

Fund, imposed in 1987 supposedly to mitigate the severe social effects of the shock program, actually did nothing to alleviate the problems of widespread unemployment in the state sector and mining. Between 1986 and 1987, because of growing economic depression in the physical economy and high unemployment, the state deficit again began to grow from 3.8% of GDP in 1986 to 10.5% in 1987.

The narcotics economy

There is one gaping hole in the Sachs "Bolivia success story," which the absent-minded Harvard professor omits from his published accounts of his experiment. He saw to it that there would be a "loophole" in Paz Estenssoro's Aug. 29, 1985 Supreme Decree. Article 142, in effect, permits laundering of illegally obtained dollars at the window of the central bank and private banks—with no questions asked. The availability of the laundered narco-dollars to the Bolivian banking system was the key to the entire stabilization of the peso!

With the peso now freely convertible into the dollar by the central bank, the dollar profits of the "hidden economy" of cocaine could now more easily enter normal money flows of Bolivia's economy. This is reflected in the fact that, after three years of the Sachs shock program, by the end of 1987, more than 80% of Bolivian domestic bank deposits were still in dollars. This forced continuation of high interest rates and the resulting scarce capital for industrial investment.

Sachs's Bolivia "success" is based, therefore, on a criminal fraud. He ignores mention of this illegal "black economy." In a March 1989 report on Bolivia, Dresdner Bank estimates that "drug trafficking alone is estimated to amount to some two-thirds of officially recorded GDP." None of this shows up in official government statistics. Sachs's "success" is based on statistics which deliberately ignore 66% of the economy!

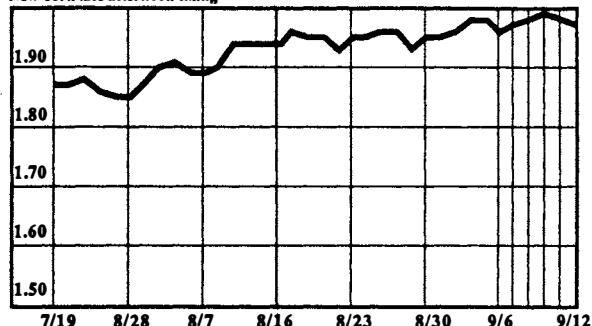
Because of Sachs's "free market" plan, "flight capital" did indeed began to return to Bolivia. But he chooses to ignore what those "hot money" flows were linked to. According to international law enforcement agencies, 40% of U.S. cocaine comes from the jungles of Bolivia. Under the Sachs plan, this cocaine money began to be legally traded in place of the peso. The returning narco-dollars did not go into productive investment in the economy.

By choking productive investment in the state sector and privately through astronomical interest rates, the Sachs plan enabled cocaine to become the focus of the economy. By 1988, more than 30% of the Bolivian labor force was linked to production or distribution of cocaine—double that of only a few years before the Sachs plan. By estimate of a former Bolivian finance minister, Roberto Jordan Pando, \$3.6 billion of the small country's \$4.5 billion Gross National Product now comes from cocaine. Between 1985, before the Sachs plan was imposed, and 1987, acreage devoted to coca bush rose from 198,000 acres to 372,000 acres.

Currency Rates

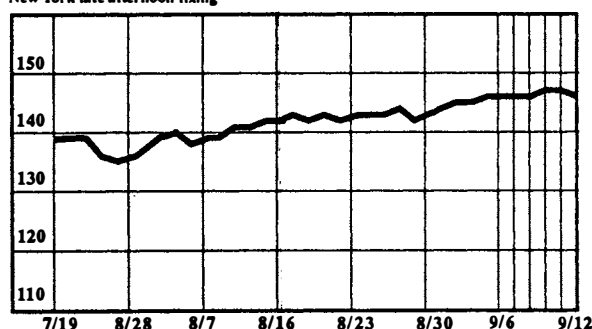
The dollar in deutschemarks

New York late afternoon fixing



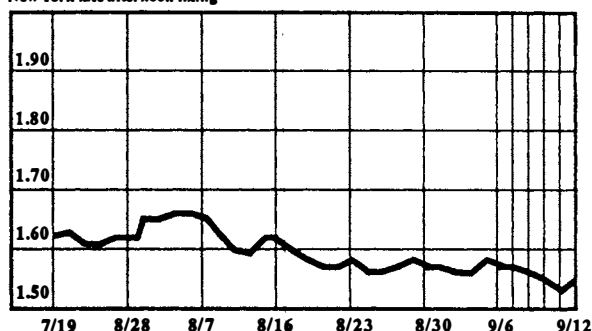
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing

