Policy Analysis

Cato Institute Policy Analysis No. 156: The Drug War vs. Land Reform in Peru

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Melanie S. Tammen

Melanie Tammen is director of the Cato Institute's Project on Global Economic Liberty

Executive Summary

More than 60 percent of the world's coca production is concentrated in Peru. More than 200,000 Peruvian peasant families--approximately 1 million people--cultivate coca on nearly 300,000 hectares of land and depend on it for their livelihood.[1] Estimates of the value of Peru's coca and cocaine exports range as high as $2 billion for 1989--57 percent of Peru's 1989 legal exports of $3.5 billion. The value of the coca to the cultivators is approximately $500 million--about two-thirds the value of Peru's legal agricultural products.[2]

The Peruvian government received more than $70 million in U.S. aid from 1980 through 1990 to support coca eradication and interdiction efforts, yet the area under coca cultivation grew by at least 15 percent during that time and continues to expand.[3] Despite that losing record, the Bush administration has pressed the new government of President Alberto Fujimori to accept even more U.S. military advisers and weaponry to back an escalated war against Peru's coca trade. Fujimori, for his part, in September 1990 refused to sign a related $36 million U.S. military aid agreement and announced that Peru's campaign to move farmers out of coca cultivation would increasingly rely on a new strategy--giving coca growers legal title to their lands if they commit to cultivate alternative crops. On May 14, 1991, the aid standoff ended when U.S. and Peruvian officials signed a bilateral agreement on "Drug Control and Alternative Development Policy" that incorporates Fujimori's anti-drug strategy.

The three-part Fujimori initiative includes (1) the deregulation of markets for the "substitute" crops, (2) a rural land registry and titling campaign, and (3) a redoubled effort to interdict coca traffickers' planes. The deregulation component is intended to address the fact that coca is traded (albeit illicitly) in a free market while substitute crops, such as coffee, are traded in overregulated, closed markets. The titling campaign will make the titling of a coca grower's land conditional on his committing to crop substitution and accepting supervision to ensure that he does so.[4] The interdiction effort is designed to disrupt the traffickers' demand for coca leaf, thus holding the price low enough to make crop substitution economically attractive. The last two components are largely motivated by the risk of substantial trade and aid sanctions if Peru ceases cooperation with U.S. anti-drug efforts.

Fujimori is on the right track. The potential for the cultivation of crops other than coca has been stifled for more than 20 years, since Peruvian agriculture was nationalized through a collectivist land "reform" in 1969. Now, two decades later, the noncoca agricultural economy is in crisis. The state-run agrarian bank, on which nearly all the nation's farmers depend for credit, is effectively bankrupt. The government is pleading for Peru's commercial banks to resume agricultural lending, which they largely ceased after the 1969 land reform. But few farmers have registered title to their land with which to apply for mortgage credit.

Although the titling campaign bodes well for Peruvian agriculture, the rejuvenated interdiction campaign will fail just as did every eradication and interdiction program in Peru throughout the 1980s. It will drive the highly mobile coca

farmers and traffickers to new areas of operation (the so-called corset effect) and press the coca growers into closer cooperation with the violent communist insurgency movements of the Shining Path and the Tupac Amaru (MRTA).

The prospects for a widespread and lasting switch by coca growers to substitute crops are dim unless the United States legalizes illicit drugs, which would bring down the price of drugs substantially and permanently. Estimates of the premium that peasants receive for coca versus alternative crops vary, but it is undoubtedly substantial. One 1990 study by a Peruvian research organization and a UN agency estimates that coca growers in the Upper Huallaga Valley make a $4,000 profit per hectare, double that realizable from the cultivation of legal crops.[5]

Official claims to the contrary, Washington is not winning the "drug war" at home or abroad. A 1990 House Government Operations Committee study found that, despite a steady increase in narcotics control assistance to Bolivia, Colombia, and Peru throughout the 1980s, the trade remains basically unaffected and is, in some instances, expanding. The Drug Enforcement Agency (DEA) is unable to confirm any decrease in the amount of cocaine coming into the United States as a result of the 1980s' interdiction efforts.[6] On the home front, federal and state prisons are teeming with drug-law violators--primarily nonviolent offenders.

Washington should applaud Fujimori's effort to empower Peru's farmers through secure land ownership. Going still further, Washington could dramatically alleviate the law-and-order problem faced by both nations by legalizing the consumption of narcotics in the United States. By removing the profit, and thus the crime, from the narcotics trade, we would restore order to America's streets and school yards and allow Lima--by decoupling insurgents from coca growers--to effectively combat the runaway insurgency in Peru. That would allow Fujimori to title all rural farmers, without regard for what they grow, and would preclude the creation of an expensive, permanent supervisory bureaucracy to police title farmers' fields.

The Descent into Nationalized Agriculture

In the 1940s, the Peruvian government began to control food prices in Lima by dictating minimum food crop acreage and buying food at fixed prices. The bias against agriculture was expanded in 1959 with the initiation of substantial subsidies for industry. Those policies contributed to a high rate of migration from village to city and from sierra to coast. In 1940 only 35 percent of the population was urban; by 1972 the figure had risen to 60 percent. In 1959 President Manuel Prado appointed a commission to make recommendations about "property" problems in both country and city. The commission, headed by Prime Minister Pedro Beltran, recommended that the government make secure the title rights of poor urban squatters and encourage colonization of the eastern jungle. The commission acknowledged the skewed distribution of agricultural land but recommended that expropriation should be a last resort (and then only with full compensation).[7]

A decade later, on June 23, 1969, the military government of Gen. Juan Velasco announced the expropriation of most agricultural land for redistribution to the tenant farmers. Although communal ownership of all land was intended, by 1979, when 7.8 million hectares (40 percent of cultivated acreage) had been reassigned, 13 percent had been assigned to individual peasant proprietors. (There was no provision in the law for those reassignments.) Another 35 to 40 percent of the land, nominally under common ownership, was probably farmed individually. But the greatest proportion of expropriated land was assigned to one of two types of communal organization. In all, more than 1,000 state-run cooperative entities were created. Private plots were not legally recognized.

