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"Despite a massive infusion of money and manpower, no one can seriously claim that the war on drugs in Bolivia is being won."

Bolivia: The Politics of Cocaine

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BOLIVIA'S sad and turbulent history continues to repeat itself. The coca boom of today has replaced the tin boom of the last century, which in turn supplanted the exploitation of silver and other precious metals during the colonial period. And as in the past, Bolivia's export-based economy continues to depend on foreigners for everything from bank loans to economic advisers.

It is impossible to understand Bolivia's current economic situation without first understanding the links between Bolivia's prosperity during the 1970's and the inflation, price stabilization and stagnation of the 1980's. The economic prosperity Bolivia enjoyed during General Hugo Banzer Suarez's reign between 1971 and 1978 was financed with petrodollars borrowed from abroad. In less than a decade, public debt increased from \$671 million to more than \$2.5 billion. Foreign loans were supplemented during these global inflationary years by increased export earnings from tin and crude oil as well as illicit dollars from the booming cocaine trade.

Bolivia's so-called economic miracle, however, was short-lived. It came to an abrupt end in late 1979, when the United States Federal Reserve Board, following a monetarist policy to curb inflation, raised interest rates dramatically, precipitating the worldwide recession of 1980-1982.¹ Prices for oil and tin collapsed, private capital fled Bolivia, short-term foreign debts tripled between 1980 and 1982, and Bolivia fell into a debt crisis and depression from which it has yet to recover. Not even the Bolivian military could contain the social unrest brought on by this economic crash, which manifested itself in political turmoil. The four years from 1978 to 1982 witnessed no less than nine heads of state.

¹Jerry R. Ladman, ed., *Modern Day Bolivia: Legacy of the Revolution and Prospects for the Future* (Tempe: Arizona State University Press, 1982).

²James M. Malloy and Edwardo Gemarra, eds., *Revolution and Reaction: Bolivia, 1964-1985* (New Brunswick, N.J.: Transaction Publishers, 1988), and Juan Antonio Morales, "Inflation Stabilization in Bolivia," in Michael Bruno et al., eds. *Inflation Stabilization: The Experience of Israel, Argentina, Brazil, Bolivia, and Mexico* (Cambridge: MIT Press, 1988).

³Jeffrey Sachs, "The Bolivian Hyperinflation and Stabilization," *The American Economic Review*, May, 1987, p. 280.

The deteriorating economic situation—combined with pressure from the international community—forced the Bolivian military to return to its barracks in October, 1982.² Hernán Siles Zuazo and his Democratic and Popular Unity (UDP) coalition, which had won the 1980 election, then assumed power. President Siles, who had successfully implemented a stabilization program in 1957-1958, was again heir to an inflationary, no-growth economy that was not of his making. As economist Jeffrey Sachs notes:

The Siles government inherited an annual inflation rate of approximately 300 percent (October, 1982, over October, 1981), an inability to borrow on international markets, and an economy declining sharply in real terms (real GNP [gross national product] fell by 6.6 percent in 1982). At the same time, the new government was called upon to satisfy pent-up social and economic demands.³

In an attempt to repeat his earlier historic success, Siles implemented six price stabilization plans during his short term of office. They all failed because his government, which included Bolivian Communist party ministers, lacked support from Bolivia's businesspeople and its international creditors. This lack of support led to capital flight, devaluation of the peso and rising prices. In a desperate attempt to stop the vicious spiral of devaluation and inflation, the Siles government fixed prices, wages, interest rates and the official exchange rate. The result was an increase in black market economic transactions, which were not taxed, and a subsequent drop in government revenues. In a futile attempt to finance government deficits, the Central Bank printed more and more money. The outcome of all these measures was the Bolivian hyperinflation of 1984 and 1985.

THE NEW ECONOMIC POLICY

Hyperinflation forced Siles to call early elections in 1985. In the elections, former General Hugo Banzer Suarez and his Democratic Nationalist Action (ADN) party won a plurality of 29 percent of the vote. Victor Paz Estensorro of the National Revolutionary Movement (MNR), however, be-

came President with only 26 percent of the vote after forming an alliance with the Left Revolutionary Movement (MIR) of Jaime Paz Zamora. Ironically, Paz Estensorro had been Bolivia's President during the previous period of inflation between 1952 and 1956.

President Paz Estensorro took office on August 6, 1985, and proclaimed the so-called New Economic Policy (NEP), which included a devaluation of the peso and a managed floating exchange rate; a cut in government spending and deficits; a freeze on public sector wages; elimination of government subsidies and controls on trade and prices; and privatization of public enterprises. This austere International Monetary Fund (IMF) stabilization program was intended to do more than eliminate inflation.

