

Call It Our Bolivian Policy Of Not-So-Benign Neglect

By Jeffrey Sachs

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The deadly rioting in Bolivia and the toppling of that country's government two weeks ago signal growing turmoil throughout the Andes, where poverty is intense, and social polarization and political instability are worsening. Yet the fall of Bolivian president Gonzalo Sanchez de Lozada is also further evidence that the U.S. approach to the region, and to impoverished and fragile countries across the world, is simplistic and prone to failure.

The fall of the Bolivian government not only means the ouster of Sanchez de Lozada -- an enormously talented leader friendly to U.S. regional and global objectives -- but also a surge of destabilizing violence in the very heart of South America, with attendant costs for drug trafficking, terrorism, trade and investment, as well as human suffering.

The roots of Bolivia's upheaval lie in chronic poverty and a regional economic crisis. But three precipitating factors were directly related to the United States and a rising tide of anti-Americanism. The most important was the U.S. demand in recent years that Bolivia eradicate tens of thousands of hectares of coca, thereby robbing 50,000 or so peasant farmers (and perhaps five times as many dependents) of their livelihoods, without offering any realistic alternatives.

The second flashpoint was the recent announcement by the Sanchez de Lozada government of its intention to export natural gas to the United States, via a pipeline to a Chilean port, provoking rumors that Bolivia's gas was being given away to much-distrusted U.S. and Chilean interests. The third factor was the strain throughout 2003 of politically explosive International Monetary Fund austerity measures backed by the United States.

Late last year, Sanchez de Lozada visited Washington to warn President Bush about Bolivia's growing instability. He appealed for \$150 million in emergency assistance, a pittance for the United States -- less than one day of troop costs in Iraq -- to maintain urgent social services and rudimentary public investments in the face of massive poverty and growing unrest. He warned Bush that without emergency help, he would most likely be back within a year . . . seeking asylum. Nevertheless, Bush sent him away empty-handed. Worse, he sent him down Pennsylvania Avenue to the IMF for some economic austerity measures. Only after a police mutiny and two dozen deaths in February did Washington give \$10 million. In the end, of course, Sanchez de Lozada's warnings were all too accurate.

Bush was following the standard, failed script handed him by the State Department, Treasury Department, National Security Council and Pentagon. It is a script I know well. As an economic adviser to Bolivia and dozens of other poor countries during the past 20 years, I have watched the United States fumble and founder as friendly, impoverished

governments have collapsed. As a result, the mutual interests of the United States and these countries have been squandered.

The U.S. government is not organized to grasp the complexities of economic distress in places such as Bolivia (or Afghanistan or Iraq or Nigeria). At least since the Reagan administration, Washington has repeated one mantra: The problems of economic development can be solved by the IMF and don't require any significant financial help from the United States.

Bolivia's chronic poverty is rooted in geography, demography, agronomy, climate, ethnicity and history. Yet the U.S. government systematically overlooks these broader issues and, via the IMF, advocates belt-tightening policies that leave struggling countries without the financial means to tackle their deeper problems.

Much of Bolivia is 13,000 feet above sea level. It is landlocked and suffers some of the highest transport costs in the world. Investors in Bolivia have, therefore, always been interested in commodities with a high value per weight -- gold, silver, tin, oil, natural gas and coca leaf. Commodity booms and busts, with profits mainly carried away by conquistadors, colonial rulers and foreign investors, have left Bolivia impoverished and exhausted. And international investors in manufacturing and services have mostly been dissuaded by the country's economic isolation.

This much was evident 20 years ago, in the midst of hyperinflation and economic collapse, when as a new planning minister, Sanchez de Lozada designed a bold economic strategy based on a restoration of democracy, market reforms and increased social investments. But he knew that Bolivia would need significant help from abroad, especially from the United States.

