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Free market reform and drug market prohibition: US policies at cross-purposes in Latin America

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Much of US policy towards Latin America in the last decade has been driven by two agendas: promoting the spread of neoliberal market reforms and combating the spread of the illegal drugs trade.[1] Indeed, with the thawing of the Cold War by the end of the 1980s, making peace with the market and declaring war on drugs became defining features of US relations with most of the region. Liberalisation of markets, accompanied by strict austerity measures, has been pushed by the United States as the remedy for stagnant, debt-burdened Latin economies.[2] At the same time, countries have been pushed to adopt strict law enforcement measures to combat the illegal drugs trade.[3] US assistance—in the form of foreign aid, support for loans through multilateral funding agencies such as the International Monetary Fund (IMF), trade concessions, and diplomatic favour—are linked to these twin policy objectives.

Although the first policy objective is viewed as an economic issue and the second policy objective is viewed as a law enforcement issue, both involve reshaping the relationship between states and markets. Neoliberal policies call for a more minimalist state, while prohibitionist policies call for a more interventionist state. Thus, the USA has promoted a *curtailment* of state intervention in the market (through liberalisation) even as it has promoted an *escalation* of state intervention (through prohibition). Latin American countries have been under significant pressure to comply with both liberalisation and prohibition objectives, the first primarily through the financial leverage of US-supported multilateral funding agencies (especially the IMF) and the second primarily through direct US diplomatic and economic leverage.

However, the compatibility of these two very different models of state–market relations is questionable, since legal and illegal markets are often inextricably intertwined.[4] In many countries, the drug export sector is not isolated from, but integrated into, the national economy. Not only are they closely linked, but the informal drug economy is guided by many of the same market principles which regulate the formal economy. Thus, even as the USA seeks to expand the role of market forces and the private sector, the awkward reality in many Latin American countries is that the drug export industry is a leading market force and an integral component of the private sector.

Indeed, as we shall see, the revenues and jobs generated by the illegal drug industry have actually helped some states adopt the very market reforms and austerity measures encouraged by the USA and the IMF, and these neoliberal programmes, in turn, have in some ways actually helped fuel the illegal drug

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industry. Thus, neoliberalism both *stimulates* and is *stimulated* by the very illegal market which the USA is attempting to prohibit. Neoliberalism reduces the role of the state in regulating the national economy, and this has an impact on the drug export sector in those countries where it is integrated into the economy. Similarly, neoliberalism reduces the ability of the state to withstand external market pressures—and the enormous global market demand for drugs is certainly no exception. The logic of neoliberalism is for the state to conform to the dictates of international market pressures (with little regard to state-created distinctions between legal and illegal markets). Robert Cox has called this the 'internationalization of the state': the process whereby national policies are adjusted to the exigencies of the international economy.[5] Although illegal, the global drug economy can be seen as part of this broader process.

The United States, however, wants it both ways: a strong interventionist state in one sphere of the economy (the illegal drug market), and a weak, minimalist state in all other spheres of the economy. In fact, far from seeing this as a problematic combination, US officials view market liberalisation as a facilitator of drug market prohibition. As the 1994 National Drug Control Strategy report noted, the growth of 'free market economies presents new international narcotics control opportunities …' According to the report, 'market-oriented governments are much easier to work with and more willing to cooperate with the international community in a common effort against the illicit drug industry'.[6]

The experience in two of Latin America's major drug producing countries—Peru and Bolivia—suggests otherwise. To the delight of US officials, the two countries have implemented the most sweeping neoliberal market reforms and orthodox austerity measures ever attempted in Latin America. To the dismay of US officials, however, they are also two of the largest drug producers in the world and have only half-heartedly cooperated with the US anti-drug campaign.[7]