Without consulting the peasants, the state land reform agency studied each expropriated property and decided which form the new agricultural enterprise would take. Since land could no longer be mortgaged, commercial banks and moneylenders stopped providing agricultural credit. The staterun agrarian bank, Banco Agropecuario de Fomento, became the only institution through which the new agricultural enterprises could receive credit.[8]

In accepting property, new owners contracted a debt to the land reform agency in consideration of the government's payment to expropriated landowners. That debt became the justification for extensive state intervention in all managerial and financial matters. The government established centralized marketing and pricing mechanisms. As economists John Powelson and Richard Stock explain in The Peasant Betrayed, "the peasants were released from being serfs of hacienda owners only to become serfs of the state."[9]

Interviews conducted by American professor Ronald Berg in the highland areas during 1985 suggest that the Shining Path guerrilla movement was caused in part by government domination of land reform. Shining Path grew out of a group formed at the University of Ayacucho in the early 1970s. Antonio Dias Martinez, a leader of that group, was a professionally trained agronomist who became disillusioned with the top-down nature of reform in the highlands. He believed that peasant communities would evolve only if peasants themselves were in charge. Lack of peasant participation in land reform convinced him of the need for mobilization.

Berg found that the peasants he interviewed did not express dismay when a cooperative was attacked by Shining Path. Instead, they emphasized how cooperative leaders had siphoned off funds while ordinary workers had gained little. In 1985, the year of Berg's interviews, Shining Path had penetrated little beyond the southern highlands. By mid1989, however, it had become powerful enough to control most of the Upper Huallaga Valley, about 400 miles northeast of Lima, where most of Peru's coca is cultivated.[10

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By the early 1980s, a decade and a half after the land "reform," Peruvian agriculture was in serious disarray. Increases in per capita output did not keep up with population growth. Per capita agricultural output dropped an average of 2.4 percent annually from 1971-73 to 1981-83.[11] With the return of democratically elected presidents in 1980, some cracks appeared in the wall of government domination of the land. President Fernando Belaunde Terry allowed the land of coastal cooperatives to be divided among their members. By 1986 almost all coastal cooperatives, other than the giant sugar complexes, had been parceled out. Wage laborers had been turned into peasant proprietors. Agricultural output in Peru began to increase soon after the parcelization of the coastal cooperatives. The livestock cooperatives of the high sierra also experienced substantial informal parcelization during the 1980s.

Today, more than 20 years after the expropriations, the members of more than 75 percent of the forcibly created cooperatives have freely opted to divide their land among themselves. Yet the law still recognizes only collective ownership. Since individual ownership is not recognized by the state, 90 percent of those holdings are not properly registered or titled and cannot be sold, mortgaged, or otherwise serve as a secure base for productive activity. The farmers, so-called parceleros, are thus vulnerable to exploitation and abuse by those who can manipulate the law.

President Fujimori has noted the connection between the farmers' tenuous land tenure situation and the requirements of the coca economy. In an October 1990 document, "A Policy for the Control of Drugs and Alternative Development," he explains:

Coca bushes do not require a lot of care [and] those interested in buying the crop--the drug traffickers--do not require formal contracts for their transactions and are willing to buy the coca production in small quantities from individual farmers. [That] fits very well with the . . . small family lots of the informal peasant farmers in the coca growing zones. . . . Substitute crops, on the other hand, require much more care and greater expanses of land. . . . [That, in turn,] requires a system of land organization and commercialization which can only be achieved if the peasants have registered property titles which serve to integrate them, as any other private entrepreneur, into a safe and lawful market economy. .

The lack of legally defined property prevents the peasants from entering into contracts in order to combine resources and to achieve economies of scale which would allow them to grow crops other than coca. Lack of clear title discourages investment in production with greater value added, just as it discourages entering into contracts with the buyers of substitute crops. It impedes access to formal credit that depends on utilization of assets as mortgage collateral. The lack of clear title [also] blocks the peasants' entry into new distribution networks.[12]

As mentioned earlier, Peru's state-dominated agricultural economy was thrown into a credit crisis in late 1990. President Fujimori launched an aggressive economic reform program in August of that year. As part of that program, the government committed to halt state-induced credit expansion in the form of central bank loans to government entities, including the state agrarian bank. The agrarian bank, which had been effectively broke for years but survived on such yearly infusions, admitted in October that it had only $60 million to lend--10 percent of the resources it extended for the previous year's planting season. By the government's estimates, $1 billion in credit was needed for the 1990-91 planting season.[13] In October, Agriculture Minister Carlos Amat y Leon, just days before resigning, announced the impending credit crisis and called on private commercial banks, for the first time in 30 years, to provide agricultural credit. It is expected, however, that the private banks will restrict lending to the larger, established cotton and sugar growers on the coast. The small Andean farmers who grow most of Peru's food crops have little prospect of obtaining credit.[14]

Urban Titling Initiative to Be Extended to Rural Areas

The Lima-based Institute for Liberty and Democracy (ILD) estimates that, over a 10-year period, investment in property to which title was secure was nine times greater than in property to which secure title was lacking.[15] In Peru, as in many Latin American countries, the property registry system, copied from the Spanish registry system of the 19th century, is slow and costly. In urban areas the titling and registration of properties take an average of 48 months of constant effort, at a cost of $2,500--about 160 percent of per capita annual income in Peru.[16] In January 1990 the government of then-president Alan Garcia launched the Property Rights Law for Urban Informal Settlements. That program introduced a computerized registry, which uses simplified and standardized registration forms and accepts easily available documentation as proof of ownership. The early achievements have been striking: in the first five months after the creation of the urban registry, a team of 27 persons registered 30,000 properties in Lima's informal settlements. That is approximately the same number of such properties registered over the last 50 years by the Public Registry, which employs a staff of 1,000 persons.[17] On the day after the new system for urban property registration went into effect, property values increased 50 percent.[18]

The urban registry program grew out of an initiative launched by the ILD in September 1988. In early 1989, just months after the ILD began promoting the proposed initiative, a group of Peru's cooperative farmers visited the institute to explain that they too wanted the right to individual property and registered titles.

In September 1990 President Fujimori announced the extension of the urban titling program to rural areas as the basis for a crop substitution program. According to Fujimori, the Rural Properties Registry is specially designed to title and register possessions which are currently informal in a quick, simple, economical and reliable manner. The program uses a computerized system which registers titles in less than a month and in which the user's cost is 100 times less than that of the traditional registry.

As far as the proof of ownership required to title and register is concerned, the current elaborate notarized deeds and public documents have been replaced by instruments recognized by local common law. The social validity of such instruments in the area where the property is located is very similar to that provided for in the AngloSaxon common law. . . . Much of the civil law utilized today in European countries or in North America was law developed initially outside the State. Today, as then, the problem is more to discover the law than to create it artificially. It is only in this fashion that we will manage to adapt the law to the customs of the citizens it is intended to govern, which will make compliance with the law a natural and easy matter.[19]

In urban areas the common law approach has meant that registration and title are granted on presentation of three types of certification: a possessory certificate from the municipality, a certificate demonstrating a relationship with a local housing association (such associations are commonly organized by the squatters themselves) or water company, and proof of interviews with six neighbors that establish that the "owner" has lived on the plot for at least five years.[20] That common law approach to certification--using locally established convention and instruments-- will also be used in the rural titling program.

Kafkaesque Export Regulations

Fujimori has correctly observed that

it is not necessary at this moment to determine precisely which crops or activities will be substituted, as central planners would do. The need is to establish a legal system that permits flexible decision-making by private individuals.[21]

Accordingly, a second key component of the Fujimori initiative is the simplification of myriad regulations for marketing and exporting crops. The imperative of such deregulation stems from the fact that transactions in the coca market are economically simple for the coca grower. The dealer arrives at the door of his house, with no red tape, and often pays him for the crop in advance. The dealer buys whatever quantity the farmer produces and pays a price that allows the farmer to cover his costs and earn a living. While coca is traded in a dynamic, free market (albeit an underground one), substitute crops are traded in overregulated, closed markets.

At present, it is difficult for a group of coca farmers to "formalize" and substitute another export crop for coca. Peruvian law limits their right to free association. It permits them to form groups of people--that is, cooperatives, producer groups, or other similar associations--but not corporations or partnerships.

If farmers are already part of a cooperative and attempt to resign, the law allows the governing body to deny resignations for economic or financial reasons. In addition, the law restricts the right of such farmers to incur debt. And, most critically, if they want to export directly, bypassing the export oligopolies, they run up against a Kafkaesque customs procedure that, in the case of coffee, requires an average of 36 administrative steps in 7 different public and private agencies that take approximately 45 days to complete.[22]

Still other regulations protect the trading oligopolies of the substitute crops. To export asparagus, for example, a grower must register, but to do that he must be able to show that he has exported asparagus during the preceding three years. The coffee association, in addition, maintains a registry of facilities authorized to store the inventories. Until 1989 that registry had been closed for four years, and not a single permit to open a new plant was issued. That organization also maintains a producer and trader registry, and it defines the criteria for being listed in the directory. Eligible "producers" must have a bank history--a prerequisite that excludes 90 percent of the farmers in the jungle. That pattern of mercantilist behavior is also found in the case of other agricultural export crops that are potential substitutes for coca.[23]

A Peruvian official in Washington, D.C., cites coffee, cocoa, palm (oil), cotton, and tea as having good potential for cultivation in place of coca.[24] But some experts on the international narcotics industry, such as Rensselaer W. Lee III, emphasize that there are serious constraints to substituting traditional crops on the steep, often remote jungle slopes where most of Peru's coca is grown--including severe transportation bottlenecks along the 400- to 750-mile drive from points in the Upper Huallaga Valley to Lima and the fact that coca plants rob the soil of essential nutrients and reconstitution is costly. Lee notes that most of the coca farmers in the Upper Huallaga Valley migrated there to escape dismal agricultural opportunities elsewhere in Peru and that such migration can be slowed, halted, or partially reversed by titling farmers, deregulating agricultural markets, and instituting other economic reforms throughout the country.[25] Leaving aside the far-from-resolved debate over the viability of jungle crop substitution, the migration dynamic points up the critical role of Fujimori's agricultural market deregulation plan in fighting the expansion of coca cultivation.

