How the economy of Bolivia became addicted to cocaine

by Dennis Small

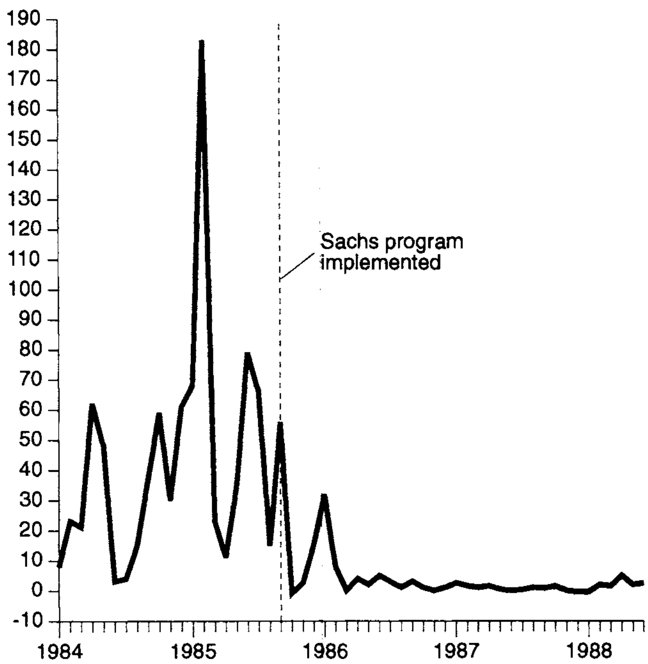
The nations of Eurasia which have recently freed themselves from communism, are today threatened by a new, more perverse form of enslavement. They are being told by the Anglo-American establishment that if they want to solve their economic problems, they have to become part of the West's "free" economic system, and this means adopting the austerity conditionalities of the International Monetary Fund, and the "free-market reforms" associated with Harvard University's *enfant terrible,* economist Jeffrey Sachs.

So far, the Sachs program has been applied in Poland. He is a consultant to the government of Slovenia. His ideas are being funneled into the government of Hungary via the Budapest offices of private consulting companies such as Arthur D. Little and Arthur Anderson. Sachs has traveled and lectured extensively in various republics of the former Soviet Union. He is, furthermore, according to his official *curriculum vitae,* an "economic adviser to several governments in Latin America and Eastern Europe"—although his office refuses to say which.

The promotional "sales pitch" on Jeffrey Sachs is that he proved his genius by wiping out inflation in Bolivia between 1985 and 1987—his first "success story." Inflation there dropped from an annual rate of over 20,000% in 1985, to about 11% in 1987.

That much is true, as **Figure 1** indicates.

FIGURE 1
Bolivia's monthly inflation rates, 1984-88
(percent monthly inflation)



Source: Institute of National Statistics, Bolivia

But the way Sachs stopped inflation, was by destroying what little existed of Bolivia's productive economy, and opening the doors wide for the international drug trade to come in and fill the vacuum he had helped create, and consolidate its death grip on the economy. In fact, Sachs's "success" against Bolivian inflation is like the case of the doctor who succeeds in lowering his patient's high blood pressure—by killing him.

Let us look at the highlights of what the mad doctor from Harvard actually did to Bolivia in the mid-1980s.

Shock therapy

Víctor Paz Estenssoro was inaugurated President of Bolivia in September 1985, and within three weeks he began to implement a radical economic program drafted for him by Sachs. In fact, Sachs ran the entire program, hands-on, personally. He "became a day-to-day adviser on the implementation of the program over a two-year period," to quote from the introduction to Sachs's own 1988 study, *Bolivia: 1952-1986.*

The Sachs program for Bolivia has been admiringly described by liberal economics guru Arnold C. Harberger as "the most dramatic stabilization effort in Latin American history." What did it consist of?

First, the Bolivian financial system was effectively "dollarized." This meant:

- the Bolivian peso was linked, forcibly, to the U.S. dollar, through a fixed exchange rate;
- the peso was massively devalued overnight (by 93%);
- the dollar became the de facto unit of account (for prices, etc.) in the Bolivian economy; and, most importantly,
- all sovereign power of internal credit generation was abandoned, placing the country at the mercy of the dollar

Jeffrey Sachs: "To preserve fiscal balance, the government had to launch a brutal battle to reduce payrolls in Comibol and YPFB. Although fiscally necessary, the results are stunning, and indeed reflect a social tragedy. Comibol has reduced its employment from about 30,000 workers in 1985, to just 7,000, as of 1987. Many of these workers are still unemployed, or only marginally employed, or have gone to the coca-growing region to find work. The mining towns themselves have been decimated."

