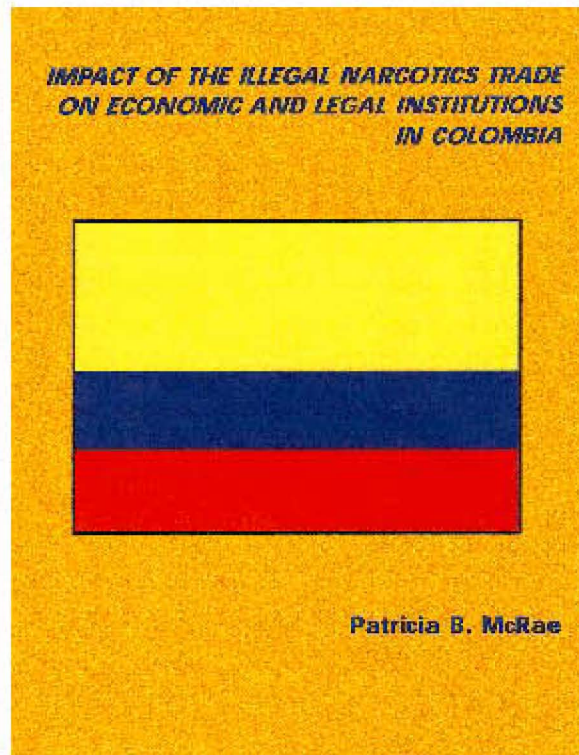


Impact of the Illegal Narcotics Trade on Economic and Legal Institutions in Colombia



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Abstract

In the 1980s, the illegal narcotics trade was transformed from an essentially regional phenomenon into a transnational phenomenon. As such it became a significant transnational actor in international relations. Literature on the illegal narcotics trade (INT) has tended to focus on macro approaches to understanding the INT. It is only in the past few years that scholars have begun to understand, according to Samuel I. del Villar, that there is no single illicit drug market. The INT breaks down not only according to product differentiation, but also along the roles different countries play in the structure of the INT.

Colombia, a major center for the processing and transshipment of cocaine, is the object of this study. The generalized violence that Colombia has experienced is, according to Francisco Thoumi, symptomatic of the "illegality and dishonesty trap" in which nations can become ensnared when erosion of its political institutions, particularly economic and legal, occurs. Increasingly, financial institutions which have considered themselves apolitical are having to confront the political consequences of profit-seeking.

Thus this study hypothesizes that the interactive relationship between the INT and the Colombian state has so altered the power structure of the state that the state has seen not only its political sovereignty decrease, but also its economic sovereignty. The transnationalization of narco-capital through money-laundering has effectively limited the control of the Colombian state over these resources. Moreover, its existence poses serious implications for the implementation of a successful narco-policy by either Colombia itself, or in bilateral agreement with the United States. Similarly the violent assault upon the Colombian judicial system has undermined confidence in the state and contributed to the increase of a "privatization of justice".

This study seeks to add to a growing corpus of literature an approach that recognizes that the successful inauguration, maintenance, and growth of illegal narcotics trafficking requires an articulate constituency capable of alliance formation. This constituency, present in both producer and consumer nations, is capable of articulating demands and exerting pressure upon governments through its capacity to marshal significant material and human resources on its behalf. As such it represents a formidable challenge to the state and requires investigation.

Introduction

Coyuntura

The Spanish word *coyuntura* is defined as conjunction, structure, occasion, and opportunity.⁽¹⁾ *Coyuntura* is the matrix or prism through which this study, employing endogenous and exogenous factors, examines Colombia's status as drug capital of the world. While the study focuses narrowly on the effects of the illegal narcotics trade (INT) on Colombian economic and legal institutions it also examines the world context within which these activities occur. As such, a historical context for Colombian development as well as the development of the illegal narcotics trade is required.

The historical context is established by identifying several *coyunturas* in Colombian history. For an event to be considered a conjuncture, it must serve as an opportunity for social, political, and economic change through a revolution or on an evolutionary basis. It represents a coming together of the old forces with the introduction of new forces. Colombia has had several such conjunctures in its history. Contingencies associated with progress and tradition have offered opportunities to alter the "muddling through" pattern of governance dominating Colombian policy making since its independence. The development of the illegal narcotics trade in Colombia is considered one of those conjunctural periods in this study. To understand the opportunity that *coyunturas* or conjunctures provide, one must be aware of previous patterns set the historical context. In the following section, I identify several conjunctural periods in Colombian history important for understanding the context that existed when the illegal narcotics trade began to dominate Colombian life.

Independence

In 1819 Colombia gained its independence from Spain forming the confederation of Gran Colombia with Venezuela and Ecuador. The distinct differences between the regions became clear during the first decade of independence. The result was that, in 1830, Colombia separated from the confederation and pursued its own path. As Nueva Granada, it comprised Colombia's present boundaries and a distant province later known as Panama.⁽²⁾ The fierce competition between *criollo* elites settled into the political norm prevalent in present-day Colombia, civilian partisan politics. Liberal and Conservative parties were elite-instigated parties rather than parties developed by popular demands. As each party altered public policies to suit themselves, during their respective tenure in office, Colombia's constitutional structure remained fluid. The state was viewed, by those who possessed the instruments of state, as bounty for having won control of the state.⁽³⁾

During the nineteenth century there were six civil wars as party leaders mobilized the peasants socially and economically dependent upon them. Party identification became largely a function of one's social relationship to one's patron. Thus Colombia's first historic conjuncture resulted in polarized partisan elite politics that through its capacity to mobilize troops delayed centralization and penetration of the Colombian state into Colombian society. Such polarization, however, did not represent a homogeneous elite. Elite politics in Colombia were heterogeneous and often fraught with intra-elite quarrels. These quarrels only resolved themselves when it became evident the elites might not survive if they did not find areas of accommodation among themselves.

A second conjuncture in Colombian history was the production of coffee for export in the 1860s.⁽⁴⁾ Previous export booms had been short-lived. Local producers lacked interest in making the investment in irrigation, fertilizer, and scientific management necessary to place the "boom" on a permanent basis.⁽⁵⁾ Interestingly, Colombia's entry into the world coffee market did not occur until improved river transportation developed. This technological change highlights the interdependence between technological innovation and increased exports. Technological improvement in transportation infrastructure would repeat itself almost a century later with Colombia's emergence as a transshipper of illegal narcotics. The twin developments

of the airplane and sophisticated electronic communication were key technological variables contributing to Colombia's status as a leader in the illegal narcotics trade.

Additional consequences of Colombia's first coffee boom in the late nineteenth century is the conflict that emerged over how to manage the coffee boom. Coffee cultivation was extremely labor intensive and coffee trees do not produce a harvest for three to five years from the first planting. Thus, policies providing effective credits for beginning cultivators and regulating labor became important.

Coffee cultivation developed principally in two forms. Small farms or fincas in the Antioquia, Santander and Tolima departments encouraged the emergence of small, independent producers who, for the first time, had the opportunity to become part of a middle class. Colombia's political and social elite developed larger coffee plantations in Cundinamarca. Conflicts soon erupted over land acquisition and labor issues. Government attempts to arbitrate these conflicts often resulted in contrary and confusing public policies. Moreover, the Colombian state had limited capacity to enforce these policies. The result was that enforcement was left in the hands of the political parties which enforced them in ways enhancing their own interests. This pattern of political relations between the Colombian state and the political parties would persist in varied form until the establishment of the National Front regimes.

Another effect of the coffee boom was increased material prosperity in Bogotá. The almost frugal lifestyle of upper-class bogotanos changed dramatically with the coffee boom exacerbating the difference in wealth between the classes. Efforts by the Colombian government to recover part of the coffee bonanza via a coffee export tax resulted in the abolition of the tax by a Conservative dominated Congress. Abolition of the coffee export tax is but one example of failed fiscal policies by the Colombian government as negotiation, compromise, and bargaining failed among elite leaders and set the stage for the War of a Thousand Days, 1899-1902. The inability of the Colombian government to develop a sound economic foundation resulted in an "uncritical reliance on emissions of paper money to balance every deficit . . ." ⁽⁶⁾ impeding the development of a sound monetary system. As coffee production met demand with an accompanying decline in coffee prices, the fiscal crisis of the Colombian government attained enormous proportions. The government increasingly was unable to meet its payroll amidst a persistent reluctance to reduce the number of bureaucratic and military employees. ⁽⁷⁾

The War of a Thousand Days began as a partisan conflict and ended with a written truce that each party would recognize and honor the rights of the other party. Although the armistice marked the minimizing of class differences, it left unresolved the economic and political issues that accounted for the initial cleavages between the political parties. Also it would not be the last time a war so damaged transportation and communications that economic progress was retarded and productive investment prohibited by a general climate of insecurity. So what picture emerges of state-societal relationships as Colombia enters the twentieth century? It is an image of a state with a heterogeneous fragmented elite who has formed political parties and developed patterns of political inclusion along patron-client lines. Abundant political rhetoric about the nobility of public service aside, self-interested political participation and partisan rule dominated to such a degree the constitution as a solid instrument of authority remained in question. The Colombian state's limited enforcement capacity resulted in subcontracting the state's enforcement responsibility to political parties who in turn subcontracted it to private individuals. This was just part of a cycle that in turn strengthened the pattern of patron-client relationships. The state's attempts to gain control over macroeconomic management of economic booms were continually frustrated by a congress composed of elite leaders who had yet to develop either for themselves or for Colombia's rank and file a strong sense of Colombian nationalism.

Modernization

The 1920s, frequently called the "Dance of the Millions", represent another conjuncture in Colombian history. During the 45 years of peace that existed between 1902 and 1945, Colombia recovered from its wartime devastation and began building a solid economic foundation. Accomplished with loans provided by foreign governments and foreign investors, a boom in international trade in the 1930s accompanied the recovery. Payment of a \$25 million indemnification by the U.S. for Panama provided the center from where economic expansion developed. The growth of multinational corporations such as Tropical Oil and United Fruit also fueled Colombia's economic expansion. ⁽⁸⁾ This juncture in Colombian history is significant for three reasons. First the marked increase in available monies coincided with the Kemmerer report which made several economic and fiscal recommendations. Indemnification monies enabled the Colombian government to comply with the study's chief recommendation to create a central bank, thereby increasing investor confidence. ⁽⁹⁾ The Colombian government also decided

to use these funds for internal improvements, selling more than \$235 million in bonds and similar securities. The boom persisted until late summer of 1928 when the bond market collapsed. This represents the Colombian state's first systematic use of scientific studies via the Kemmerer mission to rebuild and modernize its economic institutions.

Second, developing its economic institutions during the "Dance of the Millions" reflects more unification than conflict among Colombia's elites in that goals of industrialization did not clash with agricultural goals. This allowed the assumption of stronger leadership among members of the traditional parties to address the problems of economic and social change during this period.⁽¹⁰⁾ Third, using elements of statecraft rather than violence to deal with proponents of change encouraged and sufficiently strengthened state institutions so that economic interdependence characteristic of modernizing societies began in Colombia.

The assassination of Jorge Eliécer Gaitan on April 9, 1948 represents a fourth conjuncture in Colombian history. Gaitan's assassination triggered a riot in Bogotá called the bogotazo and ushered in a new phase of interparty warfare known as 'la violencia'. Violence was not new to Colombians, but a relative peace had existed for the past forty-five years and 'la violencia' took on different characteristics from previous violence. First, although promoted by elites, 'la violencia' generally lacked direction, feeding itself on levels of brutality and extraordinary damage to property and life. While the causes of 'la violencia' remain complex and varied, its significance for the purposes of this study lies in the serious erosion of an existing fragile state legitimacy. The accelerated social change that occurred during this period outstripped the development of solid pluralistic democratic values, modes, beliefs, and sensitivities. Larry Diamond notes that political culture is a dynamic concept, providing either strength or weakening values and goals. He notes that the "semiconsociational arrangements in Colombia became outdated and yet difficult to restructure because they served so well the interests of the existing elite."⁽¹¹⁾ A strong state with a solid foundation of legitimacy will possess institutions established and recognized as legitimate arbiters and/or enforcers of public peace. This was not the condition of the Colombian state at the outbreak of 'la violencia'.⁽¹²⁾ As a result, a conjuncture developed in Colombia's history, the establishment of the Frente Nacional (National Front).

NATIONAL FRONT REGIMES

The National Front was a bipartisan coalition whose goal was to end the violence and reestablish institutions of the Colombian state. Incorporated into the Colombian constitution by plebiscite in 1957, the plan's cornerstone was parity or equal division between the Liberal and Conservative parties for all legislative and appointive positions. The presidency would alternate between the two political parties. Designed to last only sixteen years, a constitutional amendment in 1968 extended the National Front regimes. Coalition rule was prolonged in the executive until 1986 and the municipalities until 1988. Elite agreement that a constrained democracy was the only way to restore civilian rule to Colombia was bipartisan in its support of anti-majoritarian instruments that ensured that neither party could win nor lose an election.⁽¹³⁾ This period in Colombian history is critical for not only ending the violence and partisan hegemony. It is critical for the opportunity it gave the Colombian state to engage in institutional reform to reinvigorate democratic institutions with authority and legitimacy.

At the end of 'la violencia' and with the parity guaranteed by the National Front, Colombia's military became more de-politicized and professional. The institutionalization of a governmental role for the military was guaranteed by reserving the post of Minister of Defense for a military person, but with a Superior Council of National Defense designated to oversee not only ministerial policies, but also the policies of the commander in chief of the armed forces.⁽¹⁴⁾

With respect to the types of patron-client relationships that fueled 'la violencia' and which the National Front regimes sought to control through parity and alternation, scholars such as Dix and Leal Buitrago are of different minds about the type of relationship change that occurred. Dix argues the National Front served to diminish the expectation that benefits for certain regions or groups could be obtained by traditional political clientelism and suggests strengthened linkages between government agencies and officials proved more effective. Leal Buitrago argues that the style of clientelist politics changed from patron-client to brokerage clientelistic politics.⁽¹⁵⁾

The expanding role of producer associations examined in this study suggests that both scholars are correct. Loss of party hegemony and traditional politics created a vacuum in which interests could not be articulated and met. The Colombian state had not yet reached a level of institutional rebuilding and growth that allowed it to perform this function. Producer associations gained in their political power serving as channels for interest articulation. The study will show, however, that

the role of the producer associations did not end there. Producer associations were charged with carrying out and enforcing public policy, functions usually reserved to the State.

However, the state's capacity to manage economic and social reforms was enhanced by modernization of state institutions during the National Front regimes. Executive power to legislate on certain questions increased as fear of party hegemony and party identification decreased. A more technocratic style of policy making emerged and effectively diminished the role of the traditional parties. The pattern of elitist democracy in Colombia continued in a fundamental sense during the National Front regimes. What changed was the nature of political relationships between the parties and the military and the state. Increased power over economic development by the state promised, at least, the potential of social reform.

ILLEGAL NARCOTICS TRADE

The emergence of the illegal narcotics trade represents a sixth historical conjuncture in Colombia. Smuggling generally and narcotics trafficking specifically have long coexisted with the growth of capitalism. It was not until the middle to late 1960s that the economy of illegal narcotics "took off" first with marijuana and later cocaine. While not a primary producer of coca leaf, the United Nations declared Colombia, as early as 1976, the major center for the processing and transshipment of cocaine.⁽¹⁶⁾ During the first of the 1980s, Colombia was viewed as a nation held hostage with its political regime experiencing a "generalized crisis of state authority and a wave of violence whose consequences whose end are not clearly in sight."⁽¹⁷⁾ Narcotics policy in the United States and Colombia has focused on interdiction and seizure. Success is measured in assets such as cash and property, narcotics, and chemicals confiscated. For the past fifteen years, U.S. policy in the War on Drugs has dominated literature on the illegal narcotics trade. While these studies provide important insights, they have failed to explain in precise ways the reasons for the perdurance of the INT. While some literature exists examining the effects and consequences for those upon whom the INT depends for support, it is rarely set within the context of the Colombian state. Domestic bargaining tactics used by the Colombian state have received little, if any, close attention.

H. Richard Friman's research examines state capacity as reflected in its domestic bargaining tactics within the state and societal structures. A comparative analysis of the cocaine industry in Germany in the 1920s and Colombia in the 1980s offers some preliminary research conclusions about the failure of policy implementation in Colombia. Friman concludes that the "case studies suggest that structural determinants of state capacity offer only partial insight into the dynamics of German and Colombian compliance with the American agenda."⁽¹⁸⁾ Friman suggests that examination of specific decisions made as a result of domestic bargaining strategies reveal the willingness of state leaders to engage the INT compared to the specific degree of societal opposition to governmental policy. In this study, the explication of the organizational structure of the INT over time will suggest that Friman's findings are useful as there develops an organizational entity with which the state may bargain.

Current Research

Within the past five years the dominant focus of drug policy research has slowly broadened to include studies that specify the effects and consequences of the INT upon its constituencies.⁽¹⁹⁾ Morales examines the consequences, not only of governmental drug policies on peasant growers of coca in Peru, but also the short term and long term effect on peasants engaged in coca cultivation. He examines the economic effect upon peasant lifestyles, the effect of coca cultivation on land fertility and its effect on social structures.

Rensselaer Lee focuses on the organizational structures of the lower, middle, and upper class managers of the drug production chain as it stretches across the Andean countries.⁽²⁰⁾ This multiple country approach highlights INT organizational differences within each culture. The increasingly transnational nature of the INT requires its adaptation to whichever political and historical context in which it finds itself. In turn, points of access increase through which the INT might deal. Identified points of access raises levels of vulnerability effective drug policies might exploit.

T. David Mason's work on the political economy of death squads suggests that a state engages in alliances and tactics to retain its position if not autonomy. This occurs by "farming out" some duties that define a state: the legitimate monopoly on the mechanisms of physical coercion and control.⁽²¹⁾ Mason's work is particularly useful in helping explain how and why the

Colombian military which, after WWII had a strong constitutional base, has begun to develop a more autonomous political base coincident with the growth of the INT.

The above mentioned studies represent a growing corpus of literature that recognizes the successful inauguration, maintenance, and growth of illegal narcotics trafficking requires an articulate constituency capable of alliance formation. This constituency, present in both producer and consumer nations, is capable of articulating demands and exerting pressure upon governments through its capacity to marshal significant material and people on its behalf. From this aspect the INT presents a formidable challenge to the state and requires investigation.

Anecdotal and journalistic accounts about the emergence of the INT and the Colombian cartels abound. However, there does not yet exist a historical chronology tracing the evolution of the Colombian cocaine cartels. Nor, except for Colombian scholars Sarmiento and Krauthausen⁽²²⁾, has there been an attempt to theorize about the evolution of the INT. Therefore, the goals of this study are twofold. The first is to establish a historical chronology of the emergence and development of the Colombian cartels. Despite various articles on certain aspects and periods of cartel development, there does not exist, at the time of this study, a typology of INT evolution in Colombia. A chronology of this sort can help identify organizational structures as well as alliances and to pinpoint to what extent, if any these have changed overtime. This tool can be directed toward developing a theory about the organizational behavior of the INT in any of its stages and about the power relationships between the INT and the Colombian state.

The second goal of the study is an attempt to place state **dealings** with the INT into the broader context of the political development literature. Political development literature has itself gone through various stages over the past forty years. The work of early developmentalists such as Rostow, Lipset and Deutsch which demonstrated "close correlations between literacy, social mobilization, economic development, and democracy"⁽²³⁾ was criticized and refined by the work of Samuel P. Huntington. Using case studies demonstrating increased political repression and exclusion even in the face of socioeconomic modernization, Huntington challenged the notion that there was an automatic evolution and mutual support between socioeconomic modernization and political development.⁽²⁴⁾ Criticism calling for a more sophisticated understanding of the role of traditional institutions as filters of modernization has resulted in the rise of alternative models for understanding national political development. Dependency theory, the corporatist approach, a political economy approach, the models of the bureaucratic-authoritarian state, and neo-marxist represent examples of alternative explanations. So where does the development of Colombia and its dealings with power challengers such as the INT fit into this rich and diverse literature?

The Colombian example is best explained by the earlier political development models which hypothesized that socioeconomic modernization would, through the development of a middle class, lead to a more pluralistic, just, and stable society. Colombia has enjoyed steady and consistent economic success accompanied by moderate levels of modernization as measured by socioeconomic indicators. But the success has not been necessarily accompanied by an increasingly pluralistic society with the accompanying attributes of increased democratization, social justice, and managed conflict. To the contrary, despite considerable economic success, especially when compared to other Latin American states, Colombia's present political history remains as dominated by political violence as its past political history.

Paul Oquist argues the first three to four decades of the twentieth century represents a partial collapse of the Colombian state culminating in twenty years of civil war, la violencia. This collapse, according to Oquist, was rooted in the state's inability to "mediate conflict effectively secondary to the disintegration of the state's judicial, military, paramilitary, and economic institutions."⁽²⁵⁾ The National Front coalition with its rules of parity and alternation of the political parties in the governance of the state was an effort to stop the violence and allow time to rebuild institutions. The National Front regimes are considered to have effectively brought to an end la violencia and to have so thoroughly rebuilt state institutions that Colombia's entry into modernity accelerated.

If this is so, what explains the state's seemingly continued fragility in the face of challenges by the INT, an actor considered political in its early stages? Does the Colombian state's effort to deal with the INT more accurately reflect an ongoing struggle for autonomy in a nation where, historically, regionalism has been the predominant political structure? And in its efforts to retain or regain more autonomy, how have the traditional tools of dealing with political challengers, co-optation and political mobilization, served the Colombian state?

Chapter One outlines the study, detailing its thesis, identifying the concepts and variables used and the theoretical foundations from which the study is drawn. Concepts defined include the illegal narcotics trade, drug cartels, the state, and institutions. Chapter Two provides an in-depth review of the literature on the state and institution-building violence as an agent for social change and the illegal narcotics trade. Literature from both North American and South American scholars is presented. A historical chronology of the INT in Colombia and the emergence of the cartels beginning in the middle 1970s to the present is developed in Chapter Three. This chapter also sketches the dimension of the drug problem delineating exogenous forces including drug preference changes in consumer countries. and endogenous forces such as the Colombian tradition of contraband smuggling.

Chapter Four continues the historical evolution of the INT in Colombia through Phases Two and Three bringing the study to the present. An historical overview of the Colombian banking and monetary system is provided in Chapter Five. Only recently have analyses of Colombian economics and finance been available in English. To understand the impact of the INT on Colombian economic institutions requires an understanding of their historical development. Critical in linking formal policy to local implementation is the role of 'los gremios' or the producer associations.

Chapter Six focuses on the INT's impact on the economic institutions within the Colombian state. In its efforts to plan, develop, and implement its economic policy, how has the INT affected the Colombian government's policy decisions in terms of its backward [internal or domestic] and forward [external or international] linkages to the economy? Do these policies reflect a socioeconomic rationale such as that suggested by Juan Tokatlián?⁽²⁶⁾ With which powerful players does the government intersect and engage? I attempt to distinguish between private and public financial sectors by which the relationship between Colombian financial institutions and the INT is examined. Finally, some conclusions are drawn from this analysis concerning the relationship between Colombian financial institutions and the INT.

Chapter Seven traces the development of the Colombian judicial system. The impact of the INT on the Colombian judicial system is examined using the phased evolution of the INT as an organizational framework in an attempt to link the impact to organizational changes in the INT.

In Chapter Eight, I conclude with some observations about what constitutes the present relationship between the INT and the Colombian government sketching out some possible alternative policy scenarios. More broadly I discuss avenues for theorizing about illegal activities in the discipline of international political economy.

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1: In the beginning...

Introduction

The Study

Laws and institutions are the binding force for governance of a state. A state's reluctance or inability to enforce its own laws undermines its legitimacy, erodes the authority of its institutions, and destabilizes its society. This case study of Colombia focuses on the period from the mid-1970s until the present. The study's purpose is to examine the nature of the deinstitutionalizing impact of illegal narcotics trafficking upon Colombian economic and legal institutions. Deinstitutionalization means that erosion of characteristic behavioral norms and the capacity to serve the political and social needs of the polity has begun. Deinstitutionalization and its effect upon the autonomy of the Colombian state are conceived as having two dimensions. The first dimension of deinstitutionalization concerns formal and informal rules as mechanisms which weaken institutions. The second dimension involves enforcement of these mechanisms both in terms of transaction costs and transformation costs.

Douglass North notes that formal and informal rules, derived from self-interest, exist to facilitate political and economic exchange. As such economic rules (property rights) and individual contracts (political rules) are "specified and enforced by political decision-making, but the structures of economic interests also influence the political structure."⁽¹⁾ While solving the problem of human cooperation is the underlying role of institutions⁽²⁾, a major and overt role of institutions is to "reduce uncertainty by establishing a stable . . . structure to human interaction."⁽³⁾

Establishment of National Front regimes to end "la violencia" required high levels of institutionalization and national autonomy. High levels of autonomy are not limited to the relationship between sovereign and citizen and "reciprocities of power and exchanges as mediated by leadership."⁽⁴⁾ It also refers to the activities of an interventionist state including, but not limited to fiscal and monetary policy, taxation, labor distribution, and social security.⁽⁵⁾ Within an interventionist state the reciprocal relationship between sovereign and citizen are more limited than in a non-interventionist state characterized more consistently by reciprocal exchanges. The period of institutionalization provided by the National Front had a predetermined legal end by virtue of legally limiting its existence to sixteen years. Legally delimiting the activities of an interventionist state allowed a gradual apertura or opening along economic and political dimensions as institutionalization deepened.

Domination of the underground economy by narco-entrepreneurs coincided with the period when the Colombian state began transforming itself from an interventionist state to a more representative democratic state. Moving to a more representative democratic state meant that more political parties would be permitted and previously appointed governmental positions would become competitively elective. Initially, the Colombian state's effort to deal with the challenge of the narco-entrepreneur involved little beyond established informal conventions for managing revenue from the underground economy. Opening a side window at the Banco de la Republica (BdeR) and subornation of customs officials was part of the reglas del juego (rules of the game) constituting informal conventions for managing illegal windfall profits. Unanticipated by either the Colombian state or others concerned with this example of "unproductive"⁽⁶⁾ entrepreneurial activity was the magnitude of revenues generated and the rapid organizational growth of the INT.

Dramatic increases in the money supply and violence affected the Colombian state's capacity to build its economic and political institutions. State governance increasingly occurred under states of siege. The proliferation of executive decrees suggests a model of reactive, stopgap policy making rather than the carefully thought out responsive policy-making decisions conducive to maintaining and strengthening institutions. Policy decisions or new rules changed frequently in response to each major power challenge from the INT. New rules were subordinated to older informal conventions for dealing with illegal activities. This resulted in the continuation of antiquated, collapsing institutions not yet replaced with more modern and durable institutions.

The second dimension of deinstitutionalization refers to enforcement issues. David Apter notes that different kinds of "risks are entailed in the transition from predominantly coercion(ive) to information system."⁽⁷⁾ Coercive systems will collectivize economic and social risk and individualize political risk. Individualized political risk is less tolerated than collective risk in economic and social spheres. Moves toward privatization and democratization increase social and economic risks within a

context of uncertainty. The state's inability to meet its obligation during the transition can produce public anger resulting in unconstructive opposition in the midst of growing uncertainty.⁽⁸⁾

While considered successful in ending 'la violencia', during the National Front regimes much of the state's responsibility remained managed and controlled by the traditional political parties. However, as the polity became increasingly depoliticized and party hegemony declined, a serious question remained. Had institutionalization deepened sufficiently to allow the type of political risk taking involved in Colombia's transition from a coercive to an information system? Douglass North suggests "the key problems of institutional change, of contracting and of performance, turn on the degree to which contracts can be enforced between parties at low cost."⁽⁹⁾ Contracts (laws) are a means of reducing social, economic and political risk. They can ameliorate or lower the privatization of risk through the administration of sanctions and exhortation, diminishing the probability of random violence. Contracts, however, are only as binding as the institutions which support not only the issuance of the contract, but also the enforcement of the contract.

In the everyday world there exists a myriad of ways by which to assure contract compliance. These range from informal kinship ties to more formal laws, including constitutions. Enforcement is often placed in the hands of third party agents who exist as part of state institutions and include the judiciary, police, military, and private security firms. Ideally third party agents are neutral with the ability to costlessly measure the attributes and enforce the contract. Realistically, however, there are considerable costs attached to developing and enforcing contracts. The agent's utility function, or position, dictates her own perceptions about contract costs. These, in turn, are affected by the agent's own interests.⁽¹⁰⁾ This study will show that narco-terrorism raised the costs of developing and enforcing contracts as judges and magistrates were routinely threatened and killed. The study will also explain that every organization requires some form of legitimate institution through which to issue and compel contract compliance. The fact that an enterprise is illegal is not enough to discount such need. If the enterprise is to continue to grow, it must either generate such a legitimate institution or, as we shall see with the INT, appropriate as many institutions as required to meet its needs.

The use of third parties to enforce a state's coercive capacity is required. Thus, the formal structure of rights defined within a hierarchy of rules, such as constitutional, state, or common law, may be incomplete as we shall see when we examine the role of producer associations and paramilitary squads in Colombia. Colombia's constitution remained unchanged from 1886 until rewritten and passed into law December 1990. Its justice system has remained archaic and rigid with little technological innovation. Increasingly informal conventions and constraints have dominated third party enforcement in the form of state civil society relations such as those between the government and producer associations and paramilitary squads.

Informal constraints such as reputation, standards of conduct and conventions related to associational groups, networks, and voluntary organizations often converge with incomplete formal constraints and conventions to form part of the enforcement milieu. The question then becomes one concerning the degree of balance between formal and informal constraints. What affects or tilts that balance in either direction of increased institutionalization or deinstitutionalization?

North notes that organizations are purposive entities and seek to maximize their stated objectives as provided by a society's institutional structure.⁽¹¹⁾ As such organizations have the capacity to alter the institutional structure(s). The institutional weakness of the Colombian state derived from the period of "la violencia." Efforts by the interventionist state of the National Front regimes met with limited success because of resistance to significantly alter the formal structure of enforcement.⁽¹²⁾ Conceptualizing the INT in Colombia as an evolving "firm" with changing organizational patterns enables us to identify ways in which it has altered the formal enforcement institutions of the state. The decline in state autonomy is shown by the dominance of informal constraints in contract (law) enforcement and examined through two specific hypotheses concerning the economic and judicial institutions of the state.

Specifically, the goal of the study is to identify the processes in economic and legal institutions that have contributed to the emergence of the illegal narcotics trade (INT). Identification of structural processes allows a clearer vision of what British political economist, Susan Strange, calls structural power or "the power to shape and mould the structures of production, knowledge, security, and credit within which others have no choice but to live if they are to participate in the world market."⁽¹³⁾ Strange additionally observes that the creation of wealth bestows power upon the creator. Such power includes the power to alter the structure of institutions through monopolization of channels of political inclusion or more circumventive behavior including bribery.

The study also examines the efficacy of policies to contain or combat the illegal narcotics trade. What is the impact of institutionalized violence upon a country attempting to move from a predominantly politically exclusive system to a more politically inclusive system through expansion of democratic principles, values, and institutions? Accordingly, the study will focus upon Colombian financial institutions, principally banking, gremios de la producción (producer associations), and the Colombian judiciary.

Peter Lupsha notes that a chief characteristic of organized crime is its need to interact with the body politic, its agents, and institutions. That is to say "Without the protection and risk minimization of the political system, the organized criminal cannot operate."⁽¹⁴⁾ He points out the subservient position of "organized crime to the politician and political machine" changes proportionately to the amount of capital and influence generated by the criminal activity and has "often served to reverse the balance."⁽¹⁵⁾ The greater the influence and capital generated by criminal activity, the more autonomous and less subservient organized crime becomes to the political structure and the body politic.

This study is time bound between 1974, when the National Front regime in Colombia legally ended, to the present, 1995. Bounding the study in this way allows us to track the evolution of the INT in Colombia and the response of the Colombian state. Examination of deinstitutionalizing processes taking place and responses, if any, of the Colombian government (GOC) can be better situated within the historical context and changing organization of the INT.

Coyuntura

Although narcotics trafficking existed in Colombia before 1974, it was essentially a regional phenomenon confined to trafficking within the Colombian state and only later expanded to the contiguous Andean states. Transnationalization of the INT became part of a confluence of events. Consumer preferences changed from marijuana to cocaine and the bulk of the drug trade shifted from Asia to Colombia. Policies pursued by the National Front regimes incorporated the INT into what Tokatlian calls a "socioeconomic rationale."⁽¹⁶⁾ The INT was not perceived as a challenge to state power. As we shall see, the state saw no reason to not recover revenues generated from the drug trade. Control of the INT, as I have argued elsewhere⁽¹⁷⁾, never became a driving force for the Front governments. Rather, it was considered, when necessary to respond to pressure by the United States, as only one of several issues with which the government had to deal. The end of the National Front in 1974 marked the emergence of the INT as the dominant smuggling activity when Colombia gained prominence as a processing and transshipment state for cocaine. Few anticipated the incredible growth of cocaine capitalism whereby the INT would present a challenge to the existing Colombian power structure.

Why Colombia?

Colombia is the country chosen for the area focus of the study. Its development as a powerful producer and transshipper of illegal drugs, principally cocaine, permits the study of the evolution of the drug cartels. Colombia, unlike other producer/transshipper nations of illegal narcotics, developed a center of power with resources that rival the State's. The long tradition of export smuggling in Colombia developed an informal economy that incorporated the INT into the national economy. Smuggling and its traditions are part of Colombia's historical cultural process. Its impact on the interactive relationships between values and behavior has received little attention by scholars. Nor has its effect upon the state's ability to govern received systematic study. The INT, as part of the informal economy, provides resources for citizens that the state cannot provide.

Colombia is considered a middle-range South American nation, representing a median in most respects of its national development. Colombia has experienced few of the extreme phenomena that beset other Latin American nations. With two brief exceptions, it has experienced primarily civilian rule founded upon liberal democratic ideology and culture. Its economic growth, recessions, and debt, have been moderate when compared with other nations. It is comparable in size to the two states of Texas and California. Geographically, it possesses similar topographical problems of other middle range Andean countries. Areas of the country have, in the past, been inaccessible due to mountainous and jungle enclosed terrain. This has produced enclaves of population that remain quite distant from the control of the national state and has resulted in an intense regionalization. Demographically, the population is about 33.0 million, of which 88% are considered literate. Despite occasional border skirmishes since its independence from Spain, Colombia enjoys essentially good relations with its proximate neighbors. Colombia has not been involved in any external war and has long been considered a staunch ally of the

United States. This allows the analyst to examine resource development and allocation without having to deal with extraordinary exceptions such as invasions from other countries or mass migrations into Colombia.

Violence, however, is the one area in which Colombia cannot be considered within median range. The civil strife that was a constant, although regionalized, presence in Colombia from the early 1920s until the mid-1940 was considered an unfortunate side-effect of a modernizing nation striving to consolidate its power.

Beginning with the assassination of populist presidential candidate, Jorge Eliécer Gaitan, on April 9, 1948, Colombia entered a period known as 'la violencia'. Between 1946-1966 the deaths of an estimated 150,000 to 200,000 people or approximately 2 percent of the total population, have been attributed to 'la violencia'. Averaging approximately 10,000 deaths annually over twenty years, this figure is lower than the current figures for homicide deaths in Colombia that currently average approximately 15,000 deaths annually.⁽¹⁸⁾ While difficult to detect with a high degree of accuracy how many of these deaths are drug-related or political deaths, the numbers suggest a decreasing capacity of Colombian institutions to protect and/or serve as redress for its citizens.

CONCEPTS DEFINED

The illegal narcotics trade (INT), as it pertains to Colombia, is defined as that activity which involves the cultivation, production and/or processing, and transshipment of marijuana or coca. Following Hartlyn, I exclude the cultivation of opium and production of heroin, which has greater significance in other countries such as those of East Asia and Mexico.

In contradistinction to Hartlyn, however, I do include peasant growers of marijuana, the laborers and service personnel required for processing coca into cocaine in the larger context of the INT.⁽¹⁹⁾ Inclusion of this group is important for the light it sheds on the evolution of the drug cartels and the power that continues to be exercised through production factors and domestic use.

Although the concept *drug cartel* is not used in the strict economic sense of the term, it shares the characteristic of a cartel as an "agreement amongst producers to restrict output or coordinate policies to increase profits of the current producers."⁽²⁰⁾ Such agreements became possible following the "turf wars" among drug traffickers that dominated the late 1970s and early 1980s. The dominance of the Medellín, Cali, and Bogotá organizations featured a centralized distribution network providing greater guarantees for product and revenue than the smaller traffickers could obtain. Such centralization provided the organizational framework that formulated and implemented⁽²¹⁾ policies to restrict output or increase profits.

In this study, drug cartel is defined as a loose coalition of criminal organizations specializing in drug trafficking (narcotraficantes). These criminal organizations are called "crime families" to identify their organizational structure. A form of organized crime, drug cartels exhibit many attributes identified with Peter Lupsha's definition of organized crime as a process as well as an organization. These include the following: 1) interaction by a group of individuals that is ongoing over time; 2) interactive patterns that consist of role, status, and specialization; 3) the existence of corruption of public officials; 4) participants who have a lifetime occupation orientation toward their activity; 5) participants who view criminal activity as an instrument, not an end; 6) the long term accumulation of capital, influence, power, and untaxed wealth is the goal orientation of this group; 7) long term planning and multiple levels of execution and organization comprise the patterns of complex criminal activity 8) interjurisdictional, often international patterns of operation are the norm; 9) the existence of fronts, buffers, and "legitimate" associates; 10) ongoing activity that attempts to insulate key members from the risks of identification, involvement, arrest, and prosecution; 11) attempts to maximize profits through cartelization or monopolization of markets, enterprises, and crime matrices.⁽²²⁾ This definition and its accompanying attributes facilitates analysis of the INT in Colombia generally and specifically. Defining organized crime as an ongoing process precludes any identifiable and specific temporal starting point and enables tracing the evolution of the INT within its historical and cultural context.

The State

Currently the field of political science is experiencing considerable activity and "contestation" regarding the meaning of the concept, the state. Broadly speaking this contestation is divided between two general approaches. One approach is the

'society centered' approach where the state is perceived as a manipulated, constrained, dependent entity, "little more than an arena in which . . . contending societal interests come together to hammer out their interests."⁽²³⁾

The contending approach treats the state as independent, both as an actor and a variable. This approach looks to the internal characteristics of the state, such as its officials and the way they are recruited and socialized, as explanations for varying degrees of state autonomy.⁽²⁴⁾ Nordlinger suggests that the importance of the state as an independent variable is understood by exploring its 'institutional weight'; that is "the impact of its recurring activities, decision rules and processes, organizational arrangements, and structural features upon both public and private actors."⁽²⁵⁾ Although Nordlinger accepts the need to include societal factors in an explanation of state autonomy, he suggests this occur only after exhausting the statist focus. Nordlinger contends that it is the intersection of the variables included in both approaches wherein "State autonomy will be fully explicated."⁽²⁶⁾ He conceives state autonomy as having four subjective properties whose variations are explained by four structural features. Variations in the malleability, insulation, resilience, and vulnerability of state autonomy are explained by the structural context of its boundedness, differentiation, cohesiveness, and policy capacities.⁽²⁷⁾

Kalman Silvert appears to agree with Nordlinger when he observes that the most desirable paradigm would be one where elements of a system [or state] would be "directly relevant to the creation and aggregation of public power and political efficacy."⁽²⁸⁾ Silvert de-emphasizes autonomy as a discreet state characterization and focuses on the roles of institutional specialization and differentiation for explaining the autonomy of a state.