Lower U.S. Import Barriers Can Assist Peru

Peruvian cotton is a particularly promising substitute for coca, but its potential development is held back significantly by U.S. trade policy. Peru exported $257 million in textiles in 1987, making textiles the nation's third largest export earner, after copper and petroleum. In recent years the Peruvian government has repeatedly sought to export more textiles to the United States--that is, to obtain a larger textile "quota"--with no success. Peru faces specific sublimits on cotton apparel and, for example, in 1990 it hit its ceiling on cotton knit shirts before mid-year. Peru's Foreign Trade Institute estimates that the ceiling represents a mere third of the cotton knit shirts Peru could export to the United States.[26] A larger U.S. textile quota--or, better yet, an end to the Multifiber Agreement that limits textile imports to the United States--is a critical step Washington could take to encourage noncoca agricultural production in Peru.

The Andean Trade Preference Act, developed last year by the Bush administration and introduced in January 1991 by Sen. Robert Dole (S. 275) and Rep. Philip Crane (HR 661), would provide 10 years of duty-free treatment of imports from Bolivia, Colombia, Ecuador, and Peru. But the proposed legislation contains a long list of exempted goods that would still be dutiable, including textiles and apparel. The European nations are far ahead of the United States in this regard. In October 1990 the European Economic Community launched a program that will allow duty-free entry of unlimited quantities of textiles, apparel, and most other exports from Andean nations for four years.[27]

The Vice of U.S. Anti-Drug Law

As Fujimori explains, the rural registering and titling program is designed to reestablish an active government presence in the coca-growing regions of Peru and thereby "wrest away from the drug traffickers the loyalty of millions of peasants."[28] But the simple economics of the cocaine trade leave no viable strategy for making the cultivation of alternative crops permanently more attractive than coca unless the sale of illicit drugs is decriminalized in the United States. Once the entire risk premium is removed from coca, its price at all points in the production and commercial chain will fall dramatically. Currently, Peruvians who cultivate coffee, the most often-cited potential substitute crop for coca, earn about $600 per hectare. By one recent estimate, they can earn four times that amount by cultivating coca.[29] The U.S. Agency for International Development's crop substitution program, by contrast, offers a mere $300 per hectare for switching from coca cultivation.

Unfortunately for Peru, the U.S. Anti-Drug Abuse Acts of 1986 and 1988 act as a hammer to force Lima to adopt eradication and interdiction programs that in the past have worked to strengthen cooperation between the coca growers and the communist guerrillas. The Anti-Drug Abuse Acts tie the participation of "source" countries (drug-producing or transiting countries, or both) in U.S.-backed eradication and interdiction programs to the eligibility of those countries for U.S. foreign aid and trade benefits. That process, known as "certification," requires the U.S. president to withhold, each October 1st, 50 percent of U.S. foreign assistance designated for the source country, pending a determination of certification on, or after, the first day in March of the following year. In certifying "cooperation," the president must consider whether the actions of the government "have resulted in the maximum reductions in illicit production" that have been determined to be achievable, as well as 10 other factors thought to be indicative of law enforcement cooperation.[30]

If the president does not certify a major drug-source country as being in compliance, or if Congress should disapprove of the determination the president makes for a specific country, several sanctions are automatically imposed, and others may be imposed at the president's discretion. The mandatory sanctions include

* 50 percent suspension of all U.S. assistance for the current fiscal year (certain categories of assistance are exempted, such as humanitarian assistance and international narcotics control assistance);

* 100 percent suspension of U.S. assistance for subsequent fiscal years (unless the country is certified in the interim);

* Voting against loans to a country in the multilateral development banks; and

* Nonallocation of a sugar quota

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The discretionary sanctions include

* Denial of preferential tariff treatment to a country's exports under the Generalized System of Preferences (GSP) and the Caribbean Basin Recovery Act;

* Duty increases of up to 50 percent of value on a country's exports to the United States;

* Curtailment of air transportation and traffic between the United States and the noncertified country; and

* Withdrawal of U.S. participation in any preclearance customs arrangements with the noncertified country.[31]

Clearly the mandatory and discretionary sanctions held over the government of Peru represent a potent economic lever. While the utility of bilateral and multilateral development aid is subject to debate--in fact, Peru would be better off without such subsidies to government bureaucracy and state enterprise[32]--the trade sanctions could be crippling to Peru's exports, 21 percent of which go to the United States.

As mentioned earlier, in September 1990 Fujimori refused to sign a proposed $35.9 million U.S. military aid package for fiscal year 1991. Under the agreement, the United States would station 20 to 40 Army Special Forces instructors in

Peru to train Peruvian military units. The United States would also equip the roughly 5,500 Peruvians who would take the training course, as well as enhance Peru's military capabilities by refurbishing 20 ground-attack planes and providing river patrol boats.[33] Fujimori objected that the agreement contained neither a central role for aid directed at crop substitution programs nor reference to Peru's anti-insurgency effort as the overriding threat.

Subsequently, the Bush administration, in February 1991, cited Peru for "lack of commitment to combat cocaine processing and distribution and coca cultivation" and proposed that U.S. aid to Andean nations be managed on a regional basis to allow the "flexibility to provide or withhold assistance from Peru, depending on [its] performance."[34] In March the administration announced that, while formally "certifying" Peru, it was holding up the release of $94.9 million in military and economic aid pending the development of an acceptable drug strategy in Lima.[35] And despite the May 14 signing of the bilateral agreement, most of that aid remains on hold, pending the completion of "implementing agreements" on interdiction efforts and other matters.