(and the U.S. Federal Reserve Board).

Second, the government budget deficit was dramatically reduced. This was done by:

- "improved public sector prices," in Sachs's words, which means that the prices charged for government goods and services went through the roof. Fuel prices, for example, increased *tenfold;*
- "reductions in employment in state enterprises . . . and reduced rates of real compensation." Translated out of Sachs-ese, that means that up to *two-thirds* of the work force at the state-run tin and oil companies were fired, and that real wages of the remaining workers were slashed; and
- government investment ground to a screeching halt.

Third, trade liberalization was instituted: Import tariffs were eliminated, ending any protection of local industry.

And *fourth*, a unique measure was adopted, which Sachs refers to as a "consensual default" on Bolivia's foreign debt. In other words, Sachs worked out a deal for Bolivia with the International Monetary Fund and the country's creditor banks, under which these institutions agreed to a total suspension of all debt service payments for a number of years, in exchange for the adoption of the full Sachs package of measures.

This was necessary, in Sachs's view, because of a crucial political consideration:

"To the extent the public believed that the budget cutting was for the sake of foreign banks rather than for the sake of the domestic economy, the budget cutting was bound to provoke a political firestorm even beyond the normal, fierce opposition to budget cutting. This risk was exacerbated by the fact that the budget austerity was linked to an IMF program, making the politically sensitive link between budget cuts and the foreign debt payments even more obvious. . . . [By negotiating a temporary default] on the political side, the government was able to take harsh adjustment actions without facing the charge of being the servants of the foreign creditors."

How did the Bolivian government handle the political opposition that did arise to the Sachs program, including a general strike called by the country's leading trade union organization? "A temporary state of siege under the Constitution was declared, and the strike was quickly broken," Sachs explains matter-of-factly.

As the above summary of Bolivia's shock measures indicates, they are virtually identical to the liberal economic policies now being applied, five years later, under IMF tutelage across Ibero-America. They are the same policies now being demanded of every single one of the newly freed nations of Eurasia. And they will have the same consequences today that they did in Bolivia five years ago.

The effect on the Bolivian economy

The Sachs measures caused an almost instant deflationary crash of the Bolivian economy. **Figure 2** shows, for example, that the per capita Gross National Product (GNP) declined significantly in the five years following Sachs's shock therapy—admittedly continuing a process which had begun years earlier. Even more to the point is the way Sachs's program decimated per capita Gross Domestic Investment (GDI), which had been rising in the years before 1985, and which then plummeted by almost 50% as a result of Sachs's slash-and-burn approach.

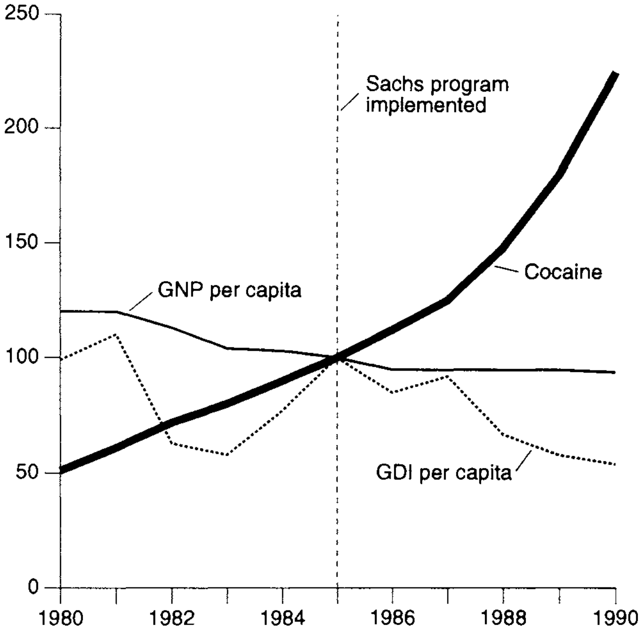
But not everything in Bolivia collapsed under the Sachs therapy; coca leaf production, for example, prospered, and began to grow at even more rapid rates than had occurred in the early 1980s. In fact, the output of the coca crop grew by almost 125% between 1985 and 1990. Today, cocaine derived from Bolivia's coca crop accounts for about 37% of the cocaine sold on U.S. streets, and its retail value is around $50 billion per year—about 10 times as large as the country's legal GNP!