These elements constitute what Joel Migdal calls the context of the state. An important part of this context is the existing power relationship among social organizations the state is attempting to supplant. "The major struggles in many societies . . . are struggles over who has the right and ability to make the countless rules that guide people's social behavior."⁽²⁹⁾ Migdal unconvincingly attempts to separate state autonomy to make the rules from the power relationships exhibited in social organizations. Unable to establish some method of measurement, he returns to Nordlinger's subjective and structural variables of the state to measure autonomy. There remains the question of how does one reconcile these two approaches to understanding the degree of autonomy of the Colombian state. Gaitan, during his presidential campaign in 1947 in Colombia, noted that Colombia had two states or two nations, un pais nacional and un pais politica; a country of nationhood and a country of politics.⁽³⁰⁾

This study suggests that a dialectical approach based on political economy will best serve to reconcile the two approaches. To this end, and for the purposes of this study, the Colombian state is defined as a dependent or peripheral industrializing state. This definition allows us to place the Colombian state into a context which enables recognition and treatment of the "fundamental differences concern (ing) basic organizing principles . . . or basic dynamic structural underpinnings" of the Colombian state.⁽³¹⁾ Benjamin and Duvall's conceptualization of the state within a twofold typology, peripheral and industrializing, permits a firmer grasp of the political dichotomy existing in Colombia and that has defied explanation by any social science model of either modernization or development.

State 1 is a continually operating, relatively permanent institutional aggregate of public bureaucracy and administrative apparatus as an organized whole.⁽³²⁾ Its functional scope and orientation are limited to the provision of "pure" public goods and intervention on behalf of the production side producing some variant of state capitalism. The social composition of State 1 is distinguished by its technobureaucratic elite with a Western orientation, rather than the socially indistinct sector of an advanced-industrial capitalist state.⁽³³⁾ Structural relations between government and legal order are constrained by government that defines legal order. This definition is particularly salient for Colombia that, until approval of the new constitution in 1990, often operated by executive decree under either an economic or political state of siege.

The above defined characteristics accord with Hartlyn's characterization of the contemporary Colombian government as a "limited democratic consociational regime."⁽³⁴⁾ He considers Colombia consociational because of the mutual and extensive guarantees the two major political parties, the Liberals and Conservatives, devised with the establishment of the National Front. Guarantees of parity and alternation of office integrated into the National Front were an effort to end 'la violencia' and effect a return to civilian rule.⁽³⁵⁾ These consociational regimes had, however, limited democratic practices such as competitiveness and increased participation. Despite the legal end to the power-sharing arrangement of the National Front, direct elections of mayors did not occur until 1988. In part this was due to the reluctance of the Liberal and Conservative parties to relinquish the perks provided by the National Front.

Silvert suggests that if social scientists really want to diagnose and predict the political human, they need to learn about humans' institutional locations: "the types of relations individuals and groups have to social institutions; also the patterns of institutional orders, their real and ideal interlocking."⁽³⁶⁾ State 2 is a more encompassing institutional legal order. As such, it is the enduring structure of governance and rule in a society. Concern for property rights is paramount in the dependent-industrial state where they do not infringe upon "quality of life" rights emphasized in the advanced-industrialist state. A clearly demarcated distinction between the public domain and the private domain exists with the public domain being quite limited in the dependent-industrializing capitalist state. Thus among the tensions between freedom, equality, order and justice, State 2 is committed to economic freedom and the maintenance of social order is of paramount legal concern.⁽³⁷⁾ Benjamin and Duvall's model of the differing emphasis of the state depends upon within which capitalist context the state is situated. This provides a means to identify what Silvert calls humans' institutional locations. State 2's commitment to social order regards social inequality as a necessary, even an acceptable, by-product of development.

Benjamin and Duvall note that State 1, containing the organizing principles of the administrative apparatus, is the more paramount conception of the state in a dependent industrializing state. The distinguishing dimension is found in ways that the public bureaucracy contributes to the "... making and shaping of the legal order."⁽³⁸⁾ I suggest that State 1 best describes the Colombian state with the establishment of the National Front. During this period, the Colombian state moved from being a collection of regional fiefdoms ruled by caudillos (military strongmen) to a centralized, hierarchical state with a burgeoning bureaucracy. The legally mandated bipartisanship of the National Front, however, retained much of the fragmented nature of Colombian politics. As practices of official bipartisanship relaxed after 1974 and remain in the process of being dismantled, the issue, Hartlyn argues, is whether the state can "(re)gain the coherence and capacity to act."⁽³⁹⁾

While Colombia has not faced a debt crisis of the proportion of other Latin American countries, its economy remains fragile and dependent. Opening the economy to expand economic growth has dominated the concerns of the Post-Front regimes. Coincident with increased economic freedom has been concern with maintaining social order, especially as the I

2: The State of the Literature

Introduction

In seeking to understand the illegal narcotics trade (INT), North and South American scholars have taken a variety of approaches to the phenomena of the INT. Any study of the illegal narcotics trade must specify which link in the production chain one is examining.⁽¹⁾ The INT is a heterogeneous, not homogeneous, phenomenon. Each link in the production chain represents a distinct set of social, political, and economic relationships. Differences exist not only between producer and consumer countries, but within producer countries such as Peru, Bolivia, and Ecuador. Colombia occupies a unique niche within the production chain, that of processor and transhipper of illegal drugs. The links in the production chain do, however, share similarities. While the specifics may vary, they need organizational growth and institutions to meet those needs as the organization becomes more complex and interdependent.

This study focuses on Colombia as a processor and transhipper of illegal drugs, principally cocaine. Colombia has also emerged as a manager of other levels of the INT enterprise such as provide transportation, financial and legal services. Involvement of the INT in these services will be expanded upon in the next chapter as we explore the dimension of the INT problem.

The review of the literature is thematic, beginning with the state and institution building. What has the work of scholars examining the state and institution building helped us understand about the Colombian state and its institutions? Another theme addressed by scholars concerns violence as a product of and an agent of social change. Violence is not a new phenomenon in Colombian history and has served as an agent for change. One example was the establishment of the National Front, a consociational effort to end the twenty-year period of 'la violencia'. But what change has the violence associated with the INT wrought?

Before the mid-1980s, when scholars began to realize that the illegal narcotics trade was more than a regional and/or solely criminal endeavor, the literature on the illegal narcotics trade was largely anecdotal, diffuse, and scattered. The first wave of literature on the illegal narcotics trade, dominated by North American scholars, focused on national security and foreign

policy concerns from the perspective of the United States, chief consumer nation in the drug production chain. By the end of the 1980s South American and European scholars became involved in the study of the INT. Their work, while also concerning itself with national security and foreign policy from a South American perspective, incorporates a stronger component of social and governance issues. According to Andrew Kirby, the form of any state apparatus is only to be understood in relation to the society within which it is locked and . . . that society is . . . a palimpsest of many layers, each a particular form of organization that itself reflects specific historical circumstances.⁽²⁾

What, then, are we to make of the Colombian state? How are we to understand the degree of autonomy exercised by the Colombian state and its institutions?

The Colombian State and Its Institutions

Much of the analysis of Colombia has been state-centric; i.e., treating the state as an independent actor and variable and focusing on its formal and legal institutions. Within the past ten to twelve years there has emerged a literature examining the social relations of the Colombian state and the evolution of the Colombian state through specific historical circumstances.⁽³⁾ It is this political system, the context from which it derives its principles and structures, which struggles with the impact of the INT.

Elite and Institutional Approaches

The establishment of the National Front in 1958 followed decades of civil strife known as 'la violencia' and called for alternating the presidency between the only two legally permitted political parties, the Liberals and the Conservatives. As the only two legally permitted political parties, parity within political representation at the legislative level and within the political bureaucracy was guaranteed. Departmental and municipal governments were appointed by the national government until a gradual phasing in of local elections could take place.

The logic behind this plan was to end the violence that had decimated the country. Moreover, it provided Colombia a controlled environment within which to strengthen its political institutions and democratic practices and reorder a devastated economy. Bureaucratic power sharing was extended via constitutional reform in 1968, 1974, and 1978. This process required the president to assure sufficient and equitable representation of the major party not in power. Expectations were that, by the end of this legally mandated political system, political institutions and democratic practices would be strengthened and the economy sufficiently stabilized to allow Colombia's return to a more inclusive democratic state.

The seminal work on Colombia by Robert H. Dix examines these changes as one form of political response to historical, economic, social, political, and cultural factors.⁽⁴⁾ His study, however, is confined to assessing the political route a country might take to modernization and who controls this process. He concludes that a modernizing elite continues to rule yet fails to incorporate broad sectors of the majority into the political realm underscoring the fragility of the National Front. While Dix does mention radicalizing opposition movements, those who comprise these movements are not as clearly revealed as are the elites who rule.

Examining the breakdown of democratic regimes, Juan Linz and Alfred Stepan do not address Colombia specifically. They do, however, provide useful theoretical insights in their examination of multiple crises over time as having "undermined the consensus of the democratic parties and their capacity to cooperate" resulting from "a lack of efficacy or effectiveness of successive governments when confronted with serious problems that require immediate attention."⁽⁵⁾

Alexander Wilde suggests the National Front "provided institutional substance to what . . . had depended upon personal relationships."⁽⁶⁾ But this institutional substance reflected a non-competitive elite who still viewed the masses as clientele whose avenue of dissent and opposition remained continuously circumscribed by the elite. Wilde continues

That oligarchical democracy survived is a tribute not only to the skill of these leaders but at least as much testimony to the weakness of the challenge they faced -- the lack of explicit and organized alternatives to their system.⁽⁷⁾

Although there had existed for some time an illegal underground economy, Wilde does not acknowledge its existence. This represents a glaring omission since the underground economy was, at the least, tolerated by the government as an alternative to services it could not provide.

Paul Oquist departs from mainstream elite approaches in his examination of violence. Oquist argues that la violencia is explained by the partial collapse of the state's inability to mediate conflict effectively "between the partisan elites into which the dominant class in Colombia was divided."⁽⁸⁾ This inability by the state foreshadows the later impact of the INT. Oquist examines the disintegration of the state's judicial, military, and parliamentary institutions. He concludes that the result of the partial collapse of the state was a rapid alignment along party lines as the state's ability to serve society diminished. Oquist does not address specific categories of illegality such as the underground economy or the illegal narcotics trade. His study suggests that, as the state's ability to serve society diminished, steps to strengthen the judicial apparatus increasingly became extensions of the elites of both parties. Thus nationalistic allegiances were eschewed unless defined within party parameters. This work enhances our understanding of the development of paramilitary groups and a growing acceptance of the privatization of justice.

Jonathan Hartlyn suggests Oquist exaggerates the "extension and coherence of the Colombian state in the 1940s",⁽⁹⁾ but acknowledges the violence that erupted was "due to the encouragement of regional party figures with the active or passive acceptance of national leadership."⁽¹⁰⁾ The later establishment of the National Front as a consociational regime contained elements of historical continuity: traditional parties, a strong regional structure, a limited state role in the economy and "controlled incorporation of the popular sector through party rather than state ties."⁽¹¹⁾ Hartlyn suggests then that the National Front became a regime representing an institutional alternative logical for the economically dominant groups to support.

Mauricio Botero Montoya expands on this theme noting that one must consider the circumstances in which the National Front found itself at inception.⁽¹²⁾ Few state institutions had survived the prolonged years of la violencia. What had survived were the clientelistic linkages among the elites along partisan lines. Part of the goal of the National Front was to reconstruct these linkages to the state within a more nationalistic framework. However, the National Front found itself confronted with not only a deteriorated political situation, but also a deteriorated economic situation. The fall in international coffee prices after 1954 left the coffers of the National Front depleted and with few resources to stimulate capital development.⁽¹³⁾ At this point the oldest producer association, Federación Nacional de Cafeteros "began playing a decision-making role, [where] there did not exist as a hegemonic group in the management of the State and that whoever wanted it [decision-making role] could obtain it."⁽¹⁴⁾ The Colombian state was anxious to support capital development. It welcomed offers by the Asociación Nacional de Industriales (ANDI) and the banks, Asociación Nacional de Instituciones Financieras (ANIF), to establish financial centers in Bogotá, Valle, Caldas, and Medellín. Moreover, the numbers and types of producer associations proliferated as did the size of the public bureaucracy.

Hartlyn's excellent assessment of the growth of the producer associations, aided by the Colombian state, helps us understand that strengthening the autonomy of the state as it rebuilt was compromised from the beginning. Producer associations provided a wealth of services to its employees and contractors including credit, housing, health services, and education.

The public bureaucracy exists at the pleasure of the Colombian legislature that oversees all appointments and represents the fastest growing state institution. By 1986 there were approximately 800,000 employees and some 400,000 contractors in the public administration. Colombian legislators come from regions where bipartisanship is expressed less in terms of political parties than as a "federation of gamonales [economic elites/leaders] with respect to their clients."⁽¹⁵⁾ The result, according to Botero, has been the development of a "curious and hybrid state that limits the interventionary functions of the administration to redistribute income, but simultaneously impedes the only economic sector that can impose this on the administration."⁽¹⁶⁾ Botero challenges an assumption of elite theorists that there exists a homogeneous elite that acts in concert. He suggests that the fragmentation that exists among los gremios, the producer associations, prevents the kind of elite consensus that might provide an alternative economic decision-making body within the state.

In other words, the Constitutional Reform of 1968, while it placed responsibility for initiating economic relationships with the public administration [bureaucracy] exclusively in the hands of the legislature, it also invested extraordinary powers with the executive. The president could declare an economic emergency state of siege with little accountability to either the duly elected officials or a recognized economic interest group such as the los gremios.⁽¹⁷⁾

Diaz Uribe argues that to understand the Colombian state requires understanding the economic and political dynamics imprinted on the national history and consciousness. While these may appear irrational they possess rational explanations. As the National Front proceeded onward, politics became increasingly depoliticized as the bipartisanship practiced by the traditional political parties changed character abandoning their role of representation directly before the State of those interests of the different sectors of society. This role has been assumed by the producer associations, that openly negotiate in the matter of public policies with the technocracy at the decision-making levels (cattle policy, foreign commerce, transportation, salaries, capital and finance) . . . ⁽¹⁸⁾

According to Diaz Uribe, the importance of the changing character of the traditional political parties is the way in which bipartisanship was expressed differently at different levels. At the national level, bipartisanship corresponded to the leaders of the two traditional political parties. At the regional level bipartisanship is expressed as a federation of gamonales or economic elites/leaders. On the local level, to say one is of the conservative or liberal party says less than if one personalizes the political affiliation with a local jefe; I.e., dajerista, santofimista, etc. Loyalty to the regional jefes has less to do with vote-buying than the leaders' ability to provide basic necessities. Appointment and control of public employees in the public agencies responsible for providing basic necessities are rooted in a clientelistic relationship. Here the employee gains his/her position, not by meritocracy, but by political clientelistic practices.

The purchase [negotiation of basic necessities] operates during a few days and supports the mobilization of a growing quantity of private money; the negotiation of State services is realized every day and only requires the control of its agencies, as well as the resources that are put to the country and are a part of the National Budget. ⁽¹⁹⁾

As Colombia continued its modernization, the need to centralize the state's activities in the face of international capital transference associated with capital development by industry, commerce and finance sectors became pressing. Not only was the state faced with the necessity of planning and centralization but so also were the private sectors. ⁽²⁰⁾ The responses to these needs were two regime styles consisting of distinctively different criteria.

There developed a technocracy that defined politics from a "supradepartmental perspective, international, and in the long term, which corresponds to capital." ⁽²¹⁾ The other style was clientelistic and defined actions in the matter of public investment at regional levels. Thus depoliticization occurred first at the national level as the ruling elites attained a more technocratic character and the parity imposed by the National Front weakened the role of the political parties. Meanwhile, another form of depoliticization was occurring at the regional level. While the bonds of clientelism had not disappeared, this form of allegiance was changing from a partisan to a personalistic allegiance with an economic basis.

Diaz Uribe underscores the fragmented character of the Colombian state as it developed two types of clientelism that corresponded, on the one hand, to the establishment of the National Front, and, on the other hand, to the desegmenting depoliticization of the major political parties of the National Front.

Although state capacity increased during the National Front, its export-led growth remained largely in the hands of producer associations. Coffee producers, Federación Nacional de Cafeteros [FEDECAFE], the national airline, Avianca, and producers (Asociación Colombiana de Industrias Metalúrgicas or FEDEMETAL) of most of the nation's steel at the major steel mill, Acerías del Paz del Río gradually assumed the stronger political position previously held by the political parties. According to Hartlyn, as partisan desegmentation occurred throughout the years of the National Front, a concomitantly low degree of "stateness" existed at the national level as most of the cabinet ministers were politicians or figures from the private sector. ⁽²²⁾ Moreover the consistent exclusion of the popular sectors from electoral politics resulted in a form of state pluralism with control maintained by fragmentation and decentralization rather than full incorporation. Thus one's allegiance and avenue of dissent were circumscribed by the ability to establish clientelistic links with a patron providing municipal services that otherwise would be provided by a stronger state. There developed, moreover, a growing electorate made up of more urban and younger members of the populace. This group did not have such clientelistic linkages available and faced institutions resistant to adjustment in the face of societal change.

Colombian political scientist, Francisco Leal Buitrago, attempts to explain the Colombian state from a perspective different from either elite or patrimonial approach. Leal Buitrago observes that particular social processes adapt to capitalistic relations

which, in turn, determine the modernization processes.⁽²³⁾ To this end social and institutional structures change in the directions of satisfying the emerging capitalist organizations.

Leal Buitrago describes the Colombian State as a quasi-state that had fallen before the avalanche of social demands in the modernization process. The state regrouped under the National Front and has attempted to fulfill a dangerously ambivalent role: stabilization of the dominant social and economic forces that survived the National Front and to put a brake on the demands of a plurality of social forces.⁽²⁴⁾ This role of the state, Leal Buitrago calls the political avenue of capitalism in Colombia.

Francisco Thoumi expands the discussion of Colombian institutions by noting that many retain "pre-capitalistic characteristics that are at the root of many of the country's social problems."⁽²⁵⁾ These characteristics include an authoritarianism and paternalism which have produced an "ethics of inequality" that has shaped the institutions and values of the society.⁽²⁶⁾ Thus, according to Thoumi,

Colombians have always lived in a society where inequality of not only wealth and income have prevailed, but also of rights and opportunities . . . they . . . accept that a normal society is an unequal society.⁽²⁷⁾

Thoumi also notes left of center explanations and straight explanations of Colombia's economic performance assume a market system under capitalist institutions in which competition is fierce and prices set in fairly anonymous ways.⁽²⁸⁾ The reality, however, is that the characteristics of Colombian institutions and culture have produced a distribution of power among market actors that is very skewed, leading to a "concentration, exploitation, altering or distorting the 'rules of the game'.⁽²⁹⁾"

Such a skewed distribution of power is also understood as competing views of the purposes of the Colombian state.⁽³⁰⁾ Both the narcotraficantes and the law-abiding Colombian citizen consider the state less a representative of either's interests than a prize to be captured for enhancing their lives. For the narcotraficante, it bestows legitimization. For the law-abiding citizen, as a source of employment, it is a legal opportunity and means to enhance his/her economic status.⁽³¹⁾ Murillo Castaño describes the Colombian state

We encounter, then, a fragmented state that has lost its monopoly in the use of force; a state that has lost its capacity to represent and integrate new social forces and, as such, the possibility to channel social tensions and regulate conflict. In this manner, the weakness of the state to arbitrate and integrate the social field, has returned to the power of biased sectors, producers and politicians, the ability to assimilate the institutional field of the state from their interests.⁽³²⁾

Violence as an Agent of Social Change

The literature on violence as an agent of social change and as a part of the INT should reveal some assessments of the health or "condition" of the Colombian state. We would also expect it to identify possible relationships that have and/or continue to exist between violence and the state.

Ted Robert Gurr notes that the study of violence has a long and venerable tradition.⁽³³⁾ An earlier generation of scholars saw violence as deviant and pathological. Those participating in violence were criminals or misfits. Few social scientists would not agree that group violence represents "more or less predictable consequences of real grievances over underlying social, economic, and political issues."⁽³⁴⁾ But how does such agreement help us to understand violence as an agent of social change generally and as an integral component of the INT in Colombia specifically?

The key phrase that presents problems for the analyst in the above paragraph is group violence. The concept group violence implies a level of consensus based on homogeneous characteristics that produce a form of concerted action. It also assumes a central figure/symbol as the recipient of the violence. Charles Tilly, a scholar of collective or group violence, is willing to broaden the definition of violence as one of several elements in the repertoire of action used by contenders and challengers. Tilly notes "Contention is essentially a social activity, linking one set of people with another, even when the link expresses

hostility or distant admiration."⁽³⁵⁾ Tilly's approach is useful in that it allows one to broaden the concept of violence beyond military or state violence.

The above suggests that the definition of violence is not as clear or monolithic as one might initially believe. James Rule conceives of violence as "civil" as opposed to "institutional" violence.⁽³⁶⁾ Civil violence, Rule contends, reflects desperation as people take extraordinary steps to attack those not ordinarily attacked or to avoid attack themselves. Civil violence often threatens sovereignty in its extraordinariness of action, "whether in the form of mob violence, protection rackets or private armies⁽³⁷⁾," as it threatens a government's claim to uphold all legitimate civil obligations. Rule's conception of violence allows us a bit wider scope to approach violence as a product and an agent of social change in Colombia; particularly violence associated with the INT.

James Henderson notes that, despite differences of opinions regarding the etiology of la violencia, a consensus developed that this period of violence was an active agent of social change.⁽³⁸⁾ Formation of the bipartisan coalition government, the National Front, was designed to stop violence providing time for the nation to bind its wounds and rebuild its institutions. An enduring explanation for la violencia is the institutional heart attack and death offered first by Lopez de Mesa in 1955 and again twenty years later by scholars such as Oquist, Wilde, Pollock, and Payne.⁽³⁹⁾ Yet, despite the strong institutional rebuilding and growth that occurred during the National Front years, violence remains endemic in Colombia. During President Caesar Gaviria's first year in office, terrorist attempts, homicides, and kidnappings increased significantly. (83%, 87%, and 67% respectively compared to total numbers during Barco's administration.)⁽⁴⁰⁾ Theories attempting to explain violence as a frustrated reaction against deprivation at the hands of government have a very poor fit with the "observation that much popular violence within the polity is directed at non-government targets and occurs among antagonistic, racial, ethnic or communal groups."⁽⁴¹⁾ Rule notes that research to this date suggests that fluctuations in the extent and intensity of violent conflicts are often directly linked with other changes in relations among the groups whose interests are manifest in the violence, especially power relations.⁽⁴²⁾

Rule's study, while not speaking directly to linkages between the state and violence, suggests a space where such may be explored as part of an ongoing phenomenon. Such an approach enables us to situate violence in its context and examine its origins historically, looking for intersections and linkages between violence and the state.

Charles Bergquist, dean of Colombian historians in North America, notes that the contemporary view of violence in Colombia is as the simple product of the drug trade.⁽⁴³⁾ This alone, however, cannot explain violence in contemporary society. Medófilo Mendina argues that to understand the violence in Colombia one must look to two types of historical continuities; persistent underlying social issues with particular attention paid to the ongoing struggle for land and "the influence of Colombia's peculiar and destructive political system."⁽⁴⁴⁾ While the purpose of this study is not the study of violence in Colombia, per se, understanding the etiology of the violence is necessary to develop generalizations about the INT's impact on Colombia's economic and political structures. More important, examining historical continuity allows us to see differing areas of "convivencia" [coexisting peacefully] between the state and the underground economy.

If North American and Colombian scholars of violence share an ambiguity about crime, often citing official condemnation overshadowed by social adulation of those referred to as social bandits.⁽⁴⁵⁾ Colombians are more likely to append the description political to the concept of violence. Political violence is usually conceived in North America as limited to terrorist attacks, race and urban riots. While these also constitute political violence in Colombia, political violence is more broadly conceived as having "multiple expressions that do not exclude, but may surpass, the political dimension."⁽⁴⁶⁾

Members of the Commission for the Study of Violence⁽⁴⁷⁾ argue that the period of la violencia with its associated political violence so altered the country structurally that violence, by itself, has changed "developing new modalities that coexist, superimposed and feeding on itself, in an implacable logic that has lead each time to fewer open spaces of optimism."⁽⁴⁸⁾ Beyond political violence the Commission identifies three other basic modes of violence in Colombia: socioeconomic violence, sociocultural violence, and violence over territory, all reinforced by a "culture of violence."⁽⁴⁹⁾

Concerning the INT, the Commission notes that violence associated with drugs constitutes a new form of power. It challenges those charged with popular representation at the "same time it has consolidated a private power parallel to the state, but. . . penetrat(ing) it [the State] in diverse ways."⁽⁵⁰⁾ While the study is a carefully worded document, members of the

Commission do manage to speak plainly, if circuitously, about the dominance of state violence and human rights violations. Little in the Commission's report addresses the Colombian state's response to this multi-faceted violence, whether actively increasing its law-enforcement capability or passively lacking an effective policy capacity.

Juan Tokatlán, in his prologue to the study by Krauthausen and Sarmiento, states that the violence associated with the INT is "neither irrational nor dysfunctional from the perspective of the narcotraficantes who, from the perspective the illegal business of drugs, searches to maintain and expand their dividends at the same time that they are trying to conquer and legitimize their social presence."⁽⁵¹⁾

Totkatlán, Krauthausen, and Sarmiento's use of the rational actor model to examine the violence in the INT provides some important insights about how power accumulates within the INT. They argue that violence is just one of several tools available to the narcotraficantes to control their business. The use of violence is not random, but structurally constrained within the context of needing to maintain their businesses. If accepted as true, then one must ask how much control the capos or leaders of the cartels have over the violence they subcontract to numerous shadowy businesses emerging to provide this service. One must also ask: if violence is used only to make a point, why did such a large point have to be made in 1992 and 1993 when bombings and assaults gained a higher intensity both in firepower and frequency? The authors admit they cannot explain such except as a reaction from the narcotraficantes responding directly to increased repression by the state. While such a stimulus/response explanation provides some insight about the INT's effect upon the state, it does not allow for gradations of state response. Nor does it explain why the state did not respond to the INT in the last half of the 1970s. Additionally, it tells little about the health of the state. What was it about the structure and strength/weakness of the state that enabled such a powerful challenger to rise so rapidly during a period of intense institutional rebuilding? Did the resource allocation of power simply favor the INT more than the state? What was/is there about the subjective properties and structural features of the Colombian state that has had problems dealing with this kind of contention?

Colombian journalist and social critic, Enrique Santos Calderon, is less circumspect than other Colombians in his assessment. "The irregular armies of both the right and the left have both benefited from the immense economic and liquid resources offered by the drug trade to intensify their respective violences."⁽⁵²⁾ Nor does Santos Calderon omit the Colombian armed forces from his examination charging them with abrogating their constitutional duties when they become involved in assassinations and forced disappearances.⁽⁵³⁾

The Commission on the Study of Violence argues that the profound crisis currently experienced by the Colombian state is best revealed within the context of violence, but not violence limited to that associated with the INT.⁽⁵⁴⁾ Many Colombians consider the guerrilla movements that have existed since the end of la violencia to be as great a problem as the INT regarding violence.

Colombian sociologist, Alvaro Camacho, suggests that this distinction, while analytically useful, misses the point in trying to arrive at some conclusion about the health of the Colombian state.⁽⁵⁵⁾ Camacho makes a distinction between private and public violence. Private violence occurs within a social space hidden from public scrutiny and relates directly to the kind of relationship existing between the victim and the perpetrator. This usually takes the form of settling personal grievances. Public violence, on the other hand, occurs in the public sphere, subject to scrutiny and refers to a general sense of social order and individual behavior.⁽⁵⁶⁾

Camacho considers the existence of paramilitary squads, both as self-defense units and as death squads, to constitute the privatization of violence; eg., the Colombian state no longer has monopoly on the means of coercion nor mediating conflict. As such private violence becomes a problem for the Colombian state when private violence.

"...becomes a problem of public order and democracy . . . [being public] to the extent that the citizens themselves define their lack of security as an overriding problem and demand protection from the state. It is also public in the sense that quite apart from the cracks it reveals in the elite hegemony . . . [it] tarnishes its projected image. Private violence is a problem of democracy not only in the field of the exercise of civil rights but also to the extent that it makes routine coexistence impossible. There is nothing to guarantee the possibility of a democratic political order if there is no social order of the same nature."⁽⁵⁷⁾

The Illegal Narcotics Trade

Until the late 1970s and early 1980s literature on illegal narcotics trafficking was limited to research done by health care professionals on the dangers of drug abuse and by journalists who provided case studies of certain crime families. Little in the way of systematic research on the INT existed till the mid-1980s when there developed a substantial body of literature on the nature of drug use and the illegal narcotics trade. If much of the earlier literature was dominated by North American and European scholars, beginning in the mid-1980s South American academics, especially Colombian academics, began producing significant literature on the INT. As always, journalistic accounts of drug kingpins and drug organizations abounded.⁽⁵⁸⁾ Early works by English and North American writers conceived of the INT as a monolith in both its resource and power capacity.

Peter Lupsha was among the first to challenge that conception with his description of the Herrera family in Mexico. Lupsha details the extensive networking built up among Herrera family members who had emigrated from Mexico into the United States. Lupsha's network analysis of crime families suggests different loci of power depending on the ethnicity, geographic location and social networks of each crime family. His study helped later research on the Colombian drug cartels understand how the Colombian *mafiosa* could so rapidly and efficiently gain strength and power.

Analysis of the INT on the individual level fell mostly within the province of investigative journalists such as James Mills, Brian Freemantle, and the British investigative team of Eddy, Sabogal and Walden, and American writers Jeff Leen and Guy Gugliotta. These writers, however, were not able to penetrate the organizational structures INT in Colombia in a way that elaborated the power relationships between the INT and the Colombian state.

Reporter for the Colombian daily newspaper, *El Espectador*, Fabio Castillo and Colombians Mario Arango Jaramillo and Jorge Child are researchers who have provided us with an inside look into Colombia's *narcotraficantes*. Besides covering the violence associated with the drug trade, such able reporting sheds little light upon the precise nature of the INT's impact.

The literature by North American and European scholars has focused on the INT as the nexus and source of developing drug policy in the Americas. Thus the analytical focus has concentrated on drug policy, militarization of the War on Drugs, debates about the legalization of drugs, and, on occasion, drug treatment. Valuable as such work is for the light it shines on why the War on Drugs is not yet won, little is known about the precise impact on Colombian state institutions.

Again, it is Colombian scholars, principally sociologists and historians initially, who have begun to describe precisely some impact of the INT on the Colombian state. Yet even this estimable work focuses more closely on violence and how to deal with the culture of violence said to permeate Colombian society. Orlando Fals Borda is concerned with disappearing cultural values in a society that has come increasingly to value violence as arbitration over legal means. Alfredo Molano, in his excellent study of the colonization of the Guaviare [home to large marijuana plantations and containing some of the largest tracts of land offered by the government for colonialization], demonstrates the various mechanisms by which drug dealers coopted the local populace.⁽⁵⁹⁾

Beginning in the 1990s, a growing body of work emerged on the economic development, maintenance of the INT and its intersections with the Colombian state. Colombian economists such as Francisco Thoumi, Miguel Urrutia, and Eduardo Sarmiento Palacio draw tighter links between the activity and policy options of the Colombian State vis a vis the INT. Authors Carlos Gustavo Arrieta, Luis Javier Orjuela, Eduardo Sarmiento Palacio, and Juan Gabriel Tokatlán, argue that the inherent weakness of the Colombian state has prevented its success in carrying out its own anti-drug policies as it pertains to the economy.⁽⁶⁰⁾

While useful for the varying snapshots it provides of the INT, the economy of the INT, drug related Colombian penal problems, and tensions between producer associations and the government vis a vis the INT, these studies do not link their various findings into some type of generalizable whole. Nor do they clarify their characterization of the Colombian state as inherently weak.

Colombian political scientist Francisco Leal Buitrago focuses his work on the development of the Colombian state. He sees the INT as just one more variable a fragile state must handle in its path to becoming modern. Leal Buitrago's work is useful

for the insight it provides between the linkages of the producer associations and the large bureaucracy developed because of the National Front regime. Equally important are the associations he draws between national development, the role of the state, and a power challenger such as the INT. For it is the INT that has mounted the most credible challenge to the Colombian state, not the guerrillas, not poverty and unfulfilled aspirations, but the illegal narcotics trade.

Summary

North American scholars, while paying close attention to the historic-cultural context of the state, continue to focus on the Colombian state as an independent actor and variable. South American scholars point out that considering only elite institutions and using phrases such as traditional oligarchy, institutional stability, consociational democracy [when discussing the National Front] obscures the politically exclusive character of the Colombian State. Moreover, such a focus diverts attention away from the highly fragmented divisions of Colombian politics, including a fragmented elite.

Both approaches are useful since our focus is on the goals the Colombian state set for itself as a reflection of the polity's representative agency. The legal end of the coalition government heralded a centralized and hierarchically institutionalized state assumed to better meet the pueblo's needs.

The discussions by and among Colombian scholars examines the differing ways bipartisanship continues to function. These discussions illuminate the resultant changes in clientelistic linkages rather than the expected strengthening of the Colombian state. As such they provide us another window through which to assess the impact of the INT on Colombian financial institutions, principally banks. Excepting the National Bank, most banks are situated and directed as regional entities, often by producers' associations such as FEDECAFE, UPAC, and ACADEGAM, etc.⁽⁶¹⁾ The narrowly focused work of Gustavo Arrieta, et al., reveals much about the workings of these organizations and suggests possible avenues through which one may examine the forward and backward linkages of banks. Additionally, the researcher can assess whether the degree of autonomy possessed by the regional banks has usurped the autonomy of the national banks and how the INT has contributed to such usurpation.

Moreover, such a focus on institutions is necessary in assessing the impact of the INT on the Supreme Court. Since the members of the Supreme Court comprise a segment the nation's elite, they respond not only to legislative decrees in terms of judicial review, but also to presidential decrees issued during a state of emergency. The chronic state of emergency under which Colombia has been governed is a reflection of the social and cultural context occupied by both arms of the government.

In the first chapter of this work I noted Peter Lupsha's assertion that a chief characteristic of organized crime is its need to interact with the body politic, its agents, and institutions. The work of historians and sociologists, particularly Colombian, allows the researcher to identify members of this body politic required by the INT and some institutions with which they interact. This research, having identified the social processes which have converged to produce Colombian culture and society, allows a clearer understanding of the source of Colombian institutions' authority.

Drug policy research in the Americas increases understanding of external and internal constraints on the Colombian state's ability to adopt and pursue a viable anti-drug policy. The centerpiece of the U.S. anti-drug policy has been eradication at the source placing tremendous pressure on Colombia to fight the drug war on U.S. terms. How has responding to pressures from the North affected Colombia's economic and legal institutions?

In the following chapter I sketch the dimensions of the problem from approximately 1974 till the present. In a parallel fashion I trace the development of the Colombian state during the same period attempting to identify specific intersections between the INT and the State.

1. See appendix for a graphic rendering of the drug production chain.

2. Andrew Kirby, "State, Local State, Context, and Spatiality: A Reappraisal of State Theory" in *The Elusive State; International and Comparative Perspectives*, ed. James A. Caporaso (Newbury Park: 1989), 212.
3. See bibliography for works by Braun, Dix, Bagley, Henderson, Thoumi, Fals Borda, and Kline.
4. Robert H. Dix, *Colombia: The Political Dimension of Change* (New Haven: Yale University Press, 1967)
5. Juan J. Linz and Alfred Stepan, eds. *The Breakdown of Democratic Regimes* (Baltimore: The Johns Hopkins University Press, 1978), 50.
6. Alexander Wilde, "Conversations Among Gentlemen: Oligarchical Democracy in Colombia" in *Breakdown of Democratic Regimes*, 62.
7. *Ibid.*, 68.
8. Paul Oquist, *Conflict and Politics in Colombia* (New York: Academic Press, 1980), 165.
9. Jonathan Hartlyn, *The Politics of Consociational Rule in Colombia* (New York: Cambridge University Press, 1988), 44.
10. *Ibid.*
11. *Ibid.*, 75.
12. Mauricio Botero Montoya, *La herencia del Frente Nacional: 1948-1986* (Bogotá: Ediciones Tercer Mundo, 1986)
13. *Ibid.*, 72.
14. *Ibid.*, 266.
15. Eduardo Diaz Uribe, *El clientelismo en Colombia: un estudio exploratorio* (Bogotá: El Ancora Editores, 1986), 33.
16. ¹⁶Botero, 266.
17. ¹⁷*Ibid.*, 89.
18. ¹⁸Diaz Uribe, 67.
19. ¹⁹*Ibid.*, 34-35.
20. ²⁰*Ibid.*, 58.
21. ²¹*Ibid.*, 61.
22. ²²Hartlyn, 141.
23. ²³Francisco Leal Buitrago, "Modernización del estado y crisis política". Paper presented at the research conference, VIOLENCE AND DEMOCRACY IN COLOMBIA AND PERU, held at Columbia University, November 30, 1990.
24. ²⁴*Ibid.*, 3.

25. ²⁵Francisco Thoumi, "An Institutional Interpretation of Colombia's Paradoxical Economic Growth", mimeo 4.
26. Ibid., 5.
27. Ibid., 6.
28. Ibid., 9.
29. Ibid., 10.
30. Gabriel Murillo Castaño, "Narcotráfico y política en la década de los ochenta: entre la represión and el diálogo" in *Narcotráfico en Colombia: Dimensiones, políticas, económicas, jurídicas e internacionales*(Bogotá: Tercer Mundo Editores, 1990), 210.
31. Ibid., 210-211.
32. Ibid., 213.
33. Ted Robert Gurr, "The History of Protest, Rebellion, and Reform in America: An Overview", *Violence in America: Protest, Rebellion, and Reform* Vol. II (Beverly Hills: Sage Publications, 1989), 12.
34. Ibid., 13.
35. Charles Tilly, "Collective Violence in the European Perspective" in *Violence in...*, 64.
36. James B. Rule, *Theories of Civil Violence* (Berkeley: University of California Press, 1988), 2.
37. Ibid.
38. Henderson, *When Colombia...*, 1-15.
39. Ibid., 11.
40. Private communique received from U.S. Department of State, Bureau of Interamerican Affairs, October 6, 1992.
41. Rule, 12.
42. Rule, 266.
43. Charles Bergquist, "Introduction: Colombian Violence in Historical Perspective:", *Violence in Colombia: the Contemporary Crisis in Historical Perspective* eds. Charles Bergquist, Ricardo Peñaranda, Gonzalo Sánchez (Wilmington, DE: 1992), 1.
44. Ibid., 5.
45. Gurr, 32.
46. ...*Colombia: Violencia y Democracia: Informe Presentado al Ministerio de Gobierno* Comisión de estudios sobre la violencia (Bogotá: Universidad Nacional de Colombia-Colciencias, 1989), 11.