The interdiction component of the new Fujimori program, then, is apparently designed both to avoid the decertification hammer and to produce the requisite economic enviroment to make cultivation of alternative crops more attractive. Thus, Fujimori's strategy is to concentrate on interdicting the long-haul planes that carry semirefined cocaine base from Peru's growing areas to Colombia's cocaine laboratories.[36] The aim is to disrupt coca growers' source of demand--the traffickers--and thereby lower the price of coca substantially and keep it down. But the enduring corset effect of previous interdiction campaigns in Peru and Colombia suggests that the goal will remain elusive.

Interdiction's Push-Down, Pop-Up Effect

In August 1989, then Colombian president Virgilio Barco, at the initiation of the United States, launched an all-out war on Colombian drug traffickers. The offensive, heavily backed by the Bush administration, effectively disrupted the Colombian traffickers' networks. By early 1990, as fewer traffickers reached the fields in Peru and Bolivia where coca is grown, coca producers could not find buyers and were often forced to sell at below break-even prices. Coca leaf prices plummeted by half or more in February 1990 and remained in a trough for most of the year. President Fujimori is betting that a well-paid interdiction team can keep the coca price that low.

Cynthia McClintock, a George Washington University professor and scholar of Peru's coca industry, reports that during a July 1990 visit to the Upper Huallaga Valley she found that the price of coca leaf was approximately one-sixth the price of the year before and that "many farmers considered the price of coffee and cacao competitive."[37] But in late October 1990 Peru's La Republica reported that sales in the Huallaga Valley had been "reactivated" because the price of coca had largely "recovered and seems to continue to rise."[38] McClintock concurs, explaining that "the price had substantially recovered by November as more coca was exiting Peru through Brazil rather than Colombia."[39]

Similarly, the Washington Post recently reported from Colombia that, "because of the Colombian crackdown, the traditional cartels have moved refining and shipping operations to Bolivia, Ecuador, Peru, Brazil and Venezuela."[40] That corset effect--whenever drug officials squeeze in one place, coca production and trade pop up elsewhere--is hardly new. In 1985 Ted Galen Carpenter observed that "intense U.S. pressure on Colombia to stamp out cocaine production has produced an upsurge in drug-related activity in neighboring Ecuador, Venezuela, and Brazil."[41]

The corset effect has caused a substantial shift of coca activity within Peru as well. The sharp price drop in the Upper Huallaga Valley in early 1990 caused a northward shift--both of air routes to avoid interdiction and businessmen and growers--to the central and lower Huallaga Valley, known in Peru as the "Other Huallaga."[42] The great mobility of traffickers and growers is made possible by the nature of the coca plant. It is a hardy bush that is ready for harvest only eight months after it is planted and can be harvested every 90 days thereafter. (Major alternative crops such as coffee and tea require three to four years from planting to first harvest and then can be harvested only once every year.) According to peasant organizations in the Other Huallaga, rice and corn production dropped by 12 percent in 1989 and 30 percent in 1990 as peasants increasingly switched to coca production.[43]

The Enduring Guerrilla-Coca Grower Connection

Throughout the 1980s, as the United States steadily accelerated the anti-coca campaigns in Peru's Upper Huallaga

Valley, Shining Path grew from having a negligible presence there to controlling about 90 percent of the region. The guerrillas play on peasants' hostility toward U.S.-financed eradication campaigns and their resentment of drug dealers, who pay the lowest price possible for coca leaves and coca paste. The growers welcomed Shining Path's offers to protect them from Peru's anti-drug police and to press drug traffickers for higher coca prices on their behalf.

The initial anti-drug campaigns, in the early 1980s, emphasized manual eradication of coca bushes. About 450 Peruvian workers employed by the U.S.-backed CORAH (Special Project for the Control and Eradication of Coca in the Upper Huallaga Valley) dug up plants. CORAH's most successful year was 1985, when it eradicated almost 5,000 hectares of coca--less than half of the 12,000 new hectares brought under cultivation that year and a mere 2 percent of the total area under cultivation. The eradication program severely alienated the coca growers, many of whom accepted the guerrillas' offers to mobilize them against CORAH. Organized grower-guerrilla actions have included several efforts to blockade the carretera marginal--a highway link between major Upper Huallaga towns--and general strikes to paralyze business as well as transportation in the region. Between 1983 and 1988, 32 eradication workers and 6 development officials were killed in the Huallaga Valley.[44]

In 1985 Washington and Lima shifted their emphasis to air raids that target processing and trafficking facilities: cocaine laboratories, traffickers' airstrips, and traffickers themselves. That was called Operation Condor. Condor Three, launched in November 1985, was particularly successful. By the end of 1985, 44 cocaine laboratories had been destroyed, 40 airstrips had been disabled, and 725 metric tons of coca leaf and one-third of a metric ton of cocaine had been seized.[45]

As a result of the decline in processing and trafficking capabilities, the supply of coca leaves and paste exceeded the traffickers' demand, and the price of coca paste fell by more than 50 percent in some areas. A fall in the price of coca was Condor's main goal: to get coca prices low enough to make cultivation of legitimate crops attractive.

But the interdiction program alienated the coca growers just as the eradication program had done. Soon an alliance between growers and guerrilla groups greatly increased the security risks for anti-drug personnel in the area. Condor campaigns in 1986 and 1987 were not as successful as in 1985. In 1988, with the strengthening of Condor's air capability, 5 metric tons of cocaine paste were seized, 10 processing laboratories were destroyed, and coca leaf inventories mounted. Suppliers slashed their prices by as much as half.