The policy succeeded in stabilizing prices, but it did so at a high human and social cost. Public sector employment decreased by 10 percent within a year, the peso was devalued by nearly 100 percent and inflation fell to an annual rate of 276 percent in 1986 and 15 percent in 1987.⁴ In return for complying with the IMF conditions, Bolivia received increased international financial assistance, including loans of \$225 million from the IMF, \$257 million from the World Bank and \$351 million from the Inter-American Development Bank. The Paris Club of creditor governments also permitted Bolivia to re-schedule \$2 billion in debt, and it granted Bolivia the unique privilege of repurchasing \$450 million of its foreign debt owed to commercial banks at 11 cents on the dollar, with money donated by foreign governments. In short, Paz Estensorro's center-right government was handsomely rewarded for returning Bolivia's economy to an open, laissez-faire and subordinate position in the global capitalist community.

Paz Estensorro's stabilization program also led to the privatization of the national mining company, Corporación Minera de Bolivia (Comibol) and the firing of 23,000 of the company's 30,000 miners.⁵ The massive unemployment of miners was only one

cost of this stabilization program. Unemployment of workers increased to an estimated 20 percent, real wages decreased, and rural teachers quit their jobs in record numbers. In compensation for their reduced incomes, Bolivian government ministers were secretly paid salaries by the United Nations.⁶ If this were not enough, the government imposed a 10 percent value-added tax (VAT) on all economic transactions in mid-1986.

Economist Nicholas Kaldor has observed that orthodox economic policy, like Bolivia's,

is no more than a convenient smokescreen providing an ideological justification for such antisocial measures [as] high interest rates, an overvalued exchange rate, and the consequent diminution in the bargaining strength of labor due to unemployment.⁷

There are indications today that Bolivia's high interest rate of 19 percent discourages real investment and that the "managed" peso is seriously overvalued by approximately 20 percent, thus reducing exports while promoting imports. Moreover, there is substantial evidence that the Bolivian Central Bank is using drug money to stabilize its finances. Short-term (30-day) deposits in dollars and dollar-indexed accounts (no questions asked) increased from less than \$28 million in September, 1985, to an estimated \$270 million in March, 1987. Since then, dollar deposits in Bolivian banks have increased to about \$700 million, and the economy has once again been "dollar stabilized."

This stabilization, however, is not an economic miracle. The return of finance capital (international loans, debt reduction and drug money) to Bolivia after 1985, the freeing of prices and regressive taxes brought price stability to Bolivia. But the program has not brought prosperity or social justice to the country. On the contrary, inequality has increased, and the economy has shrunk. Nowhere is this more evident than on the streets of La Paz, where street vendors and beggars contrast with the fancy boutiques, posh hotels and Mercedes-Benzes. The regressive VAT absorbs nearly 15 percent of the gross domestic product (GDP) and the high-interest dollar deposits discourage productive investment. As a result, "real per capita GDP fell by 5.6 percent in 1986, 0.6 percent in 1987 and 0.1 percent in 1988."⁸ From 1986 to 1989, Bolivia's per capita GNP was only 74 percent of the per capita GNP in 1980, and the foreign debt of \$3.5 billion absorbs 30 percent of the nation's legal export earnings.

The MNR initially paid for the high cost of its price stabilization, losing heavily in the municipal elections of 1987 after it received only 12 percent of the vote. In the 1989 elections, the MNR emerged victorious, with its new charismatic head, Gonzolo ("Goni") Sanchez de Lozado, winning a plurality of

⁴See Arthur J. Mann and Manuel Pastor Jr., "Orthodox and Heterodox Stabilization Policies in Bolivia and Peru: 1985-1988," *Journal of Interamerican Studies and World Affairs*, vol. 31 (Winter, 1989), pp. 170-176.

⁵In October, 1985, the price of tin abruptly declined by 50 percent. The International Tin Agreement and the tin market collapsed in March, 1986, when the Tin Council ran out of money to purchase tin stocks and support the price. John Crabtree et al., *The Great Tin Crash: Bolivia and the World Tin Market* (London: Latin American Bureau, 1987).

⁶Carlos Serrate Reich, *Interpelación al Neoliberalismo* (La Paz: Impresa Editorial Siglo Ltd., 1989).

⁷Nicklos Kaldor, "Monetarism and U.K. Monetary Policy," *Cambridge Journal of Economics*, vol. 4 (1980), p. 244.

⁸Mann and Pastor, op. cit., p. 174.

the vote, followed closely by Banzer and the ADN. Paz Zamora of the MIRA, who placed a weak third, however, was declared President when Banzer swung his party's votes to Paz Zamora in a congressional runoff. Unofficially, it has been Banzer who has run the country after he acquired 50 percent (17 portfolios) of the Cabinet in return for his votes. Among the portfolios held by Banzer's ADN are the powerful ministries of finance, defense and foreign affairs.