47. Like North American nations, Colombia's leaders periodically appoint a commission to study violence. With the growth of the INT in Colombia there has developed a subfield of political science in South America for the study of violence and these scholars are called los violentólogos, or the violentologists.

48. Ibid., 10.

49. Ibid.

50. Ibid., 89.

51. Ciro Krauthausen and Luis Fernando Sarmiento, *Cocaína & co: un mercado ilegal por dentro* (Bogotá: Tercer Mundo Editores, 1991), 12.

52. Enrique Santos Calderon, *Fuego Cruzado: Guerrilla, narcotráfico y paramilitares en al Colombia de los ochenta* (Bogotá: CEREC, 1989), 19.

53. Ibid., 237.

54. *Violence in Colombia...*, 264.

55. Ibid., 258-259.

56. Ibid., 242-243.

57. Ibid., 259.

58. Please see bibliography for a detailed listing of these works.

59. Alfredo Molano, *Selva Adentro: Una historia oral de la colonización del Guaviare* (Bogotá: El Ancora Editores, 1987)

60. *Narcotráfico en Colombia:.....*

61. See Appendix for fuller identification and explanation of anagrams.

3: Historical Evolution of the INT

Introduction

Illegal narcotics trafficking in Latin America remained essentially a regional phenomenon until the mid-1970s. At this time a series of events joined in a coyuntura or conjunction altering illegal narcotics trafficking in the Western hemisphere and transforming it into a transnational phenomenon. Marijuana was the drug of choice for the counterculture movement that dominated the middle-1960s to early 1970s in the United States.⁽¹⁾ During 1970 heroin use and addiction in the United States was considered to have reached epidemic proportions.⁽²⁾ Poppies, from which heroin is refined, were grown in Mexico but the quality of heroin produced in Southeast Asia was preferred to the "tar-like" Mexican Brown heroin. In 1973, Turkey, a primary producer of heroin and marijuana, entered an agreement with the United States to shut down its poppy fields and destroy its marijuana crop. Subsequently, the bulk of the illegal narcotics trafficking transferred from Southeast Asia to Latin America.

Latin America, with its long tradition of smuggling and the existence of a well-developed underground economy provided a ready-made structure for contraband trade such as illegal narcotics trafficking.⁽³⁾ Because of its long history of emerald and coffee smuggling, Colombia was especially well situated with smuggling routes. Two other events during this time contributed to Colombia becoming the nexus of illegal narcotics trafficking in the Americas. In 1973 General Augusto Pinochet overthrew the Allende regime in Chile. In Chile a group of Cuban exiles, thrown out of Cuba when Fidel Castro took power, had set up a regional trade in cocaine smuggling. Using ports of entry through South Florida, they serviced a small but growing cocaine demand.⁽⁴⁾ The few Cuban-Chileans not jailed or deported by Pinochet's police moved to Colombia, bringing with them their technological expertise in drug production and transportation. Only two years elapsed before Colombians assumed complete control of the trade and excluded all foreigners.

By 1977, Mexico announced the marijuana eradication campaign using the herbicide paraquat had eliminated the marijuana problem in Mexico.⁽⁵⁾ The eradication campaign, coupled with the discovery of poisoned marijuana being sold, served to secure Colombia's niche in the marijuana market. "By 1978, *Colombian* gold accounted for three quarters of the marijuana sold in the United States."⁽⁶⁾ These events coincided with an increased demand for illegal drugs in the United States fostered the burgeoning underground economy in Colombia. Estimated revenues for drug producing, refining and transshipping countries in 1990 were reported as approximately \$8 billion dollars⁽⁷⁾. According to the International Financial Action (GAFI) organized crime moves approximately \$100 billion dollars within U.S. territory with \$85 billion of which has ties to drug trafficking and banked in the United States.⁽⁸⁾

Dimensions of the Problem

Samuel I. del Villar notes "there is no single illicit drug market between the United States and Latin America" and it is important to understand illicit drug markets "differentiate along different drug lines and along the roles that different countries play in their structure."⁽⁹⁾ Cocaine users number about one-third as many as marijuana users in the U.S. However, the cocaine market "is richer in terms of expenditure and revenues due to its high price."⁽¹⁰⁾ While Peru, Bolivia, and Ecuador have been the primary producers of coca leaf, Colombia has become the major center for processing and transshipping cocaine. Concomitant with these developments is the domination of the illegal narcotics trade by loosely formed coalitions of drug traffickers called cartels. Two of these, the Cali and Medellín cartels, make their homes in Colombia and comprise the two or three crime families who control the enterprise.⁽¹¹⁾ Within these cartels five major syndicates appear to handle approximately 80% of Colombia's cocaine exports.⁽¹²⁾ Though difficult to discover levels of revenues generated, Thoumi notes "estimates suggest that Colombian narcobusinessmen's profits have fluctuated between \$2 and \$5 billion per year."⁽¹³⁾ The accumulation of such vast wealth has put enormous political, social, and economic power into the hands of cartel members. As such they have become challengers to a weakening state and furthering its de-legitimization.

Examination of the INTs historical and structural development suggests they have become transnational corporations or, more correctly, firms whose emerging organizational structure is that of the network organization.⁽¹⁴⁾ Relationship structures characterize this type of organization as much as its formal organizational structure. Moreover, many component parts are outside the legal TNC structure as suppliers and other firms with mutual interests.

In his studies on American organized crime, Peter Lupsha has identified network analysis as crucial to understanding the growing power of organized crime. Network analysis identifies causation patterns through examining a variety of social relationships and interactions. "Among . . . the various analytical issues of networking are group cohesion, social distance measures, clique patterns, proximity and proximity flows, network density and centrality, influence patterns, affective and instrumental associational ties."⁽¹⁵⁾ He notes that trust is the most critical of variables in all interactions, whether that trust exists through blood-tie relations or patron-client relations that may or may not contain a coercive element. Lupsha's approach incorporates in measurable ways the element of illegality that had been missing in more traditional models of TNCs.

Network analysis identifies arrangements easing adaptation by operating units to the local environments in which they are embedded while retaining a common orientation with the other units of the TNC/network. Thus, rather than using structure as an integrative mechanism, each operating unit adopts structures congruent with their specific environments, a significant factor in achieving superior returns.⁽¹⁶⁾ Rather than relying on hierarchical power, network organizations allocate power, in part, by the degree of point centrality.⁽¹⁷⁾ Power within the network is partially dependent upon the number of linkages

controlled by any one portion of the network. If the parent organization controls critical linkages, it will retain centrality. Such would be the case when coordination remains controlled by the parent organization for coordination is the decision-point for resource allocation (i.e., it controls investment decisions).

Important to remember, however, is members of the network need not be owned by the parent, only bound by contracts, mutual purpose, or advantage to the network. Contrast this with more traditional mechanisms such as vertical integration. Earlier explorations of similarities of between the INT and TNCs attempted to conceptualize the Colombian cocaine cartels as vertically integrated corporations, but found that many necessary components of the production and transportation chain not owned by the cartels. Considering system elements as network components with a common purpose of maximizing profit on illegal narcotics, this factor becomes unimportant.

In the case of the INT networks, component parts align in a common mission, the production and distribution of illegal drugs. The network expands to encompass all phases of the operation, from cocoa leaf gathering to "retail" sales. The Colombian cocaine cartels involvement in critical phases of the operation enables them to maintain a high degree of centrality in the general network through providing strategic direction. Allied organizations, occupying comparatively weaker positions within the network, perform specialized functions within the network. Their relationship with the coordinating center (the Colombian cocaine cartels) is often a function of their criticality to the complete operation. In actuality, however, there are many TNCs along the drug production chain, the most clearly defined TNC to emerge being the Colombian cocaine cartels.

As noted earlier in this chapter the INT had remained largely a regional phenomenon until 1974 when a coyuntura (conjunction) of events came together. This conjunction provided what Dunning considers specific and location specific advantages. These advantages operate in a specific geographic location along with the advantages of internalizing certain transactions rather than relying on markets.⁽¹⁸⁾ Colombian scholar Francisco Thoumi agrees that many factors identified in the international business literature could be applied to Colombia. He argues that Colombia's unfortunate choice as a drug trafficking center is the result of "a set of factors, many of which are present in other countries, but which as a package are unique to Colombia, [which] gave this country its cost advantage in cocaine production and distribution."⁽¹⁹⁾ The proximity of a major consumer market in the U.S., a large Colombian population living in the U.S., and a monopoly on the technology necessary for refining and transshipping are just some factors that provide Colombia with a comparative advantage.

Turf wars and minimal coordination among older and emerging narcotraficantes characterized Phase One (1974-1980) of the INT. The first "narco-entrepreneur", Benjamin Herrera Zuleta had himself developed from a background in emerald smuggling. Power within the already existing contraband smuggling network reflected its particular environment until cocaine dominated the inventory of smuggled goods. Usurpation of known smuggling routes by the emerging narco-entrepreneurs resulted in two phenomena. The first was concern over the increased security risk to long established contraband routes by using them to transport drugs. Secondly, the "administrative heritage"⁽²⁰⁾ of the contrabandistas that had operated on a decentralized decision making basis increasingly came under attack by the emerging narcotraficantes. During this period approximately 4-5 crime families emerged as leaders of the INT in Colombia. Two of these, the Medellín and Cali cartels, began to dominate. Coordination increased by sharing "specialized competencies" in response to increased globalization of the INT. This included the communication and transportation expertise developed by Pablo Escobar and Carlos Lehder. Bartlett and Ghoshal note that as firms seek to globalize their operations and achieve global standardization and economies of scale, assets become centrally managed. The result is a loss of flexibility for local operations. The emerging pattern in this instance, however, is toward dispersed assets that are interdependent and specialized.

Arango and Child argue that such sharing among narcotraffickers represents a key distinction between the Colombian mafia and the Sicilian mafia. The nascent narcotraffickers " . . . did not begin their business in a closed form, but worked from an 'open door' policy." Narcotraffickers who lacked the transportation or financial capacity of the capos or leaders could agree to contract their services for transportation and distribution. Several reasons accounted for the system's success. First distributing the risk increased economic security. Distributing the risk ensured a mechanism to pay for the services of friends, politicians and public officials and ensure a smooth transportation and distribution system. In this way the business of narcotrafficking embraced a wide social stratum including not only those normally bribed, but also bankers, intellectuals, artists, cattle ranchers and farmers. Additionally, the lack of a vertical hierarchy, domination of the market by one organization [the Colombian mafia] and its democratic character, made it very appealing as an alternate path for those

seeking, if not wealth, then an initial capitalization of other legal interests. Arango and Child point out that the 'open' character of the Colombian mafia has been its central weakness, allowing infiltration by law enforcement agents.

Arango and Child overlook two very important elements in the character of the Colombian INT contributing to its success and the success of the capos to elude capture and trial. Escobar's adoption of Lehder's transportation route and subsequent contracting out transportation and insurance services initiated the stratification of the Colombian INT into two strata identified by Krauthausen and Sarmiento. The oligopolic stratum is composed of capos who have the knowledge, not only of the smuggling routes, but of the business itself. They have figured out how to establish a route, defend it, and ultimately offer services of the route to those who do not or cannot acquire such for themselves. These services may include not only transportation, but capitalization of the cocaine, insurance of its delivery, payment, and money laundering services. Thus, risk is distributed. The competitive sector consists of the mid-level traffickers, street-sellers, and consumers. Security is weakest in this stratum and attention from law enforcement strongest. At this level greater room exists for violence among traffickers over settling accounts as each section is highly compartmentalized and lacks access to enforcement that exists on the oligopolic level. It would appear the oligopolic sector is not as open as Arango and Child proposes, while the more open competitive sectors lend themselves to greater possibilities of infiltration. On the other hand, dispersion across and involvement of a variety of social actors can account for the continued success of the capos at eluding capture or remaining arrested for only a short period during different organizational phases of the INT.

In the following section I trace the historical evolution of the Colombian INT as Phase One develops. During this phase its growth and restructuring of its organization into a transnational corporation or firm become clear. The following chapter covers Phase Two and Phase Three of the INT in Colombia.

Phase One: Sorting It Out and Coming Together, 1974-1980.

Krauthausen and Sarmiento note that contraband smuggling has an ancient and venerable history rooted in the colonial epoch of Colombia.⁽²¹⁾ To sell their wares to the French, English, and Dutch in the Caribbean, the Colombians regularly circumvented attempts by Spain to limit or proscribe the trading of colonial goods. Over the years smuggling grew into a large underground economy in Colombia. Although emerald and coffee smuggling dominated the underground economy, the FBI in the United States identified a Medellín-Havana drug connection as early as 1958.⁽²²⁾

According to Arango and Child, the Cosa Nostra, well-established in Cuba at this time, arranged with Colombians in Medellín to process morphine, heroin, and cocaine for transport to Cuba.⁽²³⁾ Caribe antioqueños, whose contraband history dated from colonial times, entered an alliance with the United Fruit Company to exploit the booming banana trade using their shipping expertise. By the late 1960s transatlantic banana ships, besides their legal cargo of bananas, were carrying marijuana in specially hollowed-out ships' hulls.⁽²⁴⁾ A well-established, full service route developed in Uraba, providing both legal and illegal services to merchants. Motels sprung up, financial exchange houses, liquor stores, lawyers, accountants all found a place in the boomtown atmosphere of Uraba at the beginning of the 1970s.⁽²⁵⁾ In 1974 stricter controls on shipping ports displaced the marijuana trade to the Guajira. Older contrabandistas, originating in Medellín during the years of the Cuban connection, had identified the change in drug preference from marijuana to Cocaine and decided to specialize in cocaine.⁽²⁶⁾ Smuggling routes of the older antioqueños were well established structurally and socially. Knowledge was secure concerning which authorities' cooperation existed or was easily secured to ensure the smooth operation of the smuggling routes. Knowing which politician's influence could be counted on favored the nascent narcotraffickers.⁽²⁷⁾

Between 1973 and 1976 there was little coordination, beyond the established smuggling routes, among the Colombian traffickers. This changed as these who became the leaders of the Medellín and Cali coalitions, finished serving their apprenticeship and the vendettas and turf wars subsided. The following sections track the development of the Cali and Medellín coalitions of crime families that became known as cartels.

Cali Cartel

The capture in Cali in June 1975 of Benjamín Herrera Zuleta, a veteran drug trafficker known as the "Black Papa of Cocaine" created a power vacuum and a fight for control of the routes Herrera had opened to the United States.⁽²⁸⁾ Into this vacuum stepped a criminal gang known as the Band of Chemists, controlled by brothers Gilberto José and Miguel Angel Rodriguez

Orejuela and José Santacruz Londoño. The gang had been implicated in a number of high profile kidnappings for ransom⁽²⁹⁾, as well as counterfeiting money and prescriptions. The Orejuela brothers were considered leaders among various gangs in their neighborhoods. These allegiances were put to good use as they established laboratories and transport bases for cocaine in the southern part of Colombia bordering the Amazon and the coca producing countries of Bolivia and Peru.

Although the brothers had begun transporting only small amounts of cocaine, they came to the attention of Colombian authorities as early as 1975. Gilberto was captured with 180 kilos of coca paste in Peru while aboard a plane owned by Tulio Enrique Ayerbe, member of a wealthy, traditional family from the Valle del Cauca. Meanwhile Gilberto's childhood friend, Hernando Giraldo Soto had been charged with contracting existing smuggling routes into the United States. Soto's success is reflected in records revealing that between March and October of 1978, the Chemists had transported \$26 million dollars worth of cocaine into New York.⁽³⁰⁾ Ishido Kawai, a large jewelry store proprietor in Colombia and involved for some years with emerald contraband, handled money-laundering for the Cali group during this time. Kawai aided Rodriguez Orejuela in the acquiring the Bar J Ranch in Alabama that later served as a key landing strip in the United States for planes transporting cocaine.⁽³¹⁾ Meanwhile members of the Cali cartel were investing heavily in Colombian industries, including a chain of drugstores and construction companies.

Members of the Cali cartel have not been pursued as vigorously as members of the Medellín cartel. Colonel Jaime Ramirez Gomez, commander of the Anti-narcotics Unit of the National Police, noted that the Cali cartel has so thoroughly penetrated the social relations of the Valle del Cauca that they have become "virtually invincible."⁽³²⁾ The list submitted by Ramirez Gomez of those linked to narcotics trade in the Cauca reads like a social register of fine old families in the area. This explains the lack of diligent prosecution of narco-traffickers on the local level and lack of violence that characterizes Cali cartels. Limited local prosecution reduces the amount of violence necessary for the Cali cartel to accomplish its ends.⁽³³⁾ Ultimately, narco-violence has propelled the Colombian government's anti-narcotics policy, a point elaborated later in greater detail.

Medellín Cartels

Recall that such coordination as existed among traffickers was limited to the old Antioqueño smugglers whose operational center was Medellín. Their principal points of disembarkation were the ports of Uraba, Baranquilla, and Cartagena along the Atlantic Coast. The Antioqueño group was lead by three older contrabandistas; Alfredo Gómez López, [known as El Padrino or Godfather], Jesús Emilio Escobar Hernández and Fabio Restrepo Ochoa. This group of contrabandistas often coordinated their activities with the emerald smugglers of Boyacá whose center of operations normally was in Bogotá.

Destruction of the first Medellín cartel began January 1976 with the capture of some principal contacts of the Cartel in New York⁽³⁴⁾. A resulting war for control of the smuggling route developed in March 1976. The old emerald contrabandista, Fabio Restrepo Ochoa, narrowly evaded capture by the airport police in Bogotá, only to return home to Medellín and be disposed of at the hands of his nephew, Jorge Luis Ochoa.⁽³⁵⁾ Jorge Luis assumed leadership of an organization considerably weakened by the vendettas and turf wars of the past two years and a distribution system unable to accommodate the growing demand for cocaine.(See Table 3b)

At this point, fellow Colombian Carlos Lehder Rivas had finished serving time in the penitentiary in Danbury, Connecticut for marijuana smuggling. During his two years in prison, Lehder dreamed of setting up a distribution system of cocaine beyond the few kilos being smuggled strapped to the bodies of "mules" or human carriers. In prison he met and established contacts with George Jung, an American, imprisoned for flying marijuana from the California coast to eastern college campuses.⁽³⁶⁾ Lehder and Jung became close friends in prison as Lehder sketched out his dream of using small airplanes that could land at clandestine airstrips to transport cocaine. Lehder would prove to be pivotal in the Medellín cartel. Raised in the United States during his adolescence, he was more comfortable in the United States than any of the Ochoas. He formed a cultural bridge between Colombia and the United States that none of the other cartel members could provide. Lehder was charismatic, spoke English well, and had the capacity to seduce weaker men with his will and vision.

Following his discharge from Danbury prison, Carlos Lehder returned to his hometown Armenia in the Quindío province of Colombia. Viewed with less awe by the rising Colombian traffickers such as the Ochoas, Pablo Escobar and Gonzalo Rodriguez Gacha, Lehder never was completely at home in Medellín. Lehder began building his cocaine empire a few kilos at a time, shipping them in modified suitcases and using Jung as his American contact. Still determined to set up his airline

route, Lehder encountered numerous obstacles to finding reliable pilots until he was introduced to Barry Kane, an attorney who, more importantly, owned his own plane.⁽³⁷⁾ Considered a *player* and risk-taker in Cape Cod circles, Kane enthusiastically embraced Jung and Lehder's plan smuggling cocaine via airplanes from Colombia into the United States. Money to finance as large a venture as Jung and Lehder dreamed of was nonexistent, so they set about generating capital for their venture.

Among Lehder's early smuggling activities was the smuggling of cars into and out of Colombia. Efforts to smuggle cocaine out in Chevrolet station wagons resulted in Lehder being arrested and placed in a Medellín jail. Lehder's prison stay was not long and soon he was back into smuggling small amounts of cocaine with his partner, George Jung. By the summer of 1977, Jung was burning out from the hecticness of the smuggling he and Lehder engaged in to meet the demand for the cocaine. In 1978 on a fishing trip to the Bahamas two coincidental events occurred. After a year of delays in agreeing to smuggle cocaine in by air, Barry Kane announced his readiness to begin operations with Lehder. By May of 1978, Lehder had enough cash to buy the Beckwith house on Normans' Cay in the Bahamas. Normans' Cay provided the ideal harbor for ships as large as yachts and a concrete airstrip three thousand feet in length. Strategically located between Colombia and the U.S., it provided refueling for the small Cessna airplanes that became the workhorses of the smuggling trade. Despite occasional raids by the Bahamian police, Lehder continued transporting cocaine through Normans' Cay. By the end of the year, conservative estimates of cocaine transported into the United States⁽³⁸⁾ reached approximately \$150 million dollars wholesale.

Pablo Escobar, a nondescript young man who had grown up in Envigado, the tough blue collar suburb of Medellín, advanced his criminal career working for older members of the Antioqueños. As a mula he carried drugs, engaged in auto smuggling and kidnaping. His shy, quiet-spoken demeanor did not suggest the enforcement capabilities he would build for the cartels nor of a personal philosophy of revenge for every arrest and/or slight.⁽³⁹⁾ Although mistrustful and disapproving of Carlos Lehder's flamboyant manner, Escobar recognized the value of airline transportation for the distribution of cocaine. Beginning in 1976, Lehder was using Escobar's ranch as the pick-up site for cocaine in Colombia. In 1978, Escobar was contracting out Lehder's transportation services to other narcotraffickers.

There have been many attempts by cartel leaders to eliminate the security risks posed to the organization by the smaller traffickers who contract their services. Major efforts include establishing large processing laboratories under control of the cartel leaders rather than the highly mobile 'mom and pop' processing laboratories dominating the business. While such small enterprises distribute the economic risks, it increases security risks both with law enforcement and quality control over the product.

Leading the effort to streamline laboratory processing was Gonzalo Rodriguez Gacha, a shadowy member of the Medellín cartel whose prominence did not emerge until the mid 1980s. Known as El Mejicano for his love of things Mexican, Rodriguez Gacha's roots extended to the Leticia region where he and a lower level trafficker, Evaristo Porras, brokered coca leaves and paste for the cartel. Rodriguez Gacha began buying up large tracts of jungle lands and setting up processing laboratories placed under control of local cartel members. In the following section, the Colombian state is situated within this period of cartel development.

The Colombian State, the INT, and the End of the National Front

Alfonso Lopez Michelsen was the first president elected through competitive elections in sixteen years. Dismantling the coalition rule of the National Front regime was the dominating task of his administration. There developed a series of turning points that would have considerable impact upon the subsequent administrations of Julio Cesar Turbay, Belisario Betancur, and Virgilio Barco.

Recognizing that dismantling coalition rule required more than manipulating the rules of the game, Lopez Michelsen proposed a Constituent Assembly rather than a Congress. The purpose of this institutional adjustment was twofold. First it would provide for the revamping of the administrative structure of the country through financially strengthening the departments and municipalities. It was hoped this would curb the mushrooming brokerage and clientelist politics that were developing without responsibility and accountability.⁽⁴⁰⁾

The second purpose for the formation of a Constituent Assembly was to reform Colombia's archaic civilian judiciary which criminals and guerrillas easily subverted.⁽⁴¹⁾ Deficiencies in the civilian judiciary served as a justification to expand the scope of crimes tried under military justice. After months of maneuvering, Lopez received Congressional approval of a Constituent Assembly. The victory proved ephemeral when declared unconstitutional by the Colombian Supreme Court weeks before the 1978 presidential elections.⁽⁴²⁾

Another turning point during the Lopez administration was a change in the military from its constitutional base to what Leal Buitrago calls an autonomous political base.⁽⁴³⁾ The catalytic episode for this change, in 1977, of the military was the breakup of the first national civic strike (paro) ever called in Colombia. Repression of the national strike by the military resulted in official estimates of fourteen dead and thirty-one wounded. The military was unable to contain the strike despite the later discovery of the involvement of a small number of workers and union organizers. Two weeks later General Varon Valencia declared the situation "explosive".⁽⁴⁴⁾

For the first time the Colombian military acted as an autonomous institution. In a letter presented to President Lopez by a delegation of thirty-three generals and admirals, the military demanded that Lopez enact emergency measures to improve the internal security of the country through the granting of greater powers to the armed forces.⁽⁴⁵⁾ Lopez sidestepped their demands by promising the new Constituent Assembly would meet these requirements. This promise collapsed when the amendment for the Constituent Assembly was struck down by the Supreme Court.

As the general economic goals of the National Front remained in place, Lopez Michelsen attempted to strengthen Colombian financial institutions. He attempted to establish realistic, market-oriented interest rates and required that Colombians own majority shares in Colombian banks. To bolster his "nationalistic" approach to the Colombian economy, Lopez unilaterally rejected any further AID assistance from the United States.

Lopez's efforts were thwarted, however, by the growing world recession affecting demand for minor, non-traditional exports from Colombia.⁽⁴⁶⁾ These exports, which were the foundation for export diversification, were in turn devalued by growing inflation. Foreign exchange, generated by a boom in the coffee and service⁽⁴⁷⁾ industries, fueled inflation.

To capture some of this foreign exchange Lopez ordered, in 1975, the reopening of la ventanilla sinistra at the Banco de la Republica or Central Bank.⁽⁴⁸⁾ At this side window, or so-called "sinister window", dollars were exchanged for pesos with no questions asked. Thoumi notes that between 1976-1982 \$2.3 billion entered the services account of the balance of payments.⁽⁴⁹⁾

To curtail the growing inflation generated by this increase in the money supply, Lopez cut back on public investment in 1976 and devalued the Colombian peso in 1977.⁽⁵⁰⁾ The result was increased interest rates, decreased availability of credit, and an official exchange rate that was larger than the black market exchange rate.

The election of Julio Cesar Turbay Ayala in 1978 represents the most significant change in the Colombian military's power. Passage of Decree 1923 the Statute on Security, in 1978, extended the power of the executive to declare a state of siege and expanded the powers of the military. These expanded powers include the following: 1) an increase in the types of crimes that could be tried by the military; 2) augmentation of the arrest powers of the armed forces; 3) lengthened sentences for crimes such as kidnappings and extortion; and 4) a prohibition of news coverage of public disturbances while they were occurring.⁽⁵¹⁾ Although this extension of powers was officially directed against the narcotrafficante, it was most often used against the guerrillas.

Wide-spread reports of arbitrary detentions and torture prompted an investigation by Amnesty International in 1979 and 1980. Their findings concluded that the "systematic use of psychological and physical torture against political prisoners is wide spread in Colombia."⁽⁵²⁾ According to the report, incidents of military harassment were not restricted to armed opposition groups, but included doctors, trade unionists, campesino leaders, and journalists. The Turbay government angrily denied the charges.

Toward the end of 1980, 150 judges resigned in protest over the assassination of two judges involved in the prosecution of local narcotrafficantes.⁽⁵³⁾ When confronted by the angered jurists, Minister of Defense General Luis Carlos Camacho Leyva

and Justice Minister Felio Andrade could only suggest that the jurists arm themselves. He promised the police and the security forces would attempt to increase protection. This response proved ironic for two reasons. First the National Police had been incorporated into the armed forces under control of the Minister of Defense, leaving the country without any security forces answerable to civilian authorities.⁽⁵⁴⁾ Second, a survivor of a second attack on the judges alleged that a police officer riding a motorcycle opened fire.⁽⁵⁵⁾

Apart from their acceptance of a civilian government, the Colombian military increasingly came to view themselves as the unique defenders of Colombian national traditions and values. Opposition to these traditions became fused with the concept of subversion identified with the battle "between godless communism and Christian (and capitalist) democracy."⁽⁵⁶⁾

The 1979 Constitutional Reform, initiated by the Turbay administration, sought to return to Congress some powers it had lost through the Constitutional Reform of 1968. This measure also sought to reduce judicial power through eliminating judicial self selection and political parity of all but the most senior officials of the judiciary. In 1981, two years after its enactment, the Supreme Court declared the Reform unconstitutional.⁽⁵⁷⁾ Some observers considered curtailment of executive power, similar to the proposed Lopez reform, as basis for action by the Supreme Court.

When Turbay entered office in 1978, the industrial expansion that had begun declining during the Lopez administration plummeted into a full scale recession. Medellín that had become, during the 1960s and 1970s, the center of manufacturing for Colombia, producing 80% of all manufactured goods⁽⁵⁸⁾, bore the brunt of the industrial recession.⁽⁵⁹⁾ The textile industry, which grew only by 2% in 1978, registered a negative growth of 12% in 1979 of which only 2.5% growth recovered in 1980.⁽⁶⁰⁾

The tight money policies begun during the Lopez administration continued with the same foreign exchange policies through the Central Bank. As noted earlier in the chapter the amount of foreign exchange generated between 1976-1982 was approximately \$2.3 billion with an estimated \$1.1 billion derived from narcodollars. During Turbay's administration the peso remained overvalued relative to the dollar paralleling a rise in smuggling and speculative investment.⁽⁶¹⁾ In 1980 the GDP fell to 4% compared to the growth rate of 5.5% experienced during the previous three years.⁽⁶²⁾ By the end of Turbay's administration, a deepening industrial recession combined with efforts to deregulate the burgeoning financial sector, developed into a crisis "sparked by the questionable loans of a number of banks to associated conglomerate firms."⁽⁶³⁾

Summary

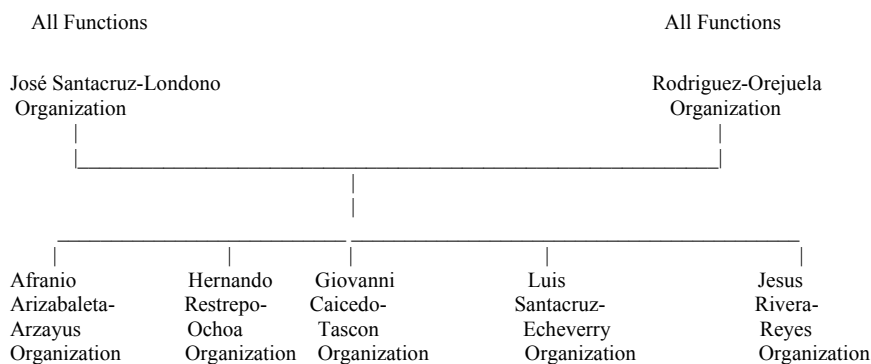
In Phase One the INT is only one of several activities supportive of, but not yet dominating, Colombia's underground economy. During this time the strongest smuggling organization, composed of old Antioqueño smugglers and known as the first Medellín cartel, is deposed. The second Medellín cartel, whose new leaders include the Ochoa family and Pablo Escobar, replaced Medellín Cartel I. The Cali cartel develops along similar lines but in closer association with local leaders who are quite consciously incorporated into the differing aspects of the trade. Associations remain loose and informal with occasional cooperation on specific projects. Leher's restructuring the trade with an air transportation system alters this arrangement. Pablo Escobar identifies the greater advantages of a wholesaler rather than a retailer in the trade. As such he offers a range of services not easily available to smaller traffickers and decreases his own security risks while increasing his profits. The Ochoas, with the deepest roots in the older Medellín cartel, have the greatest influence and most thorough knowledge of smuggling routes needed to ensure smooth operations. At the end of the seventies, however, these different components had yet to come together in a formalized fashion that would evolve during phase two.

The Colombian state was not especially beleaguered by the evolving INT. The first post-Front governments of Lopez Michelsen and of the Turbay administration (for its first two years) were preoccupied with dismantling the institutions of coalition rule and engaged in contestation over the institutional structures such change would incur. The constitutional basis of the military changed to a more autonomous basis. The failure of the military to contain a small number of strikers in the national strike of 1977 and the signing of a National Security decree by President Turbay marks a turning point where the military began behaving as an independent actor. Increasingly, it viewed itself as the unique defenders of Colombian national traditions and values. Opposition to these traditions became fused with the concept of subversion and identified with the battle "between godless communism and Christian [and capitalist] democracy."⁽⁶⁴⁾ This change in self-perception seriously influenced the military's conception of its role in the war on drugs in Colombia as the INT evolved.

Colombian economic institutions experienced some reverses during this time, but such reverses do not seem to have threatened their existence as institutions. Use of la ventanilla sinestra as a legitimate mechanism to recapture illegal monies could be said to have provided a breathing space for economic policies.

Although the number of assaults on court justices and investigators increased, they were not considered proportional to the growing INT. The assaults were more frequently perceived as a continuation of the guerrilla conflict that had continued since the end of la violencia.

Table 1. THE CALI CARTEL



El Cartel de Cali

Source: Fabio Castillo, Lacoca Nostra (Bogotá: Editorial Documentos Periodistas, 1991)

Table 2. Cartel de Medellín

ALL FUNCTIONS		ALL FUNCTIONS		ALL FUNCTIONS	
Pablo Escobar-Gaviria Organization		Jorge Ochoa-Vasquez Organization		José Rodríguez Gacha Organization	
Distribution	Supply/ Distribution	Transportation Distribution	Undefined Functions	Undefined Functions	Bogota Organizations
Juan Luis Castano-Velasquez Organization	Joaquinn Builes-Gomez Organization	Rigoberto Correa-Arroyave Organization	Dayro Chica Organization	Rodrigo Osorio/ Alonso Munoz Organization	Servulo Alfonso Duarte Organization
Fernando Galeano-Perrio Organization	Gustavo Herrera-Zuleta Organization	Jairo Mejia-Rueda Organization	Elkin Correa Organization	Ivan & Gustavo Valderram-Suesc Organization	Fernando Carillo Organization

Manuel Antonio Garces-Gonzalez Organization	Francisco Moncada Organization	Hugo Osando-Ochoa Organization	Alvaro Gonzalez Organization	Leon Ochoa- Carvajal Organization	Pedro Ortegon Organization
Carlos Octavo Piedrahita-Tabares Organization		Francisco Barbosa Organization	Carlos Guarin Organization	Alberto Ochoa- Prieto Organization	Camilo Zapata Vasquez Organization
	TRANSPORTATION Oscar Londono-Quiroz Organization	Evaristo Porras Organization	Fernando Hernandez Organization	Luis Carlos Velasquez Organization	

Source: Fabio Castillo, *Lacoca Nostra* (Bogotá: Editorial Documentos Periodistas, 1991)

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30. Ibid., 45.
31. Ibid., 46.
32. Ibid., 49.
33. Colombian sociologist, Alvaro Camacho, suggests that Cali differs markedly from other Colombian cities which harbor narcotrafficates in that the elite of Cali has always prided itself on its philanthropy and civic pride and as such has always been careful "...to produce at least the appearance of resolving the structural problems of the dominated." ["Urban Violence in Cali" in *Violence in Colombia: The Contemporary Crisis in Historical Perspective* (Wilmington: Scholarly Resources Imprint, 1992), 251.

34. Castillo notes that "soldiers" of the Colombian drug queen, Griselda Blanco, operating out of Queens, New York were sentenced and others assassinated during the numerous turf wars that occurred between individual traffickers during this time period.
35. Ibid., 65.
36. Guggliotta and Leen, 37-56.
37. Ibid., 44.
38. Ibid., 89.
39. Ibid., 28-30. Guggliotta and Leen describe in some detail Escobar's patience for waiting long periods to exact his revenge. Although arrested for only a short time in 1974, Escobar's arresting officer at that time would be gunned down five years later in Medellín.
40. While the National Front had been effective in subduing the violence associated with partisan politics and patron-client relationships, a vacuum developed as a corollary to the National Front which limited political participation. Francisco Leal Buitrago suggests that the structural change of the National Front altered the face to face exchange characteristic of patron-client relationships to brokerage-client relationships which had a more institutional structure. (See "Modernización del estado y crisis política" presented at the research conference, "Violence and Democracy in Colombia and Peru" held at Columbia University, 30 November 1990)
41. Colombia's judiciary will be dealt with in more detail in subsequent chapters.
42. Hartlyn, *The Politics of...*, 210.
43. Francisco Leal Buitrago, *Estado y política en Colombia*, 2nd edición aumentada, (Bogotá: Siglo veintiuno de Colombia, 1989), 278.
44. Ibid.
45. Hartlyn, *The Politics.....*, 217-218.
46. Hartlyn, *The Politics of...*, 138. The Colombian economy and its financial institutions are dealt with in more detail in a later chapter.
47. The service industry in Colombia has long been the means by which contraband dollars have been repatriated to Colombia and with the boom of tourism has been a favorite mechanism to repatriate narcodollars.
48. Ibid., 139.
49. Francisco E. Thoumi, "Some Implications of the Growth of the Underground Economy in Colombia", *Journal of InterAmerican Affairs and World Studies*, Summer 1988, 43.
50. Hartlyn, *The Politics of...*, 140.
51. Hartlyn, *The Politics of...*, 217.
52. *Latin America Regional Reports Andean Group* RA-80-04, 16 May 1980, "Amnesty Finds Torture Evidence", 4.

53. *Latin America Weekly Report* WR-80, 31 October 1980, "Judges Face Chicago-style Mafia Attacks", 2.
54. "The Central-Americanization of Colombia: Human Rights and the Peace Process" *An Americas Watch Report*, January 1986, 18.
55. LAWR, WR-80. Ibid.
56. *Americas Watch Report*, January 1986, 16.
57. Hartlyn, *The Politics of...*, 225.
58. Arango Jaramillo, *Impacto de...*, 81.
59. Ibid, 89.
60. "Textile Crisis Set to Continue", *Latin American Regional Reports Andean Group* RA-81-02, 27 February 1981, 8.
61. Hartlyn, *The Politics of...*, 202.
62. Sloan, *Public Policy in...*, 31.
63. Hartlyn, *The Politics of...*, 203. Arango in *Impacto de...* discusses in more detail precisely which banks made these loans and who were the major principals in the conglomerate firms that were recipients of these loans. Arango suggests strong linkages between both bankers and firm members to emergent narcotraficante leaders.
64. *Americas Watch Report*, January 1986, 16.

4: The Pain and the Glory: Phases Two and Three in the Evolution of the INT

Introduction

According to the Stopford and Wells model of TNC development, rephrased by McRae and Ackerman,⁽¹⁾ the INT's organization follows a six-stage expansion process. Phase One was dominated by small businesses concentrating on a single type of activity, smuggling. Market share increased by acquiring or eliminating competition in the home market; I.e., the numerous turf wars. Globalization of the product, illegal drugs, began with diversification of products, eg., crack and support services.

The chief characteristic of Phase Two: The Golden Years (1981-1986) was an intense "corporatizing" of the INT in Colombia. During this period transportation and warehousing in foreign countries were established. The INT invested heavily in foreign facilities [Panama] for production and storage. Money laundering became a major part of diversification in both related and unrelated businesses. This included creation and acquisition of "support" organizations such as banking and accounting as well as unrelated diversification for investing excess profits and reducing investment risk.

Changing from the decentralized patterns dominating Phase One is consistent with the third dimension of an organizational pattern Bartlett and Ghoshal describes as a *heterarchy*.⁽²⁾ The definition of heterarchy is dually based in 1) the control mechanisms employed or as a network organization or 2) in the structural relationships of the components. The third dimension is one of development and diffusion of knowledge. Knowledge develops at each operating unit. A firm seeking to develop global economies of scale will attempt to develop knowledge centrally and retain it at the center. Such a pattern, however, lacks the ability to integrate the specific and often complementary competencies of each national unit. The emerging trend, as we shall see in Phase Two, is toward jointly developed knowledge shared among the units.

