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INSURGENCY* AND DEVELOPMENT

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(Discussion Draft for Comment Only
Not for Distribution)

*This paper used the term "insurgency" rather than "low-intensity conflict" in order to distinguish between a true rebellion and, say, a low-level conflict between sovereign powers such as between the Yemens or India and Pakistan. I am assured that this distinction is not necessary and so the final draft will use LIC.
(Draft xxii)

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INSURGENCY AND DEVELOPMENT

1. Executive Summary

(Withheld awaiting reviews)

2. Introduction

The spread of most insurgencies is a symptom of failed development and not fundamentally a clash of ideologies. Though zealous revolutionary elites may be under the discipline of foreign regimes or ideologies, these elites will only find recruits willing to die for change if development in its largest sense has failed.

It would follow from this statement that countering an insurgency is, in the final analysis, a challenge to the development profession. This is not meant to downplay the importance of establishing security. Clearly once an insurgency is established, the first step in the process of countering that insurgency must be military. This statement is, however, intended to challenge the notion that successful counter-insurgency (CI) ends with the establishment of physical security. Security is the initial objective but it must be closely coordinated with economic and political development to complete the process.

The CI Issue and US National Interests: The purpose of a study on insurgency from the Agency for International Development (AID) stems from the recognition the ability of foreign aid to achieve sustained development in the face of persistent insurgency (a common condition) is quite limited. In such cases it is clear that real development stands a better chance if foreign aid professionals find ways to work more closely with security professionals.[1]

The Philippines, El Salvador, Sri Lanka, the Sudan are examples of countries where the friendly governments of AID-assisted countries face insurgency. Also:

- In Colombia the drug war is compounded, even threatened, by the fact that there are half dozen or so traditional Marxist insurgencies operating at the same time as the country battles the drug cartels.
- In Peru the vicious Sendaro Luminosa or Shining Path

[1] The idea of broad cooperation is the basis of the "Peacetime Engagement" policy, the basic CI policy of DoD that was cited in the recent Secretary/s report and was developed by the ASD for Special Ops/Low-Intensity Conflict and JCS 3-07.

insurgents have formed a tactical alliance with the drug traffickers that has, in effect, closed off the largest coca growing area in the world to government control.

There are others and there will be more.

We are in an era in which East-West military rivalries will no longer dominate our strategic thinking, while at the same time we are seeing a rise in both global economic interdependence and competition. In such a context American development efforts in Less Developed Countries (LDCs) will increasingly reflect the economic dimension of our national interests and reduce the significance of the political concerns which have often driven our foreign aid and military assistance programs.

This paper argues that AID and the defense establishment must view their respective efforts in highly unstable countries as parts of the same process. For the US government this process may begin with the necessary first step of either insuring or attaining physical security and then be followed by US economic assistance but the planning for each must be both coordinated and concurrent.

That is to say, defense strategists and foreign aid specialists can no longer view one another with such skepticism that there is only incidental contact as one group leaves the stage and the other arrives. Any US aid program for a country facing a significant insurgency must be the product of both groups.

The CI Issue from the Perspective of LDC Interests: Most protracted insurgencies arise from a failure of development to happen either at an appropriate pace or within a sufficiently broad spectrum of the society. Thus successful CI is, in the final analysis, an issue for the development profession to address. And if this is so then successful CI efforts are served by the three main objectives of this paper;

- First, the paper will propose a CI doctrine that incorporates both the security and economic dimensions.
- And secondly the paper will suggest a rationale aimed at reconciling some of the historic skepticism between civilian development experts and military CI experts, suggesting instead complimentary roles for each.
- And finally, the paper will offer some practical ways in which cooperation might be initiated.

3. The Basic Issues

Since the fall of Vietnam CI has been a proscribed subject within AID. Yet if we accept first that the nature of insurgencies is essentially economic and secondly that the insurgencies themselves severely constrain effective economic development we must recognize that we are in a classic no-win

trap. So the key to breaking out of this trap lies in cooperation in a common strategy. Thus the subject must be broached.

The unresolved tension of the conflict between military, political and economic objectives has contributed to a taint of both economic aid and security assistance in the minds of many Americans, foreign observers, as well as the citizens of many countries which receive our aid.

- When the US chooses political stability over economic growth we opt for the status quo. As a consequence, though we may not realize it, we often stand in the way of the substantial reforms necessary to maintain long-term stability.
- When the US, for essentially military (and generally anti-communist) reasons, tolerates regimes of the Left or Right which lack any commitment to our national values we again we opt for the status quo.

It is a legitimate and attainable objective for US policy to encourage the rise of stable democratic and capitalist nations in the developing world. But this paper will argue that there is unrecognized confusion within our diplomatic, economic, and military strategies which tends to thwart gaining these very objectives. We tend to seek formulas of political and economic freedom that are mirror images of our own system rather than reflections of the cultural peculiarities of the nations we wish to help.

AID's "Woods Report" [1] concluded that it is only through the stimulation of broad-based and sustainable economic growth that US programs can help friendly nations to achieve the mutual objectives of social and political stability. If the provision of economic and military assistance, however, to static client regimes becomes the means by which these regimes continue failed policies, and control or eliminate debate and dissent we may retard the very process of reform that is critical to their national survival.

Moreover, such policies establish the perception that US interests are in opposition to reform. Our apparent opposition to reform leaves the field to our opponents as we are seen to favor the elites at the expense of the people.

A Confusion of Left and Right: "Conservatism" in a closed, society based on privilege is fundamentally different than conservatism in a moral society based on widely accepted values.

Our Hobson's choice, often becomes one of short-term survival of a particular regime against the emergence over the long-term of a stable nation. All too often our past policies have tended to support the former at the expense of the latter. No

doubt this caution reflects the very real uncertainty and indeed risk of a serious long-term strategy of supporting change as there is always risk in change. However, the issue is not whether LDCs will change but whether a controlled process of legitimate change serves US interests better than rapid, uncontrolled change which may take place outside the established legal structure.

4. The Specific Issues

How the US understands and reacts to change in the developing world has broad social, economic and political impact there as well as in the US. The national security interests of both sides is vitally affected. And perhaps as importantly, our actions directly reflect American moral stature throughout the world.

There are a series of issues that arise from the US provision of military and economic aid to LDCs.

- **US Political Issues:** Americans have a deep skepticism of foreign aid. This fact limits any administration's options since Congress, reflecting public opinion, micro-manages the foreign aid program.

This has led to a profound confusion between the core issues of development and a plethora of secondary issues and objectives often based on domestic concerns (like assuaging an ethnic constituency) rather than vital American foreign interests.