In 1987, Sanchez de Lozada came to Washington for visits with President Reagan, Secretary of State George Shultz and Defense Secretary Casper Weinberger. That year the Pentagon had launched a military operation against peasant coca growers and cocaine traffickers. Bolivia's economy was in turmoil, and Sanchez de Lozada told the Americans that Bolivia needed more than military operations. It needed help to build transport infrastructure, industrial parks, schools and clinics, so that it could overcome the root causes of impoverishment and offer alternatives to the peasantry. Incredibly, Shultz, representing the world's richest country, explained to Sanchez de Lozada, representing the hemisphere's second-poorest nation, that the United States had a large budget deficit and would therefore be unable to help, even as U.S. military actions were destabilizing Bolivia.

Bolivia barely survived that crisis; the democracy was wounded but alive. Indeed, since the start of Sanchez de Lozada's reforms in 1985, Bolivia has enjoyed 18 years of constitutional rule, now in great peril, as well as price stability and repeated praise from the IMF.

Bolivia's latest upheaval had its roots not only in chronic economic difficulties, and a regional economic crisis, but also in a decision by the Clinton administration to "get serious" about Bolivia's coca crops. In 1997, Washington told the Bolivians to eradicate the coca or face an end to economic cooperation. The Bolivians began destroying the crop but in the process dispossessed tens of thousands of peasant farmers and their families. Serious riots ensued in 2000, and were suppressed, but have reappeared periodically since then. The United States provided an underfunded program to develop bananas and other crops in place of coca, with sums that replaced only a tiny fraction of the peasants' lost income.

With U.S. policy on autopilot, the Bush administration continued to preach fiscal austerity and coca eradication even as Bolivia approached the precipice of political chaos. The National Security Council lacked the means to understand the evolving situation, as the NSC is devoid of heavyweight economic development expertise from top to bottom. In its earlier days, the U.S. Agency for International Development (USAID) would have helped to lead a more sophisticated U.S. response, but in the past 20 years it has been shorn of its thinkers, strategists and development economists. Congressional pressures and presidential lack of interest have turned USAID into a service-delivery agency that undertakes specific projects in poor countries, such as food relief, rather than a strategic agency that analyzes complex development challenges and helps lead a suitable U.S. foreign policy response.

There is far too little foreign assistance in the federal budget to enable a more ambitious U.S. response. The president's request for \$20 billion for Iraq (with its roughly 24 million people) is twice the entire \$10 billion foreign aid budget for all the rest of the world, in which more than 1 billion people are extremely impoverished.

The United States is paying an enormous price for this disorganization. As expensive as it might be to support economic development, the failures of economic development are proving far more costly. We are spending billions of dollars for military outlays in the Andes, and hundreds of billions in the Middle East and Central Asia, not to mention hundreds of billions of dollars and a growing number of lives lost to violence, terrorism, drug trafficking and other ills tied to rising anti-Americanism.

If the United States gave just one-tenth of 1 percent of national income (that is, 10 cents for every \$100 of gross national product) to help poor countries meet their urgent health needs, and if other rich countries did the same, about 8 million deaths per year could be averted and, within a decade or so, hundreds of billions of dollars per year in increased income would be generated in the poor nations. For a few tenths of one percent of the national income of the rich countries, foreign assistance could extend to education, water and sanitation, and other basic infrastructure. Dozens of poor countries could then be pulled out of their downward spiral of poverty and instability. The result would be new centers of economic growth throughout the developing world, rather than the current pattern of new centers of anti-Americanism, violence and instability.

The Bolivian debacle, and the failures to come to grips with the economic crises in Afghanistan and Iraq, should prompt a long-overdue reorganization of U.S. foreign policy for the developing world. USAID needs to be reconstituted into a Cabinet-level agency so it can better advise the president and Congress on how to respond to complex development challenges. Most importantly, the United States needs to invest in solving these crises before it is forced to send in troops. Washington must understand that economic development is the most potent tool in the fight against instability and terrorism.

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