Continued network existence requires, according to Miles and Snow,⁽³⁾ two characteristics central to network organizations: 1) essential relationships are external and viable to all parties and 2) relationships among the parties are voluntary and reflect explicit commitments by all parties. The nature of the relationship, in the case of the Colombian cocaine cartels because of illegality of the enterprise, remains partially hidden fostering a sense of mistrust by all parties. Since the degree of voluntary affiliation may reflect coercion, some parties may harbor a sense of being forced to join a network that may not maximize their profits. As the cartels began relying more on coercion to meet its internal challenges, the Colombian state began responding with increasingly repressive measures and Phase Three signals cracks in the firmament of narco-trafficking widening.

Phase Two: The Golden Years, 1981-1986

On April 18, 1981, the top 200 or so narco-traffickers met at the Ochoa family ranch.⁽⁴⁾ The meeting marked a turning point in organizing the INT in Colombia and marked the formalized beginning of the Medellín cartel. Although the old Antioqueños was criticized as a good old boys network, they did not take such criticism seriously until it became evident the INT had the potential to generate profits beyond any previously imagined. Realization of this potential, however, required a change in organization and strategy. The theme of the meeting was expansion. Better ways to move and distribute the cocaine became necessary as the cocaine inventory became backlogged.⁽⁵⁾

Lehder continued his transportation operations in the Bahamas but increasingly became his own best customer. His inherent flamboyant personality combined with increased cocaine use produced behavior that often put other traffickers at risk and creating difficult relations with the Ochoas and Escobar.

Ochoa began "corporatizing" dispersed portions of the network. He hired an American engineer to establish a long-range navigational and communications system at Acandí, a few miles from Panama on Colombia's northwestern edge.⁽⁶⁾ Ochoa also began arranging his own deals with pilots besides the loads Lehder was running out of the Bahamas.⁽⁷⁾ The results were immediately apparent. During the first months after the summit at the Ochoa family's ranch, Hacienda Veracruz, a single Ochoa distributor coordinated cocaine flights totaling nineteen tons.⁽⁸⁾ This was more than shipped out of Norman's Cay for the entire previous year. This is consistent with the third dimension of heterarchy where developing and retaining knowledge centrally begins. What will become evident, however, is that the knowledge shared among the units will occur at the differing strata level identified by Krauthausen and Sarmiento. Knowledge will be shared horizontally among the oligopolic sector but not vertically with the competitive sectors.

Although the narco-traffickers knew each other socially and engaged in occasional business deals together, they had not yet coalesced into a highly structured organization. A catalytic event, the kidnaping of Marta Nieves Ochoa, daughter of Fabio Ochoa and sister of Jorge Luis Ochoa, drew the various traffickers together. Kidnaped by the M-19 guerrilla group, Marta was held for a ransom totaling \$12-\$19 million dollars.⁽⁹⁾

Kidnapings in Colombia are endemic and a favored method of acquiring funds by the various guerrilla groups. Jorge Luis Ochoa called together the top 223 narco-traffickers together to form MAS (Muerte a Secuestradores or Death to the Kidnappers). MAS issued a manifesto refusing to bow to kidnaping demands of guerrillas. Offering rewards for information leading to the kidnapers, MAS "guaranteed immediate retribution" to the kidnapers. It also represents the first steps toward building a common INT policy. Following the highly publicized deaths of some guerrilla leaders, Marta Nieves Ochoa was released on February 17, 1982.

Marta's release reveals another facet in restructuring the INT. The Ochoas paid a ransom of approximately \$535,000 according to police reports. The negotiations took place in Panama over a period of several weeks and were negotiated by Panama's chief of military intelligence, Colonel Manuel Antonio Noriega.⁽¹⁰⁾ Court papers filed later in Miami describe a deal negotiated between Noriega and Escobar to transship cocaine loads through Panama for \$100,000 per load.

Amid the political issue of hot money, Belisario Betancur was elected president in 1982. According to Rice, every return flight to Colombia of the Air America⁽¹¹⁾ drug pilots carried a half dozen duffel bags each carrying approximately \$1 million dollars.⁽¹²⁾

Smaller traffickers had always piggybacked onto Escobar and Ochoa's loads. Now they faced fewer choices when the bosses became unhappy if the smaller traffickers tried to operate independently. This was another effort by the Ochoas, Escobar and a few others to control the criminal cocaine market from a buyers and sellers position. They would deliver only as much cocaine as needed to keep the price and profit margin high.⁽¹³⁾

As business became more efficient and streamlined, the narcotraficantes turned their sights elsewhere. Carlos Lehder decided to take advantage of Betancur's general amnesty proposal and repatriate most of his monies to Colombia, returning there to live. Lehder's Latin Nationalist Movement (MLN), in 1984, won 12 percent of the votes of the electorate amid the worst coffee-harvesting year Quindío had experienced.⁽¹⁴⁾ These first political efforts by Lehder were not initially perceived as serious moves to gain political power by many scholars. Narcotrafficking was still considered solely an economic enterprise with few political aspirations. As further examination will reveal, this was a seriously flawed analysis of the INT phenomenon.

Meanwhile Pablo Escobar promoted his image as a paisa Robin Hood, building housing for lower income families in Envigado as well as soccer fields.⁽¹⁵⁾ These efforts proved successful in enlarging and maintaining his constituency. Moreover this was the year that Escobar was elected to the Colombian congress as an alternate representative or suplente from Envigado.⁽¹⁶⁾ During this year, the coldness with which Escobar acted as the cartels enforcer would become clearer. He ordered assassinated judges who had convicted him years earlier on smuggling charges and paid to have his police records torched in the Palace of Justice.⁽¹⁷⁾

Finding more efficient ways to launder enormous sums of money occupied the cocaine cartels in 1983. According to Lee, a cartel money launderer admitted laundering assets worth between \$10-\$11 billion dollars for the cartels during 1983.⁽¹⁸⁾ By the beginning of 1984, the price for a kilo of cocaine had dropped from \$50,000 per kilo in 1981 to \$25,000 per kilo.⁽¹⁹⁾ The cartel ordered its distributors to sit on inventory until prices went back up. A new product, crack, a derivative of cocaine processing, was introduced and sold in rocks for \$10-\$20 each. Although the price per kilo of cocaine dropped, holding the supply constant while introducing crack kept profits up. The Air America drug pilots reported ferrying back between \$6-\$8 million dollars per each southbound flight and this was not sufficient to meet the cartels' needs.⁽²⁰⁾

Nineteen eighty-four was a pivotal year for law-enforcement officials as well when the cocaine processing lab, Tranquilandia, was raided March of that year. The complex of labs making up Tranquilandia was a fully integrated enterprise that employed over 100 people fed, housed, and clothed by the owners of the lab complex. Confiscated records reveal the airport at the lab received approximately 15.539 metric tons of cocaine paste between December 15, 1983 and February 2, 1984.⁽²¹⁾ By the time law enforcement officers completed destruction of the Tranquilandia complex, 13.8 metric tons of cocaine had been burned. Approximately 11,800 drums of precursor chemicals (among them ether and acetone) were destroyed from approximately 14 labs and encampments. Seven airplanes were confiscated.⁽²²⁾

More important, the cooperative effort between U.S. and Colombian law enforcement officers signaled an end to the relatively benign stance taken by the Colombian state during Phase One of the INT. This change, however, did not occur overnight. Just as consolidation of the cartels required a number of years to achieve, so did understanding the enormity of the problem by Colombia and the U.S. require several years.

In 1981, the U.S. closed its consulate in Medellín because it feared for the personal safety of its members.⁽²³⁾ By mid-1981, the U.S. and Colombia ratified a bilateral extradition treaty signed in 1979.⁽²⁴⁾ What was important and different about this extradition treaty was a change in the wording. Article eight, Paragraph 1 states "extradition of nationals of one country to the other country 'will be granted' even 'where the offense involves acts taking place in the territory of both states with the intent that the offense be consummated in the requesting state.'"⁽²⁵⁾ Thus a Colombian drug trafficker, who had never left Colombia, could be extradited to the United States if it could be shown that he was engaged in a criminal conspiracy aimed at the U.S. This would include sending a load of drugs to the U.S. After his election in 1982, Betancur delayed the extradition request for Carlos Lehder for a long while. On September 2, 1983, the Colombian Supreme Court issued a finding favorable to the U.S. for Lehder's extradition.⁽²⁶⁾

Before the Colombian Supreme Court's ruling, however, Betancur had appointed Liberal Senator Rodrigo Lara Bonilla justice minister. Lara Bonilla, though not of the President's Conservative party, had a reputation for being that rare thing, an

honest politician with a reformist bent and a knack for finding "hot money". Working with Colonel Jaime Ramirez of Colombia's equivalent to the FBI, the Department of Administrative Security (DAS), the Colombian Civil Aeronautics Board canceled flying permits for fifty-seven aircraft, many that were for the charter firm owned by the Ochoas, Pilotos Ejecutivas. That same day, September 8, 1983, an investigative judge reopened a 1976 case charging Pablo Escobar with transporting drugs in Medellin. Broad newspaper coverage accompanied reopening the case. The notoriety forced Senator Alberto Santofimio to drop Escobar from his list of supporters and to ask him publicly to resign from politics.⁽²⁷⁾

Escobar refused to resign and kept a low profile while Congress debated whether to revoke his parliamentary immunity. Finally, on February 13, 1984, the courts withdrew an arrest warrant against Escobar. He immediately announced unless the extradition treaty with the U.S. was abrogated he and Lehder would close down their businesses putting 20,000 people out of work. Following the raid on Tranquilandia Escobar wrote an "open letter" to U.S. ambassador to Colombia Lewis Tambs denying involvement in Tranquilandia and denouncing the extradition treaty.⁽²⁸⁾

After Lara Bonilla's assassination on April 30, Betancur declared a state of siege and, on May 8, signed the extradition order for Carlos Lehder.⁽²⁹⁾ Under the state of siege, narcotraficantes were tried in military rather than civilian courts and broad ranging powers for search, seizure and arrest granted the police. The Escobars and Ochoas fled to Panama where they remained under the protection of General Manuel Noriega. Noriega was paid well by the traffickers who soon began scouting around for a way to negotiate their return to Colombia.

Colombian ex-president Alfonso Lopez Michelsen agreed to meet with the traffickers to hear their requests. This began a two-track recovery project by the traffickers. On the one hand they hoped to have the slate wiped clean and return to Colombia. On the other hand they were building up a large lab complex in the Darien jungle in Panama. The latter fell apart when the lab complex was raided on May 21, 1984, by a joint effort of the Panamanian Defense Forces and the U.S.⁽³⁰⁾ Although Noriega was out of the country at the time of the raid and denied any knowledge of it, the traffickers were mistrustful of their host who now urged them to find some solution to their problems. They paid Noriega's right-hand man, Colonel Julian Borboa Melo, between four and five million dollars to "... facilitate the building and delivery of material's by Noriega's and their own pilots and the protection of the Darien facility."⁽³¹⁾ Escobar, frustrated at his inability to even reach Noriega for a face to face confrontation, threatened Noriega's assassination and went as far as to publicize the pending contract.⁽³²⁾

Colombian attorney general Carlos Jimenez Gomez was authorized to meet with the traffickers. In a message to President Betancur, the traffickers offered to dismantle their enterprises, repatriate their monies to Colombia and stay out of politics. In return they wanted the state of siege lifted, the extradition procedure restructured and for the extradition treaty not applied for offenses committed before the date of the letter.⁽³³⁾ Unimpressed Betancur appointed another hard-liner, Enrique Parejo Gonzalez. By September the U.S. initiated extradition proceedings against 60 Colombians and by November Colombia had thirteen of the fugitives in jail where five extraditions were approved and two signed by midmonth.⁽³⁴⁾ Full scale spraying of the Atlantic Coast marijuana fields and the July assassination by sicarios of Supreme Court Justice Hernando Baquero Borda, the last of the courts' old-guard pro-extradition hardliners,⁽³⁵⁾ began the almost immediate collapse of extradition proceedings.

By September, however, all but the capos of the INT were back in Medellin. By winter, the capos and their families were occasionally seen in public events in Medellin. If their physical presence was not often seen, their influence was pernicious. Judge Tulio Manuel Castro Gil received bribe offers to drop the indictment against Escobar and new labs and coca fields were rapidly replacing those destroyed.

In November, however, the Medellin leaders and the leader of the Cali cartel, Gilberto Rodriguez Orejuela, were arrested in Spain and their bank accounts frozen. After twenty months of deliberation, six separate court findings, a final appeal by a special panel, and a succession of motions and appeals, the Spanish Audiencia (Spain's version of a national court) denied the United States' request for extradition of the traffickers but granted Colombia's extradition request.⁽³⁶⁾

Colombia's extradition request, however, had to do with bull smuggling charges. Ochoa was sentenced to twenty months in prison by a Cartagena customs judge, Fabio Pastrana Hoyes. Pastrana Hoyes immediately suspended the sentence and Ochoa was freed. Later investigations revealed that Pastrana Hoyes had received numerous bribes from the Ochoa family.⁽³⁷⁾ Judge

Carmencita Londoño would not be so fortunate in her investigation of Pablo Escobar for similar charges. Judge Londoño was shot to death in her car shortly after beginning her investigation of Escobar.⁽³⁸⁾

Despite President Betancur's crackdown on the traffickers, the Colombian military continued to occupy itself with fighting insurgent guerrillas during this period. This changed with the attack on the Palace of Justice in 1985. Bruce Bagley states that what little evidence is available suggests that military involvement occurs primarily among mid-level regional military commanders who "have actively cooperated with cartel-financed and controlled paramilitary groups . . . in 'dirty wars' against leftist guerrillas and their suspected sympathizers."⁽³⁹⁾

The M-19 guerrilla group received \$5 million and arms from the traffickers to storm the Palace of Justice and burn the extradition records of those about to be brought before the court.⁽⁴⁰⁾ Despite the accusations against the military, neither the government nor the military took steps to investigate.

In its February 25th edition, TIME magazine reported that between 100 Colombian air force personnel and 200 national policemen had been discharged because of their involvement in drug-related activities.⁽⁴¹⁾ While no definitive evidence of a systematic collusion between the military and the narcotraficantes exists, there has been a less than conscientious effort on the part of the high military command to "reinforce the controls . . . on the actions of the lower officials and of their troops."⁽⁴²⁾

By the beginning of 1986 the dimensions of power possessed by the criminal cocaine cartels had become disturbingly evident in their power to affect Colombian institutions. In 1986 as the crackdown continued, the cartels offered informally to pay off Colombia's foreign debt.⁽⁴³⁾ On December 12, the Colombian Supreme Court ruled that the U.S.-Colombian extradition pact's enabling legislation was unconstitutional because it had been signed by an interim president and not by the president himself.⁽⁴⁴⁾ Thus, the treaty became unusable because of a technicality of enabling legislation.

On December 17, while driving home from his newspaper office, owner and editor of *El Espectador*, Guillermo Cano Isaza, was killed by a sicario. Cano had used *El Espectador* in an unrelenting anti-cartel campaign.⁽⁴⁵⁾

Summary

Clearly Phase Two represents the consolidation of the differing crime families into a more centralized organization, coinciding with an explosion of profits from principally the cocaine trade. This is consonant with the "strategy drives structure" paradigm of strategic management studies of TNCs. Increased globalization required the adaptation of structural forms within the INT that began with the reconfiguration of assets identified in Phase One. An important consequence of the firm becoming more centrally managed was a resultant loss of flexibility for local operations, a consequence that attained significant importance for the Medellín cartel during Phase Three.

The structural changes in the organization of the INT in turn forced a position change by the Colombian government from the passive, reactive posture it adopted during Phase One to a pro-active posture during Phase Two. An important consequence of Phase Two for Colombian political institutions was a delay in the promised democratization of the post-Front regimes. In the following section, we look at Phase Three, 1987-present.

Phase Three: Cracks in the Firmament, 1987-Present

The life cycle of organizations is that they grow or die. As specialized knowledge flows from the center to the various component parts of the network, a subsidiary is tempted to challenge the parent in some markets. Thus, while the cartels had been previously successful in reducing and absorbing competition, a renewed bout of competition emerged from former network members with knowledge and experience similar to the parent. Emergence of the Amapola cartel, made up of dissident members of the Medellín and Cali cartels, suggests this has begun. The coalescence of the North Atlantic Coast and Pereira cartels to challenge the dominance of the Cali cartel and, to a lesser extent diminishing Medellín cartel, is another example of such challenges.

At first blush, it looked as if the golden years experienced by the cartels during Phase Two could continue. Narcotrafficking flourished. There was no lack of players during a period when a tenuous truce existed between the traffickers. In the face of limited state and international opposition⁽⁴⁶⁾, the narcotraficantes became bolder in their challenges to the state's power.

At the beginning of 1987 President Vigilio Barco revealed a list of 130 paramilitary groups. The significance of these revelations lies in Law #48 of 1968 which ratified Decree 3398 of 1965. It states that only the president could issue permits for paramilitary groups, but no president was on record of ever having issued such permits.⁽⁴⁷⁾ While the Army was in charge of monitoring such self-defense groups, it was not clear who had been signing permits authorizing their formation nor to which leader/rancher the groups were attached. However, the original purpose of these groups, to aid ranch-owners in the protection of themselves, families, and properties against guerrilla activity in areas where the Colombian state had not sufficiently penetrated, had changed.

In August of 1987, DAS announced it had broken up the murder gang, Los Priscos, charged with holding the contract for the Cano and Baquero murder. This investigation was significant since it represents the first time an investigation focused on how the cartel did its dirty work.⁽⁴⁸⁾ Political violence in terms of actual body count exceeded that of Argentina during its "Dirty War" by threefold.⁽⁴⁹⁾ A spate of vigilantism in Cali in the name of *limpieza*, or cleansing, occurred against the marginalized members of society. The exception, however, was the assassination of Raul Echavarria Barrientos, managing editor of Cali's *El Occidente* newspaper. Echavarria Barrientos had been a staunch supporter of extradition and advocate of the death penalty.⁽⁵⁰⁾

Between February and June the Colombian government and the Colombian judiciary engaged in a war of words over the pending extraditions while the enabling legislation necessary to enact the U.S.-Colombian extradition treaty that had been declared unconstitutional remained unresolved. Finally on June 25, the Supreme Court the Supreme Court ruled President Barco had acted unconstitutionally in re-signing the enabling legislation.⁽⁵¹⁾ The Colombian courts dismissed U.S.-inspired requests for provisional arrests of cartel leaders as unenforceable. Arrest orders for Escobar, Rodríguez Gacha, and Porras in the murder of Guillermo Cano were withdrawn for lack of evidence.⁽⁵²⁾ Pablo Escobar's indictment for the assassination of Lara Bonilla was dismissed because of improper methods used to obtain evidence.

The perception of the traffickers at this time [and one they sought to reinforce in interviews] was that they had political aspirations only to the extent that it was necessary to protect their businesses. Their personal ideologies tended to be conservative and entrepreneurial. The fallacy of this perception emerged as assassination targets included not, only justices threatening to extradite the traffickers but intellectuals and professors. Dominating the assassinations were those who taught "leftist" studies and criticized the traffickers. The clearest indicator of this shift occurred October 1987 with the assassination of Jaime Pardo Leal. Pardo Leal was a well-liked Marxist professor and presidential candidate of the *Unión Patriótica*, the political party formed by FARC guerrillas who had laid down their arms.⁽⁵³⁾ On November 12, Justice Minister and survivor of the Palace of Justice Massacre, Enrique Low Murta⁽⁵⁴⁾, charged drug kingpin Gonzalo Rodríguez Gacha with the murder of Pardo Leal through a Prisco-like gang of thugs. Rodríguez Gacha reportedly paid approximately \$120,000 to arrange the hit, then hosted a lavish reception for the assassins at his estate in Pacho. While his motives were unclear, Rodríguez Gacha was rumored to have a vendetta with FARC dating back to 1983. It was then the guerrillas invaded one of his ranches and made off with 180 kilos of coca, many weapons and half a million in cash.⁽⁵⁵⁾

In only the way fate can be fickle, Jorge Luis Ochoa was stopped at the El Cerrito tollbooth on November 21. After an unsuccessful attempt to bribe the traffic police, he was arrested and taken to police headquarters. The police booked Ochoa on a warrant from a Cartagena Customs judge who "said Ochoa had broken parole and jumped bail on a twenty-month bull-smuggling conviction."⁽⁵⁶⁾ Needless to say, it did not take long for the police to realize whom they had. Ochoa was transferred to the Brigade of Military Institutions while the government figured out what to do with him.

The government decided to hold Ochoa on the bull-smuggling charges to gain time for his extradition to the United States. To underscore the seriousness of the efforts the Colombian government requested and received a six-member legal team from the U.S. Departments of State and Justice in Bogotá. The cartel was also serious. It reacted immediately with legal maneuvers to obtain Ochoa's release. Besides the legal maneuvering, the editor/politician of *El Colombiano* received intimidating threats. The government decided the extradition could still take place under the so-called Montevideo Convention. Upon the U.S. legal team's departure the case against Ochoa unraveled in the face of intimidation and bribes of justices. On December

30 Ochoa's legal team showed up at La Picota, Bogotá's maximum security prison, and presented a writ for his release. By that time there were no charges pending against Ochoa in Colombia, not even the arrest warrant Low Murta had issued as a preparation for his extradition.

The face of Los Extraditables became more defined in December as they flexed their muscles to prevent Ochoa's extradition to the U.S.⁽⁵⁷⁾ Fabio Restrepo Ochoa, Sr. admitted in 1988 to being the godfather of Los Extraditables.⁽⁵⁸⁾

Growing involvement by other actors in 1988 caused the INT to change. The opening salvo of a renewed War of the Cartels began in January when a car bomb exploded outside an apartment project owned by Escobar.⁽⁵⁹⁾ Although Guggliotta and Leen dismiss the idea of a war between the cartels, such a direct attack on Escobar suggests the emergence of other significant actors. Moreover, a twelve-count indictment in the United States against Manuel Noriega in Panama further compromised the cartel. As information about their operations was revealed, the need to supervise their monies in Panamanian banks grew.

Guggliotta and Leen suggest, moreover, that nineteen eighty-eight was the year for Rodríguez Gacha as Ochoa fled to Brazil to rest for a bit after his release. Escobar remained in Colombia and continued to focus on the extradition issue. Although Escobar was the cartel leader perceived as more strongly oriented toward vengeance, Rodríguez Gacha displayed his own streak of vengeance.

The intellectual authorship of the kidnaping of Bogotá mayoral candidate and outspoken critic of the INT, Andres Pastrana Gomez, was laid at Rodríguez Gacha' door. He was also charged with the assassination, in January, of Colombian attorney general, Carlos Mauros Hoya.⁽⁶⁰⁾ In March he, Escobar, and Fidel Castaño [the North Atlantic coast capo] were declared responsible for the massacre of banana workers at a plantation in the Urabá region of Antioquia.⁽⁶¹⁾ Local military commanders provided names of the "subversives".

In April ten men were machine gunned to death and 15% of villagers of La Mejor Esquina in Córdoba wounded during an Easter festival. Ironically, Fidel Castaño, financed the festival and orchestrated the massacre. Apparently some village residents were members of the EPL guerrilla group and, again, regional military commanders provided the names.

As the INT became a dominant force in Colombia, international pressure increased. In January 1989, the U.S. ended Operation Polarcap in which they arrested Armenian jewelers in Los Angeles. Known as La Mina, they had laundered \$1.2 billion dollars for the Medellín cartel during the previous eighteen months. The cartel's liaison was Eduardo Martinez Romero, known as the cartel's "treasurer".⁽⁶²⁾

In June Escobar was identified as the connection for a band of Cuban smugglers. The smugglers had run a successful operation for more than two years. The Cuban government accused army captain Jorge Martinez of traveling to Medellín in 1988 to meet with Escobar. At his meeting with Escobar, details using Cuba as a waystation for cocaine destined for the United States were completed.

Efforts to persuade Panamanian leader Manuel Noriega to step down and to extradite him to the U.S. were generating increased repression in Panama by Noriega. The U.S. also increased pressure on Panama's elite. If the cartel leaders had not heard U.S. sabers rattling and understood their meaning in a world beyond the INT, Fidel Castro did. Having no illusions about his role as the thorn in Uncle Sam's side and the swiftness he believed would be used to launch an attack against Cuba, the "drug-dealing Communists", Castro immediately held a trial and executed the military officers implicated in drug dealing.⁽⁶³⁾ By year's end, Castro's prescience about the potential of a U.S. military action was rewarded. The United States launched Operation Just Cause to pluck General Noriega from Panama and return him to the U.S. for trial. Meanwhile, Castro increased his press conferences blaming Pablo Escobar and the Medellín cartel for Cuba's involvement in trafficking.

August 18, 1989 proved the crucial turning point for Colombia in the drug war. Sicarios assassinated popular presidential candidate Luis Carlos Galan, who had supported extradition of the INT and mandatory sentencing. Galan's assassination represented a preemptive strike by the cartel toward a popular and respected politician who had yet to engage in any active policies that would damage the cartel.

Decree 1860, issued by President Barco, provided special measures giving security forces wide latitude in search, seizure, arrest and suspension of habeas corpus. It restored extradition by executive decree. Traffickers could be sent to the United States without reference to the courts nor to the U.S.-Colombian treaty frozen on a technicality since nineteen eighty-seven. Decree 1860 also allowed arbitrary confiscation of cartel properties. For the first time shadow ownership of properties became a crime. Targets were already identified by the police. This change occurred at a crucial time for the communications network, Grupo Radial Colombiano. Owned by Cali cartel leader, Gilberto Orejuela Rodríguez transferred ownership to friends and relatives in order to receive licensures.⁽⁶⁴⁾

As expected the cartels fought back declaring total war. Bombs destroyed the Liberal and Social Conservative headquarters and fire destroyed the homes of two prominent Medellín politicians. Moreover, the cartels announced their intentions to kill ten judges for every Colombian extradited to the United States. By August 30 judicial resignations stood at 100.⁽⁶⁵⁾

Bombings continued including the bombing of which wounded 75 and inflicted about \$2.5 million in damages. Meanwhile, the DEA in the U.S. continued its sweeps and seized 20 tons of cocaine in Los Angeles with a street value of \$2 billion dollars. The cocaine, owned jointly by the Medellín and Cali cartels, represented 5% of the world's cocaine production.

By October 3 the Colombian Supreme Court ruled Barco's extradition decree unconstitutional as well as the decree permitting arbitrary seizures of cartel properties. Assets previously seized did not have to be returned unless some sort of court clearance justified the action.⁽⁶⁶⁾

If nineteen eighty-nine began well for Rodríguez Gacha, it did not end that way. On December 15, the Cuerpo Elite of the national police, killed El Mejicano in a shootout at his estate in Pacho. Ideological splits within the Medellín cartel and between the Medellín cartel and some lesser cartels began to widen. The GOC was quick to blame Los Extraditables for the shooting death of UP candidate Bernardo Jaramillo Rios on March 22.⁽⁶⁷⁾ Diego Montaña, UP president, said Escobar was being used as a scapegoat. Montaña claimed Fidel Castaño actually orchestrated the killing of Jaramillo Rios as a vendetta against leftist groups. Castaño's decision, according to Montaña also showed the degree to which he was at odds with the Medellín cartel.⁽⁶⁸⁾ Castaño, unlike Escobar, enjoyed the support of regional military commanders in Córdoba, Urabá and Antioquía. His vendetta against leftist groups originated with his father's abduction by FARC guerrillas in the early 1980s. Although a ransom was paid, Castaño's father died before the guerrillas could return him to his family.

Escobar and Los Extraditables were again blamed when, on April 26, M19 Presidential candidate, Carlos Pizarro Leongomez was killed in-flight between Bogotá and Baranquilla. In the wake of a governmental crackdown following the killing, an angry Escobar offered a \$4400 bounty for every police agent killed in Medellín and \$20,000 for every member of the elite body, Cuerpo Elite, of the national police. Between April and August 200 police were killed in Medellín and the surrounding areas.⁽⁶⁹⁾

Although governmental pressure might have varied in intensity against the INT, it began to pay off. In July the INT declared a truce with the government. Homicides in Medellín dropped by 28% from July to August.⁽⁷⁰⁾ Fabio Ochoa, Junior and Senior surrendered under the terms of an amnesty agreement offered by newly elected Liberal president, César Gaviria.⁽⁷¹⁾ Fidel Castaño offered to disarm if the guerrilla group, EPL, would disband. In 1992 Jorge Luis Ochoa, following his father and brother's example, turned himself in. On June 20, 1991 Pablo Escobar surrendered to Colombian authorities and transferred to the \$3 million luxury prison he had built in Envigado.⁽⁷²⁾

Capture in New York City, Dandenys Munoz Mosquera, known as 'La Quica' was considered the man responsible for the Medellín cartel's military actions. His arrest confirmed previously undocumented revelations about ". . . the new power structure of the Medellín cartel, which involves members of the military and business sectors and Escobar's former lieutenants."⁽⁷³⁾ During the IV Latin American Encounter of Bank Security Experts, DEA financial chief, Greg Pacy, suggested that prominent businessmen, acting as front men, brought approximately U.S. \$1.7 billion into Colombia since the death of Luis Carlos Galan in 1989. Pacy confirmed that, "between 1984 and 1987 U.S. \$74 million had to be returned for lack of documentary substantiation."⁽⁷⁴⁾

If Colombian authorities thought Escobar's imprisonment in Envigado would limit his activities, they were disabused of this notion in January 1992. Former Minister of Justice, Enrique Parejo, survivor of one assassination attempt by the cartel,

complained that Escobar's prison had become the "... main barracks for the Medellín cartel traffickers and that Escobar had ordered that he be assassinated from within prison."⁽⁷⁵⁾

Additionally, increasing rifts among the cartels began to resemble volcanic ruptures. Ariel Otero, head of a right-wing paramilitary group that had often done jobs for Escobar, declared war on Escobar and rapidly became the man with the most enemies in Colombia. "Otero was forced to ally himself with a sector of the Cali cartel in exchange for preparing a plan to kill Escobar."⁽⁷⁶⁾ Otero's body was found January 10 with a written notice on his chest: "Ariel Otero: murder, thief and traitor" found on his tortured body.⁽⁷⁷⁾

A communique received, ostensibly from Los Extraditables, stated that the armed wing of the Medellín cartel was resuming its quarrel with the Cali cartel. However, some analysts think the communique was not from Los Extraditables, but from the Amapola cartel, a particularly violent group consisting of exmilitants from the Medellín and Cali cartels who had decided selling heroin for U.S. \$200,000 a kilo was more profitable than selling cocaine for U.S. \$14,000 per kilo. The communique was thought an attempt by the Amapola [amapola means poppy in Spanish] cartel to increase animosity between the dominant cartels and displace them to control both the cocaine and heroin markets.⁽⁷⁸⁾

Meanwhile, as the "faceless judge"⁽⁷⁹⁾ gathered evidence against Escobar, witnesses who had agreed to testify against Escobar were murdered. On July 21, the Colombian attorney general presented President Gaviria a report detailing growing irregularities occurring at Envigado. The more serious of these included assassinations planned in the prison as well as victims brought to the prison for trial by Escobar himself and tried for "disloyalty".⁽⁸⁰⁾ Moreover, rumors abounded that Escobar was thinking about escaping.

After meeting with his executive staff and the Justice Department, Gaviria decided the military would take control of the interior and exterior of the prison. Escobar would be transferred to a Spanish military prison. Escobar and nine accomplices escaped from Envigado.⁽⁸¹⁾ By September 15, six of the nine accomplices had turned themselves back in to the authorities. In October, the police killed Brances Muñoz Mosquera, another of the Medellín cartel's military leaders, in a shootout. One by one Escobar's bodyguards were either being killed or turning themselves into the authorities.

Meanwhile a police operation comprised of U.S. and Italian forces completed Operation Green Ice resulting in the arrest of Colombian José Durán, head of the Pereira Cartel, and González Camargo Polonoa, previously the Colombian delegate to the World Conference against Drug Trafficking. Durán had worked for the Medellín and Cali cartels in Europe and was in charge of the Atlantic Coast's cartels finances. Operation Green Ice confiscated funds and accounts valued at U.S. \$15 million in cash and U.S. \$27 million in bank accounts. This operation was declared a major blow to Cali's financial operations.⁽⁸²⁾ The major blow, however, was not simply in the loss of funds, though that was substantial. Decisions made on how to replace the funds by the cartel leaders increased their exposure ultimately resulting in their capture.

On February 17, 1993, Carlos Alzate Urquijo, head of Escobar's security forces, immediately turned himself in after the assassination of Carlos Marios Ossa Salazar, the man in charge of Escobar's personal finances. LOS PEPES [Persecuted by Pablo Escobar], a new paramilitary group active since the first of the year known, were considered responsible for Salazar's death. LOS PEPES formed in response to a car bomb detonated in Bogotá which killed 22 persons.⁽⁸³⁾ LOS PEPES attacked Escobar, his family and his associates relentlessly using bombs and/or sicarios. Political analysts suggest LOS PEPES consists of off-duty police in league with Escobar's underworld enemies. The group called a truce only after Escobar announced he would be willing to return to prison if the United States would offer protection for his family.⁽⁸⁴⁾

As the government continued its pressure Escobar warned, in a letter sent to El Tiempo, which "he had 70 men prepared to kidnap and kill diplomats if the government refuses to accept his terms for surrender."⁽⁸⁵⁾ In a perhaps not too coincidental series of events, Evaristo Porras, long time member of the Medellín cartel, was recaptured and released due to "lack of proof in terms of drug trafficking and subversive activity."⁽⁸⁶⁾ It is odd that Porras had been on the extradition list of the U.S. for several years and, despite having numerous arrests, had remained at large often speaking at public gatherings. On December 2, 1993 Pablo Escobar died in a shootout with Colombian security forces in his hideout in the heart of Medellín.⁽⁸⁷⁾ Wiretaps traced to Escobar's hideout revealed plans for increased kidnappings designed to pressure acceptance of his surrender demands.

Summary

If Phase One of the INT's development was a time of self definition and power acquisition, Phase Two represented a coalescence into a loose-knit organization that accelerated the dominating cartels' power. Phase Three, however, suggests the influx of other actors, nationally and internationally widened nascent cracks in the cartels' relationships. Local units' loss of flexibility within a structure begun on a more or less "democratic" basis suggests the bonds of various networks became strained resulting in power challenges from the local level.

Chief among these was the rise in power of lesser cartel leaders such as Castaño, head of the North Atlantic cartel and José Durán, of the Perieira cartel. The uniting of these two leaders provided a formidable alternative to the two dominating cartels. Additionally in Phase Three, ideological considerations become clearer as the Medellín and Cali cartels were unable to exercise much control over the newly emerging actors.

Moreover, as organizations grow in size and complexity, the demands of the communications systems to keep up with the coordination needs often halts growth. Even in an age of computer networks and instantaneous communications many organizations become hard pressed to sustain growth simply because coordination becomes too costly. It appears the burgeoning profits of the Colombian cocaine cartels required them to increasingly rely on persons with expertise in money laundering who could insulate the leaders from the drug money. At this point the cartels became most vulnerable both in their logistical inability to maintain strict oversight of accounting procedures and the costliness of such oversight. It is easier to hire a squad of fifteen year old sicarios than it is to hire teams of financial and accounting overseers to guarantee handling drug monies. The difficulty of such management is displayed in the length of time it took the U.S. and Colombian governments develop special task forces and agencies to deal solely with money laundering activities of the cartels.

Other actors to emerge as power brokers during Phase Three include the military and the sicarios. While both actors had always been present at some level, an increase in their independent exercise of power became greater during Phase Three. Sicarios became independent "entrepreneurs of death" offering services to whomever had money to pay and did not require these services be limited to those involved in the INT.

Portions of the military, particularly regional commanders, shared much of the right wing ideology of the INT and paramilitary squads. According to Colombian chief prosecutor, Carlos Gustavo Arrieta, "It is a secret for no one that 99 percent of official institutions have problems with infiltration [by narcotraficantes]."⁽⁸⁸⁾

Networks continue to exist because of two characteristics central to network organizations: the essential relationships are external and viable to all parties and the relationships among the parties are voluntary reflecting explicit commitments by all parties. For the Colombian cocaine cartels, the nature of the relationships must, by the very illegality of the enterprise, remain at least partially hidden. At the least this fosters a chronic sense of mistrust among the parties. This lingering mistrust and resentment may be the factors ultimately causing network failure in a manner predicted for many networks - by internally generated forces rather than from any pressures applied by external forces such as the law enforcement community. This has become more evident as LOS PEPES waged war against Pablo Escobar following his escape from prison, the rise of the Amapola cartels, and the coalescing of the lesser cartels.

In the following chapter, we look more specifically at the INT's impact on Colombian economic institutions and their ability to control the money supply and create and implement economic policy.

TABLE 3 Key Drug-related Deaths in Colombia, 1984

10 April 1984 Minister of Justice Dr. Rodrigo Lara Bonilla

23 July 1984 Judge Tuilio Manuel Castro Gil, who was carrying out an investigation of the murder of Bonilla

6-7 Nov. 1985 Fifteen judges of the Supreme Court and the Council of State, during the occupation of the Palace of Justice by the M-19 guerrilla group, supported and funded by the Medellín Cartel

16 July 1986 Roberto Camacho Prada, a correspondent of El Espectador, a leading daily newspaper.

17 July 1986 Police Captain Lufs Alfredo Macan Rodríguez, actively engaged in the anti-drug effort.

31 July 1986 Supreme Court Judge Hernando Baquero Borda.

17 Aug 1986 Colonel Jaime Ramirez Gomez, former Director of the Anti-Narcotics Force of the Police and well-known for his fight against the drug traffickers' organizations.

17 Sept 1986 Raul Echavarría Barrientos, assistant director of Occidente, a daily newspaper.

10 Dec 1986 Lieutenant Colonel Jose Agustín Ramos Rodríguez, a distinguished officer in the Valle Police Department.

17 Dec 1986 Don Guillermo Cano Isaza, director of El Espectador.

13 Jan 1987 Budapest, Hungary: former Minister of Justice, then Ambassador of Colombia in Hungary, Dr. Enrique Parejo Gonzalez.

11 Oct 1987 Presidential Aspirant Jaime Pardo Leal, leader of the Patriotic Union Party (UP).

25 Jan 1988 Attorney General Carlos Hoyos, who had completed a week-long investigation into government and judiciary wrongdoing in the release of Medellín cocaine baron Jorge Lufs Ochoa Vasquez.

March 1989 Journalist Hector Giraldo.

4 May 1989 Former governor Alvaro Gonzales Santana.

4 July 1989 Antonio Roldán Betancur, Governor of the Antioquia department.

28 July 1989 Maria Elena Díaz Perez, a civilian judge investigating the 1988 massacre of twenty-one banana plantation workers.

16 Aug 1989 Carlos Ernesto Valencia, Superior Tribunal Magistrate.

18 Aug 1989 Valdemar Quintero, police chief of Antioquia.

18 Aug 1989 Luis Carlos Galan, a Liberal Party s'enator, presidential candidate and outspoken opponent of drug traffickers.

11 Sept 1989 Pablo Pelaez, former major of Medellín.

17 Oct 1989 Hector Jimenez Rodríguez, high court judge.

27 Oct 1989 Gabriel Santamaria, a UP congressman.

10 Apr 1984 Minister of Justice Dr. Rodrigo Lara Bonilla.

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27 Oct 1989 Gabriel Santamaria, a UP congressman.