How did Sachs bring this about? One key aspect were the forced shifts in employment which occurred. As part of his

FIGURE 2

Bolivia's drug trade booms while productive economy collapses

(index 1985=100)

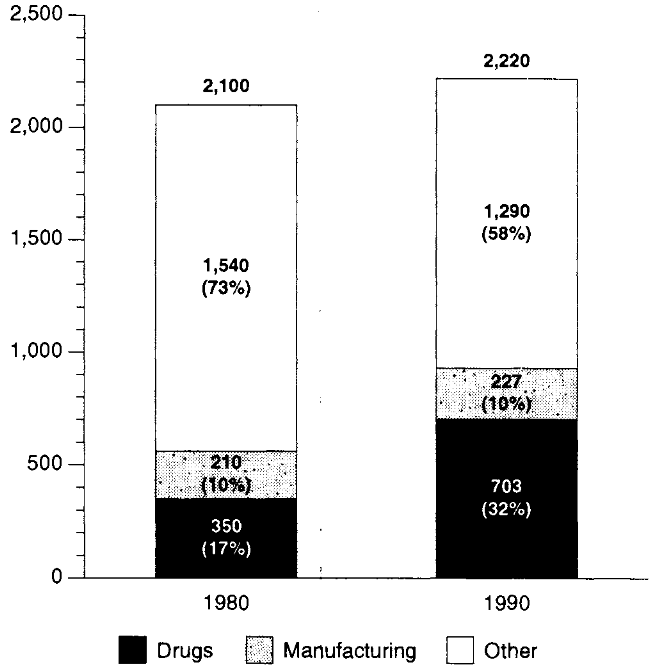


Sources: EIR, World Bank

FIGURE 3

Bolivia's labor force: drugs take over

(millions of workers)



Sources: EIR, World Bank

budget-cutting frenzy, Sachs forced a reduction in employment in the state tin company, Comibol, from 30,000 workers in 1985, down to 7,000 workers two years later—a 77% reduction. A similar 45% reduction of the work force in the state oil company, YPFB, was also achieved. Employment in the private sector mining companies dropped by about 20,000 under the Sachs regime.

It should be emphasized that these are not minor or secondary areas of the Bolivian economy: Tin and natural gas are in fact the country's two top legal exports, and have been so for decades. They have a large multiplier effect on employment in the rest of the economy. In fact, a total of about 150,000 layoffs can be ascribed to the direct and indirect results of the Sachs program.

These newly unemployed workers, by and large, were forced to seek employment in the coca-producing regions of the country, since this was the only economic activity which continued to boom. As a result, the number of workers employed in coca leaf growing and processing leapt from about 350,000 (or 17% of the labor force) before Sachs worked his magic, to over 700,000 after—a third of the entire labor force (**Figure 3**)!

Was this all an unfortunate mistake, a miscalculation on the part of the well-intentioned Harvard wonder boy and his establishment sponsors? Absolutely not. The destruction of Bolivia's productive economy and the skyrocketing of its drug trade were the deliberate, conscious, and intended result of Sachs's policies.

Deliberate genocide

It is best to listen to Sachs himself on this subject, as he stated it bluntly in his 1988 study, *Bolivia: 1952-1986:*

"To preserve fiscal balance, the government had to launch a brutal battle to reduce payrolls in Comibol and YPFB. Although fiscally necessary, the results are stunning, and indeed reflect a social tragedy. Comibol has reduced its employment from about 30,000 workers in 1985, to just 7,000, as of 1987. Many of these workers are still unemployed, or only marginally employed, or *have gone to the coca-growing region to find work.* The mining towns themselves have been decimated."

Armed with this information about what was really behind Jeffrey Sachs's Bolivia "success story," it should not be hard for the reader to imagine what will happen to the nations of central and eastern Europe, and of the former Soviet Union, should they be foolish enough to apply the liberal economic policies of Sachs and the IMF in their own countries.