- **LDC Political Issues:** When US political support for an existing regime becomes a roadblock to change we tend to foster those very pressures which are often preconditions of revolution.
- **LDC Socioeconomic Issues:** At times our economic aid is an impediment to precisely those changes which LDCs need to put in place in order to begin an evolution of stable and sensible economic and social systems. Sadly, the inappropriateness of our aid is often most obvious the more unstable the conditions in the recipient country.
- **Security Issues:** We need go no further than reviewing the history of the regimes of Somoza and Marcos to see that actions taken in the name of mutual security and anti-communism have in fact stimulated communist recruitment and in the end reduced our own national security.
- **Moral Issues:** With alarming regularity we put ourselves in opposition to those forces of change which often share our basic values, although they express themselves confusingly and in a different vocabulary.

The operative question for US policy-makers is this: can we resolve our own policy contradictions as well as reconcile our objectives with those of reformers in LDCs who may be in active but peaceful opposition to established governments that we support? Is there in fact substantial congruence between American political, social, and economic values and the values held by many reform movements in LDCs? The answer to both these questions is yes. And surprisingly, many of the means of achieving more appropriate economic and security objectives are far less complicated and costly than the means we now employ in pursuit of dubious or unattainable ends.[1]

5. Poverty, Corruption, and Progress

Poverty: From the Marshall Plan era to the early 1970s our aid programs were aimed at the national or "macro" economy. We financed basic infrastructure and industry with the goal of increasing the size of the national economy. We sought GNP growth with little concern for the distribution of the expected increases in income.

For a variety of historic reasons, in the early 1970s we moved away from a focus on national aggregates (eg. GNP and GNP/capita) to increasingly focus on the social and micro economic needs of "poorest of the poor".

While the elimination of poverty was, and continues to be, the correct focus for our aid, we have fallen into the trap of confusing symptom with cause. US aid increasingly treated the symptoms and ignored the causes of poverty. Poverty alleviation rather than reduction became our objective and without quite realizing it, our assistance took on the characteristics of welfare and forgot or downplayed the development objective. The poor became objects of our aid not our partners in development.

Corruption: There are essentially two types of corruption with fundamentally different economic and political results.

"Facilitative corruption" is the sort of predictable, endemic corruption which tends to be a cost of domestic business operations but is not necessarily an impediment to rational policies or sound business decisions. In its simplest form it is the few dollars that everyone pays to get a passport or, in business, the small percent that the local businessman kicks back to the head of the national development bank for granting a loan.

The bank still assesses project viability and though such an assessment may be poorly performed, it is essentially the same

[1]See Appendix X, "The Low Cost of Reform".

for everyone. Such systems are quasi-mandarin which pay the officials a fee for public services and usually reflects the low pay that public officials often receive. Generally it is tolerated by the population who recognize the low level of payment to officials (though sadly this toleration is often an inducement to public "service" rather than the motivation of helping fellow citizens).

"Structural corruption" however is corrosive and is almost always one of the roots of a serious insurgency. This sort of corruption which, when spread throughout a government, can destroy the economy, the social fabric, and finally the political mandate of the practitioners.

Structural corruption is characterized by widespread looting of the economy by the ruler, his family, retainers and friends. In the Philippines it was called "crony capitalism" or more generally a "kleptocracy". It is characterized by a condition in which any privilege, law, regulation, or contract award is for sale to the highest bidder. Decisions are eventually made to maximize personal gain to those in power with little consideration given to the general economic impact or common good.

6. The Conflict of Political and Economic Objectives

Each US administration in the post WWII era has had to confront a series of issues that arise from very fundamental conflicts between our short-term objectives and our long-term national interests; often the tactical objective of stability in a client or trading partner and the strategic objective of furthering our basic national values.

Countering an insurgency is a long-term effort. In the short-term security, though not necessarily stability, is the valid objective. And further, adequate security is clearly a function of military action.

"Stability", on the other hand, suggests equilibrium within a broader social, political and economic system. Stability is the ultimate long-term objective of a CI program. But we must beware of confusing stability with the status quo for in a serious insurgency it is the status quo against which the rebellion is taking place. We must be clear that we and our allies are not engaging rebels over the question of will or won't change take place? Change will happen. The only successful basis of combating a serious rebellion over the long-term is essentially to engage in a contest with the rebels over the pace and direction of change.

President Reagan said on a number of occasions that Marxism was headed for the scrap heap of history. Both a wonderful turn-of-phrase and an observation startlingly validated. But

in fact history's junk pile awaits more than just the Marxists. The economic elites of most LDCs are as equally an endangered species though their protective coloration -- usually "capitalist" and anti-communist -- may buy them a few more years.

We must be clear about this: the impediment to the kinds of reforms necessary to short-circuit an insurgency are usually the political and economic elites of an allied country; our official "friends".

But reform cannot be avoided if we are to win. So since we do not side with the rebels our only option is to change the elites. (see "Towards a Workable Prescription" # , below)

A new body of work coming out of Peru shows us that there is a very clear and powerful formula for changing the political and economic elites, especially in nominal democracies.

7. The Conflict of Military and Economic Objectives

A clear case can be made that the developing world is moving towards greater democratization. And this trend is accelerating in response to East Bloc reforms.[1] If this proves to be so, we should take great comfort in this trend. However, because so much of the world remains in the grip of nominally- or non-democratic regimes it is practical to ask ourselves how much of our military and security efforts can claim substantial credit for these gratifying trends? In other words, have our programs substantially contributed to the changes now taking place in the world? Clearly in looking at the East Bloc, the policies of the last 45 years have worked.

This paper argues that simply defending the physical integrity of a particular regime, through direct or indirect military means, is an inadequate approach to CI. In laying out the argument of this paper, we acknowledge the necessity of physical security but we also note that security is only the first step. If US security assistance is seen by the peasant as supporting an inefficient or corrupt regime then by extension we also become the protectors of that regime, which in all probability is oligarchic and thus exploitive. Consequently, we are perceived as unjust despite our good intentions. Worse if the political elites wrap themselves in the mantle of democracy by holding sham elections and the economic elites claim that they are capitalists while exploiting the poor through a system of special privilege, then we will lose.

[1] Benin and Mozambique, for example, recently renounced Marxism, Niger and Gabon have set a transition to multiparty system, the SWAPO-led government of Namibia supported a multi-party system, the Sandanistas appear ready to hand over power as the result of an election.

Since WWII we have displayed a profound confusion, even ignorance, as to means and ends; how does democracy take root in a society and how does a private economy grow? Further, our fear of communist dictatorships has blinded us to the reality of both allied authoritarian regimes and to "democratic dictatorships" (an example of which exists now in Peru).

