapse of gross fixed capital investment occurs in the years of greatest boom of drug revenues. Similarly, per capita manufacturing output shows an uninterrupted collapse in Bolivia, while in Peru, partial recoveries of investment and manufacturing output are recorded for the first two years of the Alan García presidency (1985—), following sharp collapses under the

FIGURE 5  
**Mexican drug production 1970-87**



Sources: DEA (1977-87 drug figures), ECLA (investment figures).

Belaúnde regime (1980-85), which corresponds to the period of the greatest rise in drug production.

Colombia is the one major drug-producing country that has maintained a steady, if small, annual growth of its economy, primarily because the banks chose to continue lending to it after 1982, so it was not forced to slash imports and decimate real wages. However, unemployment has been rising, even according to official figures, from about 9% in 1977-79, to nearly 14% by the mid-1980s. And the banks have finally told Colombia they will no longer continue to capitalize the interest payments that Colombia otherwise cannot pay.

### Monetary chaos

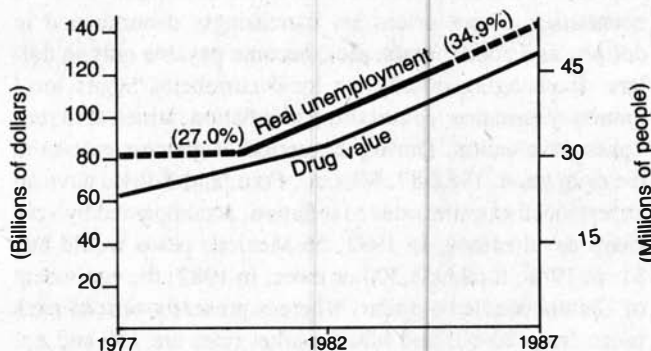
Not only have drugs destroyed the productive economies, those revenues that *have* returned to Ibero-America have created havoc in the monetary and financial systems of the countries.

There are no reliable estimates for how much of the \$130 billion actually returns either as circulating medium, or to be laundered through the banking systems, of the four major producing countries, or of the other countries of Ibero-America. A minimum figure can be estimated by calculating what the drug mafias must pay the peasant producers and transporters of the raw materials for the drugs (see Table 3). In the case of Peru, for example, since relatively little of the coca leaves grown there are processed within Peru beyond the stage of cocaine base into cocaine HCl, total payment to Peruvian producers of cocaine paste was probably about \$300 million in 1977, rising to \$950 million in 1982, and \$1.5 billion in 1986. This figure can be assumed to be a rock-bottom estimate of the amount coming into the country in dollars for drugs; it is *EIR*'s estimate that the same amount again probably returns for laundering, payoffs, and other uses, making a total of \$3 billion for 1986.

For Bolivia, the respective figures for direct production payments were \$300 million in 1977, \$700 million in 1982, and \$700 million in 1986. For Colombia, the entirety of the coca crop is refined in the country, raising its value well above that for the other two producers, despite much smaller quantities of coca grown, giving \$600 million for 1977, \$1.9 billion for 1982, and \$2.7 billion for 1986. However, Colombia's income from drugs is certainly still higher, because Colombia also refines the cocaine base that is manufactured in Peru and Bolivia. This probably raises significantly the amount of drug dollars coming into the Colombian economy, perhaps by an additional \$2 billion per year. The total revenue received by Ibero-America for cocaine would thus total in the range of \$12 billion for 1986—about 15% of its total street value. If we assume that approximately the same proportions hold for heroin and marijuana, then we can estimate that in 1987, about \$20 billion of the total street value of the \$130 billion in Ibero-American drugs reentered those economies.

FIGURE 6

### Ibero-American real unemployment\* vs. retail value of drug production 1977-87



\*Official unemployment, plus estimates for under- and misemployment

Sources: Schiller Institute, *La integración iberoamericana*, 1986; *EIR*.

Despite the absence of statistics for this money, it can be asserted unquestionably that its influence was disastrous, and not beneficial.

Where does the money go? Statistics prove it doesn't go into real production. Rather, it is squandered in real estate, spent in bribes and other corruption, and hires private armies, such that, at present, the drug mafias in Colombia constitute a parallel state, and Mexican traffickers are trying to copy the Colombia model. But most importantly, it shows up in the



Has this Bolivian family benefited from the cocaine "bonanza"?

country's financial and monetary systems as a prime cause of inflation, devaluation, and capital flight.

Drug money has become an integral part of the assault on the integrity and sovereignty of every banking and financial system in Ibero-America. The huge, footloose masses of unproductive dollars have led to a vast dollarization of the economies, where prices are increasingly denominated in dollars, and goods, rents, etc., become payable only in dollars. Exchanging dollars for local currencies bloats local monetary issuance, contributing to inflation, which then provokes devaluation. During the period of greatest growth in the drug trade, 1982-87, Mexico, Peru, and Bolivia have all experienced extreme rates of inflation, accompanied by very sharp devaluations. In 1982, 56 Mexican pesos would buy \$1; in 1988, it takes 2,300 or more; in 1982, the equivalent of .7 intis equaled a dollar, whereas presently official rates range from 20-80, and black market rates are 150 and up. Bolivia in 1985 suffered a hyperinflation like that of Weimar Germany, when inflation rates topped 12,000% a year, and the currency became virtually worthless.