President Jaime Paz Zamora has vowed publicly to continue the stabilization program and to wage war on coca leaf producers. In return, Bolivia has received increased financial assistance from the United States. In 1989, Bolivia received \$100 million in United States aid; \$15 million was earmarked for drug interdiction and \$40 million was part of a coca substitution program. In 1990, United States aid increased to \$230 million; \$33.7 million of this will go to the military if it takes part in the drug-eradication program.

WAR IN BOLIVIA

Bolivia's miners and peasants were the soldiers of the 1952 revolution that brought the MNR to power and resulted in an extensive land redistribution program. However, the MNR government was never comfortable with either the miners or the peasants of the highlands and valleys. In its development programs, the government heavily invested in the lowlands—Santa Cruz, the Chaparé and the Beni—where there were no unionized miners or organized Amayra-Quechua peasants, and no land reform programs.

After 1952, most foreign aid as well as profits from the state-owned Comibol mine went to the lowland regions. Here sugar, cotton and cattle produced on large estates promised to become the new base for economic development in Bolivia. The government's objective was to move highland peasants to the more fertile lowlands, put them to work for agro-industrial entrepreneurs, and make Santa Cruz and the Beni the center poles of development.

Instead of sugar, cotton and cattle, however, the area struck it rich with coca. Today, 80 percent of Bolivia's coca is grown in the Chaparé region, *campesinos* (lowlanders) dominate the drug trade, and Santa Cruz is a cocaine boomtown. But the development policy was a dismal failure even before coca arrived. Although the lowland's share of Bolivia's GNP increased between 1965 and 1979, agricul-

ture's share of GNP as a whole decreased, as did traditional peasant agriculture in the highlands. The heavily subsidized sugar crop satisfied domestic consumption but not export needs. Many of the loans for sugarcane, cotton and cattle were unaccounted for and became seed money for the drug-trafficking elites.

The extent to which coca production and trade now dominate the Bolivian economy is astounding. Coca accounts for an estimated 30 to 40 percent of Bolivia's agricultural production, half its GDP and 66 percent of its export earnings. Between 40,000 and 70,000 peasants produce coca, and about 500,000 Bolivians (1 in 5 of the working population) depend on coca for a livelihood either directly or through support industries.

The typical campesino earns between \$1,000 and \$2,500 per hectare of coca plants, which is about four times the amount he could earn from growing oranges and avocados, the next most profitable alternative crops. He receives \$2 for a kilogram of coca leaf, which translates to between \$70,000 and \$90,000 per kilogram of processed pure cocaine on the streets in the United States. Thus, while the coca farmer makes a living, the cocaine trafficker makes a killing.

The huge profits made from trafficking are used to buy airplanes, weapons, army officers and politicians in Bolivia and abroad. Only one-fifth of the money from the Bolivian drug trade is returned to the country. This leaves about \$2.5 billion, which is spent and banked abroad, mainly in the United States.⁹

With so much money to be made in the illicit drug industry, the corruption of Bolivian politics is understandable. It reached its peak on July 17, 1980, when General Luis García Meza came to power in a bloody coup. García Meza's was undoubtedly the most brutal, corrupt, neo-Nazi government in Bolivian history.

During the two years García Meza was in power, the United States stopped all military aid to Bolivia. The populist Siles government that followed was reluctant to accept military aid or to turn the army against the well-organized peasants whom Siles was attempting to woo as supporters. In an attempt to keep the military out of the drug-control business and at the same time convince foreign lenders that Bolivia was willing to cooperate in the war against drugs, Siles created an anti-drug police force, the Mobile Rural Patrol Units (UMOPAR). This force, which was later nicknamed the Leopards, was entirely trained and financed by the United States. But Siles's greatest fears were realized when the Leopards kidnapped him in an abortive coup attempt in July, 1984.

⁹Mario de Franco and Ricardo Godoy, "The Economic Consequences of Cocaine Production in Bolivia: Historical, Local, and Macroeconomic Perspectives," unpublished paper of the Harvard Institute for International Development, June 8, 1990.

This did not deter Siles's successor, Victor Paz Estensorro, from escalating militarization. In mid-1986, during Paz Estensorro's administration, the Leopards and 160 United States combat troops raided 256 suspected cocaine paste laboratories. They confiscated a mere 22 kilograms of the paste (from which cocaine is refined) and arrested only one narcotrafficker—a peasant worker. The operation, dubbed "Blast Furnace," was a failure in still another respect. Bolivian society was outraged at the government's unconstitutional use of foreign troops without congressional approval.