This is not to argue that communist regimes are in any way preferable to authoritarian regimes though the old argument that communist regimes never willingly give up power is not valid any longer. But the banner of anti-communism has concealed a multitude of sins and human suffering that should not be tolerated by the leading democracy in the World.

It is hoped that a proclamation of opposition to narcotics trafficking won't replace anti-communism as the despots' key to blind American support now that our fears of global communism have subsided. Until we are able to reconcile our legitimate short-term objectives with our basic values, we face serious obstacles to success.

8. LDC Perceptions of American Values

It is hard for Americans who live in the heart of the greatest democratic capitalist nation to understand skepticism about either our intentions or what our system offers. But there are three critical points that need to be addressed.

First, people in LDCs see the US as it is manifested in their lives, not as we experience it here at home.

If the US supports a Somoza or a Marcos then not only US political interests but our system is equated with whatever regime happens to be in place in that country. If the system with which we are allied is dictatorial and corrupt then in the simple equation of a peasants mind our system is identified as dictatorial and corrupt.

Secondly, we often identify our allies as "capitalists" and speak warmly of their "private sector" but in fact few if any of our LDC allies are free market capitalists.

The discussion in AID's "Woods Report" on the pervasiveness of "market-managed" policies in LDCs is quite clear in supporting the preceding point. Every one of the centrally managed economies has economic problems but the Report's analysis of countries that have adopted policies which have a minimum of market regulation show that almost none are stagnant.

Consequently those countries which tend to share our economic values also tend to select themselves out of being candidates for a serious insurgency. And conversely, those countries facing a real or potential insurgency almost never share our values or subscribe to our economic and political system.

Thirdly, just as we mistake a private sector with capitalism we often misunderstand the political reality in LDCs by confusing elections with democracy.

Elections in LDCs are often only the process by which groups of elites share the spoils of power.

And fourthly, Americans do not really understand their own system.

We know where we are today but not really how we got here. We can describe the system, and explain how it works technically. Though many can give you the "high history" of its origins few can recount the common history (comparable in this sense to the common law) of the rise of our system.

But the form a system takes reflects the common culture and daily traditions of the country. As a result we have a great deal of difficulty adapting what we know about ourselves to other cultures. Democracy and capitalism are the manifestations of individual political and economic freedom within our peculiar and particular cultural tradition and so are a way of life. Because the structure had been swept in on the back of a revolution does not diminish the importance of the fact that the institutions had been evolving for centuries.

Our system is a spontaneous creation founded on a social contract which then became formalized but it is not some technical blueprint that can be transferred by handing our copies of our constitution. Unlike the Marxists, the West has no blueprint to nirvana and so we must recognize that the manifestation of personal freedom in every culture will be different.

We create deep confusion in our natural allies -- those who would reform corrupt and inhumane systems -- when we, in our own confusion, identify ourselves with bankrupt and exploitive economic and political elites. These elites hide their corruption and the denial of freedom behind the rhetoric of democratic capitalists and anti-communism.

9. The Lessons of Peru

The current history of Peru is especially pertinent to this study; it has a collapsing economy, a growing Marxist insurgency, and a large and growing class of poor. However, there is now broad agreement throughout nearly all levels and sectors of Peruvian society that radical reform is necessary and with the elections of April 1990 that reform has begun.

With the approval of a unique package of reform laws in the first quarter of 1990 and a true land-reform program to deal with coca growing, Peru is now both the source of and test-bed for many of the ideas that are put forth in this study.

These reforms are the results of the work of a Peruvian economist named Hernando de Soto. In the early 1980s de Soto took a fresh look at poverty; despite a lifetime of hard work why do the poor remain poor? how do the poor organize their lives? how do they make a living? what are their values and aspirations? His studies -- presented in a book called The Other Path [1] -- started out to map the causes of poverty but ended up essentially charting the utter failure of the political and economic system in Peru. And, it is now evident, the rest of Latin America and most of the Third World closely follows the pattern of failure which has been so clearly charted in Peru.

Appendix C is a detailed discussion of de Soto's work. It is placed in an Appendix only because of its length. But the work is essential to an understanding of the thesis of this study so a synopsis follows.

Though the West has succeeded in the marketplace of things -- our consumer culture dominates the world now -- we have generally failed in the Third World's marketplace of ideas. Understanding why is essential to our national interests.

DeSoto has studied the economic structure which successfully provides a living for a majority of Peruvians. This is the parallel (or gray or underground) economy; what de Soto calls the "informal" economy.

- o The informal economy employs 60% of Peru's people and produces 40% of the wealth.
- o The informal economy is illegal or extra-legal only in a regulatory sense as the informal economy seeks legal ends.
- o The informal economy is growing, the formal contracting.
- o The informal economy is a completely free market. There are no communes, coops, and no subsidies.
- o Most informals live squatter settlements and there they run their lives completely democratically; no mafias or Caudillos. This has been so even when Peru has suffered under dictatorship.

Although the work of de Soto studies this informal economy, it quickly becomes the study of the collapsing formal system. It is readily seen that informality is first a roadmap charting the reasons for the collapse and then a barometer measuring the extent and pace of the failure.

[1] Harper & Row, January 1989

Why is there an informal economy, especially in a nominally socialist regime such as that of Alan Garcia? The surprising answer; the Peruvian economy is not really socialist but a mixture of public ownership combined with a vestige of European mercantilism which died out there century or more ago. The closed or tightly controlled nature of these modern versions of mercantilism are justified today by modern ideologies which are hybrids of Marxism and classical mercantilism.

These hybrid systems ostensibly aim to defend "infant" industries or protect the indigenous economy against exploitation by foreign capital and against dependency on foreign economies. The justification is that such dependency would arise if economies were opened to competition or to foreign investment and such ideologies played to a certain nationalist or anti-American streak evident in most of Latin America.

What, in fact, has arisen in Latin America are economies that are closed to competition even from within. Peruvian economic elites seek special privilege and monopoly rights by bargaining with political elites, not by competition in an open economy.

Ironically Marx in 1848 was attacking mercantilism not modern classless capitalism. Though Marx has little intellectual currency in Western (or now even Eastern) Europe the closed social and economic classes exist in Latin America today as surely as they existed in Europe in 1848, with similar excesses on the part of both the elites and their opposition.

10. Failure in Vietnam

We must win the hearts and minds of the VNese people if we are to win the war in VN.

Lyndon B. Johnson

In this war, it is not really the hearts and minds that are important. It's the stomach.