The success of the interdiction campaign was again short-lived, however, because of the mobility of the growers and traffickers. When the center of interdiction operations was established in Tingo Maria, growers and traffickers gradually shifted their activities north to such areas as Juanjui, Tocache, and Uchiza. In mid-1987, about 1,000 anti-drug personnel invaded and held Tocache. But within two months they left, and the growers and traffickers returned. During that ebb and flow of activity, the amount of cocaine paste refined in Peru increased. According to State Department figures, it was about 40 percent greater in 1987 and 1988 than in 1985. Despite the U.S. and Peruvian governments' interdiction efforts, Colombian traffickers continued to install more cocaine laboratories in the Upper Huallaga Valley. During a January 1990 trip to the Upper Huallaga Valley, members of a House Government Operations subcommittee overflew areas where laboratories had been previously destroyed and observed some already being reassembled.[46]

The Guerrillas' Expanding Terror and Reach

Growers' collaboration with Shining Path (as well as MRTA) guerrillas is not always voluntary. In some areas in recent years, Shining Path guerrillas have forcibly imposed control over growers, Colombian traffickers, and lab operators--to adhere to fixed prices set by Shining Path. Shining Path, moreover, occasionally executes traffickers and growers who will not follow its price schedules, which causes a shift in some operations away from Shining Path-controlled areas.[47] Shining Path's ruthless tactics played a large part in the recent northward shift of coca activity to the Other Huallaga. By the late 1980s Shining Path's charges on coca growers for its "protective" services and on traffickers for their flights out of the Upper Huallaga Valley (about $20,000 per flight) were producing a net profit of between $20 million and $100 million annually--much more money than is available to any other political group in Peru.[48] In recent months, Shining Path guerrillas have been observed carrying more modern weapons.[49]

Over the past year the MRTA guerrillas have been consolidating control over the expanding coca trade in the Other

Huallaga. They reap about $10,000 to $15,000 per outgoing flight loaded with coca base.[50] The MRTA maintains strong peasant support in the department of San Martin by backing the demands of rice and maize farmers for better prices and credit from the government and protecting coca growers from government attempts to coerce them into crop substitution. Bouyed by a growing take from the coca trade--as well as the July 1990 prison escape of their leader and 47 others--the MRTA has been stepping up attacks on the Shining Path throughout the Huallaga Valley. Indeed, over the past year both guerrilla groups have been consolidating and expanding their reach throughout the Huallaga Valley and beyond.

In late 1988 Shining Path and MRTA guerrillas moved into Chanchamayo in Peru's Junin Department, where 40 percent of Peru's coffee is grown, and started milking the coffee farmers. Coffee is Peru's leading agricultural export crop, earning $155 million in 1989. The guerrillas run protection rackets that involve the extraction of "quotas" of up to $80,000. As a result, many large coffee farms now lie abandoned. The smaller growers who remain saw their yields plummet by over half in 1990 as fertilizer prices rocketed and agricultural credit disappeared. There are reports from the region of Shining Path insistence that growers start planting coca alongside their coffee bushes.[51]

Coffee growers' shift to coca cultivation is not taking place only under coercion, however. In May 1990 spokesmen for coffee producer groups reported that some 40 percent of coffee growers are voluntarily switching to coca production because of the sharp fall in international coffee prices, as well as late payments from the Peruvian government for coffee exports.[52] In December 1990 the Financial Times reported that farmers in Peru's coffee-growing areas were receiving four times more income from a hectare of coca than from coffee.[53]

Intractable Military-Police Conflict

As a result of the U.S.-backed anti-drug efforts in the Upper Huallaga Valley, the Peruvian military and police have been locked in direct conflict in recent years. The military mandate is counterinsurgency and national security only, while the police portfolio encompasses narcotics enforcement. In the Upper Huallaga Valley, the military's primary strategy was to drive a wedge between the Shining Path guerrillas and the coca growers by allowing the growers to cultivate coca unimpeded. That strategy was successful during two notable periods when it was not impeded by antidrug activities.

In 1984 President Belaunde Terry declared the Upper Huallaga Valley an emergency zone and dispatched the military with the mission not to fight drugs but to fight Shining Path. The top military commander forbade anti-narcotics operations in the area, arguing that they disrupted counterinsurgency efforts. With no reason to oppose security personnel and no need for guerrilla protection, coca growers withdrew their support and even revealed the identities of Shining Path members. The guerrillas retreated and the coca industry in the valley boomed.[54] From 1985 to 1989 the new government of President Alan Garcia cooperated closely with U.S. DEA officials to carry out successive eradication and interdiction campaigns, and Shining Path gained control of as much as 90 percent of the Huallaga Valley.

In 1989, after the Shining Path guerrillas seized a key police post in the Upper Huallaga Valley, Garcia assented to the strategy of Gen. Alberto Arciniega, the military commander of the valley, who not only allowed coca growers to conduct their business unhindered but even promoted a coca growers' cooperative in Uchiza to resist the insurgents. Arciniega conducted at least 320 offensives against Shining Path guerrillas in 1989, killing 700 guerrillas (more than half the number killed nationwide that year), and greatly improved security in the towns of the Upper Huallaga Valley. But U.S. officials, concerned that Arciniega had done nothing to fight coca cultivation, pressed the Peruvian government for his transfer.[55]

Although a new military commander, Gen. Guillermo Chacon-Tejeda, was appointed to the valley in January 1990, the central military strategy appears to have changed little. In fact, twice during the first four months of 1990 DEA agents and the Peruvian police were stoned by farmers as they conducted their interdiction programs. According to the DEA, Peruvian military personnel were observed at the forefront of the demonstration. The DEA asserts that the protection of coca farmers by the Peruvian military occurs throughout the Upper Huallaga Valley.[56]