In the Peruvian and Bolivian economic context, compliance with neoliberal policy objectives has necessarily meant undermining US drug policy objectives. As we shall see, drug production in Peru and Bolivia both *facilitates* and is *fuelled by* neoliberal reforms and orthodox austerity measures. Thus, US and IMF sponsorship of these economic policies conflicts with the US-sponsored effort to curb drug production.[8] Of course, this is in no way meant to suggest that the drug control campaign would be a success in the absence of neoliberal economic policies, or that neoliberal policies are somehow the cause of the drug trade. After all, the drug export sector and unsuccessful drug policies existed long before neoliberal economic strategies were adopted. At best, the economic issues considered here are only part of the explanation for why drug control efforts in Peru and Bolivia have repeatedly failed.[9]

Peru and Bolivia produce virtually all the world's supply of coca, the raw material of cocaine. Coca is the most dynamic sector of their economies, serving as the leading generator of foreign exchange and a crucial source of employment. The further opening of their economies through market liberalisation has only increased the incentive to specialise in coca, the export commodity which provides them with the greatest returns in the global economy.

Suffering from balance of payments problems and a decline in revenues from traditional exports, Peru and Bolivia have had an incentive to tolerate the influx of dollars from the coca export sector into the banking system to help carry out difficult economic reforms and finance heavy foreign debts. The coca export sector also plays the crucial role of absorbing many of those left unemployed as a result of the adoption of harsh IMF-style austerity measures.

In this context, Peru and Bolivia cannot afford to fully comply with US drug control objectives—to do so would damage the same neoliberal programme which the USA and the IMF have demanded and supported. Instead, Peru and Bolivia have unofficially defected from the US 'war on drugs'—even while trying to maintain the perception of official compliance. This has required playing a delicate game of drug diplomacy, since US aid and diplomatic favour are conditioned on their compliance with *both* neoliberal economic guidelines and US drug control objectives.

Caught between these conflicting and contradictory international demands, Peru and Bolivia have had to prioritise one at the expense of the other. Given the major changes in the external economic environment in the last decade (especially the drying up of foreign credits and deteriorating terms of trade), and the increased leverage of the IMF and the international financial community (largely a result of the debt crisis), Peru and Bolivia have had few options other than to participate in the global economy under neoliberal rules.[10] This has required adhering to strict IMF guidelines, including a commitment to servicing the foreign debt.

Failure to comply with these guidelines is difficult to obscure and generally comes at a high cost. For example, as a result of Peru's 1985–1990 refusal to allocate more than 10% of its export earnings to service its debt (as well as its experimentation with more 'heterodox' economic policies), the country was cut off from external financing and made ineligible for future loans. Peru was able to appease the IMF and the international financial community in 1990 only after committing itself to a drastic austerity programme and by making significant monthly payments to service its debt.

In contrast, it is much easier to obscure defection from the drug control campaign. For example, lack of progress in curbing drug production can often be blamed on other factors, such as corruption, bureaucratic mismanagement and inadequate resources. Even though token drug control measures and symbolic gestures—such as occasional high-profile drug seizures and arrest of traffickers—have little impact on the illegal trade, they do help appease US policymakers. Since images and symbols play such an important role in the US-sponsored drug control effort, there is significant room for deception and manipulation of perception.

While failure to comply with US drug control wishes can lead to diplomatic sanctions and a cessation of aid, this can usually be reversed by a show of new resolve. For example, while the USA suspended aid to Bolivia in 1986 because of poor results in the anti-drug programme, funding was soon restored after the Bolivian government cooperated in a highly publicised US drug control offensive called 'Operation Blastfurnace'. Although the operation was limited to a few months and had only a short-term impact on the drug trade, it did succeed (at least for the time being) in appeasing policymakers in Washington.

The measurements used to show failure or success in drug control—the amount of drugs seized, coca crops eradicated and traffickers arrested—are highly misleading indicators that can easily be manipulated to show 'progress' in the battle against drugs. US policymakers have an incentive to maintain an impression of cooperation and progress on the foreign drug war front both to pacify domestic pressures and to maintain close institutional ties to Latin American security forces charged with waging the anti-drug campaign. As a result, US drug control strategists are generally more flexible than IMF officials in defining what qualifies as compliance. In short, quiet defection from the drug control campaign seems to be both easier to obscure and less costly than defection from IMF guidelines.

I first review the evolution of the coca export sector in Peru and Bolivia, and then examine the broader economic context, especially the debt crisis and growing balance of payments problems in the 1980s. The IMF-style programme adopted in Peru and Bolivia to remedy these economic ills are then explored, followed by an examination of how the drug trade has both facilitated and been encouraged by these neoliberal programmes. Some concluding observations are then made about how the contradictions between market liberalisation and drug market prohibition are obscured in the Washington policy debate, and how similar contradictory policy dynamics may be evident in other regions and issue-areas.

The coca export sector in Peru and Bolivia

The role of Peru and Bolivia in the cocaine industry is primarily as suppliers of raw materials and cheap labour. Both specialise in the land-and labour-intensive dimensions of cocaine production: the cultivation of coca and the processing of its leaves into a raw paste. While some of this paste is refined domestically, the majority is sold to Colombian traffickers who transport it to laboratories in or near Colombia. After the paste is refined into cocaine, it is transported to North American and European markets through a variety of well-established transnational smuggling networks.

While coca has long been grown in Peru and Bolivia, dramatic increases in world demand for cocaine in the last two decades has turned a crop produced on a small scale for domestic consumption into a dominant export commodity. Peruvian and Bolivian involvement in this agricultural revolution began when state officials encouraged the colonisation of semi-tropical jungle regions in an attempt to relieve peasant pressures for land and to promote agro-export development. Thousands of peasants migrated to Peru's Upper Huallaga valley on the eastern slopes of the Andes and to Bolivia's Chapare region in the lowlands. However, the expected infrastructure, credit and technical assistance failed to arrive.

Coca became an understandable alternative for the new peasant colonists. The incentives are not difficult to comprehend: the coca plant grows on poor soil and yields up to four or five crops each year, requires little infrastructure and start-up costs, and offers a higher return than available alternatives. Peru's Upper Huallaga valley and Bolivia's Chapare region quickly became the heart of world coca production.

While it is obviously impossible to provide more than rough figures on the size of the coca economy, economists estimate that Peruvian coca exports generate about $1 billion per year—the equivalent of one-third of all legal exports.[11] Coca is even more significant for Bolivia. According to economist Samuel Doria Medina, 'the Bolivian economy is addicted to the coca economy'.[12] He calculates that in 1987 coca exports generated $1.5 billion, which represented about 29% of GDP. Of this, an estimated $600 million stayed in the country—equivalent to all legal exports combined. Some 300 000 Bolivians rely on the coca trade—about 20% of the adult workforce.[13] Former Bolivian finance minister Flavio Machicado estimates that coca has generated up to 300 000 jobs unrelated to the drug trade.[14] These are impressive figures, especially given that Bolivia has fewer than seven million inhabitants.

The economic context of the coca export boom

The importance of the coca export sector, however, can only be grasped within the context of broader economic changes in Peru and Bolivia, particularly the debt crisis which began in the early 1980s. The military governments of Peru and Bolivia borrowed heavily from international lenders in the 1970s as a means to cushion growing balance of payments problems. During the period of military rule in Peru between 1968 and 1980, the external debt grew 10 times. During the period of military rule in Bolivia, from 1971 to 1982, the foreign debt grew from $700 million to $3.6 billion. In both countries, much of the borrowing financed imported consumer durables and arms purchases. Thus, not surprisingly, both countries faced a deepening economic crisis by the early 1980s. Foreign credits were drying up, interest rates were rising sharply and debt obligations continued to mount. Consequently, when civilian governments in Peru and Bolivia returned to power early in the decade, they inherited extremely shaky economies.

What has been called the 'lost decade' in Latin America was particularly devastating for Peru and Bolivia. Between 1980 and 1985, the Bolivian gross national product fell by 17%, per capita consumption fell by nearly one-third, per capita income by 20% and unemployment doubled.[15] During the same period, Bolivia was using 25%–30% of its export earnings to pay interest on the foreign debt. If Bolivia had actually paid all sums due, it would have had to use all its income from exports to service the debt.[16]

Official Bolivian exports shrank 25% between 1984 and 1986. When the government attempted to cover the growing deficit by printing money, inflation skyrocketed to 24 000% in 1985. The biggest shock came when the world price for tin, Bolivia's most important legal export, dropped by 54% between mid-1985 and mid-1986. To make matters worse, in early 1986 the price of natural gas, another major export, plummeted.

Peru faced an equally grim situation. Export revenues fell by 25% between 1980 and 1983, while total external debt grew by nearly 40% between 1980 and 1984, reaching $14 billion by 1985. When Peru announced in 1985 that it would devote no more than 10% of its export earnings to finance the debt, the IMF declared Peru ineligible for future loans—effectively cutting the country off from external funding. Peru's trade balance, meanwhile, slipped from a positive

$1.1 billion in 1985 to a negative $215 million in 1988. Net international reserves shrank from a positive $1.3 billion to a negative $275 million. Between 1988 and 1991 Peruvian economic output shrank 30%—the steepest decline in the hemisphere. By 1992, official per capita exports had fallen in terms of real dollars to one-third of what they were in 1975. Between 1985 and 1990 average household consumption in the capital city of Lima fell by 46%. In 1989, the official inflation rate reached 2775%. Wages dropped 65%—falling below 1970 levels.

The phenomenal growth of the coca export sector has softened the blow of this economic crisis in both countries. Coca has provided foreign exchange for the cash-starved state and economic elites, and jobs and income for hundreds of thousands of Peruvian and Bolivian peasants.

The neoliberal programme

In an effort to revive their economies and make peace with international creditors and secure new loans, first Bolivia (in 1985) and then Peru (in 1990) adopted the most sweeping neoliberal market reforms and orthodox austerity measures ever attempted in Latin America. To understand why Peru and Bolivia suddenly opted to play by neoliberal economic rules requires taking into account the international pressures and constraints which shaped these policy choices. The onset of the debt crisis in the 1980s significantly increased the leverage of the USA and multilateral funding institutions over debtor countries in the developing world. As Jerome I. Levinson, a former official of the Inter-American Development Bank has commented:

> [To] the US Treasury staff … the debt crisis afforded an unparalleled opportunity to achieve, in the debtor countries, the structural reforms favored by the Reagan administration. The core of these reforms was a commitment on the part of the debtor countries to reduce the role of the public sector as a vehicle for economic and social development and rely more on market forces and private enterprise, domestic and foreign.[17]

While the amount and importance of external leverage is debatable,[18] it is clear that the bargaining power of developing countries has declined considerably in the last decade. Barbara Stallings persuasively shows how there have been multiple forms of international pressures on debtor countries to adopt neoliberal policies. She argues that changes in the external market environment (the drying up of new financing and the sharp decline in the terms of trade), increased international linkages (transnational social and political networks and coalitions that link international and domestic actors), and the growing leverage (financial, ideological and political) of foreign creditors have all significantly shaped debtor country policy choices.[19]

As a result, the last decade has witnessed what Thomas Biersteker has called the 'triumph of neoclassical economies' in the developing world.[20] Most Third World debtor countries have adopted neoliberal market reforms and austerity measures based on IMF guidelines. The IMF 'conditionality bargain'[21] means that modest levels of external financial assistance are provided in exchange for market-based economic reforms.

Nowhere has this been more true than in Bolivia since 1985 and in Peru since 1990. In Bolivia, newly elected Bolivian president Victor Paz Estensorro initiated the 'New Economic Policy' (NEP), a sweeping stabilisation programme based on IMF guidelines. As part of the reform package, the financial system was deregulated, the currency was devalued nearly 100%, import and export restrictions were lifted, subsidies were cut, wages were frozen and state-owned enterprises were privatised. There were also widespread lay-offs, including the displacement of some 20 000 tin miners.

According to John Williamson, 'Bolivia is perhaps the most extreme case of the adoption of the policies that constitute the "Washington consensus" … The Bolivia plan looks almost like a laboratory experiment of everything that Washington preaches'.[22] Williamson describes the Bolivian stabilisation policy as 'the equivalent of about five [General Agreements on Tariffs and Trade] rounds, six Gramm–Rudmans and more deregulation than had been accomplished by the Carter and Reagan administrations together, all overnight'.[23] As a result, Bolivia has successfully 'reestablished its credentials with the international financial community'.[24]

The United States has been a crucial player in this process. Not only has Washington been instrumental in Bolivia's renegotiation of its foreign debt and in securing new loans, but it has also significantly increased direct foreign aid. US funding reached more than $180 million in 1991, making Bolivia the highest recipient of US aid in South America and one of the most aid-dependent countries in the world.

Nevertheless, the Bolivian economy remained in serious trouble following the initiation of the reform programme. Real wages were down 40% in 1987 from 1985 levels. Industry was operating at between 40%–50% of capacity. With the withdrawal of state subsidies, the country's already extremely small industrial sector shrank further: 120 factories closed down between 1985 and 1991. Mining production fell by 20% in 1985 and by 37% in 1986. Mineral exports, which brought in $641 million in 1980, contributed a mere $131 million in 1986. Unemployment increased significantly. The country's terms of trade dropped by 20.7% in 1986, 8.8% in 1987 and 10.2% in 1988. The value of exports declined continuously from 1985 to 1988. The foreign debt still remained one of the highest foreign debts in the world in relation to GNP. By the end of 1988, outstanding debt still amounted to around 100% of GDP and 700% of recorded exports, while debt service payments actually made during 1988 took up over one-half of official export revenues.[25]

By the criteria of the USA and the IMF, however, Bolivia's bold economic programme was immediately viewed as largely a success. Hyperinflation was tamed, the currency was stabilised and the government showed a clear commitment to market-based reforms such as financial deregulation and privatisation of state-owned industries. As the World Bank representative in Bolivia stated in 1987, 'This is a country that for the first time is functioning in an orderly and logical manner'.[26] A December 1989 IMF press release also praised the Bolivian performance:

> Since the start of the economic reform program in late 1985, Bolivia has made substantial progress in correcting financial imbalances and economic distortions. Economic activity has expanded for three consecutive years at an annual rate of 2–3 percent, and inflation was brought down to less than 14 percent in the year ended September 1989. The current account deficit of the balance of payments has narrowed over the period, and Bolivia has sharply reduced its external debt to commercial banks and certain bilateral creditors.[27]

In an effort to replicate the Bolivian experience and regain international financial support, in August 1990 newly-elected Peruvian president Alberto Fujimori initiated a similar IMF-style economic programme. Subsidies were eliminated, state enterprises were privatised, the banking system was deregulated, foreign exchange controls were loosened and trade was liberalised.

The economic plan—called 'Fujishock' in Peru—succeed in curbing inflation and reducing government costs, but came at an enormous social cost: staple food prices increased by as much as 700% in 24 hours. Gasoline prices rose 3000%. Water rates rose more than eightfold and costs for electricity quintupled. While prices skyrocketed, wages fell from previously low levels. In one month, wages of public-sector employees dropped by 59.8% and those in the private sector by 39.7%. By late 1991, an estimated 1 million workers had lost their jobs as a result of the plan's austerity measures. Living standards dropped by 24% between 1990 and 1992. By mid-1992, a mere 10% of Lima's population was adequately employed.

Meanwhile, Peru agreed to pay $60 million a month towards servicing its foreign debt—the price of re-admission into the international financial community. As in Bolivia, US backing has been crucial for Peru's efforts to renegotiate the foreign debt and secure new financing. Peru received help from a US-led 'support group' in paying off some of its arrears with multilateral lending agencies, and returned to the good books of the IMF. Michael Camdessus, Managing Director of the Fund, announced that Peru had made 'a clear demonstration of what should, and should not, be done … from now on, we can support you, and we will'.[28] IMF-specified economic goals for Peru in 1992 were not only met but in some cases exceeded.[29] And after paying off arrears with the IMF and the World Bank in March 1993, Peru was immediately extended new loans.[30]

Coca: secret ingredient of the economic reform programme

Official assessments of the Peruvian and the Bolivian economic reform programmes neglect to mention that the biggest market success story in both countries in the last decade has been the coca trade. Not only has the coca export boom helped cushion the economic crisis, but it has played an important role in helping Peru and Bolivia carry out their IMF-style economic reform programmes.

For example, as part of its economic stabilisation programme, the Bolivian government instituted a number of measures that had the effect of facilitating the direct absorption of coca revenues into the financial system, such as loosening the disclosure requirements of the Central Bank and declaring a tax amnesty on repatriated capital. New laws prohibited official inquiries into the origins of all wealth brought into Bolivia and tellers at the Central Bank were not allowed to question the source of dollar deposits. The Bank instituted short-term certificates of deposit, which became a critical source of financing the national reserves. This effectively 'dollarised' the banking system: by 1990, 86% of bank accounts were in US dollars.[31]

The government also created a foreign exchange auction, called the *bolsin*, which allowed the Central Bank to compete with the parallel foreign exchange market for coca dollars. As explained by Javier Nogales, the former president of the Bolivian Central Bank, 'We were bringing the street rate into the official rate by letting the difference between the two disappear. We knew that the smaller the gap, the greater the influx of dollars into the Central Bank …'[32]

These measures boosted Bolivia's reserves, which in turn helped to stabilise the currency and stop hyperinflation. As Alain Labrousse explains, the coca trade 'helps to swell the currency reserves of the State and thus assists in supporting the value of the *boliviano* [the local currency] and in repaying the foreign debt'.[33]

By the end of 1986, an estimated 80% of foreign exchange sales were moving through the Central Bank. Despite a deteriorating trade balance, net reserves reached $245 million in February 1986, up from roughly the $100 million mark in August 1985. Rolando Morales, the former president of the Bolivian association of economists, calculates that the influx of coca dollars is 'the only way we've been able to balance the balance of payments'.[34] While the Bolivian government adopted measures which essentially legalised the dollars generated from drug trafficking, this in no way conflicted with IMF guidelines. As Humberto Compodonico notes, 'the neoliberal recommendations of the IMF in terms of exchange rate policy coincide with the needs of governments to capture the dollars from drug trafficking'.[35]

Bolivia's highly praised economic programme will continue to depend on the fate of the coca export sector. Bolivian political scientist Eduardo Gamarra has observed that, 'for Washington, Bolivia has become a showcase of what other nations in the region could accomplish if free-market principles are allowed to run their economies'. But, he warns, 'several prominent economists have argued that … any downturn in the coca–cocaine economy could have grave consequences for the continued success of Bolivia's highly regarded NEP'.[36]

The implementation of Peru's neoliberal economic programme has also been closely linked to the coca export sector. Ever since Peru began to suffer from severe balance of payments problems, the country's major banks, including the Central Bank, have operated busy branches in the main coca producing region to absorb the flow of illegal revenues. The banks also buy dollars on Ocoña street in downtown Lima, Peru's enormous informal foreign exchange market, which is supplied largely by coca dollars. Once into the banking system, these dollars can be used to meet the country's many foreign exchange needs, including financing the $22 billion debt.

The Peruvian Central Bank became a particularly active buyer of coca dollars since the government initiated its economic reform programme in 1990—by one account purchasing an estimated $4 million to $13 million a day.[37] The government has given every incentive for coca dollars to flow into the financial system. With the further loosening of the foreign exchange controls, the boundaries between legal and illegal dollars have become virtually irrelevant. The government encourages the repatriation of capital with no questions asked and with a tax amnesty. In short, as one economist concludes, Fujimori's neoliberal economic goals 'are being attained at the cost of an increasing dependence on dollars generated by drug trafficking'.[38]

Not only does the coca export sector facilitate the implementation of the Peruvian and Bolivian economic reform programmes, these programmes in turn facilitate the expansion of the coca economy. First, austerity-induced unemployment has provided a steady source of cheap labour for the coca export sector. According to Kevin Healy, the economic reform programmes 'have increased poverty levels, especially in rural areas. These economic trends have contributed to the continued heavy migration to the coca growing regions ... to expand the international cocaine industry'.[39]

Moreover, the coca trade has benefited from the adverse impact of market liberalisation on legal agricultural production in both countries.[40] In Bolivia, for example, there has been a significant decline in the terms of trade for agricultural products since 1986.[41] According to the World Bank, agricultural production in Bolivia fell by 17% between 1985 and 1988.[42] Tariff changes have generated greater agricultural imports from neighbouring countries into the Bolivian market, discouraging local production of a wide range of crops. Bolivia is at a competitive disadvantage in relation to its neighbours, thanks to inferior production technology and infrastructure.[43] Susanna Rance observes that the architects of the Bolivian economic programme 'claim that they expected Bolivian farming to respond favorably to the injection of "healthy competition" from abroad. But instead of being stimulated to produce more in order to keep pace with the influx of cheap imports, peasant farmers simply back out of the market, unable to compete on such unequal terms.'[44]

Of course, for many of these peasant farmers, backing out of the legal market has meant backing into the coca market. Bolivia enjoys considerable comparative advantage in coca production. Thus, one of the primary beneficiaries of market liberalisation and declining conditions of agriculture in Bolivia has been the coca export sector. Coca production expanded at an annual rate of 13.4% between 1985 and 1988.[45] In effect, the neoliberal economic programme has, at least for now, exacerbated the country's dependence on the coca export sector. Peasant labour federations, representing Bolivia's coca growers, have denounced the economic programme on the grounds that it discourages alternatives to coca and deepens their reliance on coca production.[46]

The further opening of the Peruvian and Bolivian economies has only created greater incentives to rely on their world market niche in coca production. This is certainly consistent with the logic of laissez-faire economics, especially the theory of comparative advantage. Yet while the coca industry is the quintessential expression of market-driven private enterprise, US officials nevertheless seem to assume that they can encourage market liberalisation and entrepreneurialism in all economic arenas—except for the drug trade.

At least for the time being, the sobering reality is that there is depressingly little the world market wants from Peru and Bolivia other than coca. Despite major economic reform efforts, the legal export sector continues to stagnate in both countries. And the few alternatives to coca that do exist are unlikely to provide the same kind of returns. This is especially true given that the value of most commodities produced by developing countries has dropped significantly in the last decade. Thus, the combination of heavy debts and poor export earnings means that Peru and Bolivia cannot afford to be too discriminating about where their foreign exchange earnings come from.

Conclusion: institutionalised denial

Acknowledging, discussing, or even suggesting the possibility that the drug trade and neoliberal economic policies actually fuel each other rarely enters the official policy debate in Washington. If anything, there tends to be an uncritical acceptance of the assumption that market-based policy reforms contribute to the fight against drugs. Since it is largely taken for granted that neoliberalism is good medicine for the economic ills in Peru and Bolivia, then this must also be good medicine for their recovery from the ills of the drug trade.

In general, however, evaluations of drug policy and economic reform policy are noticeably divorced. Congressional committees and government agencies endlessly debate over the best law enforcement tactics to attack the coca supply and gain greater Peruvian and Bolivian cooperation in the effort. Countless State Department reports and congressional hearings document the number of coca processing labs destroyed, crops eradicated and traffickers arrested in order to show ‘progress’ in the anti-drug campaign. Poor results are blamed on corruption, mismanagement and insufficient resources. Improved results are assumed to come from tougher and more efficient law enforcement. Given the nature and definition of the drug control mission, those charged with carrying it out (from at least 58 federal agencies and 74 congressional committees[47]) have neither the incentive nor the responsibility to confront the uncomfortable reality that the highly-praised economic reform programmes in Peru and Bolivia both feed and feed from the drug trade.

Economic reform strategists, meanwhile, carefully monitor the Peruvian and Bolivian debt service records, export earnings, inflation levels and the pace of market liberalisation. As far as they are concerned, asparagus, not coca, is Peru’s most important agricultural export. The progress reports they publish rarely even mention the coca trade, let alone discuss its links to the formal economy and market reforms. Given the nature and definition of their mission, economic reform strategists have neither the incentive nor the responsibility to discuss the issue.

Thus, while neoliberal and prohibition policies in Peru and Bolivia work at cross-purposes, policymakers have so far been able to avoid confronting or even acknowledging this awkward situation. The problem has been obscured through institutionalised denial, made possible in large part by the compartmentalisation of the policy-making process and the distinct and insular policy frameworks within which those charged with carrying out the two policies operate. Drug control strategists and economic reform strategists clearly respond to different pressures, represent different interests, use different modes of evaluation, operate within different institutional settings and are focused on different kinds of problems. Consequently, neoliberal and prohibition policies in Peru and Bolivia have shown a remarkable capacity to co-exist—even as they work at cross-purposes.

While the focus here has been on the illegal drug trade, it may be possible to extend the same kind of analysis to other issues, such as illegal immigration. In Mexico, sweeping neoliberal market reforms have received strong support from Washington, yet may also conflict with the US goal of curbing illegal immigration. For example, roughly one million people are expected to abandon farming every year for the next decade or two as a result of the liberalisation of agriculture—and 'El Norte' will be a logical destination for many. More broadly, attempting to open the US–Mexican border to the free flow of legal commerce (through the North American Free Trade Agreement) while at the same time attempting to close the border to the illegal flow of people (through stricter border enforcement) may be a recipe for policy frustration.[48]

Although the parallels should not be overstated, it may also be possible to extend at least part of the analysis to countries outside Latin America which are implementing neoliberal economic programmes. For example, as the 'Bolivia model' of economic reform has been adopted by Eastern European countries such as Poland, there has also been an enormous expansion of illegal economic activity, including drug production and trafficking. How similar or different these emerging trends in the periphery of Europe are to those we have already witnessed in the periphery of the Americas remains to be seen.

Notes

1 I wish to thank James Kurth and Jonas Pontusson for their comments on earlier drafts of this article.

2 R Stanfield, 'Uncle Sam's bitter pill', *National Journal*, 28 April, 1990.

3 For a recent review of US drug control efforts in Latin America, see P Smith (ed), *Drug Policy in the Americas*, Boulder, CO: Westview, 1992.

4 See, for example, V Tanzi, *The Underground Economy in the United States and Abroad*, New York: Lexington Books, 1982. Also see A Portes, M Castells & L Benton (eds), *The Informal Economy: Studies in Advanced and Less Advanced Countries*, Baltimore, MD: Johns Hopkins University Press, 1989 (especially the chapter on the informal drug economy in Bolivia by Jose Blanes Jimenez).

5 Robert Cox, *Production, Power, and World Order*, New York: Columbia University Press, 1987.

6 National Drug Control Strategy, 1994, p 49, Washington DC: Government and Printing Office.

7 For an account of the failure of US foreign drug control efforts, see P Andreas, E Bertram, M Blachman & K Sharpe, 'Dead-end drug wars', *Foreign Policy*, Winter 1991–92, pp 106–128.

8 Other analysts have examined how US policies can be contradictory and conflictive. See most recently, A Krueger, *Economic Policies at Cross Purposes: the United States and Developing Countries*, Washington, DC: Brookings, 1993.

9 See, for example, P Andreas & C Youngers, 'US drug policy and the Andean cocaine industry', *World Policy Journal*, Summer 1989, pp 929–963.

10 For a discussion of why developing countries have generally had to conform to neoliberal prescriptions, see B Stallings, 'International influence on economic policy: debt, stabilization, and structural reform', in S Haggard & R Kauffman (eds), *The Politics of Economic Adjustment*, Princeton, NJ: Princeton University Press, 1992.

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