"coordinated action" on the debt question.

The debt agency called for by CAP at Davos is in itself nothing new: The Japanese proposed such an institution over two years ago, and the Omnibus Trade Act of 1988 of the U.S. Congress calls for establishing an International Debt Management Authority which is indistinguishable from CAP's proposed agency. What is new, is that CAP has become the point man in the Third World for a scheme being pushed most vigorously by financial and political leaders in Europe and the United States, against the resistance of, in particular, the U.S. money center banks and the U.S. Treasury.

Attacks on the 'Baker Plan'

The documentation which follows in this *Feature* is representative of the arguments being presented in Congress and in the U.S. and British press, to the effect that the plan put forth by then Treasury Secretary James Baker in 1985, to manage the debt crisis by increasing the flow of new debt money somewhat, has failed utterly. So far, despite several statements that he is "open" to new approaches, President George Bush has in practice backed up now-Secretary of State Baker in maintaining this plan, with only minor modifications, and rejecting all forms of "debt relief," that is, anything which discounts the value of the banks' debts down toward their secondary market values.

The Baker Plan has been a dismal failure, for all the reasons indicated. The problem is that none of the indicated solutions, certainly not CAP's proposed debt agency, represents any kind of real solution. Under the debt agency proposal, the countries will still pay out large (if somewhat smaller than under current arrangements) amounts of net capital exports, when growth can only take place if there is a substantial net capital inflow—a policy which finds no advocates from these circles. And the *quid pro quo* for debt relief is even tighter control by the incompetent and corrupt International Monetary Fund, recently exposed by former senior official Davison Budhoo for faking its statistics to justify its "conditionalities" policy. The so-called "free market" policy being universally touted will not restore economic health to Ibero-America, but will only accomplish what top supporters of Mexico's President Carlos Salinas de Gortari have openly called for: turning Ibero-America into one huge "export free zone," where runaway U.S. shops get super cheap labor to produce items for reexport, while the domestic population sinks deeper and deeper into poverty.

Will CAP be successful in leading Latin American governments into an IMF-run debt agency? The likelihood is that impending financial crises will detonate in Argentina, Brazil, and possibly Mexico, long before the arrangements are in place. At that time, events will be determined by whether nationalists take power who can guide their countries into an alliance to demand a new world monetary order, or whether the countries descend into chaos, repression, and coups. CAP's phony "pressure bloc" will not bring any positive results.

Venezuela to get the 'Bolivia treatment'

by Mark Sonnenblick

Venezuelan President Carlos Andrés Pérez has contracted 31-year-old Harvard monetarist Jeffrey Sachs to design what he called in his Feb. 2 inaugural address the "progressive liberalization of the economy." Sure enough, the terminology which Pérez uses to describe his economic plans mimics the way Sachs portrays the "successful stabilization program" which he prescribed for Bolivia. The outcome was the rapid demise of Bolivia's agro-industrial economy and a concurrent expansion of the cocaine industry.

Jimmy Carter is correct in promoting Sachs as "the man who defeated inflation in Bolivia." When his "shock" program was adopted there on Aug. 29, 1985 by Pérez's fellow Social Democrat, Víctor Paz Estenssoro, inflation was running at 25,000%. By 1987, it was down to 25%.

Sachs accomplished this by devaluing the peso by 93%, to the "parallel market price" set by those who trade in dollars from cocaine exports. The government began buying dollars from the suppliers of 40% of America's raw cocaine, with no questions asked. The dollar became legal tender. Banks, free to charge what they pleased, raised interest rates to 35-45% above inflation. That did encourage some traffickers to put their dollars into Bolivian banks, but none of these dollars went into productive investments. By 1987, a full 35% of the debt owed local banks was uncollectable, and the banks were technically bankrupt.

Bolivian industry was also ravaged by the kind of tariff reductions Pérez promises Venezuela. Imports increased 30% in 1986, as cocaine dollars returned in the form of consumer products. Commerce became nothing but money laundering. Sachs's "tax overhaul proposal" imposed a heavy burden on cattle-growers and industrialists, while easing the burden on money markets. In a May 1987 article in *American Economic Review,* "The Bolivian Hyperinflation and Stabilization," Sachs boasts that the step "with the most important short-run effect was the rise in public sector prices, which raised government revenues immediately by several percent of GNP." The tenfold increase in fuel prices helped paralyze industrial activity.

Sachs writes, "The policy package had the desired effect of closing the flow budget deficit of the central government. With the combination of higher public sector prices, the virtual halt to all public investment, a tight freeze on public sector wages at very depressed levels, and a moratorium on foreign debt servicing, government revenues jumped above expenditures after the start of the program."

Price controls and all labor protection laws were abolished. By 1987, schoolteachers' wages had been cut to $15 a month. The state mining company, COMIBOL, fired all but 7,000 of its 30,000 workers, and then auctioned off many of the mines to foreign speculators. Another 20,000 private-sector miners were fired, resulting in the loss of livelihood to another 140,000 peasants and workers who supplied goods and services to the miners. The "inefficient" productive economy simply vanished. Shoe factories, soap factories, palm oil factories, glass factories—132 factories closed their doors. The "inefficient" workforce now had no choice but to drift into the jungle to survive, or die, as slaves of the cocaine producers.

The cocaine industry booms

In early 1988, *over one-third* of Bolivia's labor force was linked to the production of cocaine, double the proportion of a few years earlier. The Social and Economic Studies Institute (IESE) of the Universidad Mayor de San Simón de Cochabamba, directed by Father Federico DeAquilo, found that of these 703,000 people, 415,500 were involved directly in the production of coca leaves and their purchase and transport to processing centers. It estimated that 4,000 cocaine factories employed 42,500 people. Processing chemicals were provided by 250 specialized trafficking operations. Some 240,000 of the 703,000 are also themselves consumers of cocaine products.

The influx of skilled labor coincided with an upgrading of the industry. In 1984, almost all of Bolivia's cocaine went, in the form of basic cocaine paste, to Colombia and elsewhere for refinement. Now, up to half of the paste is refined locally by the 30 to 40 families which dominate the Bolivian end of Dope, Inc., according to U.S. Drug Enforcement Administration estimates. Cocaine is the only industry in Bolivia in which capital investment and technological advance are taking place.

According to former Finance Minister Roberto Jordan Pando, $3.6 billion of the $4.5 billion Gross National Product comes from cocaine. The "free market economy" brought an increase in coca bush plantations from 198,000 acres in 1985, to 372,000 acres in 1987, despite a widely publicized U.S. Army eradication operation. The eradication program has now stalled, due to lack of money and to peasant opposition. The government claims to have destroyed 900 processing centers and arrested 600 people during the first 10 months of 1988. But, Bolivia is more addicted to the narco-economy than ever. Coca leaf production rose from 56,420 tons in 1987 to 62,060 tons in 1988, the U.S. Government Accounting Office estimates.

Sachs boasted that his Bolivia experiment "is the greatest verification I know of basic monetary theory. . . . It has worked so much according to the textbook, that I don't have to revise one major idea."

Primitive agriculture in Bolivia. Thanks to the "anti-inflation plan" of Harvard economist Jeffrey Sachs, inaugurated in 1985, what remained of Bolivia's industry and productive agriculture was wiped out. Now, over one-third of the labor force is employed in the production of cocaine.