Actions that undermine the interdiction efforts are not limited to the military. Corruption among the Peruvian narcotics police is also a problem. In December 1990, for example, the Peruvian police caught traffickers loading coca base into a Colombian plane in Uchiza. Three police officers were ordered to accompany the Colombian as he flew to Santa Lucia, an American-built base 20 miles away. The police officers were found later that day at an oil company airstrip several hundred miles north of Uchiza. The Colombian plane was nowhere to be found. The police officers had $24,000 in their pockets.[57]

Peruvians planning the new strategy maintain that the problem is "throw[ing] army generals who earn $350/month against the drug effort." Their prescription is to use part of the planned $36 million in fiscal year 1991 U.S. military aid to form a highly paid, well-equipped military unit to intercept drug planes.[58] But as long as narcotics remain illegal in the United States, the substantial profits generated by the industry will continue to fuel corruption in Peru.

Drug Legalization Would Ease U.S. and Peruvian Troubles

There is a range of compelling reasons for calling a halt to the U.S. war on drugs by legalizing illicit narcotics in the United States. Among them are

* The rise in drug-related crime in the United States and Peru;

* The potentially unending costs of aid for crop substitution and balance-of-payments support to "compensate" Andean nations;

* The probable key role for central planning bureaucrats at the international lending institutions in directing crop substitution programs in the region;

* The Catch-22 that decreased supply in the United States results in higher prices here and, thus, higher incentives to producers and traffickers abroad; and

* The growing prison overcrowding problem in the United States, which is now overwhelmingly caused by the imprisonment of nonviolent drug offenders.

Prohibition-Related Crime

The astronomical profits associated with illegal narcotics such as cocaine have produced an explosion of drugrelated crime and violence in both the United States and Peru. Insurgency-related killings or "disappearances" in Peru reached an unprecedented 3,600 in 1990, up from 3,100 in 1989.[59] In the United States, a Wharton Econometrics study has identified the sale of illicit drugs as the source of more than half of all organized crime revenues in 1986, with marijuana and heroin each providing over $7 billion and cocaine providing over $13 billion.[60] And about half the crime in major U.S. cities is committed by addicts seeking money to pay for a habit that would be easily affordable if it were legal. To remove the astronomical profit from narcotics would be to stop providing the resources that underwrite the web of crime, terror, and corruption in U.S. cities and the Andean countryside.

Catch-22

The Bush administration's latest National Drug Control Strategy, released in February 1991, cites "significantly higher wholesale cocaine prices" and "significantly lower wholesale cocaine purity" in the United States as evidence of the entry of fewer illicit narcotics.[61] Yet the Catch-22 of the Bush administration's supply interdiction strategy is that, as the cocaine supply in the United States falls and the price of cocaine rises, the incentives for new drug entrepreneurs to enter the business also increase.[62]

Unending Costs

The $20 billion that the war on drugs is now costing U.S. taxpayers annually is probably only the beginning. A 1988 State Department report declared, "If we want to make a difference in cocaine control, a massive infusion of economic assistance will be required."[63] Indeed, at the "Drugs Summit" in Cartagena, Colombia, in February 1990, President Bush pledged the United States would "provide balance of payments support" to replace the funds that drug trafficking now generates. He offered no details on what levels of compensation could be expected. As mentioned earlier, the coca and cocaine industry adds about $2 billion to Peru's economy annually.

As for crop substitution, the Bolivian government estimates the cost of redirecting farmers into the legal agricultural economy at $7,000 per hectare.[64] Using that (admittedly uncorrobated) figure, it would cost about $800 million to finance the full substitution of alternative crops for coca in Peru. Yet even if such funding becomes available, it may still be impossible to achieve the desired end. In recent years, rumors have persisted that coca farmers in Peru's Upper Huallaga Valley and Bolivia's Chapare region have used the cash payments received under eradication programs ($300 per hectare under the compulsory program in Peru and $2,000 per hectare under the voluntary program in Bolivia) to underwrite the costs of planting new coca fields in more remote locations.[65]

Impending Entry of Planning Technocrats

A principal State Department policy is to have multilateral development banks, such as the World Bank and the Inter-American Development Bank, take the lead in making loans to the Peruvian government for crop substitution programs.[66] That would surely sidetrack Fujimori's plan to deregulate the agricultural economy. For decades, the World Bank's agricultural lending to small farmers has been characterized by government-controlled, highly packaged loans that mandate government provision of credit, fertilizer, numerous other ancillary services, price setting, and marketing. Those bureaucratically designed and implemented programs have commonly so ill-served peasants that, across the globe, farmers have fled such projects.[67] In a major 1989 report, the World Bank admitted that subsidized agricultural credit programs in developing countries--a great many of which it funded and continues to fund--have a poor record because of their systematic politicization.

Subsidized agricultural credit programs have suffered from too much government intervention, over-reliance on governments and official creditors for funding, [and] inappropriate lending criteria. . . . Governments have often been unwilling to foreclose on small farmers, which has seriously eroded financial discipline. . . . Studies show default rates ranging from 30 to 95 percent for [those] programs.[68]

If Fujimori insists on titling coca growers only as part of supervised crop substitution programs, as indeed U.S. drug laws force him to do, that will provide a natural magnet for the planning specialists at the multilateral development banks. The result will be an unfortunate build-up of (inherently mismanaged) public-sector debt to the international organizations and higher taxes on Peruvians later as the debts come due.