Rafael Ilete,
National Security Advisor to
President Aquino

The GIs in VN had an expression which on one level made light of Johnson's stated objectives but on a darker level exposed the bankruptcy of the strategy. They would say "grab them by [a tender place] and their hearts and minds are sure to follow". Well we went after their hearts and minds badly. Had we substituted their "stomachs" for that "tender place" that cynical expression might have had real validity and we might have realized that General Ilete's observation was valid for VN as well as for the Philippines of today.

The Political Front

The case of VN offers a particularly cogent example of the complexity of the political combat zone during an insurgency. At issue is the question of how one forges an alliance -- at some level -- with the people. In a declining order of difficulty, how do you gain and hold people's allegiance to an idea of a particular political economy, or to the notion of nationhood, or to a political party, or to an individual leader?

VN was an archaic, mandarin society attempting to make a transition to modernity while in the throws of a persistent, well organized insurgency which by "Tet" of 1968 had evolved into an invasion by a foreign army.

Although there were elections, at issue was only which member of a small, elite class of Northern autocrats would rule the country. The conventional wisdom at the time was that the poor, the peasants, mid-level officials and junior officers were not interested in politics. The peasants, we thought, simply wanted to go about their farming. That is simply nonsense. Even poor peasants, in fact particularly the poor peasants, respond to leaders and to ideas which promise a better life for their children if not for them.

Time and again mid-level military officers and civil officials put aside the personal ambitions to follow qualified, capable national leaders or general grade officers. And time and again, those leaders were exiled, murdered, or their positions eroded such that their influence on national events was stopped or minimized. [1]

Often when forces for real change came forward, they were cut down by elites who were threatened by any attack on the status quo. Douglas Pike writes that "villagers, though skeptical [of VC recruitment] saw [support for the VC] as an opportunity for political participation: the appointed officials would be driven out and the villagers would manage their own affairs as in pre-French days." [2]

AID's Terminal Report on VN quotes a VNese proverb which says "The Emperor's laws stop at the village gate". It is precisely that gate to which we had to gain entry to succeed in the war. We did not, and the communists did.

Pike's point is critical and its irony unavoidable; the poor peasants of VN in their desire for real democracy were forced

[1] Although General Nguyen Chanh Thi was extremely popular with his men and particularly effective in the critical area adjoining the DMZ, he was sent into exile. Similar dramas were played out at provincial, district, and village levels.

[2] Viet Cong by Douglas Pike (MIT Press, 1966), pg. 155.

to turn to Marxist-Leninists and away from the client of the leading free world nation in order to attain meaningful democracy. It is quite true that to a rural villager the President mattered little even had VN's elections been serious exercises in democratic choice (which they were not). In this case, it would seem that America's fear of a communist dictatorship choked off the legitimate democratic aspirations of the very people whose hearts and minds we sought to influence. And worse, we allowed a political movement committed to dictatorship to capitalize on our failure to foster this democracy.

The Economic Front

American military forces, US political leaders, and American citizens were skeptical of the American economic program in VN. The program was widely seen as an attempt to buy allegiance, a commodity that was, at best, for rent. The program was widely seen by those in VN and by the press as often poorly executed and wasteful, and rife with corruption. In fairness, that may be the inevitable cost of providing help during a war.

But in terms of its economic benefit the foreign aid program in VN failed in large part because it did not address the real issues involved in nation building. We seemed to think (and to some extent still think) that nation building is just doing sums; add up the public infrastructure we have built. Literally that nation building was physically "building" a nation, a sort of body-count mentality gone awry. But in fact our efforts frequently served to alienate rather than win over the people.

Even the war itself was based on a questionable calculus of political cost-benefit embodied in our strategy of escalation. Similarly, economic aid was driven by political unsound considerations aimed at stabilizing the regime in the near terms and not as a program aimed at generating broad-based economic growth for long-term stability.

What aid actually did get out to the people was generally in the form of civil action programs which had little to do with winning anyone's heart or mind.

[discuss program in more detail]

11. Success in Thailand and Malaysia

It is difficult to reduce the success of the GOT in virtually eliminating the communist insurgency in their country to a simple explanation. There is no doubt that the suspension of PRC support to the insurgency was a logistical blow which greatly weakened the ability of the CPT to engage in military operations.

However, many insurgencies have operated with little or no foreign support. Peru and, to a more limited extent, the Philippines are cases-in-point. It is the social, economic, and political conditions which to a large extent determine whether an insurgency can succeed or fail. In its simplest terms Thailand was both ready and able to alter the basic socioeconomic conditions in the disputed areas of their country when the external conditions -- that is the PRC aid cutoffs -- gave them the window of opportunity to do so. The insurgency collapsed and the loss of PRC support does not fully explain what happened. The GOT had a highly effective economic program that addressed the economic conditions that often foster rebellion. This is the key.

[discuss in more detail -- check w/ Geo. Tanham]

In the late Fall of 1989, the CP of Malaysia signed an agreement with the GOM to lay down their arms (cite FEER).

12. Speculations on Future Insurgencies

Marxism: Marxism is a theoretical system that has demonstrated powerful intuitive validity in countries with large gaps between rich and poor. But the fact remains that after 70 years Marx's heirs have no successes to which they can point. Indeed, in objective terms it has failed totally in lifting any society out of backwardness or underdevelopment and the literal collapse of communism in Eastern Europe is a reminder of this fact. The USSR minus its military establishment is a third-rate power more deserving of foreign aid than consideration as a donor while the Third World is littered with those who have copied its approach to economic management. Communism, however, continues to hold power over the imagination of insurgents.

The key to understanding Marx's success is in two parts; 1] political control and 2] the rhetoric of change or progress. First, Leninism's adaptation of Marx is attractive to revolutionaries because it is a blueprint for taking and holding political power.. Though Marx himself was an economic determinist, his greatest value to Leninists stems from the fact that his ideas can be used to justify the maximization of political control domestically and to attack other systems internationally for their economic "sins", thus allowing external expansion ("liberation") and dictatorship at home (a common enemy).

Marx's economic ideas have little economic utility, they are just part of the revolutionary "package". It has turned out that revolutionaries are Leninists not Marxists and, as we can see from the rampant and institutionalized corruption now being exposed in Eastern Europe, Marxist dictators are as prone to corruption as their rightist counterparts.

Although Marxism-Leninism may be moribund, the desire for power among the dispossessed is still strong, as is the desire for power among the traditional elites. This tension promises future insurgencies no matter what political philosophy is laminated onto the struggle for political power. Were Gorbachev and Deng to dismantle their systems tomorrow and the US to disavow ever supporting a non-democrat the infinitely adaptable LDC leaders or would-be leaders would find new justifications for oppression or revolution.

The political economy of development and human nature promise the world future insurgencies and instability in LDCs. This is so notwithstanding any US and Soviet understanding on such matters though responsible superpower behavior could mitigate much of the turmoil we can expect to see.

Nationalism: Nationalism, especially the nationalities that were a part of the Soviet Bloc and Russian empire (and even the old Chinese empire), pose an enormous threat to global stability. These threats will be amplified if the passions for freedom become confused with old territorial claims and unsound economic considerations. Collapsing economies fueled by anger over past territorial alterations are prescriptions for conflict.

Religion: In the present popular mind, Americans tend to think of religious wars in terms of the conflict of Western values with Islam since we see instability caused by this clash of values stretching from the Southern Philippines, through South Asia, Israel, Africa, Europe and even the streets of our own inner cities and into our jails. With the Salmon Rushdie affair, this conflict has even entered the salon society of Europe and the US.

But we tend to forget the strong Buddhism vs. Hinduism element of the Sri Lankan insurgency, the Hindus vs. the Sikhs in the Punjab, and Catholics vs. Protestants in Ireland. In the last five centuries Christian "soldiers" have slaughtered millions. Moreover, in some uncritical formulations of religion and revolt we often forget that the US is on the side of the Moslem insurgents fighting against the secular and nominally progressive established government of Afghanistan.

Generally the conflict of religions is a veneer for deeper communal problems that are economic and political:

- Buddhists don't hate Hindus in Sri Lanka but the Hindus resent the relatively closed elite structure of the Sinhalese.
- Nor do Sikhs do not hate Hindus as they have lived together in relative peace for a millenium. In fact Sikhism is a synthesis of Hinduism and Buddhism.

- Catholics don't hate Protestants, they resent the Protestant elites which have created a closed economic class structure in Northern Ireland.
- Even in Afghanistan, the rise in power of the fundamentalists and the start of a protracted war arose when the elites in Kabul could not longer divide up the pie and one faction took the fight to the countryside, involving and arming the traditional rural leaders.

Economics: This paper is not trying to suggest a view of all insurgencies as economically determined though economics probably is the predominant, underlying factor that is the basis of most unstable situations. Or put another way, addressing the underlying economic problems inherent in most unstable situations is usually sufficient to resolve the conflict, notwithstanding religious, communal and nationalist problems. It would seem that with a full belly and future prospects, other issues are diminished and become more easily solvable.

Approaching insurgencies the other way, that is by resolving the non-economic issues, may stop the current instability but the underlying economic issues will still smolder and are certain to flair up again.

Narcotics and Insurgency: Separating the large-scale narcotics enterprises from insurgencies is difficult. In Burma they are identical while in Latin America they are in parallel. In both Colombia (M-19) and Peru (Sendero Luminoso) the drug traffickers have made a tactical alliance with the political insurgents supplying one another with protection, safe haven, money, and movements of arms in and drugs out.

But the conditions which push farmers into the production of illegal drugs and which drive men into insurgencies are sometimes similar, even identical; the lack of legitimate economic opportunities or, again, failed development. It is easy to dismiss the coca farmer as greedy but the analysis of the net proceeds per hectare belies that assumption. Neither coca nor opium farmers are getting rich. Yet they are prepared to defend their drug farming with violence at the risk of their lives. Are they criminals? Within the strict legal sense they may be. But are they greedy or just desperate? That is to ask, which motivates them; wealth or survival? How we answer that question may suggest a different set of policies.

Even with the traffickers themselves it is interesting to note that one generally ignored aspect of the Medellin cartel is that the leaders tend to be from the non-European part of Colombia's society. Their offer to negotiate the end to their drug empires has generally centered on their desire for admission into the system now run by the European elites who for years have tolerated their open presence but continued to

deny them the admission that they sought.

This perspective suggests that the solution to the "supply side" of the drug problem comes from offering the farmers of coca or opium poppy viable alternatives not herbicides. AND alternatives require land ownership and whole agricultural systems (this is treated in detail below).

Offering the traffickers the legitimacy they seek through investment of their past drug proceeds into legitimate agri-businesses in drug growing areas might solve several sets of problems from producing as well as consuming nations. Will our sense of offended morality ignore the enormous economic potential of the billions of dollars now squirreled away in Western banks? As disgusting it might be to ignore past criminal behavior, there may be few viable alternatives in the absence of reduced demand in the US.

13. The Illusion of Reform

Development doctrine and CI doctrine converge in that both disciplines acknowledge the need for economic means for the ultimately solving both under-development and armed insurgencies. But it is in the application of doctrine where the breach between theory and practice occurs. Foreign aid and CI programs must be parts of the same effort. Solutions offered by neither discipline can be implemented in isolation from the other but they are segregated for bureaucratic, historic, and legal reasons.

American CI efforts, much like our foreign aid efforts, are often naive; a triumph of hope over good sense. Too often proposed solutions from the doctrines of each discipline revolve around "simply" creating carbon copies of the US in the troubled LDCs. For example, "all" we have to do is have honest courts administering the rule of law, or open markets, or honest and rational government. "Just" eliminate personal ambition or tribalism or corruption and everything will be fine. In a word institute a US system and the insurgency will die.

While this may be true in theory the probability is low that such a series of events will come to pass, human nature being what it is. President Reagan often asked rhetorically, how many communist leaders do you know who voluntarily gave up power? Well times have changed, but by the same token how many autocrats (even those who are nominally democrats) voluntarily give up power and the answer is more or less the the same. LDC elites on the right or left, both political and economic, naturally seek to maintain their status. In the absence of a strong sense of national unity and purpose among the people or an overwhelming crisis, the political and economic elites (usually different groups) will create a system of mutual support.

Present strategies for both development and debt reform center on convincing these tightly bound elites to give up their power and privilege for the greater good. There is little evidence that such strategies are effective anywhere. Elites are notwilling to give up power. De Soto's Peruvian model offers a proven formula that can, in effect divide the politicians (at least in nominal democracies) from the economic elites.

De Soto has begun to do this in Peru through a process of establishing a truly popular open system as a substitute for the existing system which lays a democratic veneer over an essentially closed economic structure. The key to his success is that these changes are accomplished by altering the politicians' perception of their political base but doing so without forcing them to publicly adopt to a new economic philosophy. This is a critical point. De Soto argues that real capitalism hasn't failed in Latin America, it has never been tried. True, but one can also say that real socialism hasn't been tried in Latin America, its language has been coopted to conceal or make palatable a mixed mercantilist/socialist reality.

He uses the language and concepts of the Left to attack this modern mercantilism that is masquerading as some variant of socialism. As he illuminates this gap between rhetoric and reality the political structure must necessarily begin to reform its views and the foundation of its power if it is to keep that power. Once the dissonance between the rhetoric and reality is sufficiently undertood then there is no choice but to implement true reforms in order to survive politically.

Our Failed Formula

As a country slides into insurgency (or strains under a growing mountain of debt) Western allies and aid donors are frustrated by their inability to effect the needed widespread social, economic and political reforms. In the case of both CI and a reduction of the debt burden these are failures in both our strategy and our tactics.

Strategically, we focused our reform efforts on the wrong structures by attempting to reform the elites when, in fact, most were not amenable to real reform.

We have often assumed that most LDC elites calculated some balance between their own best interests and the best interests of the nation and have structured our programs of support with some sense of balance between the two competing drives. But our calculus was almost invariably wrong; most LDC elites are not motivated by a sense of national interest unless it coincides with their personal interests (viz. Marcos). The amin tactical errors of providing aid are discussed in section #XX which looks at the types of reforms we have sought and the mechanisms we have used in seeking those changes.

14. The Motivation to Insurgency

Why do people take up arms? When does essentially peaceful discontent slip from the realm of complaints into organized violence aimed at overthrowing the established order?

This question will be addressed from two perspectives although there is much intersection and overlap between the two. History suggests that the leaders of an insurgency and the insurgents have substantially different sets of motivations, once we are able to strip away the nominal ideology of the revolt which each group will claim to share. What is of most interest to this paper is the insurgent -- without him the leader has no one to lead -- not the revolutionary leader although each will be treated.

One might generalize that revolutionary leaders and insurgents each revolt against different closed systems though the forces which push the doors closed are closely related and may even converge if money is seen as a means to power not just a means to obtain material goods. In most LDCs the modern economic sector (industrial production and raw materials processing for export) is in the hands of elites. Thus it is, in effect, closed to serious competition usually through prohibitions to entry though the means of control are varied. The justification is almost always that a restriction is needed against foreign competition but, in fact, all competition becomes proscribed.

And to control an economy one must control the political system. Again such control employs a variety of means. Thus the political systems are closed (autocrats and juntas) or, in the case of nominal democracies, entry is tightly controlled. But in both cases the issue is access to power.

Revolutionary Leaders: In most cases the issue with committed revolutionaries is access to political power which has been denied them in the closed systems in which they live.

Is a case being made, then, that these revolutionaries are not committed to some set of ideals which underly most modern revolutions? This is not a paper of psycho-history and personal motivations generally are hidden in the minds of a class of people who are generally inaccessible. What drives an Abu Nidal or an Abimael Guzman or a Che Gueverra? How can one know since most of what they write or say publically is almost certainly a smokescreen.

However, one interesting insight was recently reported in the Washinton "Post". This article noted that the Ortega brothers attended an elite school until their father suffered business reverses. After leaving this school Daniel and Humberto were snubbed by their old friends for which they acknowledge great

resentment. The writer suggests that this "social resentment soon fused with marxist ideology...". Considering their rape of the Nicaraguan elite for their personal benefit there is possible insight into their motivations.

But the inflexible commitment of so many revolutionaries to the various masks of Marxism in a great variety of LDCs for the last 70 years offers a clue. This commitment is an enduring mystery to many observers in light of that Marxism's unrelieved failure to deliver prosperity but in considering answers one gets a hint as to real motivations.

Marx's modern proponents, it seems increasingly clear, follow Lenin not Marx. Lenin wrote out one of the most effective blueprints for getting and holding total power in modern world history. Marxist revolutionary leaders do not sit around campfires in fetid jungles for a decade dreaming about the withering away of government. Rather they dream of the ubiquity of their government. Marx simply gave Lenin the rhetorical foundation to justify his apostles' getting and holding power.

In the simplest terms, people who have ambition to attain power but who are denied it by the existing system for any reason (wrong tribe, wrong class, wrong religion) are candidates to rebel against that system. Quite obviously the antidote is a political system which is open to the citizens it governs.

Economics not politics is the main business of AID so stimulating open political systems is not the main thrust of this paper though elements of a political program are addressed in Appendix C. Today the primary component of traditional foreign aid is economic -- other elements of US policy focus on political reforms -- but this is changing. AID now has small, but important efforts aimed at stimulating political pluralism in LDCs.

Insurgents: What motivates a revolutionary elite is interesting but secondary. The real issue for this paper is to try and understand why poor people risk what little they have to take up arms against their government.

Will the masses fight to overcome poverty? No, there are a lot of poor who do not and don't seem to be inclined to take up arms. For example Mali is quite poor but mass opposition to the central government is almost non-existent though the government is not particularly repressive. Indeed, it was the relatively well-off shopkeepers of Tehran which brought down the Shah and delivered Tehran to Khomeini. In the French revolution we learn that the typical member of the mob "was not a worker...nor an indigent...but an artisan, journeyman, or owner of a small business." [1]

[1] Critical Dictionary of the French Revolution, Harvard University Press.

Is it, then, occasional injustice? No, that may make a rebel but not a mass insurgency. Well then systematic or institutionalized injustice? That can be contributory but history is filled with examples of unjust systems -- systems which tolerate no dissent from the official line -- which pay for that oppression with tolerable standards of living. They buy allegiance with development.

No, this paper argues that almost without fail, a broadly supported insurgency is a consequence of failed development, the failure to meet rising expectations. It is not simply poverty which fuels an insurgency but the perception both 1) that there is great disparity between the rich and poor and 2) that the rich unjustly deny opportunity -- not wealth -- to the poor.

The individual rebel will rarely will take up arms to change a national political system despite the rhetoric from their leaders. The poor rebel soldier will fight the economic injustice of a system in which the main beneficiaries unfairly exclude those who have the desire and ambition to share in whatever wealth the system has to offer.

This is a critical point. There are few examples of rebel movements -- and here we are not talking about the ideologues who incite and run the rebellion but those who fight it -- who are fighting for things, that is for existing wealth. Though they may mouth revolutionary platitudes about justice for all men, what in fact most insurgencies manifest is their repugnance at a ruling elite who deny individuals an opportunity to better their lot.

The single rebel humping through a jungle is fighting for ideas not things. While it is on the battlefield that we must engage the revolution, it is in the realm of ideas that we must engage the revolutionary and use his principles -- his indignation and strong sense of justice -- to turn him towards peaceful solutions. To do this first we must understand him and the system against which he is rebelling.

15. The Background for Sound Policies

The key to understanding the economic and social breakdown in Latin America is the de Soto statement quoted above that "capitalism hasn't failed in Latin America, it hasn't been tried." What, then, has failed? To answer that it must be understood that there are really only three contending economic philosophies in Latin America; Marxism, classic mercantilism (ie. commerce protected and regulated but not owned by the

state) and neo-mercantilism. The latter sails under the flag of a "mixed" economy but unlike socialist Europe's mixed economies, it is generally a mixture of regulated and protected private "capitalism" and state "capitalism".

The patron-Saint of neo-mercantilism is the revered and thoroughly confused economist Raul Prebisch who said that Latin America wasn't ready for free-market capitalism which he said was, in any event, predatory. Three decades later we see the shambles of his insights into political economy. It should be emphasized that the average GNP/capita in Latin America is about \$2000 while the figure for Eastern Europe is \$5000.

Thus Latin American economic history in the post-WWII era can best be understood as a tension between Marx and Prebisch which was little more than a debate over the degree or extent of state control. The extreme left opted for Marx, the centrists (center-left and center-right) for Prebisch, while the extreme right was for classic mercantilism, not market capitalism.

What does this mean for US policy makers, especially those concerned with insurgencies? The lessons are clear though they will be difficult to accommodate with current policy:

- We do not share the values of most political or economic elites of Latin America as a class though they are seen as our allies.
- We do, however, share the values of the poor as a class who have spontaneously organized their lives in a manner consistent with the principles of democratic capitalism.
- Thus these poor, if both sides can move beyond the stereotypes, are potentially a powerful force for change to the type of system that we in fact claim to seek.
- If we wish to make common cause with our real but hidden allies -- these poor -- then we must change (not eliminate) the elites by finding both a means to communicate with them and assist them in their struggle to grow.

De Soto has given us both a roadmap and the key to unlock the forces for change from their ideological rigidity. As this is being written in the Fall of 1989, de Soto is substantially changing the economy of Peru by organizing the poor to pursue greater democracy, less regulation, and more private property; in short the elimination of monopoly capitalism and the establishment of real economic democracy.

By not turning this into an ideological confrontation he has the support of the Left as well as the Right in his efforts to radically change the economy of Peru. What he has done in Peru can be done elsewhere.

16. The Foundations of a Workable CI Program

People do not rebel against poverty, they rebel against hopelessness. In short, people have to perceive that they are a useful part of the economic system, they must believe that they have a stake in this system. In short, they must believe that the system which they are asked to support is evolving in a manner that will offer them greater opportunities in the future.

Conversely, the poor must not believe that the cards are overwhelmingly stacked against them by the elites and that the government pursues these elites' basic interests. The government must, at least, be neutral if not generally supportive of the aspirations and a source of some aid for the tribulations of the poor. If a government is seen as a defender against the worst abuses of the economic elites it will generally be tolerated. Or put more directly, if the top politicians drive Toyotas and live modestly the government will have great latitude for imperfection. But if those politicians drive Mercedes and live in a palace that government will not avoid armed opposition for very long.

Consequently, US government programs for CI (and for aid and debt relief) must openly recognize that the purpose of aid is to facilitate self-sustaining (ie. not artificially stimulated), broadly-based (ie. not skewed to the elites) progress in LDCs. But in doing so we must be comfortable with the fact that such progress will often work against the stability that we often erroneously equate with success. This is not to suggest that the US should support revolutions. The most effective avenue of sustained, effective change is through the established government structure though not necessarily the existing regime.

To succeed, the political objectives of US foreign aid should be recast in light of the insights of de Soto and others engaged in studies of the poor. This newly emerging category of political economy is charting the process of meaningful structural change and reforms of both the political and the economic elites (for each there is a different formula).

While enlightened LDC leadership is the best means for implementing change realistically, it will be necessary for US programs maintain a sophisticated analytical ability, an array of incentives, and the flexibility to use those mechanisms to achieve the desired reforms.

To gain the flexibility to withhold aid for non-performance Congress will have to reduce the temptation to direct aid disbursements through law (ie. earmarks) and the Department of State will have to reduce its pursuit of short-term political benefits in order to allow the implementation of long-term changes.

Reform of the Political Elites: Simply put, when LDC political elites realize that reform can be translated into broad popularity -- votes -- they will attempt serious reform. Once the political consciousness has shifted, the reform itself is relatively easy and more a technical question than political.

Peruvian President Alan Garcia fought the initiatives of de Soto successfully so long as his popularity was high. But as Garcia's regime was increasingly seen as a failure and his popularity plummeted, de Soto's institute has become the primary source of reform legislation in the country. The reforms based on de Soto's work and now being implemented by Garcia -- though too late to save his presidency -- will dramatically enhance real democracy and expand the total economy by "informalizing" the rigid, formal economic. Garcia's successor will have a political and economic structure wholly new to Latin America.

Reform of the Economic Elites: Reforming the formal economy is a much tougher sell, frankly one which may not be possible because the benefits of reform are less obvious to the elites which control the system and must acquiesce to change. However, the formula for forcing change is simple even obvious. It is that with reform there will come growth and with an expanding economy will come greater wealth for all; that larger "pie" we have seen in the US in the last ten years. The present Latin system of rule by oligarchies founded on a conventional wisdom that is clearly not valid -- divide existing markets rather than create both new markets and new consumers. But is very inefficiency opens an avenue to reform through dialogue. A new conventional wisdom is necessary and to create the impetus for real reform three key factors may provide the impetus:

- The loss of control by the political elite: As the political elites realize that there is real power in reform and if they don't seek that majority constituency, others will, then they will be forced to join the parade to reform.
- Limited options: If the LDC economic crisis is sufficiently severe and pressures for reform are both external and domestic, there may be no realistic option other than serious, fundamental reform.
- Insurgent success: If the insurgencies threaten to succeed, the economic elites may choose the lesser evil of reform.

While competition may be distasteful to a privileged elite there is a sound and increasingly compelling argument to be made that they allow it.

17. A General CI Program

Lord Robert Thompson's classic formulation is a prescription based on five principles which remain a good starting point: 1] political independence and political and economic stability, 2] observation of the rule of law, 3] the formulation of a plan, 4] attack the political cadre not guerrillas, and 5] have secure base areas.

As a general approach, these principles are still sound but need expansion and clarification. We would propose reformulating those five same principles as:

- o Widely available political and economic opportunity ("economic stability" suggests the status quo).
- o Observe the rule of law for the benefit of all citizens.
- o Have a clear approach and a flexible plan.
- o Attack the political cadre and woo the guerrillas.
- o Secure the base areas but then expand the security zones through economic activities.