Paz Estensorro soon focused his drug-eradication program on two fronts: armed conflict against the peasant coca producers and a program that paid \$2,000 for each hectare of coca plants "voluntarily" destroyed. Both programs are financed by the United States government.

THE INTERNATIONAL RESPONSE

On February 15, 1990, the Presidents of the United States, Bolivia, Peru and Colombia met in Cartagena, Colombia, to set policy for the drug war. They agreed "to implement or strengthen a comprehensive, intensified anti-narcotics program" to reduce both the supply of and the demand for illegal drugs.

On May 9, 1990, the United States and Bolivia signed an agreement that commits the Bolivian armed forces to fight the drug war. Under this agreement, \$33.7 million in United States aid will be distributed in 1990 to eradicate drugs. In 1991 the drug-eradication and coca-substitution aid package is expected to total \$95.8 million.¹⁰

Despite this massive infusion of money and manpower, no one can seriously claim that the war on drugs in Bolivia is being won. Bolivia eradicated between 6,500 and 8,000 hectares of coca leaves in late 1990, although it was scheduled to destroy only 6,000 hectares for the entire year. However, Bolivia produces between 50,000 and 100,000 hectares of coca, which means that at the present rate of destruction, it will take at least 6 to 12 years to eliminate Bolivia's existing coca crop—if no new production is undertaken. And the costs of relocating and compensating coca producers could be as much as \$3.5 billion. The Bolivian peasant will most likely continue to produce coca as long as demand in the United States or in other developed countries remains high or until viable alternative cash crops are developed at home.

The battle against cocaine traffickers is making little progress. On December 10, 1989, Colonel Luis Arce Gómez, García Meza's minister of in-

terior, was apprehended and extradited to the United States to face drug charges. He faced similar charges in the Bolivian courts. Erlán Echeverra, Arce Gómez's right-hand man, was recently abducted and extradited to the United States and has reportedly agreed to testify against his former boss. Meco Dominguez, one of Bolivia's top three drug traffickers, was also apprehended.

The arrests of these Bolivian druglords are only the tip of the iceberg. General García Meza still draws his military pension, and his case in the Bolivian Supreme Court drags on. Banzer has been neither arrested nor charged and remains the head of Bolivia's major political party and the recognized power behind President Paz Zamora.

Corruption is most evident in the banking system, where "cocaine stabilization" is the norm. Most Bolivian drug money is laundered in the international banking system, which includes United States and Panamanian banks. The largest private bank in Bolivia, the Santa Cruz Bank, has offices in Panama and Miami.

Drug launderers and their bankers, however, are not targets of the military in its brave new drug war. Drug money is withdrawn from Bolivian banks whenever the government takes action against the druglords or when they do not support or cannot control the government. This capital is repatriated when the druglords feel safe or when they support the government, which has been the case in Bolivia since 1985.

The drug money deposits and repatriation explain why Bolivia's currency and price levels have stabilized since 1985. This policy obviously serves the interests of the new illegitimate bourgeoisie and the "narco-generals" of Bolivia. It also apparently serves the United States national interest, inasmuch as money laundering has not only been tolerated by the United States but has, in fact, been encouraged. The latest program to privatize Bolivia's public enterprises is a case in point.

There is little doubt that much of the investment capital used by Bolivia's new entrepreneurs is drug money. Privatization will further legitimize cocaine profits and make respectable businesspeople of the

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Melvin Burke has taught, researched and consulted extensively in many Latin American countries. His studies of Bolivia include *La Corporación Minera de Bolivia (Comibol) and the Triangular Plan: A Case Study in Dependency*, Latin American Issues, no. 4 (Meadville, Penn.: Allegheny College and University of Akron, 1987), and "The Stabilization Programs of the International Monetary Fund: The Case of Bolivia," *Marxist Perspectives*, vol. 2, no. 2 (Summer, 1979).

¹⁰Bolivia Seeks U.S. Aid to Strengthen Its Economy, *Christian Science Monitor*, February 15, 1990, p. 3.

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Bolivian cocaine traffickers. This is not a bad policy in the long run. But drug trafficking is much more profitable than running an airline or a brewery. Bolivia's druglords thus may not abandon their illegitimate drug trade but simply use the privatized companies as new fronts for money laundering.

While the drug traffickers face the prospect of acquiring respectability and legitimacy, the poor peasant coca growers struggle to survive against the combined armed might of the United States and Bolivian militaries. In November, 1990, 1,600 combat regulars of the Bolivian army were ordered to the Chaparé to wage war against the coca growers. Bolivia's peasants will undoubtedly resist this repression as did the Bolivian miners before them. ■