2. See, for example, Gunnar Hedlund and Dag Rolander. "Action in Heterarchies-New Approaches to Managing the MNC", in Chris Bartlett, Yves Doz, and Dag Hedlund, eds. *Managing the Global Firm* (London: Routledge, 1990), 15-46.
3. Miles, R.E. and C.C. Snow, "Causes of Failure in Network Organizations", *California Management Review*, 1992, 34(4), 53-72.
4. Guggliotta and Leen, 134.
5. Lee III, Rensselaer W., "Colombia's Cocaine Syndicates", *Crime, Law, and Social Change* 16: 3-39, 1991. Lee specifically addresses the organizational changes on pages 4-6.
6. Ibid., 136.
7. Berkeley Rice, *Trafficking: The Boom and Bust of the Air America Cocaine Ring*, (New York: Scribners, 1989), 53-61.
8. Guggliotta and Leen, 137.
9. Guggliotta and Leen, 149-159.
10. Ibid., 154.
11. Although Air America is the name of a covert CIA subsidiary, this was not the case with this smuggling ring. The owner, Rik Lutjes, thought the name a clever play on words.
12. Rice, 85.
13. Guggliotta and Leen, 157.
14. Ibid., 137.
15. Lee, "Colombia's Cocaine...." pg. 17. Lee notes that Pablo Escobar has constructed more public housing in Medellin than has the Colombian government.
16. Guggliotta and Leen, pg. 159. A suplente serves in the place of the regular representative whenever the regular representative is ill or cannot attend sessions.
17. Castillo, 60.
18. Lee, *White Labyrinth....*, 37.
19. Rice, 124.
20. Rice, 155.
21. Guggliotta and Leen, 215.
22. Ibid., 219.
23. Rice, 55.

24. Guggliotta and Leen, 163.
25. Ibid, 163-164.
26. Ibid., 190.
27. Ibid., 28, 192.
28. Ibid., 227-228.
29. Ibid., 237.
30. For a fuller explanation of the complex web of relationships leading up the Darién jungle raid, see Frederick Kempe's *Divorcing the Dictator: America's Bungled Affair with Noriega* (New York: G.P. Putnam & Sons, 1990) chapter twelve, "The Fifth Horseman".
31. Kempe, 185.
32. Ibid., 195.
33. Ibid., 294-296.
34. Ibid., 297.
35. Guggliotta and Leen, 422.
36. Guggliotta and Leen, 430.
37. Lee, *The White Labyrinth...*, 126.
38. Ibid.
39. Bruce M. Bagley, "Colombia Under Siege" Paper presented at the International Symposium on Money Laundering, 11.
40. Castillo, 189. The FARC splinter group Frente Ricardo Franco was made the offer first and declined.
41. "Fighting the Cocaine Wars", TIME, February 25, 1985, 30.
42. Americas Watch Report, January 1986, 116.
43. Lee, *The White Labyrinth...*, 128.
44. Ibid., 499.
45. Ibid., 473-477.
46. The U.S., despite growing evidence of Noriega's complicity with the cartels since at least 1982, refused to press charges of narcotrafficking or money laundering. It was not until 1988 that prosecutors in Dade County handed down a sealed indictment for Noriega's arrest and major newspapers broke the news of Noriega's drug dealing and money laundering while on the payroll of the CIA that the U.S. began to apply pressure on the cartels through Panama.

47. *The Killings in Colombia*, (Washington, D.C.: Americas Watch Report, 1989), 51.
48. Guggliotta and Leen, 505-508.
49. Latin American Weekly Report 87-35, 2.
50. Guggliotta and Leen, 430.
51. *Ibid.*, 506.
52. *Ibid.*, 505-508.
53. Latin American Weekly Report, WR-87-46, 10.
54. Despite wearing bullet-proof vests and traveling with body guards everywhere, Low Murta was assassinated May 1, 1991 in Bogotá.
55. Rensselaer Lee III, "Dimensions of the South American Cocaine Industry", *Journal of InterAmerican Studies and World Affairs* Vol.30 Nos. 2 & 3, Summer/Fall 1988, 99.
56. Guggliotta and Leen, 515.
57. Latin American Weekly Report, WR-87-47, 8.
58. Guggliotta and Leen, 569.
59. Lee, "Colombia's Cocaine...", 10.
60. ..."Narcoguerra: El cartel deja en claro que no habrá tregua", edicion 300, SEMANA, February 02, 1988, 26.
61. Lee, "Dimensions...", 98.
62. Guggliotta and Leen, 575.
63. Guggliotta and Leen, 588.
64. Castillo, 130.
65. *Ibid.*, 574.
66. *Ibid.*, 574.
67. Kline, 18.
68. Leslie Wirpsa, "Colombia: Leftist Coalition Suffers New Attack", *Latinamerica Press* Vol. 22 No. 11 March 29,1990, 2.
69. Leslie Wirpsa, "Colombia Youth Are an Endangered Species", *Latinamerica Press* Vol. 22 No. 29 August 16, 1990, 3.
70. Robert Collier, "Colombia: Medellín Cleans Up Its Act", *Latinamerica Press* Vol. 22 No. 36 October 4, 1990, 1.

71. Robert Collier, "Colombia Moves Closer to Peace", *Latinamerica Press* Vol. 22 No. 41 November 11, 1990, 7.
72. James S. Brooke, "Trafficker is Still Feared in Colombia", *The New York Times INTERNATIONAL*, January 21, 1992, A5.
73. Drug Trafficking Update, "Colombia: La Quica, Police Operations and Money Laundering", No. 19 November 11, 1991, 1.
74. Ibid., 3.
75. Drug Trafficking Update, "Colombia: Corruption Among Army Personnel; Escobar, Envigado, and Cuba" No. 21 January 13, 1992.
76. Drug Trafficking Update, "Colombia: The Amapola Cartel", No. 22, February 10, 1992, 2.
77. Ibid.
78. Ibid.
79. Since the assassination of so many judges and justices by the cartels, Colombian established a special order of judges presiding over and hearing drug cases wherein the identity of the judges was concealed. In the case of Escobar, the judge would arrive in a van draped in robes and hooded as he/she was escorted into the Envigado prison. During interviews behind a one-way mirror the judge's voice would be electronically altered to avoid detection of gender.
80. Drug Trafficking Update, "How, When, and Where", No. 28, August 10, 1992, 1.
81. Ibid.
82. Drug Trafficking Update, "Green Ice and Money Laundering", No. 30. October 13, 1992, 1.
83. Drug Trafficking Update, "The Solitude of the Mafioso" No. 35, March 8, 1993, 4-5.
84. "Rival Drug Gang Calls Truce With Escobar", Clarinet News, clarinews@clarinet.com (UPI), March 4, 1993.
85. "Escobar Warns" Clarinet News (UP), March 1993.
86. Drug Trafficking Update, "Veni, Vide, Vici", No. 36, April 5, 1993, 7.
87. Robert D. McFadden, "Head of Medellín Cocaine Cartel Is Killed by Troops in Colombia", *The New York Times International*, December 3, 1993, A1.
88. James Brooke, "In Colombia, One Victory in a Long War" *The New York Times International*, December 3, 1993, A12 [emphasis added].

5: Colombian Banking

The Colombian state has not maintained a solid position before the matter of illegal drugs. Moreover, it has tried to maintain a costly and unstable equilibrium between essentially irreconcilable propositions: the perception of the economic benefits

provided by the narcotráfico and the control of the pernicious effects of the same [phenomenon] over justice, public order and citizen welfare.⁽¹⁾

Introduction

While most scholars disagree about estimates of the revenue generated by the illegal narcotics trade (INT) in Colombia, they do agree that the illegal monies generated have been sufficient to undermine the state's capacity to devise, implement, and enforce economic policy. Eduardo Sarmiento Palacio, Dean of Economics at the University of the Andes, notes, however, that the dimensions of the drug problem have been exacerbated by the international media. When it is written that the INT has generated \$150 billion dollars in revenue spread across Colombia, Peru, and Bolivia, but "whose income does not attain half these numbers, it is not difficult to conclude that these countries are totally dominated by drugs."⁽²⁾ He argues that before effective policies can be implemented towards dismantling the INT, there needs to be a clearer understanding of the ways in which the INT influences the economy.

Review of the Literature on the Colombian Economy and the INT

Francisco Thoumi notes that although academia has been slow to study Colombia, such has not been the case with the World Bank. While World Bank studies do circulate, Thoumi notes, many of the better studies are not widely circulated. Although Colombian economists have had access to them, "they are hard to find in the United States outside the multilateral agencies' community."⁽³⁾ The result is a de-emphasis of the political role in economic decision making. There exists only a limited literature which provides any depth explanation of or attempts to integrate the role of politics with economic decision-making in Colombia.⁽⁴⁾ Within this nexus of politics and the economy, structural power has been created and maintained within Colombia.

In contrast to political and economic literature which makes a minimal effort to incorporate the INT into its studies, drug trafficking literature has always included an economic component. Much of what we now understand about the economic impact of the INT on foreign exchange, on employment, and domestic and foreign investment is the result of drug trafficking studies.⁽⁵⁾ Again, only a small portion of this literature attempts to tie the impact of the INT to political decision-making set in a broader context and in a more precise way.

Bruce Bagley acknowledges this weakness in the INT literature with his critique of the realist paradigm in international relations theory.⁽⁶⁾ A key flaw in the realist paradigm, Bagley notes, is its oversimplified assumption that nation-states are always the primary actors in international politics. The existence of multiple subnational and transnational actors in addition to "A variety of private, multinational, commercial banks, and other international institutions [which] engage in illicit money-laundering activities"⁽⁷⁾ renders unrealistic any expectation that "institutionally underdeveloped, financially-strapped governments of Latin America will be in a position to gain or maintain effective control over these actors within the next decade..."⁽⁸⁾

Thoumi notes that many of Colombia's institutions retain "pre-capitalistic tendencies".⁽⁹⁾ Thoumi's description coincides with the mercantilist theory of international political economy which describes a high level of state intervention and protection of local industries. These authoritarian and paternalistic tendencies have produced what "Kalmanovitz (1989) calls an 'ethics of inequality' that shaped the institutions and values in the society."⁽¹⁰⁾ The result has been the acceptance of a society as normal which is an unequal society.

Colombian development after World War II, according to Thoumi, led not to competitive markets, but to segmented markets resulting in "group or sectoral oriented actions"⁽¹¹⁾ where the distribution of power among the actors is skewed, concentrated, and exploitative. As such it allowed the actors to alter the "rules of the game" [reglas del juego]. These actors often used the governmental apparatus to obtain high profits only through increased protection, subsidized credit, import privileges, policies traditionally considered by economists, but also influencing judicial, legislative, and police systems..⁽¹²⁾

Market segmentation also resulted in political segmentation which resisted attempts by the Colombian government to establish a more centralized, hierarchical regime. The National Front's use of parity and alternation between the main political parties gave way to increasingly segmented and regionalized politics no longer dominated by artisan politics. Diaz

Uribe argues that such politico-economic segmentation has changed the face of clientelism, "as a system of social domination, (which) has been the backbone of Colombian political bipartisanship."⁽¹³⁾ To say one is a Liberal or Conservative has less meaning than if one personalizes one's political affiliation with the name of a regional jefe.⁽¹⁴⁾ Both forms of segmentation have resisted efforts of either coaptation and centralization by the national government. The INT arose within this structure and, as demonstrated earlier, favored its growth and development inasmuch as they were able to develop, at least regionally, their own reglas del juego. This raises the question of how successful methods, established by the Colombian government for dealing with challengers such as the INT to its power, have been. Recent efforts of trade liberalization and apertura of the economy have resulted in policies by the national government which recognize the importance of regionalized/segmented markets. These efforts, I shall later argue, represent an implicit recognition of a failed policy of national integration which extending beyond the years of the National Front. These policies also represent a pragmatic realistic style which has been the hallmark of Colombian politics.

Another oversimplification of the realist paradigm Bagley identifies is the assumption that the foreign policies of Latin American governing elites are rationally selected and implemented in a way to further "well-defined and widely accepted national interests."⁽¹⁵⁾ Too often Latin American policy makers find themselves within political systems of tenuous legitimacy where there does not exist a viable consensus on national interests.

Thoumi notes that defining the Colombian state as an oligarchical democracy or consociational democracy implies a deeply unequal society wherein the state is controlled by a group to achieve the group's goals. Thus the state and its bureaucracy has only a limited accountability to its citizens to the point where the state may be "thought of as bounty"⁽¹⁶⁾. The state does not reflect a consensus on what Colombian national security is or the goals the state should pursue in that interest. Such perceptions have important corollaries.

One, the aim of the several actors is not necessarily to produce a more equal society, but to climb a very steep pyramid. The rationale being that if the society has always been unequal and will continue to be so, why not be on top? Rationales of this type severely and narrowly restrict definitions of national interest as these groups/sectors which succeed in "getting the government to make policies that clearly benefit defined economic interests."⁽¹⁷⁾ Two, the logical extension of this process is that since the laws do not benefit Colombian society at large, breaking the rules is considered legitimate. This in turn leads to further weakening of the rule of law over the economy. Almost every Colombian generates some illegal income, has purchased contraband, cheated on contracts, paid bribes, committed fraud, and/or has income hidden away from the government.

Thoumi identifies four sets of problems emanating from such predatory behavior. First, it leads to private systems of conflict resolution where taking the law into one's own hands leads to violence. Second, as individuals are able to increasingly break the law with impunity, it leads to setting behavioral standards that increasingly conflict with other privately set behavioral standards rather than a uniform and consensual "constitutionality". Within such an environment, the cost of business increases dramatically. Third, predatory behavior becomes the norm as individuals realize the weakness of the State in protecting property rights. Fourth, as larger amounts of private resources are required to protect private property, income growth declines and investments begin to be made for "reasons other than their profitability such as the usefulness of an asset as a capital laundering vehicle."⁽¹⁸⁾ Such was the condition of the Colombian economy and its relationship to the Colombian state as it confronted the challenges offered by an accelerating illegal narcotics industry in the mid-1970s.

The purpose of this chapter is to provide an overview of Colombian financial and monetary structures. In its efforts to plan, develop, and implement its economic policy, which strategic alliances does the Colombian government engage that would affect its backward and forward linkages? With which powerful players does it intersect and engage? It is assumed, in accordance with Susan Strange's definition of power, that the institutional structure is, in part, defined by its power.

Forward linkages between banking operations and world politics consist of the politics of managing a global credit and monetary structure. Banks have created the active international financial markets. These international financial markets have had a predominant influence on the network of international payments and exchange rates in ways that have redefined the limits of international bargaining and added to the future of international monetary diplomacy.⁽¹⁹⁾ What impact, if any, has the magnitude of INT revenue had upon the international dealings or vice versa of Colombian financial institutions? Have there

developed any institutional linkages in the form of policy networks which have produced policies that actively mitigate against the resolution of the INT in Colombia?

Using U.S. banks as an example, and one which could apply to Colombian banking, British economist Susan Strange suggests a more central question is raised by the exodus of U.S. Banks to the Cayman Islands and other tax havens and the role they have in money laundering. She notes that such flight frees "large and lucrative parts of the profits made in the private sector of any responsibility for the provision of public goods and services--including defense services on which their operations totally depend."⁽²⁰⁾ This is a particularly salient issue for Colombia. The larger producer associations or gremios, such as Federación Nacional de Cafeteros (FEDECAFE) and of which I will have more to say later, have been charged with and assumed responsibility for providing public goods usually provided by the national government. For example, FEDECAFE owns Banco Cafetero, one of the nation's largest. It provides hospitals and educational facilities for its workers and their children.⁽²¹⁾ Later I examine reports that suggest Banco Cafetero has been heavily involved in using off-shore banks to deposit Banco Cafetero revenues which were not funneled back through the Colombian state for redistribution. Strange agrees with a growing number of economists that money has been treated only as a commodity rather than as a source of power through the political management of money or creation of wealth.⁽²²⁾ In this chapter, we try to enlarge our understanding of the organization of Colombian economic institutions. Our central focus will be on how money as power and its political management has affected Colombian economic institutions.

Backward linkages refer to financial regulations made in a context of domestic politics. These linkages are not simple and vary with market conditions. Some questions with regard to the influence of the INT on backward linkages include: How is INT money to be moved and/or re-entered into the capital market given economic regulations designed to monitor the money supply? What impact, if any, have large amounts of illegal funds had on the economic organizations of Colombia in controlling the money supply and planning economic policy? Is it possible, if indeed useful, to distinguish between the legal functions of an economy and the political functions of an economy?

The following section provides a brief historical overview of the Colombian monetary structure and financial system as well as the development of the producer associations and their role in the political economy of Colombia.

Overview of the Colombian Banking and Monetary System

William P. McGreevey notes despite a booming tobacco export monopoly in mid-19th century Colombia, there was not a sufficient demand generated for the creation of formal banking institutions.⁽²³⁾ The Banco de Bogotá was the first successful bank opened in Colombia in 1871. During the next ten years the bank's success did not go unnoticed as ten major banks opened in Bogotá and thirty-five banks opened in the rest of Colombia. The real growth in banking did not occur until coffee was developed as a major export requiring the services of financial intermediaries.⁽²⁴⁾

Banco Nacional was created in 1881 with government funds and in anticipation of revenues from the forthcoming Panamanian railway was backed by these revenues. In his work on the ex-patriate Cuban entrepreneur, Francisco Cisneros, Hernán Horna notes that the basic objective of Banco Nacional was to "provide loans to the [Colombian] government and promote public financing."⁽²⁵⁾

The central bank, Banco de la República (BdeR), was formed in response to the recommendation of the Kemmerer mission in 1923. This coincided with the \$25 million indemnity paid by the United States for its part in the secession of Panama from Colombia.⁽²⁶⁾ Originally the purpose of the BdeR was as an institution subject to economic law, yet retaining special administrative autonomy. Today it serves under the Monetary Board established in 1967 to guide the financial system through the establishment of regulations for policies affecting monetary, exchange, and credit systems.⁽²⁷⁾

Simultaneously, the Bank Superintendency was created as the regulatory agency responsible for the oversight and imposition of penalties on the financial system. Law 45 establishing this oversight agency also provided the framework for creating commercial banks. Commercial banks are defined as "commercial credit institutions whose main function is to receive funds from surplus-holding agents, as to build up an adequate level of financial savings for the country's development."⁽²⁸⁾ Funds are received through current deposits, time deposit certificates, and savings deposits. Commercial banks function to make short and medium-term loans. Additionally, together with the financial corporations, they serve as financial intermediaries for

resources from the BdeR's development finance funds. Commercial banks also provide foreign-currency financing required for import payments. Foreign currency funds come primarily from correspondent banks abroad or from foreign-currency deposits in accounts at the BdeR. Of twenty-five commercial banks nine are state-owned, seven are categorized as mixed, meaning part of their capital is owned by foreign investors, and the remainder are private.

Another form of financial intermediaries in the Colombian financial system are Finance Corporations [Corporaciones Financieras] and are analogous to development or investment banks in other countries. Created in 1957, at the beginning of the National Front, their purpose is to "promote, set up, transform or organize manufacturing, agricultural, or mining businesses."⁽²⁹⁾ Not until 1987, however was legislation passed enabling them to more effectively carry out their mission. Prior to this legislation, the Finance Corporations were characterized by a high degree of over-specialization which discouraged investors and decreased their profit margins.

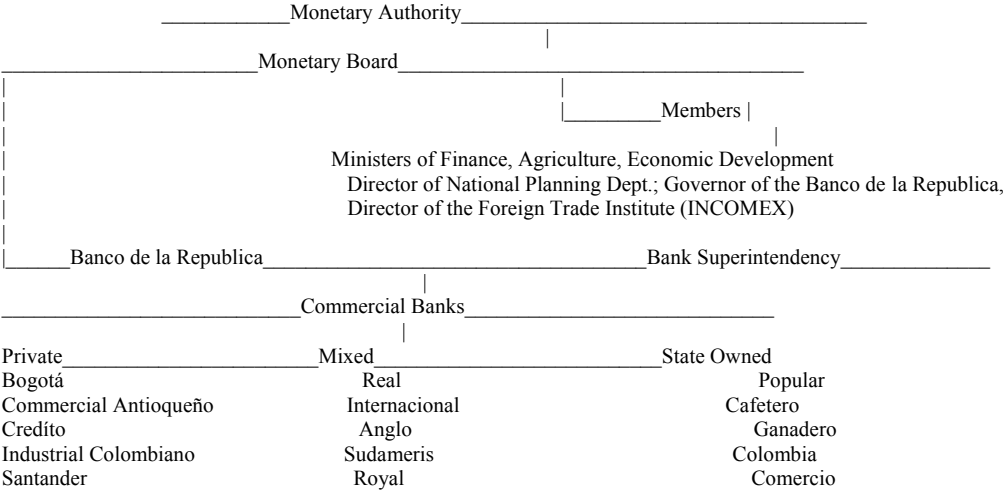
Savings and loan associations were created in response to one of the periodic economic crises that plague Colombia. Established in 1971 they encouraged and stimulated private savings which were directed toward financing construction activities and increase housing acquisitions. Their establishment was considered unique in the sense that deposits and loans were calculated "in the constant purchasing power units, (UPAC), whose value in pesos is registered according to the monetary correction, for which a maximum of 24% annually was established in 1989."⁽³⁰⁾ The most immediate impact of UPAC was an enormous shift in savings from other accounts into UPACs where the interest rate was unregulated and would often go as high as 38%.

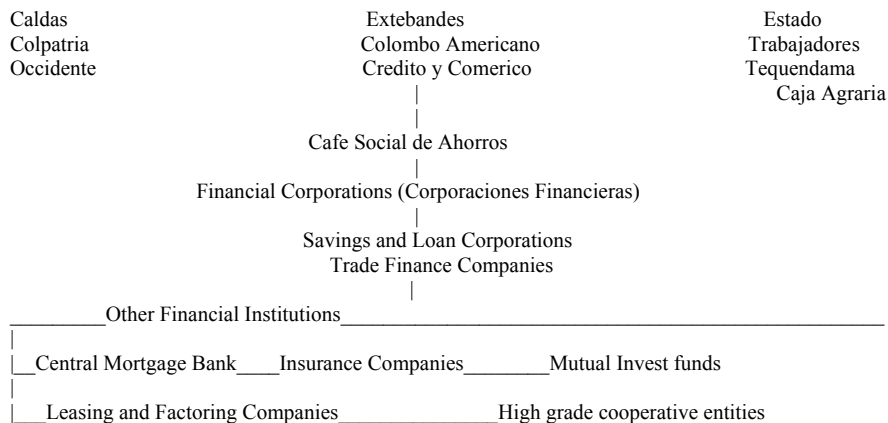
Another form of credit institution established in 1979 is the Trade Finance Company. These companies provide short-term loans for durable consumer goods. In order to procure funds from the public, time depository certificates were originally used. By February of 1990, a new law required promissory notes replace time depository certificates.

The Banco Central Hipotecario (Central Mortgage Bank) is state-owned and provides financing for home construction and purchase of low-income housing. It obtains funds via two methods: the UPAC system and the traditional system of issuing mortgage bonds.

The Caja Social de Ahorros [Social Savings Association] is similar in function to the commercial banks and represents one more in an array of lesser financial intermediaries. These include insurance companies, reinsurance companies, capitalization companies, investment management companies, mutual investment funds, leasing and factoring companies and cooperatives.

Table 4. Colombian Financial Structure





Source: Banco de la Republica

Clearly Colombia progressed in its need for financial systems and the array with which it has met this demand. But the Colombian monetary and financial system, despite an admirable growth rate, has been plagued by repeated crises. Sergio Clavijo describes the Colombian financial crises between 1970-1989 as those representing a globally repressed economy.⁽³¹⁾ In response to a failed price and market system the Colombian state engaged in high levels of intervention which included import restrictions and foreign exchange controls. Domestic consumer goods were overpriced and, the M-2/GDP ratio doubled during this period with "nearly 45 percent of deposits (channeled) through non-banking institutions."⁽³²⁾ Examination of four of the five state owned banks reveal a record of administrative ineptness combined with uncompetitive market policies. Although strategies adopted by the Colombian monetary authorities helped avert financial panic and bank run-offs, the ensuing economic structure was not as coincident with the touted democratic apertura. Changes in these institutional structures as they relate to the manner and degree the Colombian economic system has been affected by the INT require a clear delineation of the role and relationship of producer associations and the Colombian government.

Gremios de la Producción [Producer Associations]

Producer associations are not unique to Colombia. Underdevelopment combined with a weak state has contributed to the existence of producer associations in most Latin American nations. While these groups possess some characteristics of interest groups as defined by political scientists, salient differences suggest generalizations about these associations should be made with care. For the purposes of this study I adhere to Hartlyn's definition of gremios de producción as producer associations rather than producer groups. The term producer groups is used in referring to activities of firms or businessmen, either alone or in conjunction with associations.⁽³³⁾ There are many producer groups who have never become members of producer associations. If the term included illegal enterprises, the INT could be said to consist of producer groups.

While foreign investment has always been important to Colombia, unlike some of its neighbors the "direct participation of foreigners in financial and industrial management was, by comparative standards, quite low."⁽³⁴⁾ Dix notes that until the drug trade accelerated, most of Colombia's capital was derived from domestic sources, principally coffee. A high degree of oligopolization has occurred among the financial and industrial sectors with enterprises tied to financial institutions through familial ties as well as interlocking directorates.

Consonant with the lateness of Colombian development, most of the producer associations were established after World War II. The exceptions being FEDECAFE, SAC and ASOBANCARIA.⁽³⁵⁾ Some are specialized while others, such as ANDI and ANIF, encompass a broad range of industrial, commercial, and financial firms. Older, more firmly established producer association such as FEDECAFE have elaborate organizational structures, including conventions and professional staffs to do research. Others such as SAC remain essentially regional organizations and struggle to keep their membership constant. What then is the relationship of producer associations to the Colombian government?

Producer Associations and the Colombian Government

The proliferation of producer associations began during the post World War II period and accelerated with the formation of the National Front regime. Alvaro Echeverri Uruburu describes the National Front itself as "un experimento gremial".⁽³⁶⁾ Alexander Wilde, in his study of the breakdown of Colombia's oligarchical democracy, notes despite efforts by leaders of the political parties to solve their democratic problem, "All institutional norms were lost in the face of escalating violence and party polarization."⁽³⁷⁾

Because of political, social, and economic change that took place during 'la violencia', the resultant state differentiation fragmented the political party apparatus, but not the oligarchs. They remained center stage as the stage was filling up with new actors. "Bureaucratic agencies, interest groups and gremios were organized, which both expressed and satisfied demands that had been channeled through the parties in simpler times."⁽³⁸⁾ Many of the new economic functions of government were insulated from party struggle even as parity and alternation were the key power-sharing mechanisms established during the National Front. In an effort to control cross-cutting cleavages such as class and familial relationships within the gremios, many of the producer associations adopted parity and alternation within their institutional structure.⁽³⁹⁾ Wilde proposes that the "decentralized agencies" and gremios, by the 1960s, constituted a genuine parallel government. As such the National Front "essentially institutionalized elaboration of the old system..they never found the leadership or the organization to force a fundamental transformation."⁽⁴⁰⁾

A. H. J. Helmsing argues the creation of decentralized state agencies as well as the proliferation of producer associations "were in fact the main vehicles of centralization of the Colombian state (post 'violencia'), not only away from Congress (and its domination by political parties) but also away from the departmental and local levels of government."⁽⁴¹⁾ As a result government institutions became more technico which limited clientelism on the national level. Simultaneously nationally organized economic pressure groups became important mechanisms in making government policy. In its direct form influence and participation occurred when pressure groups participated on the boards of decentralized agencies or coordinating committees.⁽⁴²⁾ Helmsing suggests although decentralized agencies proliferated, the result was centralization of the Colombian government at the national level. This, however, resulted in a fiscal crisis by the end of the 1970s as the national ministries and decentralized agencies accounted for the greater part of governmental expenditures, especially investment expenditures.⁽⁴³⁾

Echeverri Uruburu notes that so interlinked with the gremios was the Colombian government that, during the coffee bonanza of 1976, it launched a precipitous relinquishing of administrative and tariff controls. Sudden de-regulation of this sort did not permit the profits from the bonanza to be recirculated through the government. Additionally, the relinquishment of governmental control on imports and exports, along with the bonanza from the INT, resulted in a growing flow of foreign goods.⁽⁴⁴⁾ Echeverri argues that this incidence reveals the loss of influence by the industrial gremio ANDI and challenges assumptions about a unified elite in Colombia.

To assume that los gremios always operate oppositionally to the national government would be erroneous. Jonathan Hartlyn points out that the producer associations have provided important support for the various regimes during crises.⁽⁴⁵⁾ This support, however, could often work to the detriment of government formulated policy. Efforts to increase state revenues through a capital gains tax and presumptive income tax in 1974 and 1975 occasioned protests from the producer associations and resulted in a quite watered down tax law in 1979 which was actually prepared in ANDI's Bogotá office.⁽⁴⁶⁾ Participation of this type should not be interpreted as unlimited ability to influence and participate in decision making. ANDI had limited ability to influence the national government during the coffee and drug bonanzas of the mid-1970s when it found itself juxtaposed to the larger, better organized and more powerful FEDECAFE. Luis Carlos Galán, leader of the Llerista Liberals and later assassinated as presidential candidate, noted that over time the gremios have displaced Congress as a forum of deliberation about national problems and that their (gremio) influence is growing.⁽⁴⁷⁾ The power that gremios possess, Galán continues, "follows not only (the) large capital they control, but the administrative capacity and information they possess about economic realities of the country".⁽⁴⁸⁾ Urrutia, himself a member of FEDESAROLLO (a decentralized governmental agency), demurs and suggests that the influence of the gremios and their ability to influence laws is much less than various studies would indicate. Urrutia attributes the lack of greater gremio influence to the difficulty of maintaining cohesion among the association of gremiales and notes that small groups are more effective and better organized.⁽⁴⁹⁾ He argues that the political structure of the gremios is federalist requiring the directors to travel constantly to maintain strict contact with local

organizations and individual businessmen.⁽⁵⁰⁾ Urrutia emphasizes the local nature of the gremios and "locality" as the source of power and the authority to which the gremio is accountable, while simultaneously arguing that gremios now constitute oligarchies "in the sense that the authorities of the association exercise great power and are able to perpetrate their tenure."⁽⁵¹⁾

Urrutia's study provides a valuable insight into the heterogeneity of los gremiales but is less successful in discounting the influence possessed by the producer associations. Indeed his emphasis on the regionalistic structure of the producer associations, even with oligarchic regime structures at the more national level, is reflective of the political and economic regionalism of Colombia. Those who have the capacity to transcend regionalism and participate on the national level possess the advantage of multiple points of access to influence policy-making. Hartlyn notes that "Regime policies were substantially influenced by producer groups that possessed multiple points of access and means to pressure the regime."⁽⁵²⁾ Echeverri's charts of familial and gremial connections of various ministers and cabinet members reveal more fully the extent to which multiple points of access might exist. During the question and answer period at a recent conference on the Colombian economy⁽⁵³⁾ senior consultants for the Monitor Company were very harsh in their assessment of the producer associations in Colombia. In their conclusions of a study on developing entrepreneurship in the Colombian private sector, they noted that los gremios had proven to be a disaster as institutions through which to funnel change and implement policy. They argued that the associations had successfully limited currency valuations and promoted their own interests through the media when it was in their, not the national, interest to do so. Monitor's recommendation was that the government do away with subsidies altogether. They proposed generating entrepreneurial activity through incentives not subsidies using not only the producer associations but other institutional structures as well.⁽⁵⁴⁾

The following section provides a brief overview of the banking system during the last half of the National Front regimes. This situates the banking industry historically into the Colombian economic framework Alfonso López Michelsen confronted when he became president in 1974.

When López Michelsen assumed the presidency in 1974, his most immediate goal was to oversee dismantling the political structures of the National Front agreement. Various Front governments had been effective in lowering the levels of violence from endemic to episodic and limited to certain regional locales. Institution rebuilding had continued apace with varying levels of strength and concentration of authority. Increased centralization of the national government, however, should not lead one to assume the bulk of policy decision making occurred at this level.

During the early 1960s economic controls remained scattered across numerous governmental agencies, private and mixed, "which exercise their functions of planning and execution at different levels".⁽⁵⁵⁾ These included the National Council on Economic Policy and Planning, FEDECAFE, and those agencies engaged in selected fields of credit such as Caja Agraria, Banco Central Hipotecario, and Banco Ganadero. The position of foreign banks in Colombia was rather liberal at this time. They functioned in the traditional mode of multinational corporations, were entitled to the same consideration as Colombian banks, and were not required to have a majority of Colombian stockholders.

Foreign investment was eagerly sought and obtained by various Front governments. However, the almost complete absence of controls in Colombia over foreign investment were believed to have contributed to the country's balance of payment problems in 1967. The import-substitution policy had resulted in costly additional imports where foreign exchange constraint was "identified as the key bottleneck slowing the country's economic growth".⁽⁵⁶⁾ The result was the passage of Decree 444 in March 1967 setting up a framework for the regulation of foreign investment. This system later served as the model in drafting Decision 24 of the Andean Pact which "established common treatment for foreign capital, trademarks, and patents within the Andean subregion".⁽⁵⁷⁾ Within this new institutional framework control of foreign investment was directed by a special division of the planning board. When López Michelsen assumed the Colombian presidency in 1974, foreign investment in Colombia had increased from U.S.\$18.4 million in 1967 to U.S.\$120.0 million.⁽⁵⁸⁾

Paralleling foreign investment in manufactures was the growth of foreign financial sectors in Colombia during the Front regimes.⁽⁵⁹⁾ This is not to say that foreign banks retreated from Colombia. Those who remained from the 1920s included the Bank of London and Montreal (1920), The French and Italian Bank for Latin America (1924), the Royal Bank of Canada (1925) and, from the U.S., First National City Bank (Citibank) in 1929.⁽⁶⁰⁾ Primary growth in foreign banking came during the 1960s and paralleled the growth in manufacturing foreign investment.⁽⁶¹⁾ The question arises: How important did foreign banking become for the Colombian economy?

Boyce and Lombard note that one way to measure this importance is to evaluate the participation of foreign banks with Colombian banks. Funds controlled by foreign banks can include assets in local currency as well as external loans. According to statistical data provided by the Banco de la Republica (BdeR), in 1973 "assets of foreign banks amounted to 13.6 percent of the assets of all commercial banks and generated 9.7 percent of the earnings of the entire Colombian banking sector".⁽⁶²⁾ At this level of measurement, Boyce and Lombard conclude that the importance of foreign banks is not overwhelming.

More penetrating investigations by Boyce and Lombard reveal a financial dependence index of 34 percent which represents the increased indebtedness to "private international money market [by the Colombian public sector] because of the availability of funds from international banks in the early 1970s."⁽⁶³⁾ Foreign banks controlled 41 percent of available funds for Colombia's debt.

Concerned about the growing importance of foreign banks, Colombia sought to curtail their importance by requiring foreign banks, like any other multinational firm, subject to Decree 444. Decree 444 required any foreign bank planning to increase its capital base to seek approval from the planning Board. In 1973 foreign banks were made subject to Decision 24 of the Andean Pact. The election of the Conservative party in 1970, however, led to the passage of Decrees 2791 and 2788 exempting foreign banks in Colombia from the Andean Statue of Capital.⁽⁶⁴⁾ These decrees provided relief for the foreign banking sector in Colombia. Previous decrees required they convert themselves into national banks and sell 80% of their stock. With the revised statutes they were free to continue to operate without such conversions. This type of legislative give and take over banking regulations is reflective of the still sharp partisan lines that existed in Colombia although the National Front had existed for better than a decade at this point. Members of the Conservative Party strongly supported foreign banking as a means to improve capital inflow in a nation with extremely low savings rates.⁽⁶⁵⁾

The status of foreign banks was again reconsidered with the election of the Liberal party in 1974 which prepared a law requiring foreign banks to be converted to "mixed" enterprises. On February 24, 1975, President López signed Decree 295 which allowed the minister of finance to create

" a Commission to arrange the transformation of foreign banks and other institutions into `mixed enterprises. The commission was given legal power to achieve this transformation and was empowered to prepare proposed laws and regulations on this issue."⁽⁶⁶⁾

The "Colombianization" of foreign banks required nationals to own 51% stock in the bank with this same percentile reflected in the financial, personnel, legal and commercial administration of the bank.

Decree 295 reflects a generalized concern among political and economic leaders that growth in foreign banking had become excessive inasmuch as its growth limited the control Colombians felt they should have over their own financial resources. It is interesting to note, however, that the Decree was issued as an executive decree by López Michelsen during a period after which he had declared an "economic state of siege" in 1974 and was not proposed as a law to the Congress. This strategy suggests that López Michelsen was concerned about the measure becoming mired in partisan concerns which continued to dominate the assembly. For his part, he considered inflation the major enemy of democratic institutions.

In Colombia, despite a large number of favorable indicators, inflation has, as a conceptual impact, revived a great skepticism and great pessimism about our [the state] ability to provide.⁽⁶⁷⁾

Between 1974 and 1976 inflation rates were 12.5%, 13.6% and 25.6% respectively as reported from official figures in an article, "Costo de vida: Se necesitan tres slarios mínimos para sobrevivir" in ALTERNATIVA.⁽⁶⁸⁾

According to Susan Strange, 1973 was a conjunctural year for international banking.⁽⁶⁹⁾ There occurred an effective devaluation of the dollar. The move to FERS (floating exchange rates) meant that countries with surpluses under fixed rates had larger surpluses under FERS leading to a larger debt to deficit ratio. The first oil shock during this year increased a nation's dependence on the banking system to find financing for current consumption and economic development.⁽⁷⁰⁾ Strange goes on to note that while markets, left to themselves, might be wasteful and unstable, "It may well be that there is a sort of critical threshold (emphasis added) beyond which it is dangerous for a national economy to go in matters of protective cushioning for parts of the mechanism (national economic mechanism)."⁽⁷¹⁾

For Colombia these conjunctural events heralded a boom in minor traditional exports such as ferronickel and flowers. At this time Colombia's foreign exchange reserves grew rapidly. International reserves grew from U.S. \$431 million in 1974 to \$U.S. 2,366 billion in 1978. By 1980 international reserves reached \$U.S. 4,831 billion.⁽⁷²⁾ Between 1976 and 1978 the M1 grew at an annual rate in excess of 30%.⁽⁷³⁾ "Not only did the switch to the floating exchange rate contribute to the very successful export performance, but it ended the disturbing devaluation-inflation cycle which had been the despair of operatives under the previous system."⁽⁷⁴⁾

The conscious strategy of López Michelsen to strengthen the financial sector as part of a plan to delink Colombia's development from foreign banks proved enormously successful.⁽⁷⁵⁾ Robert Dix notes that the financial and industrial sectors became increasingly oligopolized particularly in the form of conglomerates such as the Santodomingo complex and the Grupo Suramericano.⁽⁷⁶⁾ The oligopolization occurred not only among older established groups, but admitted newer groups such as the Grupo Grancolombiano, headed by Jaime Michelsen Uribe. So concerned were the older groups, particularly those in Antioquía, about the emergence of this new group's monopolization, it prevailed upon the Colombian government to enact legislation restricting the GranColombiano group.⁽⁷⁷⁾

SUMMARY

Correa and Steiner note that fiscal and administrative deconcentration rather than delegation or decentralization best describes the Colombian state between 1967 and 1980.⁽⁷⁸⁾ While the Colombian state achieved some degree of centralization through the National Front regime at the national level, fragmentation and regionalism persisted. The proliferation of governmental decentralized political agencies and producer associations provided multiple points of access to influence, implement, or impede governmental policies. The day to day business of politics continued at the local level which had been increasingly de-emphasized in favor of centralization during the National Front regime. Many governmental functions and provisions of public goods were contracted out to producer associations which, as Urrutia noted, were strongest at the local level. Dealing with challengers to its power through cooptation, repression, and mobilization continued to be the *modus operandi* of the Colombian government. This is consistent with our definition of Colombia as a dependent industrializing state where there are basic and fundamental differences concerning the basic organizing principles or structures of the state. It also supports our contention that, during the National Front regimes, Colombia closely resembles Benjamin and Duvall's State 1 in its focus on maintaining legal political order. In Colombia's case, however, protection of property rights came from the state only in the enforcement realm, not the policy decision realm.