U.S. Prisons Jammed

Perhaps the most alarming effect of the drug war on the U.S. front is the creation of a new class of imprisoned, nonviolent drug offenders. Inmates convicted of drug offenses now account for well over half of all new inmates in federal and state prisons.[69] According to a 1989 General Accounting Office study, 94 percent of "first time drug offenders" and 62 percent of "drug law violators with previous commitments" have no history of violence.[70] In Florida's overcrowded prison system, armed robbers and violent felons are being released early to make room for nonviolent drug offenders.[71]

Over the past six years, Congress and state legislatures have passed a series of laws that have dramatically increased the penalties for even relatively minor drug crimes. As a result, in Michigan, a 45-year-old former Air Force honor guard is serving a mandatory life sentence for possessing 673 grams (less than two pounds) of cocaine. In New York City, a 19-year-old caught with 245 grams of cocaine received a 10-year sentence.[72] Apart from the fact that such penalties may be unconstitutional under the Eighth Amendment's prohibition of cruel and unusual punishment, the costs to U.S. taxpayers of the drug war's internment campaign are staggering--an average of $75,000 per inmate for construction of a new facility (33 states are under federal court order to remedy prison overcrowding) and up to $25,000 a year to maintain an inmate.[73]

Contrary to dire warnings from drug war supporters, an America with legalized drugs would be a safer, more stable society. As David Boaz suggests:

When we legalize drugs, we will in all likelihood apply the alcohol model. That is, marijuana, cocaine, and heroin would be sold only in specially licensed stores--perhaps in liquor stores, perhaps in a new kind of drugstore. Warning labels would be posted in the stores and on the packages. It would be illegal to sell drugs to minors, now defined as anyone under 2l. . . . Driving under the influence of drugs would be illegal, and there would be added penalties for committing other crimes under their influence, as is the case with alcohol.[74]

While it is probable that drug use would initially increase because prices for narcotic drugs would fall, Boaz argues that those drugs would be safer. After all, he notes, when was the last report of a liquor store selling gin cut with formaldehyde? Boaz predicts declining drug use and weaker drugs in the long run, citing the fact that illegal drugs have been getting stronger (as a result of prohibition) while legal drugs are getting weaker (low-tar cigarettes, nonalcoholic beer, wine coolers).[75] As Americans have become more health conscious, they have increasingly turned away from drugs. Some 41 million Americans have quit smoking and sales of spirits are declining.[76] Drug addiction in the United States should be treated as a public health problem and drug education efforts separated from law enforcement.

Conclusion

In opinion polls, Peruvians consistently name the ailing economy as their number-one concern. Indeed, inflation reached 8,000 percent in 1990.[77] In two polls in Lima and a city of the Andean highlands last year, when Peruvians were asked to name their nation's principal problems, 80 percent of respondents named the economy. The insurgency was mentioned with the second greatest frequency. Drugs were cited as a principal problem by only 4 percent or less in the two polls.[78] In a 1987 opinion survey commissioned by the U.S. Information Agency, the drug trade was outranked by Peruvians' concerns over unemployment, poverty, terrorism, and the lack of housing and education.[79]

Fujimori's rural land registry and titling program is a critically important initiative for reversing the tragic 1969 nationalization of agriculture in Peru. It will give farmers a secure and recognized claim to their land--the sine qua non for contracting for mortgage credit and thus financing the extensive capital investments required to cultivate coffee, tea, cotton, and other crops. Unfortunately, the provisions of the 1986 and 1988 U.S. Anti-Drug Abuse Acts will seriously compromise that promising plan to make landowners, and incipient entrepreneurs, out of Peru's farmers.

The U.S. laws' requirement of certification of cooperation in anti-drug efforts leaves the Peruvian president few alternatives other than to make land titling in coca-growing regions contingent on crop substitution programs (the latter to be funded with yet more U.S. aid). To make crop substitution economically attractive, the Peruvian government is driven to yet another effort to make the failed coca interdiction programs work. But the interdiction efforts' most salient effect to date has been to more directly tie the coca trade to the guerrilla insurgency, strengthening the reach of Shining Path.

Washington has Fujimori over a barrel. Today, with the state agrarian bank bankrupt and untitled Peruvian farmers with no collateral with which to seek private credit, farmers need help, and they need it fast. The continued viability of Peru as a nation desperately depends on an effective decoupling of the coca trade and the insurgency. Only an end to drug prohibition in the United States can make substitute crops economically viable in Peru and unravel the web of drug-related terror in both nations. Legalization would solve a lot of intractable problems in both nations.

Short of full legalization in the United States, Wash- ington should still end the conscription of Peruvians into a futile U.S. drug war. Congress should repeal the laws stipulating annual "certification" that Peru and other source nations are undertaking substantial narcotics eradication and interdiction programs within their territories. Trade privileges should not be tied to cooperation in the drug war. That amounts to double taxation of U.S. citizens--once to finance the expensive, failing drug war and again when they are forced to pay more for the goods they purchase.

As Peru has cooperated with U.S. anti-drug operations since the mid-1980s, the reach of the insurgency has grown substantially. Today, with inflation continuing to rise 20 percent a month, four of five Peruvians unemployed or underemployed, and a cholera epidemic frightening the nation, Peru is near the breaking point. If the pressure from Washington continues, the nation may indeed unravel. Washington should stop forcing America's drug war on Peruvian officials and free them to concentrate on getting their own house in order before it is too late.

Notes

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[22]. Ibid., p. 9.

[23]. Ibid., p. 10.

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