**TABLE 3**  
**Cocaine money reentering Ibero-America 1986**

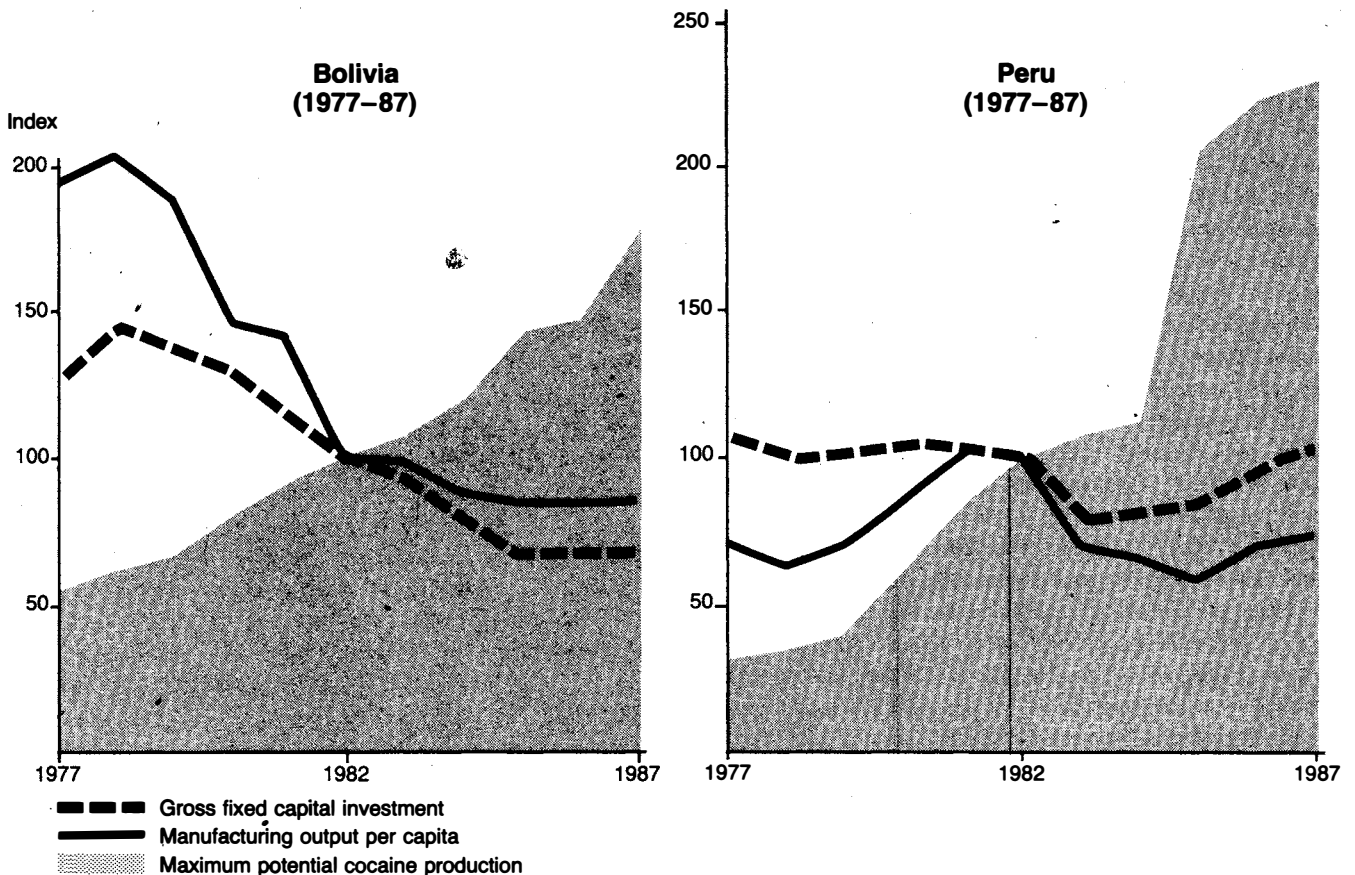
(billions of dollars)

	Peru	Bolivia	Colombia	Total
1) Production costs	1.5	0.7	2.7	4.9
2) Other payments	1.5	0.7	4.7	6.9
3) Total	3.0	1.4	7.4	11.8
4) Retail value*	46.3	20.5	7.1	74.0

\*1987 figure

Unless checked, this parallel drug economy and financial system will succeed in supplanting the national economies of Ibero-America altogether, and leave the entire Western Hemisphere in the hands of Dope, Inc.

**FIGURE 7**  
**Drug economy vs. productive economy**



Sources: Inter-American Development Bank, DEA, Government of Peru, EIR.