The major difference from past patterns is that cooptation and mobilization tended to occur through producer associations rather than political parties and repression took the form of the executive decrees allowed under political and economic "states of siege". López Michelsen's use of an economic state of siege to pass legislation Colombianizing foreign banks suggests that informal enforcement of contracts (in this case, state law) by producer associations entailed risks they were unwilling to take. It also supports North's assertion that organizations will try to maximize their objectives as provided by their institutional structure. López Michelsen's unwillingness to submit his bill to the Congress or broker agreements among the producer associations suggest a lack of consensus over Colombia's national interest. Thus, according to North, the producer associations were functioning as they were institutionally designed to function, as interest groups, not parallel arms of government.

Correa notes two areas of problems persist as Colombia began structural decentralization with the adoption of a new constitution in 1991. The first problem is the lack of a stable legal framework with consistent rules to reinforce autonomy and decentralized decisionmaking. The second problem is a revenue system that propitiates low savings rates and fiscal imbalances. This system can become a source of inefficiencies in resource allocation perpetuating a structural system dominated by reactive rather than responsive policy making.⁽⁷⁹⁾ The highly fragmented, intensely regionalized regime structure of Colombian politics as well as economic and social life was the context within which the INT was poised for take-off in the mid-1970s. Illegal narcotic's trafficking, as noted earlier, was but one of several products in the Colombian contraband trade until the mid-1970s. It not only became the dominant product in the traditional contrabandista's repertoire of goods, but allowed entry of other actors at various points of access. In the next chapter we assess the impact of the INT on Colombia's economic institutions.

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 2. Eduardo Sarmiento Palacio, "Economica del narcotrafico" in *Narcotrafico...*, 77.
 3. Francisco E. Thoumi, "Overview" in *The Colombian Economy: Issues of Trade and Development*, eds. Alvin Cohen and Frank R. Gunter (Boulder: Westview Press, 1992), 2.
 4. An exception to this is the fine work done by Jonathan Hartlyn on the role of producer associations in coalition building in *The Politics of Coalition Rule in Colombia* (New York: Cambridge University Press, 1989).
 5. Three excellent sources which provide an overview of drug trafficking in Latin America may be found in the *Journal of InterAmerican Studies and World Affairs*, Vol. 30, Nos. 1,2,3, Spring, Summer/Fall 1988 and a special edition issued in Fall 1992, Vol. 34, No.3.
 6. Bruce Bagley, "U.S. Foreign Policy and the War on Drugs", *Journal of InterAmerican Affairs and World Studies* Vol. 30, Numbers 2&3, Summer/Fall 1988, 198-204.
 7. Ibid., 197.
 8. Ibid.
 9. Francisco E. Thoumi, "An Institutional Interpretation of Colombia's Paradoxical Economic Growth Performance" Paper presented at the XVI International Congress of the Latin American Studies Association, April 4-6, 1990, Washington, D.C.
 10. Ibid., 5.
 11. Ibid., 7.
 12. Ibid., 9-10.
 13. Eduardo Diaz Uribe, *El clientelismo en Colombia: un estudio exploratorio*. (Bogotá:El Ancora Editores, 1986), 12-13.
 14. Ibid., 34-35.
 15. Ibid., 200.
 16. Ibid., 6.
 17. Ibid., 14.
 18. Ibid., 16.
 19. Aronson, 13.
 20. Strange, Ibid.

21. Miguel Urrutia, *Gremios, política económica y democracia* (Bogotá: Fondo Cultural Cafetero, 1983), 142. Urrutia discusses how textbooks used in Cafetero schools are written and have exercises designed to reinforce loyalty to FEDECAFE.
22. Susan Strange, "Interpretations of a Decade" in *The International Economy of International Money: In Search of a New Order*, ed. Loukas Tsoukalis (Beverly Hills; Sage Publications, 1985), 17.
23. William Paul McGreevey, *An Economic History of Colombia: 1845-1930* (New York: Cambridge University Press, 1971), 168.
24. Ibid.
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26. McGreevey, 204-205.
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33. Jonathan Hartlyn, *The Politics of...* fn 3, 267.
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42. Ibid., 172-173.
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46. Hartlyn, 116-117.
47. Urrutia, Miguel. *Gremios, Política económica y democracia* (Bogotá: Fondo Cultural Cafetero, 1983), 16.
48. Ibid., 45.
49. Ibid., 48.
50. Ibid., 66.
51. Ibid., 104.
52. Hartlyn, *The Politics of...*, 105.
53. "Colombia: An Opening Economy?" held at the Martindale Center for the Study of Private Enterprise at Lehigh University, Bethlehem, Pennsylvania, October 19-21, 1994.
54. Michael Fairbanks and Stace Lindsay, "Building a Learning Nation: Lessons from Post-Apertura Colombia". Paper presented at Lehigh University, October 19, 1994.
55. *...A Statement of the Laws of Colombia in Matters Affecting Business* (Washington, D.C.: Pan American Union, 1961), 232.
56. Ibid., 11. It should be noted, however, that Miguel Urrutia who served as Director of FEDESARROLLO in the late 1970s and 1980s disagrees with Lombard's assertion that the opposition to foreign banks was held by the public at large or any important sector of the financial community. Urrutia elaborates at length on this in "Colombia and the Andean Group" one of two papers presented at a colloquium in February 1980 sponsored by the Latin American Program of the Woodrow Wilson International Center for Scholars.
57. Ibid., 12.
58. Ibid., 16.
59. James E. Boyce and Francois J. Lombard, *Colombia's Treatment of Foreign Banks* (Washington, D.C.: American Enterprise Institute, 1976), 10.
60. Ibid., 22.

61. U.S. banks included Bank of America in 1966, Chase Manhattan as a major stockholder in Banco del Comercio along with Deutsche Sudamericanische Bank holding 5%.
62. Ibid., 27.
63. Ibid.
64. Ibid., 33.
65. Ibid., 31.
66. Ibid., 33.
67. Urrutia, *Gremios de...*, 180.
68. ..."Costo de vida: se necesitan tres salarios mínimos para sobrevivir" *Alternativa* No 112, May 2-9, 1977, 28.
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6: The Impact of the INT on Colombian Economic Institutions

Introduction

The Colombian cocaine cartels have diversified and expanded their operations from a national organization to a regional one to a transnational one. With this expansion, they have increasingly taken on the structure and strategy of a transnational corporation (TNC). By doing so, they have unalterably changed the balance of power between themselves and the governments of the countries in which they operate. In Gramscian parlance they have become a counter-hegemonic group challenging the current hegemonic power.

Explanations for the explosive growth in drug trafficking and its effects upon the producing and consuming societies have, until recently, been limited and continue to evolve.⁽¹⁾ The earliest studies at the beginning of this century focused on the criminal nature of the activity. By the 1960s the focus changed to narcotics abuse as a public health issue. Presently studies on illegal narcotics trafficking have a strong policy focus, concern for the stability of political institutions being at the heart of these studies.⁽²⁾

Few studies have attempted to deal with the illegal narcotics trade as a multinational Corporation (MNC) or, preferably, a transnational corporation (TNC). Part of the reason for this is that early models of MNCs assumed a coherence and logic not readily apparent in enterprises such as the INT. Moreover there was not space within these models to deal with an illegal activity. Another important difficulty in conceptualizing the INT as an MNC is the very amorphousness of the INT concept which defies the precision required in analysis. To speak of the INT is to speak of a drug production chain which begins in the producer countries where the coca leaf is grown (principally Bolivia and Peru) and ends in the consumer countries, principally the U.S. and Europe. (See appendix). In actuality there are many MNCs along the drug production chain. The most clearly defined TNC to emerge is the Colombian cocaine cartels (see endnote).⁽³⁾ Though these loosely coordinated groups located in Colombia are not cartels in an orthodox economic sense, they do exhibit certain characteristics consistent with cartel behavior in their attempts to set price and production level.

By examining the INT and Colombian cocaine cartels as businesses (or more correctly firms), it becomes clear they exhibit the characteristics of a transnational corporation (TNC). Examination of their history and structure suggests they parallel that of other TNCs.

The known structure and strategy of the cartels are examined within the literature of two different yet complementary fields, international management and international political economy. The international management strategy literature on the structuring of TNCs demonstrates that the cartels have adopted the same structure which is normally associated with a network organization with many characteristics of quasi-vertically integrated TNC. Insights from this literature help explain the persistence of such organizations in the face of efforts by a wide range of law enforcement agencies to dismantle them. It also provides insights in INT/government relationships, based on previous analyses, of the balance of power between MNCs and host governments. Within the discipline of political science, such organizations are generally grouped within the umbrella of transnational organizations (TNCs). In this chapter, I adopt the convention of referring to such organizations as transnational corporations (TNCs) in so far as I am able.

The purpose of this chapter is to assess the impact of the INT on Colombia's economic and financial institutions. I hypothesize that the illegal narcotics trade has negatively affected the capacity of the Colombian state to consolidate and increase its control over an effective economic program. Growing evidence suggests that the emerging organizational structure among TNCs is that of the network organization.⁽⁴⁾ This type of organization is characterized as much by a set of relationships as by a formal structure. Indeed, many of the component parts are outside of the legal TNC structure as suppliers and other firms with mutual interests. Rather than relying on hierarchical power, network organizations allocate power, in part, by the degree of point centrality.⁽⁵⁾ That is to say, power within the network is partially dependent upon the number of linkages controlled by any one portion of the network. If the parent organization continues to control critical linkages, it will retain centrality. Such would be the case when coordination continues to be exercised primarily by the parent organization, or it is the decision-point for resource allocation (i.e., it controls investment decisions).

What is important to remember, however, is that members of the network need not be "owned" by the parent, only that they are bound by contracts or by mutual purpose or advantage to the network. This in contrast to the more traditional mechanisms such as vertical integration. Earlier research by McRae and Ackerman attempted to conceptualize the Colombian cocaine cartels as vertically integrated corporations, but found that many of the necessary components of the production and

transportation chain were not owned by the cartels. By considering all parts of the system as parts of a network with a common purpose of maximizing the return on illegal narcotics, this factor becomes unimportant.

In the case of the INT networks, component parts are allied in a common mission, the production and distribution of illegal drugs. The network has expanded to encompass all phases of the operation, from coca leaf gathering to "retail" sales. Because of their involvement in critical phases of the operation, the Colombian cocaine cartels have managed to maintain a high degree of centrality to the overall network and thus provide strategic direction. Specialized functions within the network, on the other hand, are performed by allied organizations which occupy comparatively weaker positions within the network and whose relationship with the coordinating center (the Colombian cocaine cartels) is often a function of their criticality to the overall operation.

Many factors identified in the international business literature could be applied to Colombia. In 1977 the successful spraying of Mexican marijuana fields with the herbicide paraquat shifted the source for marijuana from Mexico to Colombia. "Colombian gold", a particularly potent form of marijuana known as sinsemilla (seedless), gained rapid popularity among drug users. Although cocaine developed rapidly as the drug of choice, marijuana was first to generate such enormous monies for Colombian dealers. Research by the Internal Revenue Service in the United States estimates income from illegal drugs (principally marijuana) tripled in growth rate from 5.1% of all income to 16.5% in 1979 and 23.4% in 1981.⁽⁶⁾ When criticized for its methodology, another research study using currency generated at Federal Reserve offices across the nation was conducted. It found that "Florida alone had consistently received more currency in deposits than the Federal Reserve had placed in circulation. Surplus currency had grown from \$921 million in 1974 to \$3.3 billion in 1978."⁽⁷⁾ Robert E. Powis notes the Banco de la Republica estimates the marijuana boom was responsible for bringing in U.S. \$400 million in hard currency during 1977.⁽⁸⁾

By the end of 1977, however, cocaine dominated the illegal narcotics trade thanks to Carlos Lehder's technologically sophisticated transportation network using small airplanes and clandestine landing strips. Foreign exchange grew so rapidly that year, President Lopez Michelsen ordered the "side window" of the Central Bank opened where dollars could be purchased without demanding certification of origin. In an interview years later Lopez Michelsen denied the purpose of his decision was to facilitate laundering of drug monies yet never explains why he pursued such a policy decision.⁽⁹⁾ We shall see that the policy behavior of the Colombian government was already forming a dialectic with the nascent INT.

Modifying Stopford and Wells' model of firm evolution in my earlier research, I developed an organizational typology set within a historical chronology for the INT in Colombia. The historical chronology traces three phases of INT evolution and demonstrates that the INT, like any other TNC, developed competencies and adjusted its organizational structure to deal with multiple political environments and obstructions to markets imposed by a variety of governments within which it conducts its business. As such, it developed multiple points of access, created alliances, and developed an articulate constituency that aided its development as a significant power challenge to the Colombian state.

In the following sections I assess the INT's impact on Colombia's financial and monetary institutions.

Phase ONE: 1974-1981

At the beginning of Phase One the INT, essentially a regional phenomenon, was dominated by decentralized local operations wherein decision-making power was dispersed and poorly coordinated. By the end of Phase One a more centralized structure permitting a monopoly over supply and distributions systems achieving economies of scale was needed to respond a more global demand for the product [narcotics]. Achieving economies of scale meant the cocaine cartels incurred cheaper costs as volume increased. This also reduced risk when single shipments were inevitably lost on occasion.

How large were INT profits and how can that be measured? While difficult to obtain exact amounts, there are studies which attempt to do this. Gunter's study on mis-invoicing as a means of calculating repatriated capital into Colombia shows "an average of \$141 million per year (of capital coming) into the country, with a maximum of \$465 million in 1979."⁽¹⁰⁾ Exports of goods and services during phase one of the INT, despite the short-lived boom in minor exports at the beginning of the 1970s and the coffee bonanza of 1976, do not begin to account for this level of capital repatriation to Colombia.⁽¹¹⁾

Additionally, net factor income abroad did not increase significantly until the economy began to slow and repression by the Turbay regime escalated in 1979-1980.

Between March and October of 1978 the Cali coalitions⁽¹²⁾ are reported to have sold U.S. \$26 million dollars (wholesale) worth of cocaine in New York City. Carlos Lehder, working with Pablo Escobar and the Ochoa family, transported approximately \$150 million of wholesale cocaine to the U.S between May and December. This raises the question: how were such large amounts of money returned to Colombia and reintegrated into the economy?

As discussed in the chapter on the evolution of the INT mulas or mules, those who carried cocaine strapped to their bodies, were initially used for transport. The same mechanism could also be used to return money. As the volume of money generated grew, this became impractical both for logistical and confidence reasons. Logistically the sums simply became too large for any one human to carry. Moreover, as the sums of transaction grew, confidence in mulas to not skim from the amounts decreased. Coordination problems grew as decision-making remained concentrated at the local units.

Looking to the future, Gilberto Rodriguez Orejuela began diversifying his interests and organized the conglomerate Grupo Radial Colombiano.⁽¹³⁾ In addition to this conglomerate were chains of drug stores, soccer teams, periodicals as well as Corporación Financiera de Boyacá, controlling interest in Banco de los Trabajadores in Colombia and ownership of the First Interamericas Bank in Panama.⁽¹⁴⁾

As the logistical problems of humans carrying money back to Colombia grew, it became apparent it would be better if narco-dollars could be deposited in the U.S. and moved through the financial system. However, banking laws required that deposits of \$10,000 or more be reported via Currency Transfer Report. Thus to deposit narco-dollars required using persons paid .05-1.5% of \$9,999 to make the deposits at selected banks. "Smurfing", as a mechanism to launder money, developed seemingly overnight.

A smurf could dispose of between \$50,000 and \$100,000 in cash each day...A smurf who disposed of \$100,000 would be paid somewhere between \$500 and \$1,000 for a day's work. The individual in charge of a road trip would get about 1.5% of all the money laundered. In addition, he would get .05% of all currency that he personally laundered at banks.⁽¹⁵⁾

Clearly the increase of narco-dollars and additional humans needed to launder the money added a layer of security risk detection. It also increased the cartels' vulnerability to theft by the smurfs.

The net emigration Colombia has had for at least the past forty years was also a factor in moving and repatriating INT profits. Elizabeth de G.R.Hansen's study shows that by the mid-1970s "an estimated 250,000 Colombians or more had legally emigrated to Venezuela, the United States, Ecuador, and Panama."⁽¹⁶⁾ By the end of the 1970s, an estimated 250,000 to 400,000 illegal Colombians resided in the United States alone.⁽¹⁷⁾

Emigration enabled another level of sophisticated money laundering to occur. Hernan Botero, a captured money-launderer for narcotraficantes, describes how, in 1978, he bought a home in suburban Miami and opened an account in the name of his currency exchange business, Cia Rodnan, S.A. at the Landmark First National City Bank of Fort Lauderdale. He deposited checks payable to the firm, wrote checks on the account to purchase Certificates of Exchange from the Banco de Colombia and issued by the BdeR and payable in pesos. These Certificates of Exchange were then sold at a profit and the checks deposited in the bank from which the cycle would start again.⁽¹⁸⁾ Between 1979-1980 most of the cashier's checks drawn on the Cia Rodnan account were mailed to the Pan American Bank of Miami and were payable to a specific account number of Banco de Trabajadores of Bogotá.⁽¹⁹⁾

In order to obtain a clearer sense of narcodollars' impact on Colombian economic institutions, it is worthwhile to understand Botero's explanation of how one deals with the "dollar black market" or parallel market in Colombia. Certificate of Exchanges are sold in the amount purchased at the rate of exchange for that day. The peso was constantly diminishing against the dollar in value, the purchaser would receive more pesos in 120 days. More often than not, however, the increase was offset by a steady rise in inflation. Botero describes another option: selling the certificates to a brokerage house or commercial bank within a few days and obtaining the additional pesos then. "Such a sale would be at the official rate of exchange which was at a price per dollar higher than the black market price."⁽²⁰⁾ The pesos check is then taken to a black

market exchange house where a check in dollars is purchased. "Since the black market prices were lower than the official rate, he would be able to buy more dollars with his peso check than he had originally spent for the profits."⁽²¹⁾ Although the profit was small, high trading volume could make the transaction valuable as the dollar checks would then be shipped overnight to the Landmark Bank for deposit to the Cia Rodnan account. Thus not only are narco-dollars being effectively laundered and finding their way back into the Colombian economy, the narco-entrepreneur established a legitimate business which generated profits on its own.

Eduardo Orozco, partner of Colombian coffee businessman Alberto Duque, presented himself in the late 1970s as a coffee importer and managed in the following five years to launder approximately \$U.S.151 million across eighteen banks in the U.S.⁽²²⁾ Orozco testified that while 60% of the monies he laundered were narco-dollars, the remaining monies came from Colombian cafeteros seeking to evade taxes in Colombia.⁽²³⁾ Thus we see alliances beginning to form domestically between the cartels and subnational actors operating in the national and international arena.

The economic bonanza was well into a decline when Turbay assumed the presidency in 1978. By 1980 the GDP, which had experienced a steady growth average of 5% per annum, dropped to 4%. Colombia's textile industry which had experienced a steady growth in the beginning of the decade registered a negative growth of 12 percent in 1979 as inflation averaged 25 percent a year.⁽²⁴⁾ Contractionary economic policies were implemented to control inflation and Turbay continued to invest in infrastructure as revenues fell. Alberto Supelano notes that investment in industry was held back despite increases in financial savings forcing companies to resort to high interest loans.⁽²⁵⁾ Former narco-trafficker, Max Mermelstein notes that the

...cartel also acted as a bank for legitimate Colombian corporations [which] had chief tellers and even officers at select banks in Miami on the cartel payroll who would accept large cash deposits without reporting them. When the coffee or sugar or cement company needed more than the paltry \$25,000 they were allowed to spend in dollars outside Colombia, they could go to one of the cartel's banks in Miami and negotiate whatever size narcodollar checks they wanted--in the millions if they needed it--to buy plant equipment.⁽²⁶⁾

Cali money launderer, Beno Ghetis, testified his currency exchange business, SONAL, sold "dollars [in checks] mostly to businesses that needed to import goods to Colombia. The dollars were sold in checks that were needed to import goods to Colombia."⁽²⁷⁾ The checks, drawn, on SONAL's account in the U.S., were payable in dollars when presented. Powis notes that the seizure of almost \$8 million dollars from Ghetis' and the SONAL accounts at the Capital Bank in August 1981 represents the end of an era. Large currency deposits paid directly into bank accounts, bank accounts in fictitious names, fees paid bankers for not filing CTRs, or young Hispanic males lugging cardboard boxes and suitcases filled with cash into banks no longer dominated money laundering.⁽²⁸⁾

A cartel accountant, Fernandez Espina, received approximately U.S. \$12 million from accounts of Panamanian branches of the Colombian bank, Banco Santander to the accounts of Banco Santander de Gujon in Colombia. Those doing the remitting were Pablo Escobar's cousin, Gustavo de Jesus Gaviria Rivero and Juan Ramon Matta Ballesteros, a key figure in opening the market in Spain and nurturing the relationship between the Colombian and Mexican mafiosas.⁽²⁹⁾ This suggests that local banks performed a bridge role between the over and underground economies. The growth of a specialized organization as part of a network organizational form helps us understand how local banks were able to perform their role. As pieces of the network they could be moved into and out of the network as new opportunities presented themselves or as new threats prevailed.

The Colombian economic situation during Phase One of the INT suffered from the Dutch Disease or domestic financial disequilibrium.⁽³⁰⁾ The financial sector and its institutions were considered weak meaning since financial institutions were only superficially integrated into most Colombians lives. There was broad state intervention in interest rates, a high concentration of assets, low competition and the absence of a simple money market.⁽³¹⁾ The financial sector had been shaken by reckless lending habits exacerbated by a lack of effective supervision and control.

The decentralization and democratic character of the INT during Phase One made it an appealing alternative to those seeking wealth and initial capitalization of legal enterprises. The lack of vertical organization made it easier for those, including the Colombian government, who wanted to take advantage of the drug bonanza. The Colombian government's efforts to participate in the bonanza were limited to already existing strategies to reshape Colombian economic institutions. The

opening of the side window at the central bank suggests a tacit acceptance of a dual economy and a dual state apparatus. It also suggests that the high concentration of financial assets described by Clavijo was inefficient to capture narcoprofits, the management of which was itself still in a very crude stage of development. On the one hand this confirms a portion of my hypothesis, that the INT did affect Colombian monetary institutions, but it is not clear that this impact negatively affected the Colombian government's capacity to manage its economic policy. It also supports our schema of firm development. Since the INT was dominated by local unit decision-making, there was very little the GOC could do beyond opening the side window to accommodate the increasing money supply. The larger impact on Colombian financial institutions, during this phase, is seen on local banks and the bridge role they played between the dual economies.

While the coffee bonanza could be negotiated with FEDECAFE, the drug bonanza, which grew from one-third of coffee exports in 1977 to 126% of coffee exports in 1978⁽³²⁾, could not be negotiated directly. Supelano notes economic policies adopted are more the "product of choices made to provide a temporary balance between power groups or the product of short-lived cultural influences."⁽³³⁾ Financial institutions altered their structure in an attempt to stabilize and strengthen these institutions. This occurred through increased measures designed capture the small saver and producer, characteristic of both coffee and narcotics producers, as well as decrease liquidity risks.⁽³⁴⁾

Such strategies, however, raise the question of how and when do such negotiations either increase or decrease (neutralize) the emergence of a significant power challenger to the Colombian state. State intervention during this period focused on more macroeconomic approaches in the form of a restricted credit market, forced investments, and increased reserve requirements for banks. This did not necessarily increase the oversight of the banking superintendency. Subsequent events suggest that reassertion of stricter state control on the economy did not improve the situation.

Intersections of vulnerability and access between the Colombian economy and narcodollars on a microeconomic level are easily identified. Consistent with the government's decision to incorporate narcoprofits into the financial system we see an explosion of U.S. branches of Colombian exchange houses where dollars were accepted in exchange for equivalent pesos in Colombia at the black market rate. The role of local banks as bridges between the two separate areas of the economy is fairly well documented.

Less clear is the intersection of the Colombian economy and narcodollars on a macroeconomic level. Obviously the decision to reopen the "side window" of the BdeR represents an effort by the Colombian state to capture narcoprofits as part of a macroeconomic policy. Less obvious are smaller economic decisions made by the state. Naylor suggests that during Phase Two capitulation to hot money occurred as the Colombian government was forced into an arrangement of gold-washing in order to bolster international reserves.⁽³⁵⁾ Only the Colombian government may legally purchase gold. Despite nearly constant exports by the Colombian government, Colombian gold reserves nearly doubled between 1978-1979. Gold mining and/or excavation of historical gold artifacts does not appear to have increased during this period, leaving the source of gold the government bought and exported unexplained. One answer may be that, at the least, an embryonic money-laundering scheme was in place prior to the more overt arrangements of a few years later suggested by Naylor.

The Colombian economic situation continued to deteriorate in terms of its international financial condition as part of the general flight from lending to Latin American countries occurred. Between 1980 and 1981, during the Turbay administration, there was such an influx of foreign capital that the black market exchange rate was below the official exchange rate (meaning the dollar was at a discount) and, according to Rudolf Hommes who later became finance minister,

"probably reflect(ing) an excess supply of illegal foreign exchange. Five percent differential at the end of 1981 disappeared during the first quarter of 1982. Beginning in June of 1982 a premium over the official exchange rate was paid for in dollars sold in the parallel market reaching a premium peak of 35% in June of 1983."⁽³⁶⁾

This was Colombia's economic situation as Phase Two of the INT began and which newly elected President Belisario Betancur encountered when he assumed office in 1982.

Phase Two: The Golden Years, 1981-1986

Phase Two is characterized by the centralized coordination of dispersed portions of the INT into specialized competencies. During this period the original social network, which consisted of relatives and childhood friends, expanded to meet growing needs of the organization for handling large sums of cash via money-laundering. Spin-off enterprises developed and the need for increased security resulted in downstream control at the consumer level and upstreaming control via laboratory production of coca leaves and cocaine base. This means cartel leaders sought to control some of their risk at the consumer level by setting up Colombian immigrants in consumer countries where safe houses for transporting narcoprofits could be established. Attempts to "upstream" involved the cartels setting up their own labs rather than rely on "mom and pop" labs.

The major crime families stratified into two different market structures. One level was a stratum of oligopolistic market behavior which coexisted with a second stratum of more competitive sectors. These developed as conscious efforts toward increased centralization dominated organizational restructurings.⁽³⁷⁾ This represents continuing efforts from the end of Phase One to consolidate economic, political and military resources. In response to market demands for drugs, the organizations' need for increasingly sophisticated money laundering grew. This growth forced a change in organizational structure from predominantly clan and kinship organizations to an enlarging network allowing the entry of other legal and illegal actors. Spin-off enterprises of both legitimate and illegitimate varieties proliferated.

One theoretical framework upon which this study draws is the work of Antonio Gramsci. The INT, during Phase Two, emerged as a major power challenger and a cultural counter-hegemonic force. It could not do so, however, had it not developed an articulate constituency. As the INT expanded and centrally organized the variety, levels, and numbers of constituents grew. Constituents, as part of the network, often owned businesses in their own rights. Therefore they could offer their services outside the networks, increasing their profits. During Phase Two the INT began appropriating and developing constituents in various branches within the formal institutional structure of the Colombian state. The constituency existed external to and as a part of the Colombian state. Colombian researchers Krauthausen and Sarmiento note that the "absence of order and a formal legal apparatus makes impossible the formal institutionalization of commercial practices."⁽³⁸⁾ The impossibility of formal institutionalization of commercial practices does not obviate the need for such. The INT's broadening of its constituency highlights the dynamism of the network in overcoming limitations imposed by its illegality.

Amidst hotly debated allegations of hot money, in August 1982, Belisario Betancur was elected president. Betancur offered an amnesty for the "hot money" or black dollars provided it was invested in legal enterprise. The first voices of opposition were local banks, "presumably because legalization of the money would force them to pay higher interest on any of these funds deposited with them."⁽³⁹⁾ Moreover, the Colombian Supreme Court ruled the amnesty offer unconstitutional.

Increasingly unstable in response to internal problems, the Colombian economy began to feel the effects of a global recession in progress. On October 8, 1982, President Belisario Betancur decreed an economic state of siege. Its goals were to strengthen financial institutions and provide liquidity for those in trouble.⁽⁴⁰⁾ Reserve requirements and banking regulations were relaxed. Measures were taken to restore public confidence in the financial sector. Intense discussions about nationalization, what it meant, and what legal proceedings were necessary should the GOC decide to implement such a policy abounded. Maintaining confidence in the financial system was a third goal as decisions about what exactly constituted a financial institution took place.

The financial conglomerates continued to grow through financial speculation and concentration of ownership even as they were the cause of a widening crisis. "Eighty percent (80%) of all external private debt was owed by the four largest (financial) groups: The Ardila Lulle, the Santodomingo, Banco de Bogotá, and Banco de Colombia."⁽⁴¹⁾ Additionally, a cornerstone of state and parastate relationships, the Banco Cafetero (bank of the coffee producers) accepted so many deposits that it grew at a rate exceeding its capacity. The resultant inefficiency became entangled in credits to businesses resulting in financial difficulties for large corporations such as Inversiones Samper and the Fundación de Santa Fe. More importantly there developed a lack of confidence in Banco Cafetero secondary to its dealings with private credit entities that did not uphold its state image.⁽⁴²⁾

Consequently the Colombian government was forced to nationalize five bankrupt banks⁽⁴³⁾ and provide huge issues of currency to prevent some of the larger businesses from closing. Capital flight between 1982-1983 increased, according to Morgan Guaranty estimates, to \$U.S. 0.7 billion compared to negligible amounts between 1976-1982.⁽⁴⁴⁾ The peso remained overvalued by 35.9% in 1983 and was not corrected until 1985.⁽⁴⁵⁾ The net international reserves had dwindled from U.S.

\$5.6 billion in 1981 to U.S. \$4.9 billion in 1982 to U.S. \$3.1 billion in 1983 to U.S. \$1.8 billion in 1984. Estimates of foreign bank deposits by Colombian residents by the end of 1985 amounted to approximately U.S. \$2.6 billion of which U.S. \$1.8 billion was deposited in U.S. banks. Hommes notes this was not an inconsequential amount inasmuch as U.S. \$2.6 billion amounted to 19.8% of Colombia's total recorded foreign debt and 37.7% of registered private foreign debt.⁽⁴⁶⁾ Moreover, the external debt grew even faster in the face of a recession which, fueled by the relaxed import policy of previous governments, prohibited increased tax revenue thus requiring further foreign debt.

Cartel money launderer, Ramon Milian Rodriguez, testified before the Kerry Commission that, in 1983, he laundered and managed assets for the cartels worth between U.S. \$10 and U.S. \$11 billion.⁽⁴⁷⁾ Each returning drug flight by Air America pilots during this period carried between one and six million dollars in cash and averaged 3-4 trips a month.⁽⁴⁸⁾ However, Peru's expansion of leaf production combined with the successful breeding of new strains of coca in the Amazon of Brazil contributed to the collapse of cocaine prices from U.S. \$20,000 per kilo (wholesale) in 1982 to U.S. \$4,000 in 1984.⁽⁴⁹⁾ The precipitous fall is reported to have nearly caused an international drug war until agreement on the division of the market was reached by major international traffickers meeting at the Vitoshi Hotel in Sofia, Bulgaria.⁽⁵⁰⁾ The major traffickers agreed to hold back supplies of cocaine until the price rose again and introduced "crack" into the market.

In the meantime BCCI (Bank of Credit and Commerce International) had developed a strong Panamanian operation in conjunction with Manuel Noriega. Recall Noriega negotiated the ransom demand in the 1981 kidnapping of Marta Ochoa, sister of Medellín cartel capos, Jorge and Fabio Ochoa. BCCI acted as broker for many money-launderers with much of the money going into smaller banks, while taking a substantial fee for itself. In an attempt to strengthen its mainland connections, BCCI of Luxembourg with a capital investment of U.S. \$15 million from Arab bankers purchased Banco Mercantil, a Colombian bank with branches in Medellín and Cali.⁽⁵¹⁾ The sale was quite unusual despite praise in the Colombian press for helping the struggling bank. Recall earlier legislation prevented foreigners from owning more than 49% of a single Colombian financial institution. In this case the rules were bent via Decision 24 of the Cartagena Agreement which permitted foreign investments as a means of avoiding bankruptcy.⁽⁵²⁾ Hernando Pryor Varon, a key negotiator in the purchase of the bank, was later implicated in the 1987 scandal of contracting bribes paid for the construction of Colombia's Pacific Naval base. Renamed the Banco del Credito y Comercio de Colombia (BCCC), the bank's management was fined for violation of currency laws in 1989 and in 1991.

An exchange crisis loomed in 1984 as international reserves fell further deteriorating Colombia's international financial position. International monies became unavailable for lending. Moreover gold reserves fell by more than 50% between 1983 and 1984. Naylor argues that the Colombian government's capitulation to hot money came in two stages. In February 1984 the Colombian government was forced into a bizarre arrangement for the purchase and sale of gold. Gold-washing, as an embryonic form of money-laundering, had begun a few years earlier. In the current scheme the GOC bought gold domestically for pesos at nearly U.S. \$100 above world market price and no inquiry concerning the origin of the gold.⁽⁵³⁾ Subsequently, the gold was sold abroad at world market prices. This benefitted underworld financiers who used dollars earned abroad by cocaine exports to purchase gold which was imported into Colombia and sold to the BdeR at a 30% markup in pesos.

The second way in which the government capitulated was more political in the sense that elements in the military and the old oligarchy cooperated with narco-financieras to spirit what they could out of the country. This cooperative venture had two objectives: 1) personal gain and 2) an attempt to undermine Betancur's proposed guerilla amnesty. Naylor suggests, if true, flight capitalists would had to have some assistance from abroad⁽⁵⁴⁾. He notes that in May 1992 the Colombian minister of defense arranged for a U.S. \$47 million loan with the London Branch of Chase Manhattan Bank to purchase imported military equipment. A year later U.S. \$13.5 million of the loan remained unspent. However, a telex (later proven fraudulent) was sent to Chase in NY requesting the remaining loan monies transferred to Morgan Guaranty were funds were distributed among the Zurich branches of the Israeli Hapoalim Bank.

The theft remained undiscovered till September 1983 when the GOC, apparently in conjunction with a planned offensive against the narcotrafficante, attempted to draw on the funds to cover the purchases of aircrafts. Subsequent assassinations of those involved, including the chief investigator of the minister of finance, an important witness and lawyer for the BdeR, hardly encouraged investigation. Seven members of the investigation were dead and no trace of the money was ever found.

Three weeks following the assassination of Rodrigo Lara Bonilla in April 1985 former president Alfonso Lopez Michelsen traveled to Panama and met with three leaders of the major cocaine crime families. Reportedly, he offered a truce, a pardon, and/or opposition to extradition in exchange for the capos lending the Colombian government U.S. \$3 billion to reactivate the economy.⁽⁵⁵⁾

In 1985 institutional mechanisms providing policies for the repatriation of narcoprofits were put into place. The Colombian Congress authorized the government to issue special "bonds for the repatriation of capital" to be traded in the international market. These bonds could be redeemed at maturity or exchanged at any time for Central Bank paper and traded freely in the Colombian Stock market. The same law provided that when the holder of repatriated bonds agreed to trade them for Central Bank paper, there would be no investigations or sanctions related to the "implicit violation of the exchange-control regime derived from holding these bonds."⁽⁵⁶⁾ Proceeds from the conversion of these bonds to Central Bank paper also benefitted from tax-exemption or special tax treatment. Carlos Lehder took advantage of the general amnesty, repatriated his money, and returned to Colombia.

The above mechanisms are the first documented effect of the INT on Colombian economic institutions. Representing forward linkages to the international community through the Colombian stock market, these formal policies suggest a major capitulation beyond the usual "tax holidays" that each new regime offered when first taking power. It also permitted the Introduction of neoliberal heterodox approaches to gain acceptance while simultaneously refusing fiscal and currency adjustment measures demanded by the IMF. Neoliberal heterodox approaches gained strength through increasing the foreign debt to service existing loans rather than cover deficits; dismantlement of development lending systems, and indexing of all capital income, state revenue and public service tariffs.⁽⁵⁷⁾ Colombia was able, with the assistance of narcodollars, to avoid severe external debt problems while suffering a serious internal banking crisis.⁽⁵⁸⁾

Problems plaguing the beleaguered financial sector had not disappeared by the time Vigilio Barco took office as president of Colombia in 1986. Banco de Trabajadores, with 70% of its ownership concentrated in the hands of Cali Cartel capo Gilberto Rodriguez Orejuela, was nationalized.⁽⁵⁹⁾ John Martz notes that subsequent tax evasion legislation cut many tax rates, thus reducing government revenue.⁽⁶⁰⁾ Barco had issued two resolutions designed to encourage repatriation of narcodollars and resorted to ordering bonds to cover governmental shortfalls.⁽⁶¹⁾

As organizations grow in size and complexity the demands of the communications systems to keep up with coordination needs can often halt growth. Even in the age of computer networks and instantaneous communications many organizations become hard pressed to sustain growth simply because coordination becomes too costly. The profits of the Colombian cocaine cartels required increased reliance on persons with expertise in money laundering who could insulate the leaders from the drug money. The cartels' vulnerability in its logistical inability to maintain strict oversight increased exponentially. Inclusion of additional layers of management and persons to oversee money laundering alters the centrality of leadership in two ways. First it permitted leadership to engage the GOC on a macro level suggesting that the INT was, in fact, having a significant effect on the Colombian government's economic institutions. Backward linkages took the form of fiscal and monetary policy choices aimed at stabilizing the exchange crisis and strengthening the financial sector which had proven particularly vulnerable.

The point at which the backward and forward linkages appear to merge is the Colombian government's refusal to renegotiate the national debt. Although debt service as a percentage of export increased from 13 percent in 1985 to 26.4% in 1987, many policy decisions suggest a deep conflict of interest between a government attempting to decentralize while not backing up such a decentralization with adequate funds. Thorp notes that

a sudden reduction of debt obligations would inject spending power at the decentralized level improving the budget position of local governments and state agencies in a way beyond the control of the central government, which is unacceptable to the traditions of tight management developed at the centre.⁽⁶²⁾

It could be argued that, in a somewhat perverse manner, the INT and the Colombian government engaged each other in ways permitting both to deal with one another more directly without requiring the central government to give up much control at the periphery. This kept the periphery satisfied by bailing them out when the need arose while not overly interfering in their business affairs and clients. Secondly, organizational changes such as those occurring within the INT during Phase Two

altered power relationships within the organizational network providing mechanisms for subsidiary components of the network to challenge the parent with renewed bouts of competition.

Phase Three: Cracks in the Firmament, 1987-Present

Beginning with Phase Three, the growing inflexibility imposed on local operations by centralization combined with a distancing of cartel capos generated more distrust. With the renewal of turf wars between the cartels, cooperation with the police by local operations increased in an effort to protect their own struggling enterprises.

Barco continued efforts to obtain financing for the social and economic policies considered crucial to Colombian development. Increased debt service rapidly decreased whatever gains in economic growth were achieved. Yesid Soler, Director of Economics at the Colombian national University asked, "What good is a 5% or 6% growth when 45% of Colombian workers' labor is owed to international creditors?"⁽⁶³⁾ Banks remained in trouble during 1987 as the government took over Banco de Colombia, Colombia's largest commercial bank and the financial cornerstone of the conglomerate Grupo GranColombiano.⁽⁶⁴⁾ By the end of 1987, loans remained elusive as Colombia's debt papers were traded on the secondary market at 72-76% of face value. Gold reserves dropped nearly 75% between 1986 and 1987 and Barco ordered another bond issue to cover a budget shortfall. Clearly bond issues became a quick method for repatriation of narcoprofits. In January 1989 Colombia suspended payments of principal to international commercial banks. By March negotiations for a jumbo loan, "Challenger", were completed with 25.8% provided by Japanese banks, 30.6% from U.S. banks and 43.6% from European entities.⁽⁶⁵⁾

A report from the World Bank was leaked to the press. In its analysis of Colombia's economic woes, the bank points to an economy controlled by a few and which "has barred the door (of reaping benefits of various bonanzas) through legalistic maneuvers or through sheer physical intimidation."⁽⁶⁶⁾ This was not an easy time for either the cartels or the Colombian government as violence increased in response to power challenges within the cartels and international demands for improved and effective policing of the INT by the Colombian government.

The Gaviria Administration, which came to power in 1990, retained the neoliberal policies of the previous administration and adopted even more radical measures. Subsidies were eliminated, interest rates on development funds were now tied to an average of the commercial bank rates. Reduction of import tariffs did not immediately result in increased imports making monetary management more difficult. Inflation reached 32.4% amid increased austerity measures as public spending was cut, the money supply squeezed, and increased interest rates for open market operations ordered.⁽⁶⁷⁾ Gaviria's administration offered incentives for investment and export as the core of its program commitment to privatization and decentralization. Communications, rail, ports and five of the nation's banks were privatized. Official price supports enabled decentralization of economic agencies and released the agricultural sector from traditional regulation.⁽⁶⁸⁾

Moreover, Law 9 of 1991 liberalized exchange controls permitting buying and selling of foreign exchange up to U.S. \$20,000 in Colombia. Not everyone, however, was happy about such liberalization. Carlos Angel, chairman of the National Association of Industrialists (ANDI) charged that "the value of Colombian currency would now be set by money launderers."⁽⁶⁹⁾ By September 1991, after liberalization of the exchange rate, this charge appeared to have merit as an oversupply of dollars widened a gap between the free and official exchange rates.⁽⁷⁰⁾ Banks stopped buying dollar notes taking only checks or exchange certificates in an effort to improve their margin. The difference between exchange rates for the week ending August 23 was a free market rate 13% lower than the official rate and 15% lower than the exchange house rate. How was Gaviria able to not only propose such sweeping policy changes, let alone achieve some of them?

Recall the Barco regime was plagued by increased terror and violence as the cartels fought one another and anyone. Levels of violence escalated following the assassination of Luis Carlos Galan and renewed turf wars between the cartels in 1988. Exhausted by the violence the Colombian people were receptive to candidate Gaviria's promise that he would not renew the extradition treaty with the United States. While his election to the presidency decreased some levels of violence, it did little to stabilize the economy.

At a meeting of the National Exporter's Association, Carlos Ossa Escobar, a member of the BdeR's board of directors said that, "the constitution's ban on extradition had generated an indiscriminate influx of dollars into the country and warned that

'measures should be taken to control money laundering in Colombia more strictly'. The exporters expressed their confusion over recent presidential decrees which grant amnesty for the importation of dollars but limit the exporters' dealings."⁽⁷¹⁾ Two weeks later, Colombian Minister of Finance, Rudolf Hommes, announced drastic controls on Colombian banks abroad in order to detect tax evasion and money laundering. One of the measures announced included suspension of bank reserves and mandatory surrender of information on movements in suspicious accounts.⁽⁷²⁾

The battle to curb the influx of dollars continued into January 1992 when the official exchange rate ceased to be used as a reference rate for exchange operations.⁽⁷³⁾ The new reference rate is set daily by averaging buying and selling rates on the market using certificates of exchange which cannot be exchanged for pesos for a year. In July a reported scarcity of U.S. dollars pushed the exchange rate on the parallel market to 650 pesos to the dollar by July 3.⁽⁷⁴⁾ Manager of the BdeR, Francisco Ortega explained the decrease in exchange operations at the Central Bank from an average of U.S. \$60 million to U.S. \$600,000 to the scarcity of dollars. Colombian economists, however, disagreed that there was a scarcity of dollars noting that the holders of dollar notes were exchanging them for checks in order to avoid the withholding charge of now 10%. These dollars were then used to purchase goods which re-enters the country as contraband.⁽⁷⁵⁾

The economic policies of the Gaviria administration began to bear fruit in 1993 when inflation dropped to 22.6% and the growth rate reached 5.7%. Foreign investment grew by 55.4% compared with 1992.⁽⁷⁶⁾ Although energy and mining sectors were the top recipients of foreign investment, the banking and financial sector was the second largest recipient. Economic performance followed a similar path in 1994 with a growth rate of 5.7% again and inflation stable at 22.59%.⁽⁷⁷⁾ The J.P. Morgan Bank noted, however, that Colombia's stockmarket continues to be underdeveloped due to shares being out of favor since the financial crisis of 1982.⁽⁷⁸⁾ The report was quite skeptical, however, that selling off the national banks would serve any but a short-term interest. It added that development of a stockmarket as well as a significant money market in Colombia would ultimately require the development of domestic investing institutions.

Bonds and bills account for 95% of all securities traded. Banco de Colombia remained co-administered by the Colombian state when it entered the Eurobond market offering and receiving U.S. \$50 million in bonds in June 1993.⁽⁷⁹⁾ That same month Standard and Poors bestowed an investment grade rating on Colombia's dollar-denominated debt. By February 1994, privatization of Banco de Colombia was complete as Bancol SA, a holding company owned by industrial and banking investors Isaac and Jaime Gilinski, completed purchasing 75% of the bank.⁽⁸⁰⁾ The same day Banco de Colombia offered another issue of Eurobonds worth U.S. \$50 million. Two weeks later, thanks to high credit ratings and a favorable risk rating from the National Association of Insurance Commissioners, the Colombian government offered Yankee bonds in the amount of U.S. \$250 million in an effort to discharge some of its foreign debt.⁽⁸¹⁾ Clearly the forward linkages of Colombia's financial institutions seemed measurably improved.

As the Colombian government strove to strengthen the backward and forward linkages of its financial institutions, the narcotraficantes were undergoing yet another organizational restructuring. Colombian money brokers became major actors during this phase under a system Cali operatives call bajando el dolar.⁽⁸²⁾ Bringing down the dollar involves purchasing blocks of cash in safe houses and getting them to Colombia for amounts as high as 25% of the amount transported. A Colombian broker bids on a block of cash which he pays for with pesos. The broker then sells the dollars to a legitimate Colombian businessman who pays in pesos, getting the dollars at a better exchange rate.⁽⁸³⁾

Using tourists to smurf dollars in Cali has become a major business. Long lines of tourists were found outside money exchange houses in Cali waiting to change U.S. \$25,000, the legal limit permitted tourists under Colombian law. Further investigation revealed money laundering activities in Cali averaging U.S. \$400,000 a day.⁽⁸⁴⁾ In his study of large scale cambistas, Grosse reports one interviewee as stating that the black market in dollars had an estimated volume of U.S. \$25 million daily or about U.S. \$6 billion for 1990.⁽⁸⁵⁾ Sixty percent of this supply, he estimated, came from narcotrafficking.

Summary

Osvaldo Sunkel, in his analysis of structuralism and institutionalism, observes that the power of an institutional approach is its proximity to cultural change.⁽⁸⁶⁾ "Technological change is...a transformation-inducing aspect of culture, deriving from the accumulation of knowledge and transcultural inducements; but cultural patterns,...define the extent and nature of its incorporation into cultural change."⁽⁸⁷⁾ An institutional approach does not mean individuals are inconsequential. To the

contrary, individuals are relatively autonomous social and cultural entities who are "institutionally and structurally shaped and circumscribed as regards values, norms, behavior, forms of association, and organization."⁽⁸⁸⁾ Therefore an institutionalist approach is complementary rather than oppositional to the network organization theories used to understand the evolution of the INT in Colombia and its impact upon its economic and legal institutions.

My original hypothesis states that the INT has negatively affected the capacity of the Colombian state to consolidate and increase its control over an effective economic program. The evidence, however, suggests that the impact of the INT on the Colombian state is more complex and nuanced than originally conceived. During the first phase of the INT's evolution, the Colombian government's ability to consolidate and increase its control over an effective economic program was not negatively affected by the INT.

The poorly coordinated and decentralized decision-making of the INT that characterized Phase One occurred within a context of weak financial institutions and a government struggling to open its economy and political system following sixteen years of rather closed rule. The high concentration of assets in the Colombian banking and financial sector seemed organizationally inefficient, except in the crudest ways, to capture narcoprofits. The Colombian state, in terms of backward linkages regarding financial regulations, did not change appreciably until the GDP slowed in 1980 and the textile industry began free-falling into a recession from which it would never fully recover. Contractionary monetary policies were carried out to control inflation, forced savings were mandated by the government, and credit was restricted. The governments of Phase One refused to devalue the rapidly appreciating Colombian peso driving the economy toward crisis.

Eduardo Sarmiento Palacio notes that analyses of the drug trade often miss how the preexisting fragmented structure of the Colombian state prevented the INT from being either coopted or appropriated in the historical way power challenges had been met by the state.⁽⁸⁹⁾ The network organizational form of local banks and financial groups allowed them to nurture their personal relationships with the various criminal groups who had yet to coalesce. This represents a type of "parainstitutionalism" which has substantial roots in Colombian history and culture beginning with the establishment of FEDECAFE.⁽⁹⁰⁾ Botero notes that where there does not exist an hegemonic group who is willing to manage the state, then decision-making roles are performed by whomever can obtain them. Thus the Colombian state was not effective in capturing either the coffee bonanza, which went to FEDECAFE, nor savings generated from UPAC, which were channeled to the finance corporations rather than industry.

The Colombian government's ability to consolidate and increase its control over an effective economic program was, however, negatively affected by the INT during the second phase of its evolution. During Phase Two, organizational restructuring toward a more centralized decision-making framework and increased need for money laundering expertise shifted the clan/kinship network of Phase One into a more stratified structure. The strategic alliances between the INT and powerful figures moved beyond the clientelistic practices of Phase One. Lacking the means to institutionalize formal commercial practices, the narcotraficantes began appropriating existing institutions where and when they could. As money laundering became more central to the INT such appropriation was easier and, in many cases, legal.

Sarmiento observes that as surplus savings stimulates growth through capitalization, the question becomes: how is such surplus moved? Consistent with the findings of this study, Sarmiento concludes that such movement takes place in Colombia because of an "institutional structure that permits the movement of surplus that is inevitably destined to fortify the activity and remove all obstacles for its functioning."⁽⁹¹⁾ Discussing the question of the international transfer of capital, Edgar Reveiz notes that the process by which capital is transferred is through international banks. That it occurs through international banks is not an independent creation, institutionalization, or evolution of planning in underdeveloped countries. Capital transfers are well determined and, occasionally, imposed.⁽⁹²⁾ In terms of forward linkages, the Colombian government's reliance on the bonanza of international reserves with few questions asked ultimately added to a damaged international financial profile when seeking additional credits to manage the growing foreign debt. Additionally, an agreement toward coordinated policing aimed at breaking the financial empire of the narcotraficantes only began to emerge in 1986 when the U.S. enacted severe penalties for money-laundering. Prior to this time, money-laundering was not a crime in the U.S.⁽⁹³⁾

The nationalization of five major banks and permission of ownership of smaller provincial banks by narcotraficantes represents domestic economic policies designed and implemented in response to the INT. That the banks had to be

nationalized suggests what Jonathan Aronson calls the ambivalence of bankers about the role of regulators as bankers strive to find every loophole while looking toward national authorities for protection when threatened.⁽⁹⁴⁾

Moreover successful management by the Colombian state of the INT problem was confounded and complicated by "diplomacies" launched by such notables as ex-president Lopez Michelsen and the hotly debated propositions offered by gremios such as FENALCO that stopped just short of legalization. This represents a heightened level of parainstitutionalism *within* the government permitting its response to the "search for political expression of one new fraction of capital based in the international traffic of cocaine."⁽⁹⁵⁾ Moreover, it suggests that the Colombian state lacked the capability required to deal with a power challenger of this magnitude. Attempts to restore the extradition treaty occasioned not only renewed violence, but capital flight of such a level that the economy was seriously imperiled.

The Colombian government's ability to consolidate and increase its control over an effective economic program was both positively and negatively affected by the INT during the third phase of INT development. With Gaviria's election to the presidency on his campaign promise to not renew the extradition treaty, the Colombian government strengthened and regained some control. Gaviria, unlike Barco, was able to push through some quite radical economic measures that succeeded in the short term. Continued selling of bonds as a means to repatriate narcoprofits was successful to the point that Colombian bonds were given an investment grade rating. This allowed Colombia to successfully sell a portion of its foreign debt.

Moreover, the new Colombian constitution permitted dual citizenship for the first time. Two million Colombians living abroad, constituting almost 7% of the total population, are eligible to vote and hold office in Colombia's lower house. The role this group plays in the Colombian economy is best understood when one realizes that in 1992 private transfers from Colombians overseas amounted to U.S. \$1.6 billion, an amount equivalent to 12% of 1992s total exports.⁽⁹⁶⁾ This combined with changes in macro-economic policies permitting currency exchange and dollar denominated accounts outside Colombia, is designed to aid the Colombian state in regaining control of its economic institutions while continuing to pursue its policy of economic and political apertura.

Thus, the INT negatively and positively influenced the Colombian government's ability to consolidate and increase its control over an effective economic program. In the following chapter the impact of the INT on Colombia's legal institutions is examined.

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1. For an excellent historical treatment of the evolution of drug policy in the United States, see William O. Walker III, *Drug Control in the Americas*, Revised Edition (Albuquerque: University of New Mexico Press, 1989)
 2. Two excellent thematic issues concerning drug policy and drug trafficking have been published by the North/South Center, University of Miami in the *Journal of InterAmerican Studies and World Affairs*, Vol.30 Nos.2&3, Summer/Fall 1988 and Vol.34, No.3 Fall 1992.
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 4. Ghoshal, S. and Bartlett, C.A., "The Multinational Corporation as an Interorganizational Network" *Academy of Management Review*, 1990. 15 (4): 603-625.
 5. Ghoshal, S. and Nohria, N., "Horses for Courses: Organizational Forms for Multinational Corporations". *Sloan Management Review*, 1993. 34(2):23-25.
 6. ...*Off the Books*, 57.
 7. U.S. Congress, Senate, Committee on Governmental Affairs, Permanent Subcommittee on Investigations, *Illegal Narcotics Profits*, Hearings held 7,11,12,13 and 14 December 1979, 118.

8. Robert E. Powis, *The Money Launderers: Lessons from the Drug Wars-How Billions of Illegal Dollars are Washed Through Banks and Businesses* (Chicago: Probus Publishing Company, 1992), 33.
9. Alfonso López-Michelsen, "Is Colombia to Blame?" *Hemisphere*, Fall 1988, 35-36.
10. Francisco Thoumi, "The Size of the Illegal Drugs Industry in Colombia" *The North-South AGENDA Papers*, Number three, July 1993, 11.
11. See statistical table for time period under study at the end of this chapter.
12. The crime organizations had not quite yet acquired a more cohesive organizational structure either individually or collectively.
13. Castillo, *Jinetes de...*, 129.
14. Castillo, *Jinetes de...*, 124. The graph of businesses of the Cali Cartel provided by Castillo is reproduced and included in the appendix.
15. Powis, 110.
16. Elizabeth de G.R. Hansen, "Let Them Eat Rice?", *Bordering on Trouble: Resources and Politics in Latin America*, eds. Andrew Maguire and Janet Welsh Brown (Bethesda: Adler & Adler, 1986), 107.
17. Ibid.
18. Powis, 50.
19. Ibid., 70.
20. Ibid.
21. Ibid.
22. Castillo, *La Cosa Nostra...*, 175.
23. Ibid.
24. ..."Colombia; Textile Crisis Set to Continue" *LARR Andean Group* RA-81-02, 27 February, 1981, 8.
25. Alberto Supelano, "The Political Economy of Latin America: The Colombian Experience During the 1980s" *Journal of Economic Issues* Vol. XXVI No.3 September 1992, 852.
26. Max Mermelstein, *The Man Who Made It Snow* (New York: Simon and Shuster, 1990), 105.
27. Powis, 87.
28. Ibid., 89.
29. Luis Canon M., *El Patron: Vida y Muerte de Pablo Escobar* (Bogotá: Planeta Colombiana Editorial S.A., 1994), 101.

30. Sergio Clavijo, "Overcoming Financial Crisis During Transition from a Repressed to a Market-Based System: Colombia 1970-1989" Chapter Five in *The Colombian Economy: Issues of Trade and Development* eds Alvin Cohen and Frank Gunter (Boulder: Westview Press, 1992)
31. Ibid., 94-95.
32. Rosemary Thorp, *Economic Management and Economic Development in Peru and Colombia* (Pittsburgh: University of Pittsburgh Press, 1991), 169. These figures refer to total income, not value returned to Colombia, amounts which would have been much smaller.
33. Supelano, 851.
34. Supelano, 823.
35. Naylor, 184-185.
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37. Krauthausen and Sarmiento, 31.
38. Ibid., 29.
39. Naylor, 181.
40. Manuel Jose Cepeda Espinosa, ed., *Estado de Sitio y Emergencia Economica* (Bogotá: Control General de la Republica, 1985), 35.
41. Gonzalo Jimenez, *Crisis Económica versus Apertura Democrática* (Bogotá: Edita Libreria Sindical Colombiana--ISMAL, 1985), 56.
42. ..."Banco Cafetero: La llegada del Sherifo" *Semana* October 23, 1990, 18-20.
43. Banco del Estado, Banco de Colombia, Banco del Comercio, Banco Tequendama and Banco de Los Trabajadores. *Colombia Hoy* Vol. 25 No. 11 1991, 2.
44. Hommes, *Capital Flight...*, 169.
45. Ibid., 170.
46. Hommes, 169.
47. U.S. Congress. Senate. Subcommittee on Terrorism, Narcotics and International Communications of the Committee on Foreign Relations. *Drugs, Law Enforcement and Foreign Policy: The Cartel, Haiti and Central America*. 100th Congress, Second Session April 4, 5, 6, and 7 1988, 165.
48. Berkley Rice, *Trafficking: The Boom and Bust of the Air America Cocaine Ring* (New York: Charles Scribner's Sons, 1989), 85.
49. Naylor, 176.

50. Naylor, 171-179.
51. Mark Potts, Nicholas Kochan and Robert Whittington, *Dirty Money: The Inside Story of BCCI, World's Sleaziest Bank* (Washington, D.C.: National Press Books, 1992), 180-182.
52. ..."BCCI Transactions Begin to Unravel", *Latin American Weekly Review*, August 1991, 5.
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54. Naylor, 184-157.
55. Naylor, 181.
56. Hommes, 173.
57. Supelano, 854.
58. Thorp, 181.
59. Castillo, Fabio *Jinetes...*, 128-129.
60. John D. Martz, "Colombia's Search For Peace" *Current History*, March 1989, 125.
61. *Ibid.*, 248 and 250.
62. Thorp, 193.
63. ..."Barco Seeks U.S. \$8 bn in New Credits" *Latin American Weekly Review*, October 8, 1987, 10.
64. ..."Colombia: Debt-for-Equity" *Latin American Weekly Report*, October 8, 1987, 7.
65. ..."Challenger Funds Expected in June" *Latin American Weekly Report* March 30, 1989, 10.
66. ..."Colombia: Closed Economy" *Latin American Research Report-Andean Group*, June 1989, 8.
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83. Ibid.
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85. Grosse, 1198.
86. Osvaldo Sunkel, "Institutionalism and Structuralism" *CEPAL REVIEW* No. 38, August 1989, 147-155.
87. Ibid., 151.
88. Ibid., 150.
89. Eduardo Sarmiento Palacio, "Economica del narcotrafico" in *Narcotrafico en Colombia: Dimensiones políticas, económicas, jurídicas e internacionales* eds. Carlos Gustavo Arrieta, Luis Javier Orjuela, Eduardo Sarmiento Palacio and Juan Gabriel Tokátlian (Bogotá: Tercer Mundo Editores, 3rd edición, 1990), 18-72.
90. Botero, 267.
91. Ibid., 84.
92. Diaz Uribe, 60.
93. Although various financial regulations existed prior to 1986, it was only in 1986 that a specific statute dealing the revisions in the Bank Secrecy Act resulted in Money Laundering Control Act of 1986.

94. Aronson, 12.

95. German Palacio and Fernando Rojas, "Empresarios de la Cocaína, Parainstitucionalidad y Flexibilidad del Regimen Político Colombiano: Narcotráfico y Contrainsurgencia en Colombia" in *La irrupción del paraestado: ensayos sobre la crisis Colombiana* (Bogotá: CEREC, 1990) 72. Parainstitutionalism is defined as: A series of mechanisms of social regulation and conflict resolution that do not occur through the more formal paths of the constitutional or legal court, but which are governed by informal arrangements through ad hoc mechanisms; they can be legal or illegal; are alternative roads to institutions rigid and incapable of responding to the conjunctural challenges of social conflict or capital accumulation.

96. Ralph Schusler, "New Constitution Empowers Colombia's 'Global' Population" *South Florida Business Journal* September 10-16, 1993, np.

7: The Impact of the INT on the Colombian Judicial System

Introduction

In no other branch of the Colombian political system has the violent impact of the illegal narcotics trade (INT) been so sorely experienced as the Colombian state's authoritative arm, the judicial system. Despite efforts by successive administrations of Colombian government to restructure specific courts to handle drug cases, judges remain underpaid, overburdened, bribed, and assassinated. According to a report issued by the United States Government Accounting Office (GAO), an "estimated 350 judicial personnel have been murdered since 1980, including 50 judges, and a Colombian government survey shows that 25 percent of the judges reported that they and their families have been threatened."⁽¹⁾

In Colombia, the effects of the INT upon its judicial institutions have had a *multiplier* effect. Generalized violence by the INT has inspired a declining confidence of the polity in formal rules which govern and exemplify behavior characteristic of its judicial institutions. The impunity rate, or rate with which crimes go unreported and/or convictions are not obtained, has been historically high in Colombia and have attained even higher rates over the past fifteen years.

If the defining characteristic of a state is its legitimate monopoly on the primary mechanisms of coercion and affording citizens' security, the Colombian state has experienced a declining level of autonomy accompanied by both dimensions of deinstitutionalization. To recap the definitions provided in Chapter One, *deinstitutionalizing* refers to institutional norms and the erosion of their capacity to serve the political and social needs of the polity. The first dimension concerns the strengthening or weakening of institutions by formal and informal rules or mechanisms. The second dimension of deinstitutionalization involves the enforcement of formal and informal rules in terms of transaction and transformation costs. Among the roles required of institutions are solving problems of human cooperation and reducing uncertainty by providing a stable structure within which human interaction occurs. Deinstitutionalization is driven by national and international forces.

The second dimension of deinstitutionalization affecting the Colombian judiciary stems from the inability of the Colombian state to enforce its contracts. On the one hand, German Palacio makes a convincing argument that international pressure has resulted in treaties often unenforceable due to either unconstitutionality or, when enforced, "contribute(s) to . . . weakness by undermining the credibility of the Colombian legal system."⁽²⁾ On the other hand, Palacio and Pahl agree Colombia is closer to an anarchic state judicially than the liberal democratic state it has claimed and wishes to be. Palacio's research is important for the way it enables researchers to more clearly identify and examine the forward and backward linkages of the INT affecting institutionalization.

The purpose of this chapter is to assess the impact of the INT on Colombia's judicial institutions. I hypothesize the INT has negatively affected the Colombian judicial system by eroding the willingness and capacity of the Colombian state to interpret and uphold the law. As in the previous chapter I treat the INT as a transnational organization with the organizational structure of a network organization. To test my hypothesis I examine the following: 1) the growth of paramilitary organizations; 2) circumventive behavior exemplified by the INT's penetration of the judiciary legal representation; 3) inability of the

Colombian state to enforce its own laws concerning prosecution of drug cases; 4) the INT's formation of political parties to further its aims; 5) enforceability of international treaties with specific attention to the extradition treaty between Colombia and the U.S.. Examining these phenomenon and their relationship to the Colombian state allow a clearer evaluation of abstractions such as legitimacy and autonomy.

German Palacio suggests, when speaking of paramilitary organizations, privatization of justice is better understood as one of two judicial mechanisms in Colombia. Both compete or substitute for/with the official judicial system. He conceptualizes privatization of justice as para-state justice that he subdivides into para-police (referring to "private justice" groups acting as anonymous police forces under police protection) and paramilitary organizations. Para-military justice organizations may perform similar policing activities but are organized and protected by the army and also financed by narco-entrepreneurs.⁽³⁾ Despite the historic tradition of broker-clientelistic relationships in Colombian history by which citizens might obtain justice and protection, the polity is less able to rely on such informal mechanisms. Individual body guards have become better organized, financed, and beholden to the INT.

Penetration of the judiciary by the INT through either corruption or legal representation allows some conclusions to be drawn about: 1) channels of interest articulation through which the state can respond to the polity and 2) the degree to which corruption of public officials brings some veneer of legitimacy to a person or act. Klitgaard attempts to rank the effect of corruption upon a state. When corruption exists, such as police or judicial corruption, it does not reallocate a private good. It produces a *public bad* or what Robert Klitgaard considers a negative externality.⁽⁴⁾ This can include an increased cost in obeying the law, alienation, and cynicism among the polity. Michael Pahl reports that approximately 20 percent of all crimes are reported to Colombian authorities. Of these only 4 percent, of which 2 percent are for crimes of robbery, assault and battery, result in convictions.⁽⁵⁾ The authorities' ability to meet the social and political needs of the polity has so eroded that Colombian society relies more strongly upon informal rules than the formal rules implemented to strengthen the state. The emphasis of informal rules over formal rules is the first sign of a deinstitutionalizing erosion of state autonomy reflecting alienation and cynicism among the polity.

Political parties formed by the INT to further its aims permits evaluation of its alliances. It also allows us to assess the importance of organizational evolution as a means to enhance state/INT negotiations. Successfully prosecuting drug cases is a measurement of the state's bureaucratic capacity as an enduring structure of governance and rule.

The handling of the aftermath of the attack on the Palace of Justice reveals the Colombian state's inability to enforce its laws between the state and its citizens on the one hand and between the state and another government agency, the military, on the other hand. The continually changing status of an extradition treaty illuminates the multiple levels of contestation over the organizing principles of a dependent industrializing state such as Colombia. Additionally, examination of the Extradition treaty enables us to understand the effects of international pressure of political deinstitutionalization.

An exquisite irony developed in Colombia, however. As the study progresses, we shall see the Supreme Court of Justice, quite subordinate to the executive branch before the attack on the Palace of Justice in 1985, become an activist court within a civil law tradition. Its championing of individual rights, in a way uncharacteristic of a peripheral industrializing nation, served as a catalyst for the judicial reorganization in 1991.

To examine the impact of the INT on the Colombian judicial system, one must first understand the structure of the Colombian judiciary. The first section of this chapter provides a brief literature review of comparative judicial approaches and the second section highlights the historical development and structure of the Colombian legal system. The third section examines the relationship between the changing organizational structure of the INT and its impact on the Colombian judicial system.

Review of the Literature

Legal scholar Robert Cover observes that we inhabit a normative universe in which rule making occurs both formally and informally.⁽⁶⁾ But rule making and its legal institutions cannot exist apart from the narratives or discourse within which such occurs. We live in a world where tension between meaning and reality is everpresent. Legal meaning or jurigenesis occurs through a cultural medium where, for law to be meaningful it

must...permit those who live together to express themselves with it and with respect to it. It must both ground predictable behavior and provide meaning for behavior that departs from the ordinary.⁽⁷⁾

Unification of meaning stands at the center of a *pure, paideic normative order* that exists but for a moment. After this moment the social organization of legal precepts as power and the organization of law as meaning becomes dichotomized. Thus the "uncontrolled character of meaning exercises a (beginning) destabilizing influence upon power."⁽⁸⁾

Emile Durkheim conceptualizes law as an external index of the internal attribute of social solidarity, which does not lend itself to direct observation.⁽⁹⁾ Durkheim hypothesizes that there is a positive relationship between the structure of a professional group and its professional ethics. Durkheim suggests the greater a group structure, the larger the numbers of moral rules appropriate to it and the greater authority such rules shall have over its members. Thus the sustenance of diverse relationships, on a one

8: Conclusion

To capture the complexity of the INTs impact upon the economic and legal institutions of the Colombia state I borrow across several theoretical foundations concerning state-civil society relations, order and change. Placing the state at the center of my investigation is consistent with and goes beyond the comparative politics paradigm of the modern state as a shaper of previously traditional societies. It is consistent with the institutional state, its offices, roles and organizations as the repository of society's authority. It goes beyond modern-traditional and center-periphery models in its focus on the state's actions in society. The assumption is that social change occurs through formal and informal organizations and rules that exercise social control. Contestation over who makes the rules that define the authoritative allocation of resources is at the center of the struggle for social control.

Studies of the Colombian state, within the comparative politics paradigm, have characterized it as a strong, centralized, hierarchical, and oligarchical state as demonstrated by the persistence of civilian government over time. Constraints upon the state, within this paradigm, are those "imposed by the rivals to *central* power, those who constitute an alternative state leadership."⁽¹⁾ This approach cannot account for other social organizations, such as the INT in Colombia, which may organize and provide selected alternative incentives and sanctions to the state.

Expanding the institutional approach to include organizations, operating formally and informally, in a struggle for social control reveals a *weak* Colombian state. It is a *weak* state, not from any sense of a central, external threat, but weak in its levels of compliance, or the capacity to enforce its rules; weak in the levels of participation or its capacity to organize the population for specialized tasks within state institutions; and weak in its perceived legitimacy or acceptance of the state's rules of the game. Migdal notes, "The greater the social control, the more currency-compliance, participation, and legitimacy, is available to state leaders to achieve their goals."⁽²⁾ This study argues that the Colombian state was never terribly well-functioning. Its history is that of a series of lost opportunities to consolidate its social control. Generally speaking, it has lost such opportunities by its inability to use economic bonanzas to strengthen its state institutions. Moreover dealing with economic bonanzas has consistently been within the purview of the producer associations. Another area of lost opportunities has been the delayed decision to reevaluate and redesign its judicial system. Colombia's archaic justice system failed to meet the needs of a changing polity and, as such, encouraged circumventive behavior including corruption and dissociation from the states' *rules of the game*.

Defining the Colombian state as *strong* because of low levels of military rule and moderate economic growth overlook real changes generated by organizations peripheral to the state and the degree to which they affect the nature and capabilities of the state. In this study I have argued that the illegal narcotics trade as manifested by the cocaine cartels are just such organizations. The two hypotheses originally offered in the study's design proposed that: 1) the INT has negatively affected the capacity of the Colombian state to consolidate and increase its control over an effective economic program and 2) the INT has negatively affected the Colombian judicial system by eroding the willingness and capacity to uphold and interpret the law. These hypotheses formed a subset of the basic proposition that the INT has reduced the autonomy of the Colombian state through a process of deinstitutionalization that has curbed the capacity of the state to control or reverse the process.

The evidence disconfirms my hypotheses as stated and suggests that a higher level of complexity and nuance are required to better understand the impact of the INT on Colombian economic and legal institutions. This complexity is more readily apparent when a historical evolution of the INT is developed. The hypothesis assumes a Colombian state that consolidated and continued to consolidate control over an effective economic program. Implied in the assumption is a level of state centralization accommodating competing interests in a fair and open manner that did not, in fact, exist at the beginning of Phase One of the INT. To the extent economic institutions and interests were dominated by a single sector of the Colombian population, the economic elites and their respective producer associations, economic programs had *pockets* of consolidation. While often bitter competition existed among economic elites, it remained an oligarchical elite that provided few avenues for the admission of new players as it guided and assisted the government in designing and implementing economic policies. Thus the Colombian state was still struggling to centralize control when the INT became dominant in the underground economy.

It is noted that traditional mechanisms used by the Colombian state to meet power challengers consisted of political mobilization(channeling people into organization frameworks) and cooptation. The fragmented institutional structure of Colombia's various economic agencies during this period was an excellent organizational fit for the INT since it consisted of similarly dispersed decision-making and decentralized local operations. Thus the Colombian state appeared content to allow what was perceived as just another local clientelistic behavior, albeit illegal, to be dealt with on the local organizational level.

When López Michelsen sought to de-link Colombia's development from foreign banks in a move to increase Colombia's political and economic autonomy internationally, it is not clear the move was at all in response to the growing INT. His decision to reopen the *side window* at the *BdeR* to capture the growing narco-dollars represents, according to Palacio and Rojas, a continued policy of using *parainstitutionalism* by Colombia's presidents to achieve their political goals.⁽³⁾ That the GOC benefitted from opening the "side window" at the Central Bank was incidental to López Michelsen's attempt to consolidate an economic program in desperate need of a stronger financial foundation. Neither he nor the GOC could have anticipated that the development of the rapidly growing financial and industrial sectors would become oligopolized among not the older established groups, but among newer groups who had benefitted from their transactions on the local levels. The evidence suggests that the rapid economic growth experienced through various bonanzas during Phase One left the Colombian state in a position of having to play *catchup* in terms of restructuring and centralizing economic institutions as the need for greater coordination through centralization became more pressing. Thus, until Phase Two when the INT developed a more centralized structure with effective coordinating mechanisms for developing specialized competencies, its impact on Colombian economic institutions occurred primarily at the local level. It is important to note, however, that control of social organization at the local level was often exercised by the producer associations who, excepting the political parties, had the strongest links to the national government.

During Phase Two, however, the INT developed significant power to challenge the Colombian government's capacity to mount and control an effective economic policy. First, the sheer bulk of wealth generated by the cocaine trade meant that the INT's informal institutions could no longer accommodate its needs. As an illegal entity it had no formal legal apparatus through which to institutionalize its commercial practices. Thus it began to appropriate, through bribery or infiltration, formal economic institutional structures of the Colombian state. This added constituents in various branches to a considerable and growing constituency of the INT during Phase Two. Moreover, legal enterprises from the INT developed a constituency that, perceived as legitimate actors within the economy, could articulate the interests of the INT when necessary.

The Colombian government again tried what had previously worked for them in dealing with political challengers: political mobilization and cooptation. But the recession of 1982 increased the fragility of the Colombian economy and Betancour was forced to address the issue of fragmented economic institutional structures before the very real threat of economic collapse. Periodic amnesties were offered cartel leaders in exchange for investing their funds in legal enterprises. Development of parallel credit markets and parallel currency exchanges suggests the Colombian government again found itself in the position of playing *catchup* in the fortifying and restructuring of Colombian economic institutions. Meanwhile, networks formed in Phase One between the INT, local banks, and financial groups allowed limited preexisting forms of economic parainstitutionalism to expand. Parainstitutional growth was supported and advanced by the INT's access to newly developed technology.

Structural realignment of institutions by a government takes time to design, implement and even longer to gain acceptance and habituation by the polity. Meanwhile, the Colombian state faced a growing gap, exacerbated by the INT, between the legal function of an institution and a political function of an institution. This means that the executive, to acquire greater control over economic institutions, implemented policies clearly designed to gather INT monies to increase international reserves. This would be considered an illegal function while attempting to fulfill the political function of stabilizing the economy. Palacio and Rojas argue that, because of the illegality of the INT, there developed not only a *parainstitutionalism* outside the government, but a *parainstitutionalism* within the government to find political expression required by the new level of capital from the INT.⁽⁴⁾

The first formal and legal institutional mechanisms to capture narco-profits were put into place in 1985. These represent the first documented effect of the INT on Colombian economic institutions. Prior efforts were accomplished by presidential decrees frequently issued during a state of siege. The Colombian Congress authorized a special bond issue to repatriate narco-profits through the purchase of government bonds traded on the international market. This did little to enhance Colombia's international image as it sought additional credits to manage its national debt. Moreover, there was a growing tension between the executive, legislative, and judicial branches of the GOC as efforts by Betancour and later Barco to reform income tax legislation were rejected by Congress or deemed unconstitutional by the Colombian Supreme Court of Justice.

Social relations in the Congress remained dominated by clientelism. This was not the patronage-client model of the bipartisan National Front, but a brokerage-client model that emerged in the wake of the National Front regimes.⁽⁵⁾ As the study demonstrates, during this period the INT became increasingly active in its efforts to gain influence through legitimate means, either as actual representatives in Congress or as staunch supporters of existing representatives. When this failed, the INT resorted to bribery and coercion to advance favorable legislation and block unfavorable legislation. It is difficult to see how this could have occurred on any but the local level had not there emerged an increasingly coherent leadership among the crime families of the INT. An organizational shift to a hierarchical model enabled the emergence of elite leaders within the INT who could negotiate, bargain, and compromise not only with their counterparts within the government, but with each other.

The early years of the Barco administration suggests that bond issuance became a standard way to repatriate narco-profits as debt-service increasingly consumed export growth. Moreover, Colombia had not been able to join other countries in the trend toward developing economic apertures or openings as well as democratic apertures.

The Gaviria Administration represents that growing group of *tecnicos* that entered many Latin American governments during the 1980s. Building on the institutional restructuring begun in earlier administrations, Gaviria's neo-liberal policies struck a favorable chord with international financial leaders. It was suggested in Chapter Six that Gaviria's success was due, in part, to his decision not to pursue reinstatement of the extradition treaty. Clearly this was important in creating *breathing* space for the Gaviria administration. His careful differentiation between narcoterrorism and narcotrafficking allowed him to pursue those more visibly violent elements threatening Colombia, while working quietly to find ways to adapt to the others.

While important that decision, in and of itself, cannot explain his success. Gaviria could not have done so much by himself. He needed the support of the *gremios* for his new policies and he received it, shortly after he decentralized the economic agencies centralized earlier and freed the agricultural sector from regulation. By this time the narcotraficantes were reported to own as much as 33% of prime agricultural land nationwide. Whether or not the capos were convicted, the land would remain in their families providing a channel for articulating interests and gaining legitimacy. Liberalization of exchange controls, while not universally lauded, received the cooperation of most banks in allowing the exchange rate to decline and providing better control of the money supply and inflation.

Gaviria was also helped by the organizational changes of the INT during this period. In its configuration of being dominated by the cocaine economy, the INT in Colombia is approximately twenty years old. Leaders such as the Ochoas, the deceased Pablo Escobar, and the Cali cartel leaders the Rodriguez Orejuela brothers, were no longer the energetic or *cocaine cowboys* of yesteryear. As Phase Three began, the INT had developed into a network organization with a strong administrative heritage, a collection of forces that included the history of its development and personalities of its leaders. The structural arrangements they adopted were congruent with their specific environments.⁽⁶⁾ The Gaviria administration managed to capitalize on the beginnings of an earlier restructuring of economic institutions to design and implement mechanisms by

which this level of capital expansion could find articulation within the system. That the cartel leaders were willing to accept this appears to confirm Francisco Thoumi's thesis that:

the economic behavior of narco-businessmen is highly influenced by the economic institutions that shape the environment in which they operate, the nature of their business, their need to legitimize their assets and whether they are consumers of the products they peddle or they have other criminal records.⁽⁷⁾

This is also consistent with Bartlett and Ghoshal's definition of network organizations as a heterarchy wherein control mechanisms are devised and implemented by adaptation of units to their local environment while power is achieved by point centrality. For the INT this is achieved through the coordinating role of the oligopolic sector. This does not mean the GOC no longer faced (s) challenges from the INT. It does and will continue to do so, but the contour of those challenges will be different as the organizational structure of the INT continues to fragment and centralize again.

The Samper administration had the extreme good fortune of coming to power on the heels of the successful adaptation of the Colombian state to a formidable power challenger. What the administration will face is the need for continued economic management. Samper was fully prepared to deal with until the U.S. decided he appeared "soft" on dealing with the cartels.

In addition to pressure from the U.S. the Samper administration is faced with a fragmenting INT as new challengers and entrepreneurs have developed. While the capture of Gilberto Rodriguez Orejuela was greeted with jubilation, the reality is that there are now "100 mini-cartels in Colombia"⁽⁸⁾.

The Colombian government's capacity to consolidate and increase its control over an effective economic program, following dismantling of the National Front agreement, was not negatively affected by the INT during Phase One of the INT's evolution. As organizational characteristics of the INT changed parallel to an ongoing attempt to restructure the GOCs institutional capability, the GOC was negatively affected in its efforts to consolidate and control an effective economic program during Phase Two. These efforts were exacerbated by the GOC finding itself frequently in the position of reacting to demands and events by the INT as well as to international agencies, especially the U.S. and international human rights groups. The resulting efforts to deal with the INT often led to contradictory policies as the state continued its efforts to stabilize its economic institutions in the wake of widespread international disapproval and a global recession.

One could, I suppose, make the argument that the INT effectively "brought the Colombian government to its knees" by forcing it to deal with the INT as a quasi-legitimate interest group. The evidence suggests that the INT had become such a formidable economic force and that the GOC would have been foolish to ignore such a powerful economic and political actor. In a perverse way the challenge of the INT forced the GOC to actively search for new ways of coping with power challengers and to think seriously about expanding democratic procedures and policies and continuing reform of economic institutions. Thus, during Phase Three, the INT affected the GOCs capacity to consolidate and increase its control over an effective economic program positively and negatively. Rather there appeared a coincidence of interests, needs, and organizational structures between the INT and the GOC that opened negotiation spaces for structural reform.

Impact of the INT on Colombian Legal Institutions

By the time of the National Front agreement there were few intact political institutions, the primary one being the military. During the National Front regimes the Colombian military retained its constitutional basis as it contended with *bandolerismo* that permeated the countryside until the late 1960's. Beginning in the 1970s, it began civic action campaigns trying to alter the allegiance of peasant supporters for numerous *guerrilla* groups that continued to plague Colombia.⁽⁹⁾ Juan Linz notes that, "A primary requirement of a stable democratic government is the retention of its legitimacy among those in direct control of the instruments of coercion..In certain respects the armed forces are a concurrent minority (with this capacity)."⁽¹⁰⁾ Hartlyn notes that by the late 1970s the Colombian military was better prepared institutionally to fulfill this role.⁽¹¹⁾ This suggests that the Colombian state continued to command a high degree of legitimacy in a general sense. Legitimacy, however, occurs in relationship to different sectors of society and across the political spectrum.⁽¹²⁾

The capacity to make decisions about political violence that would have positive results depends, however, on the level of previous legitimacy and effectiveness of the government.⁽¹³⁾ Trust was still a fragile commodity as the National Front ended.

Lack of official support and prosecution for the attacks on judicial workers at the end of Phase One suggests the erosion of an already fragile legitimacy.

Paramilitary squads had not yet added the dimension of being a parapolice as defined by Palacio. They retained their institutional identity and purpose as a self-defense force of ranchers. Bribery was limited to individual cases and the general consensus about the *narcotraficantes* was that they were businessmen with no political ambitions.

Any analysis which relies on bribery and corruption to explain the perdurance of the INT and its impact on the GOC misses an important theoretical question raised by this type of challenge: Is it possible that certain kinds of legal traditions and systems, such as a civil tradition, are simply quite inadequate to meet certain kinds and levels of challenges? The INT's impact upon Colombia's judicial system during Phase Two suggest that the civil law system and tradition reached a ceiling limiting its effectiveness and was incapable of responding to the demands generated by prosecution of the INT.

This was complicated by a presidency that experienced a ...severe deflation of state authority as a direct consequence of drug trafficking, and due to several indirect ones, such as its [presidency] facilitating growing paramilitary and criminal violences as well as *guerrilla* activity ... elements of the armed forces against leaders of popular movements and opposition parties.⁽¹⁴⁾

The dramatic increases in assassinations of elites reflect the increased organizational, coordinated power of the INT and a diminished state capacity to deal with the assassins. It was not until Phase Three, during the Barco administration, that assassins of the elite were identified and varying members of the cartel families charged with the intellectual authorship of the deeds. Institutionally, the Colombian judiciary simply did not keep up due to the large number of cases in the first place and the quite real danger to life in the second place.

During this phase the INT acquired a concentrated and formalized means of coercion, the paramilitary and parapolice squads. These acquisitions were necessary not only to confound governmental prosecution, but also because the very illegality of their enterprise precluded their appeal to the GOC to settle contract and property disputes. During Phase One, the military was institutionally well-prepared to fulfill its role in a democratic government by having the legitimate monopoly on the means of coercion. Its legitimacy derived from a constitution which commanded it to fight *guerrillas*. This, in addition to Columbia's delay in professionalizing its police force, meant the military remained responsible for many kinds of enforcement dealing with political disorder. Why then did the military appear so susceptible to corruption, bribery, and cooptation by the INT?

Part of the answer is found in the increasingly articulated anticommunist and antisubversive political ideology of the narco-traffickers. Recall that most of the kidnappings in Colombia were committed by the *guerrillas*, with the victims often killed despite ransoms paid. The fact that the traffickers represented an illegal enterprise mattered little to the *guerrillas* whose chief concern was filling their coffers. That the military had failed to wipe out the *guerrillas* some 30 years after '*la violencia*' had ended was a source of constant frustration. The devastatingly successful campaigns by MAS against the M-19 *guerrillas* eroded the military's confidence in approaches it had used in the past and suggests the traffickers and military had more in common than originally thought.

Another part of the answer may be found in the Colombian military's perception of itself as the "national guardian". As such it required an increasingly autonomous base of support that more accurately reflected its ideology. The catalytic event for this was the failed attempt by the military to contain a civilian strike in 1977. The military demanded greater power to improve internal security. Turbay was prepared to do this with enactment of Decree 1923. The study has revealed how funds designated to fight the *narcotraficantes* were often switched to fight *guerrillas*. Periodic peace proposals to reintegrate the *guerrillas* into society were so opposed by the military, that the peace talks often had to exclude the military. The attack on the Palace of Justice provided a clear indicator of a greater "political space for the armed forces and their decision-making in the center of government."⁽¹⁵⁾ This enlarged space became even larger when Minister of Defense Rafael Samudio contradicted President Barco's peace plan, calling instead for an all-out war against the *guerrillas*.⁽¹⁶⁾ His replacement did little to settle rumors of a military coup. It is difficult for North Americans to appreciate the intense hold anticommunist, subversive ideology retains on the military in Colombia. Excerpts from an interview conducted by Tina Rosenberg in 1990 with Colonel Eduardo Arévalo, press spokesman for the armed forces at the Ministry of Defense, are offered as an example of the virulence of this belief among senior officers in the military.

Many people think the *Unión Patriótica* are the 'good communists'. They go back and forth between the UP and *guerrillas*. Hell, they're really *guerrillas*..[I asked about the indictment of the Voltigeros officers for the Urabá massacres.] That judge is on the extreme left..what you've heard is just propaganda. Besides, a civilian judge cannot investigate an officer. She should pass the case over to the Army..These so-called paramilitary groups are not the army...it's just a convenient world the Left uses to blame us. What really happens is that the people see a UP man in a suit and tie in the Senate, and even though he's wearing a tie and he's a senator, people recognize him as a *guerrilla*, so they contract a *sicario* to kill him...Many of the people in the Law here have links with the extreme Left. Most of the law professors in the National University are extremely left-wing. Amnesty International is manipulated by the Communist Party. That is well-known.⁽¹⁷⁾

The entrance of the *guerrillas* into the cocaine business is considered by some coincidental and convenient. It was not perceived as such by the INT when its efforts to consolidate its organization s met opposition from *guerrillas* who commanded peasant loyalty in the areas they controlled. Thus we can readily see how the military perceived itself as caught between a government committed to ending the *guerrilla* conflict by reintegrating the rebels into society and an illegal organization which even more strongly supported the mission that the military had found itself charged with for some thirty years.

Another emerging actor during the evolution of the INT was the Colombian Supreme Court of Justice (SCJ). The study suggests that while the SCJ remained oppositional in its stance throughout all three phases of the INT, the reasons for the opposition changed as the organizational structure of the INT changed. Concern for constraining executive independence during Phase One changed to opposition secondary to the threat and intimidation it experienced through escalating violence against its members. The SCJ's rulings during Phase Three continue to appear oppositional at times, but at this point the opposition is situated around the arduous task of developing a new constitution and a reformed penal procedural code. The net effect, however, has been limiting executive decree power under either a state of emergency and a state of national economic emergency forcing the presidents to negotiate with congress on legislation.

It is not until the installation of the Gaviria administration during Phase Three of the INT that concerted efforts were made to identify and confront the informal rules that had weakened the Colombian judiciary. Governing via states of emergency for 35 of the past 42 years⁽¹⁸⁾ had established an institutional norm of conflict resolution via presidential decree. The result was a strengthened presidency as the legislature remained immobilized by the many factions that had developed within the two primary political parties.

A hallmark of Gavira's administration was the recognition that presidential authority had diminished and that the exclusive, enclosed consultation method of Barco was no longer acceptable. Restoring legitimacy to the state meant negotiating with a Congress duly elected as representing the citizenry. Gaviria was less sanguine, however, in his attempt to curtail the military directly. His efforts to reestablish civilian control of the military were limited to what Dix calls a "highly legalistic approach, rooted in lack of mutual trust", meaning that Gaviria sought military reform within the constitution and reform of the judiciary.⁽¹⁹⁾

Violence as an Agent of Social Change

In his study of the breakdown of democracies, Linz notes that violence, while rarely involved in the actual takeover of regimes, has contributed "to their loss of legitimacy, creating a loss of power and power vacuum."⁽²⁰⁾ He notes that understanding how this occurred rarely involves examining situations where "the authorities, the police, and the judiciary, even though disapproving of violent political acts, dealt leniently with them because they felt sympathetic to the motives of those engaging in them or hostile to their victims."⁽²¹⁾ Comments by the Minister of Defense and the Chief of the Army that judges arm themselves when attacked by gangs working for the *narcotraficantes* suggest disrespect for the judiciary and a limited awareness of working together as employees of the government. How could anyone have respect for the judiciary when it was so unsupported by those charged with supporting it?

The fact that soldiers, accused of peasant murders in villages perceived to the "leftist", were rarely found guilty in military courts eroded confidence in the military and a government charged with obtaining justice for its citizens. Attempts to limit military jurisdiction over crimes that could be tried in civilian courts were often thwarted as presidential power declined. The Gaviria administration is the first that did not experience rumors and threats of a military coup as a new constitution and

reformed legislation restricted crimes tried in military courts and specified crimes committed by military personnel required to be tried in civilian court.

The escalation of violence by the INT's paramilitary squads, whenever one of its members were extradited or when attempts made to reinstitute the extradition treaty, resulted in a new constitution that bans the extradition of Colombian citizens. On the one hand this can be perceived as a declining capacity of the Colombian government to initiate and fulfill its contracts. But *narcotraficantes* were not the only ones opposed to extradition. Elites and non-elites regarded the need for extradition as a demoralizing shame for their nation. What appears to have happened is that a tradeoff occurred. The ban on extradition was allowed to remain in exchange for one of the more sweeping penal procedure reforms in Colombian history. In this sense one could argue that the violence of the INT had a positive effect in promoting much needed judicial reforms. This would conform to Rule's observations that "fluctuations in the extent and intensity of violent conflicts are...directly linked with other changes in relations among...groups...especially power relations."⁽²²⁾ Gaviria's decision to not restore the extradition treaty created a space for the changing political and social relations between the Colombian State and the INT.

These changing political and social relations also represent what the Commission for the Study of Violence calls challenges to a state charged with popular representation while a private power parallel to the state developed and penetrated the state. The INT, identifiable as a nascent political challenger during Phase One, became a full-fledged challenger during Phase Two. As it evolved into a major TNC it sought to negotiate on a level that provided legitimacy through recognition of its power. The Gaviria administration provided this.

The INT negatively affected the Colombian judicial system by eroding its willingness and capacity to uphold and interpret the law during Phase Two and Phase Three in the evolution of the INT. Evidence in the study does not support the basic proposition that the INT has reduced the autonomy of the Colombian state through a process of deinstitutionalization which has curbed the capacity of the state to control but not to reverse the process. Although assassinations and threats to judicial personnel continue, the INT can be said to have served as a catalyst for a much needed constitutional and penal reform. Evidence for this is found in the ability of the state to convene a constitutional convention and mobilize congress sufficiently to legally commit a new penal code. How strong are these institutional reforms and restructuring? How long will they last? Will they be able to withstand challenges for increasing their legitimacy?

I agree with Banks and Alvarez that the habituation and socialization necessary for acceptance of the reforms and restructuring will take time and depend upon the Colombian's people's perception of the fit between the new set of rules and society. If the legal institutions provide a more secure life for most Colombians protecting rights and punishing transgressors, the judicial system will be perceived as effective. In turn the habituation and socialization necessary to keep these reforms in place can begin to develop. Then these institutional reforms and restructuring can be said to have reached the level of institutionalization. Conversely, the state can do little to indemnify those who suffered under a system that was eroding.

If the model of organizational behavior is correct, however, the decline/incorporation of the major cartel families has given rise to many new narco-entrepreneurs who will, in turn, restructure themselves to conform to the needs of their environment. This could mean a resurgence of turf wars unless the aging capos have arranged well-enough for their own succession. Another variable that would bear closer appraisal is international pressure from the U.S. and international human rights agencies. Already the U.S. has applied considerable pressure on the newly installed Samper government because they thought him insufficiently concerned with the INT. Despite demonstrating his ability to marshal enough resources to capture the Cali cartel leaders, assassinations of members of the judiciary have begun anew. On June 15, 1995 the regional DAS chief who had gathered the evidence and led the team in search of Gilberto Rodriguez Orejuela was assassinated. Moreover, continuing investigations by Attorney General Valdivieso have revealed considerable corruption among Samper's campaign managers and his cabinet. Equally interesting is that the U.S. has strengthened these investigations by providing evidence against the Samper administration collected by U.S. law enforcement.

THEORETICAL IMPLICATIONS OF THE STUDY

What are the theoretical implications for this study? I believe this study explains the relationship of the illegal narcotics trade to the Colombian state better than others because of its focus on institutionalism. It differs from the institutional approaches in the past in that it attempts to place institutionalism more firmly within culture. Doing so permits the researcher

to identify increased points of access for those organizations, state and non-state, which try to control social organization. Specifically it differs from older institutional approaches in its inclusion of an illegal activity that developed resources large enough to challenge those of the state. Only in the past decade has there been recognition that the illegality of an enterprise per se is not enough to dismiss it as a power challenger. Past efforts have consisted of primarily historical studies of political and social banditry and anecdotal documentation of organized crime.

Lupsha's research on network analysis, Block and Gambetta's studies of social organization among Sicilian crime families, Sanchez's work on political banditry in Colombia are just a few examples of a beginning research shift in the effect of illegal enterprises on state-civil society relations. Incorporating network analysis and organizational behavior of evolving firms, whether legal or illegal, from this study will add another dimension to that research.

These dimensions could be particularly salient for those countries where the informal economy plays a dominant role in economic growth. Peru and Mexico are two Latin American countries where extensive research on their informal economies already exists. Peru has long played a role as a producer country in the drug production chain with many areas of the Upper Huallanga Valley dominated by coca leaf production. The model of the INT as a power challenger would have to be considerably modified, however, since relationships between the Peruvian government and direct foreign investment have been limited since Alberto Fujimori became president and instigated his own coup allowing more authoritarian leadership. Additionally, current evidence suggests that leaf production remains the dominant activity without any significant organizational coherence among the two or three crime families who control it.

Mexico, particularly of late, promises to be a more viable candidate for application of this model. Although politically there is only one political party, the *Partido Revolucionario Institucional* (PRI) is well institutionalized. The government has considerable experience dealing with direct foreign investment and, like Colombia, it enjoys a long history of smuggling. Moreover, Mexico is presently second only to Colombia as a major country for illegal narcotics trafficking. Currently, however, its activities appear to be limited to transshipment of cocaine while marijuana production continues to be the dominant drug industry.

Moving further away from Latin America, this research might also be used in assessing the impact of the growth of organized crime in Central/Southern Europe and in Russia. Russia presents an especially interesting case with the high levels of institutional realignment following the breakup of the former Soviet Union. As noted earlier in this work, the design and implementation of institutions take time while the citizen's needs for resources and protection remain immediate. Early research suggests that many involved in organized crime in Russia come to this enterprise with considerable institutional building skills having been members of the Communist bureaucracy. Additionally the move toward privatization of the financial system has created institutional vulnerability for Russia. Many of the criminal organizations are reported to have developed or taken over banks of their own. Bankers, as a subgroup of the population are assassinated more frequently than any other group.⁽²³⁾ The issue of institutional building becomes an even more salient issue for a country such as Romania where anecdotal information suggests that the economy is dominated by several illegal narcotics trafficking groups and rebuilding the economic institutions have been slow and ineffective.

Future research agendas might include developmental comparisons between the Sicilian crime families and the Colombian *mafiosa*; negotiating and bargaining tactics of states with illegal entities; and continued evaluation of violence as an agent of social change. Revisiting institutionalization and rooting it more firmly within a culture can provide a clearer appreciation of levels of political stability and instability and, perhaps, point the governments concerned in the direction of more effective policymaking.

1 Joel Migdal, "A Model of State-Society Relations," Chapter 3 in *New Directions in Comparative Politics* ed. Howard J. Wiadra (Boulder: Westview Press, 1985) 41-56.

2 Ibid., 50.

- 3 Palacio and Rojas, 87.
- 4 Ibid., 72.
- 5 Francisco Leal Buitrago, "Modernización del Estado y Crisis Política," Conference Paper No. 39, Presented at the Research Conference, "Violence and Democracy in Colombia and Peru at Columbia University, November 30-December 1, 1990.
- 6 Ackerman and McRae, 6.
- 7 Francisco Thoumi, "Colombian Laws and Institutions, Money Dirtying, Money Laundering, and Narco-Businessmen," mimeo, February, 1990, np.
- 8 Tom Quinn and Elaine Shannon, "Colombia: A Drug Deal?" *Time*, November 4, 1994. Electronic Archives.
- 9 Robert H. Dix, *The Politics of ...* 136.
- 10 Juan J. Linz, *Crisis, Breakdown, and Reequilibration* (Baltimore: The Johns Hopkins University Press, 1978) 85.
- 11 Jonathan Hartlyn, *Politics of ...*, fn 20 in Chapter 7, 290.
- 12 Linz, 58.
- 13 Ibid.
- 14 Jonathan Hartlyn, "Presidentialism and Colombian Politics" in *The Failure of Presidential Democracy: The Case of Latin America* Volume 2, eds. Juan J. Linz and Arturo Valenzuela (Baltimore: The Johns Hopkins University Press, 1994) 236-237.
- 15 Americas Watch Report, January 1986, 72.
- 16 ... "Barco Outlines Peace Process: Plan Excludes Discussion of Death Squad Activity", *Latin American Weekly Report* September 15, 1988, 9.
- 17 Tina Rosenberg, *Children of Cain: Violence and the Violent in Latin America* (New York: William Morrow, 1991) 50.
- 18 US State Department, "Colombian Human Rights Practices, 1993" (DC: Government Printing Office, 1994) 1.
- 19 Ibid., 168.
- 20 Linz, 56.
- 21 Ibid., 57.
- 22 Rule, 266.
23. Interview with Sergei Morozov and Olga Blinkova (Director of first private bank in Moscow) at the International Visitors Council Meeting held at Muhlenberg College, October 1995.

Glossary

Bank equity capital: stockholder's equity in a bank usually represented on the balance sheet as outstanding stock, surplus and retained earnings. Banks also increase their equity in long-term funds through selling bonds and notes. Large capital stock provides a larger cushion for the bank as represents the amount of funds it can lose without endangering its ability to pay its depositors. ⁽¹⁾

Correspondent banking: refers to a private network among banks which connects banks and provides services such as deposits [primarily DEMAND deposits] with larger city banks. In return the larger city bank provides services such as the sale/purchase of securities, access to the national money market, buying/selling of foreign exchange.

Holding company: a corporation whose assets consist of a controlling stock ownership in one or more corporations. Sometimes used in banking to get around restrictive branching laws. Advantages include having subsidiaries in the finance business that banks are not allowed to have such as finance companies, credit card companies, discount stock brokers, etc. Nearly all of the largest banks are owned by holding companies and approximately three quarters of all commercial bank assets are in banks affiliated with a holding company.

Primary Reserves: Bank assets in the form of vault cash (currency and coin), reserves with the Fed and correspondent bank balances. These form a bank's first line of defense against a deposit or currency outflow.

Secondary Reserves: Comprised of earning assets or assets that are not quite as liquid as those in the primary reserves, but remain very liquid. Provides the bank with a second line of defense against a deposit or currency outflow.

Line of Credit: an arrange whereby a bank agrees to make loans to a firm almost upon demand up to a certain amount. These are usually established for a year, unlike term loans which usually have a maturity between one and five years and are repaid in installments.

Capital Equipment: Items designed to meet a customer's need for long term capital which are purchased by the bank and leased to the customer; i.e., ships airplanes, tractors, even cows.

Prime rate: interest rate established by each bank for large loans to its best customers.

Foreign loans: Loans made by large banks, or syndicates of medium-sized banks, to foreign firms and foreign governments. Usually considered safer in the sense that countries do not usually go bankrupt, but are riskier in that the banks have little recourse if there is a loan default. But there is no advantage for a country to default since there are two kinds of sanctions which can be levied: 1) assets located elsewhere may be seized, 2) a country which has defaulted cannot borrow in the international capital market. In mid-1982 this reached crisis levels as loans made by the ten largest banks in the U.S. had been made to third world countries and equaled 169% of the bank's equity capital.

Surplus: occurs when savings exceed investments.

Deficit: occurs when investment exceeds saving.

Capital Markets: provide arrangements which enable households, businesses, and governments that wish to invest more than they save can bid for funds of other spending units who have surplus funds; a process for transferring funds from households, business, and governments with surpluses to those with deficits.

Primary security markets: markets for loans or securities which are new.

Secondary security markets: markets for trading in old securities.

Open markets: those where buyers and sellers compete in a kind of auction market for securities.

Negotiated markets: those markets where borrowers negotiate terms with lenders directly.

Commercial paper: oldest form of business financing in the U.S. and represent promissory notes of well-known corporations which may be bought and sold. Much of this paper is issued by finance companies.

Bank Certificates of Deposit: transferable promissory notes issued by commercial banks.

Central banks: governmental or quasi-governmental institutions, not concerned with maximizing their profits but with achieving certain macroeconomic goals such as preventing commercial bank failure, high unemployment, etc.

Often serves as the lender of last resort to banks in crisis and who cannot obtain loans from other banks. Acts as the banker's bank in that it provides services such as holding most of the reserves of commercial banks. Controls bank mergers and examines member banks as well as imposing exchange controls over the purchase of foreign assets by its residents. Also acts as the government's bank in that governmental accounts are kept at the central bank which also can make loans to the government. Central banks also issue currency.

Gross National Product (GNP): measure of the aggregate value of a nation's output of goods and services.

Value-added: Value of its total output less the value of materials and services purchased from other firms.

Interest Rate: the rental price of money.

Real Rate of Interest: Difference between nominal interest rate and the expected inflation rate.

Inflation: a general increase of prices and fall in the purchasing value of money. Tends to reduce economic efficiency as rapidly changing prices make comparison and negotiation difficult. Results in arbitrary redistribution of wealth between debtors and creditors. Resultant uncertainty about the future can produce widespread economic and political instability.

International monetary system: provides a framework for enabling residents of one country to make payments to residents of another country. Necessity derives from the need of importers in one country to pay exporters in another country meaning that either the importers must acquire currencies of the exporting country or the exporter, after being paid in the importer's currency must exchange it. IMS can be identified by three key features: 1) organization of a foreign-exchange market; 2) types of assets used for financing or settling payments imbalances; 3) mechanisms of adjustment to payments imbalances.

International reserve assets: monies which provide the basis for international payments and which have been dominated by U.S. dollars as assets.

International Bank for Reconstruction and Development (IBRD or World Bank): established to facilitate the postwar recovery in Western Europe; then focused on extending financial assistance to developing countries.

General Agreement on Trade and Tariffs (GATT): Dominant agency promoting the reduction of tariffs and other trade barriers.

International Monetary Fund (IMF): Established to enhance stability in international payments in several ways: 1) providing rules for changes in exchange parities; 2) exchange controls on international payments; 3) acquiring a pool of national currencies that individual countries might borrow from to help finance their payments deficits.

Special Drawing Rights (SDRs): An international reserve asset based on five major currencies (US dollar, Japanese yen, British pound, German mark, and French franc) and whose value is determined daily based on the weight of each country's currency in the basket and the value for each country's currency in terms of the U.S. dollar.

Exchange rate: price of foreign monies in terms of domestic money and which is determined in the foreign-exchange markets. Enables the comparison of prices of domestic goods/services/securities with those in foreign countries.

Balance-of-Payments Accounts: a record of payments and receipts of a country's international transactions organized by major types of transactions between residents and nonresidents during a particular period and summed into three major categories or groups: 1) trade balance, 2) current-account balance, 3) capital account transactions.

Trade Balances: Represents the difference between the values of commodity exports and commodity imports. A trade surplus occurs if the value of commodity exports exceeds the value of commodity imports. A trade deficit occurs if the value of commodity imports exceeds the value of commodity exports.

Current Account Balances: Includes all transactions in commodities as well as transactions in services (transportation, tourism, royalties, license fees, film rentals, investment income, etc.) and private remittances (Social Security payments, gifts, and foreign aid.) Transactions are considered to be conducted by residents of the country.

Capital Account Balances: Characterized by transactions in assets and securities with nonresidents and can range from equities and direct investment, monetary gold, government securities and bonds.

Payments balances: an accounting record of all international transactions and represents the value of the transactions of the central bank or monetary authority in liquid assets. Generally considered a measure of "how well" a country is doing. A country with payments surpluses imports monetary assets meaning it has a deficit in the money account--its imports of monetary assets exceed its exports of monetary assets. Newer thinking asserts that a country's payments surplus or deficit *should be measured by the change in the Central Bank's holdings of international money.*

Abbreviations

ANDI Asociación Nacional de Industriales; National Association of Industrialists

ANIF Asociación Nacional de Instituciones Financieras; National Associations of Financial Institutions

ASOCANCARIA Asociación Bancaria; Banking Association

CAJA AGRARIA Caja de Crédito Agrario Industrial y Minero; Agricultural Bank

CAT (CERT) Certificado de Abono Tributario; Tax Savings Certificate

CEC Cuenta Especial de Cambios; Special Exchange Account

CEGA Corporación de Estudios Ganaderos y Agrícolas; Corporation of Agricultural Studies

DANE Departamento Administrativo Nacional de Estadística; National Statistics Department

DNP Departamento Nacional de Planeación; National Planning Department

FEDECAFE OR *FNCC* Federación Nacional de Cafeteros; National Federation of Coffee Growers

FEDESARROLLO Fundación Para la Educación Superior y el Desarrollo; Foundation for Higher Education and Development

FENALCO Federación Nacional de Comerciantes; National Federation of Dealers

FFA (FFAP) Fondo Financiero Agropecuario; Agricultural Financial Fund

FMI (IMF) Fondo Monetario Internacional; International Monetary Fund

GATT Acuerdo General de Tarifas y Comercio; General Agreement on Tariffs and Trade

HIMAT Instituto Colombiano de Hidrología, Meteorología y Adecuación de Tierras; Hydrology, Meteorology and Land Improvement Institute

IBRD Banco Mundial; International Bank for Reconstruction and Development (World Bank)

ICA Instituto Colombiano Agropecuario; Colombian Agricultural Research Institute

ICBF Instituto Colombiano de Bienestar Familiar; Colombian Institute of Welfare

ICO Organización Internacional del Café; International Coffee Organization

IDEMA (INA) Instituto de Mercadeo Agropecuario; Institute of Agricultural Marketing

IFI Instituto de Fomento Industrial; Industrial Promotion Institute

INCOMEX Instituto Colombiano de Comercio Exterior; Colombian Institute for International Trade

INCORA Instituto Colombiano de Reforma Agraria; Colombian Agrarian Reform Institute

INDERENA Instituto Colombiano de Recursos Naturales Renovables; National Natural Resources Institute

INI Instituto Nacional de Industria; National Industrial Institute

IPC Índice de Precios al Consumidor; Consumer Price Index

NCF Fondo Nacional de Café; National Coffee Fund

OPEP (OPEC) Organización de Países Exportadores de Petróleo; Organization of Petroleum Exporting Countries

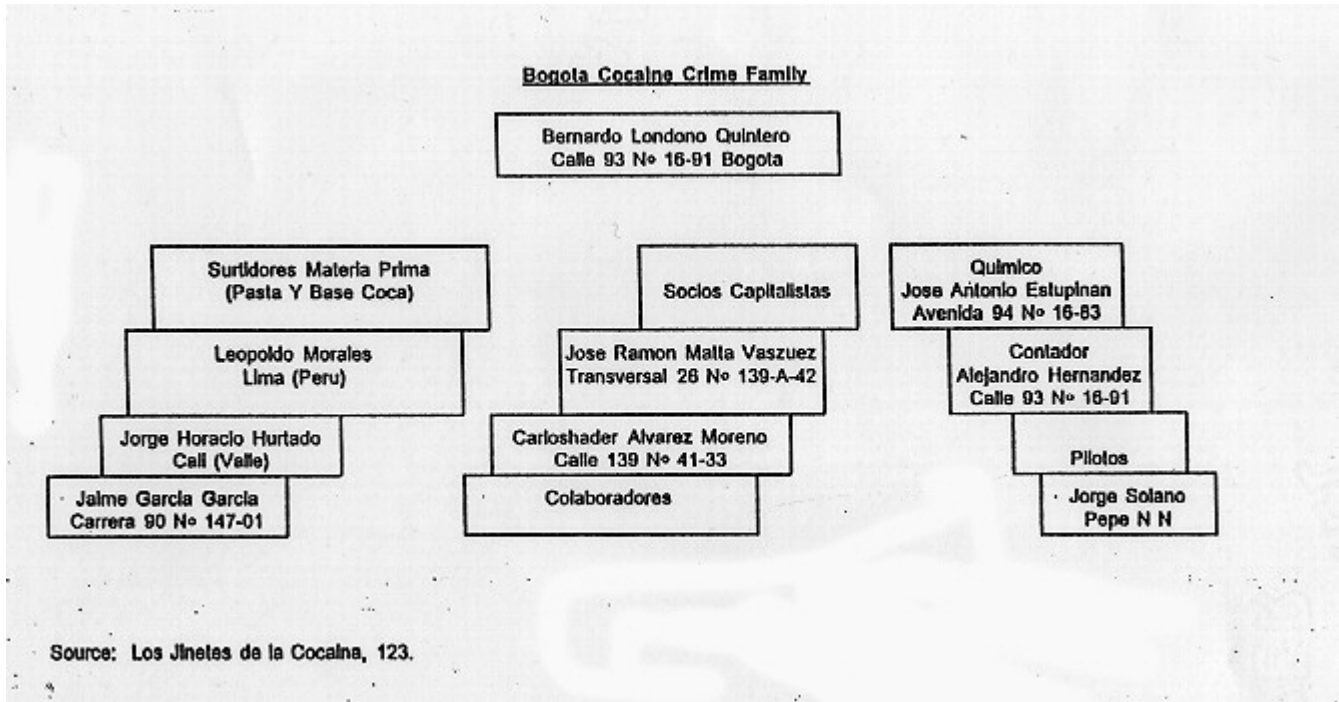
OPSA Oficina de Planeación del Sector Agropecuario; Planning Office of the Agricultural Sector

PIB (GDP) Producto Interior Bruto; Gross National Product

PNB (GNP) Producto Nacional Bruto; Gross National Product

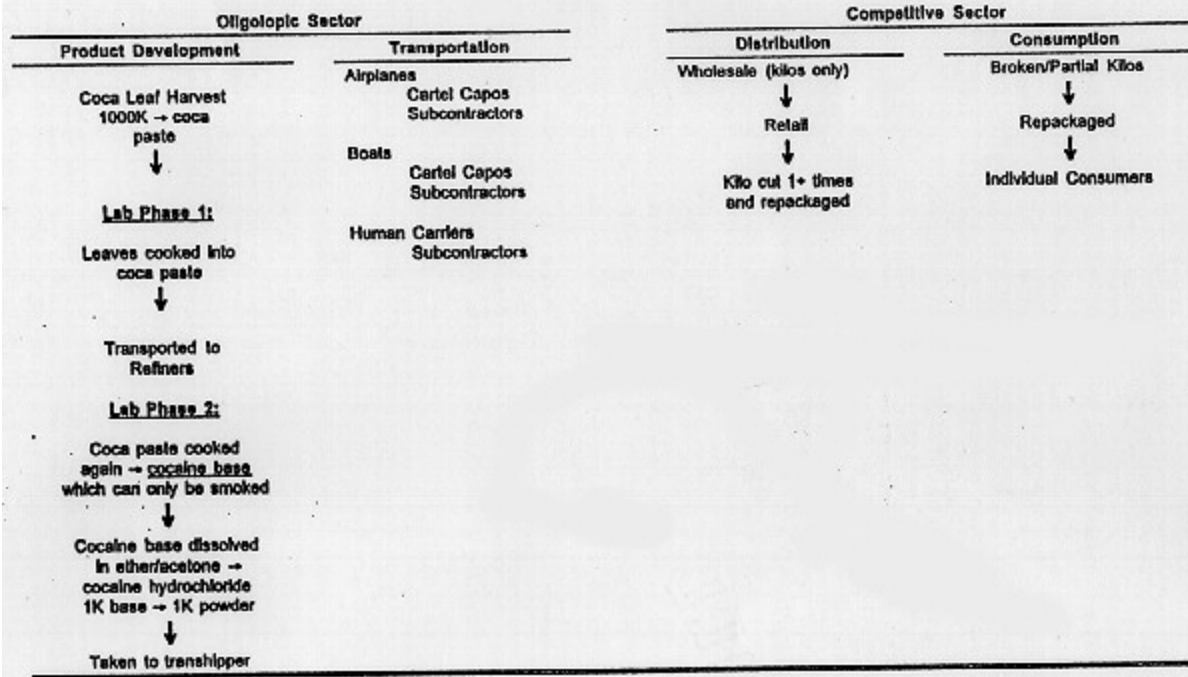
PROEXPO Fondo Promoción de Exportaciones; Exports Promotion Fund

Appendix



Bogotá Crime Family

Drug Production Chain for INT



Drug Production Chain for INT

ANATOMY OF A DRUG RUN

Lead A, Cali
1200 Different drug packages + 200 similarly id drug pkgs

400 different drug pkgs



STASH HOUSE #1



Cocaine held for 24 hours
Inventory is done
Phone call is made to Cali
Delivery slip received by employees of Stash House #1
Calls to street distributors made
drugs are delivered; money received is taken to Stash House #2

STASH HOUSE #3



Office

STASH HOUSE #2



Money received Cali notified
money levels reach \$1 million in a week's time
Instructions for money transfer from being received

BACK-UPS OF THREE IDENTICAL HOUSES EXIST

Anatomy of a Drug Run

MEDELLIN

20 millones Por la secunda solicitud o sea la de Medellín
 20 millones Al ordenar la libertad
10 millones Entregados en los dos contados de 5 millones
 50 millones TOTAL

BOGOTA

10 millones (5 millones, colaboradores del Ministerio de Justicia. 5 millones, colaboraores del Ministerio de Relaciones Exteriores
 10 millones Senador Bula Hoyos
 1 millón Dr. Bendeck - colaboración
 5 millones Ministerio de Relaciones Exteriores
 500,000 Informantes militares
 500,000 Dr. Daza - Colaborador
 1 millón Dr. Francisco Gómez Valderrama
 25 millones Drs. Luis Carlos Pérez, Luis Eduardo Mesa Velásquez, Servio Tulio Ruíz (para los tres)
10 millones Dr. J. Joaquín Caicedo Perdomo
 63 millones TOTAL

GARCES: Pendiente de cuadrar y cencelas ls honorarios

1 millón
 1 millón
 1 millón
 500,000
 300,000
 500,000
 1 millón
 500,000
500,000
 6,300,000 TOTAL

NOTA: Este dinero ha sido entregado a lo largo de dos años y en diferentes contados

Lista de pagos y sobornos hechos por El Cartel de Medellín en sólo dos años, a importantes personalidades y altos funcionarios colombianos.

List of Payments and Bribes made by the Medellín Cartel in only two years to important personalities and highly placed Colombians.

Source: Fabio Castillo, Lacoca Nostra, 37.

Principal Producer Associations in Colombia

Association	Sector	Inception
Sociedad de Agricultores de Colombia [SAC]	Agriculture	1871

Asociación Bancaria de Colombia [ASOBANCARIA]	Banking	1936
Federación Nacional de Cafeteros de Coffee [FEDERACAFE]	Coffee	1927
Asociación Nacional de Industriales [ANDI]	Industry [Modern sector]	1944
Federación Nacional de Comerciantes	Commerce	1945
Cámara Colombiana de la Construcción [CAMACOLI]	Construction	1957
Federación Colombiana de Ganaderos [FEDEGAN]	Livestock	1959
Confederación Colombiana de Cámaras de Comercio [CONFECAMARAS]	Chamber of Commerce	1969
Asociación Nacional de Instituciones Financieras (ANIF)	Banking and Finance	1974
Unión de Aseguradores Colombianos [FASECOLOA]	Insurance	1976

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