Confronting an insurgency or persistent unrest requires both rural and an urban strategies. Most significant, long-term insurgencies are rural-based. Scholars have long pointed out that Marx's heirs seem have discounted the original Marxian conception of the revolt of the urban worker though successful insurgencies end up in the cities. While most short-term revolts are urban-based they tend not to be a workers revolt (eg. Iran, Philippines) as most urban laborers with steady employment are relatively less susceptible to recruitment in a revolutionary movement. Urban guerrillas certainly contribute to a crisis by economic subversion, by assassination, and by plays to both domestic and foreign public opinion.

But even if this conception of insurgencies is correct a successful national CI program should focus both on a rural and urban strategy since the efficiency of the urban economy is central to the viability of the rural areas.

No matter what the strategy, we emphasize the argument that revolutions are fought by people with little to lose now and limited prospects for the future. And conversely, those who have a vested interest in the established system -- by the ownership of assets, stable employment, or even just by the perception of real opportunity -- will rarely rebel.

Thus in these general terms, the overall thrust of a viable CI strategy is to create the conditions for broad-based, self-sustaining economic growth that is composed of two key elements;

- the provision of military security, followed by or in parallel with,
- reform of economic and political structures.

A General Strategy for Military Security: In Vietnam the military operated under a tactical shorthand of "search and destroy" for which we substitute the term "engage". In the narrow terms of the specific military engagements this approach was successful but in terms of CI it was a failure.

[footnote: this is not an attempt to rehash the Vietnam war nor does this analysis ignore the fact that the fall of South Vietnam was brought about by a standing army not a guerrilla movement. But the fact remains that the US neither defeated the insurgency nor left an ally capable of defeating the NVA]

What is proposed in the following section is a strategy of integrated military and economic programs called "engage, stabilize, and develop". It should be noted that there was a approach in Vietnam called the "Strategic Hamlet Program" which had very mixed results but was generally considered a failure. This was in part because of the relatively short-term (ie. strictly military) focus of the program despite the rhetoric to the contrary. Military planners in VN were never able to effectively link the military effort with economic development largely due to the fear of alienating the traditional VNese elites who would be threatened by real reform and broad-based economic development. We made this choice early on in the war. It was wrong and we paid dearly for the mistake which was the most critical wrong turn we made in VN.

A second problem with the SHP was the lack of coordination and cooperation between the military and the village militia. The proposed program in the following section is rhetorically similar to the SHP and does, among other things, address these two weaknesses. But it is substantially more.

A General Economic Strategy for Growth: In opening this paper, the comment was made that in seeking to win the hearts and minds of the rural people of South Vietnam, we forgot their stomachs. A successful program must be one which allows the general population to earn a stake in the existing system at least in the areas where the contest with the insurgents is greatest if not nationally. [discuss "VN Terminal Report"]

18. A Specific CI Strategy

"You can pay us now or you can pay us later"[1]

[1] for footnotes; AID Deputy Administrator
Mark Edelman's comment
about the relationship
between economic development
and counter-insurgency efforts.

First, military and developmental experts must each recognize the importance of their respective roles. Military experts must accept the fact that their efforts are a necessary part of a larger economic development program. And development experts must understand that in militarily unstable countries foreign aid programs that are aimed at achieving political stability are essentially part of an overall nation-building effort.

Senior strategists for the military have long recognized this interdependence. In a January 1988 report from the Commission on an Integrated Long-Term Strategy say:

We also need to think of low intensity conflict as a form of warfare that is not a problem just for the Department of Defense. In many situations, the US will need not just DoD personnel and material, but diplomats and information specialists, agricultural chemists, bankers and economists, hydrologists, criminologists, meteorologists, and scores of other professionals [footnote: page 15].

The recognition of this need for cooperation might be institutionalized by the establishment of cross-training through programs for military officers dealing with LIC at the Foreign Service Institute and for foreign aid officials at the National Defense University.

The US must necessarily remain neutral on issues arising from political changes that take place through an electoral process. However, altering conditions which are leading in the direction of political changes through force -- insurgencies -- should be a legitimate objective of our aid.

In the preceding section, the general strategy was offered which first seeks basic security which, once accomplished, is followed by the implementation of broad reforms aimed specifically at the economic enfranchisement of the general population. More specifically this paper's recommendations are:

- A sound military strategy which focuses its efforts first on the contested rural areas.

- Reforms in land tenure in the contested areas which should center on a program of land ownership for the poor, supported by a viable, appropriately scaled system of technical support for agricultural production and economically sound crop pricing and distribution.
- Discrete political reforms supported by leadership training.
- And finally, broad-based economic and structural reforms aimed primarily at reducing government dominance of the private economy.

An expanded discussion of these four recommendations follows:

i) Sound Military Strategy

A security strategy based on the concept of "engage, stabilize & develop" is comprised of two primary elements; a security component carried out by a "dual mission" military force, and a developmental component carried out by the indigenous government and business sectors of the LDCs supported by the foreign aid organizations as needed.

Establishing secure rural settlements will be accomplished through the proposed dual-mission military which is a force having both a security mission and an economic mission. Once this force has an area secured and stabilized by traditional military means some percentage (10-20%) of these national military forces involved in the operation will be detached from national service, though still under military discipline.

Technical training as well as training in community relations -- at least for officers -- is critical. This training combined with the creation of fully self-reliant forces in this now-reduced threat environment (see Appendix "B") is an important element of the effort.

Their dual objective in the newly secured area will be to 1] maintain the security that has been achieved and 2] to establish a viable economic base that can provide income to settlers as well as contribute some or all of the costs of local security. Under this concept undeveloped or abandoned agricultural land strategically located beyond settled, relatively stable areas would be targeted for "secure settlement".

Thus the effort to create a secure settlement would begin with traditional anti-guerrilla operations but these would evolve into defensive operations once an area was stabilized. The detached mainforce government units would now shift from a primarily military objective to a dual security and economic mission.

Creation of this economic base will reflect three key components:

- First, the soldiers will be provided unoccupied land (ie. either newly cleared or previously abandoned) under a rational land reform and agriculture management effort (see Appendix "A", below).
- Then once the area is secure the soldiers' families will be brought to the area along with landless farmers and their families .
- And finally, these military men -- selected when possible from local residents -- will form the officer/NCO core of a local civilian militia unit, the service in which amortizes all or part of the cost of the land.

These relatively well-trained and well-armed soldiers who organize and lead this local militia -- the ranks of which are filled by other settlers -- would be charged with maintaining security under the discipline and with the support of national military units as needed.

By not focussing on established or productive agricultural areas, the political problems of land reform that often confuse and deplete efforts at progress may be avoided or at least minimized. But the key to success remains having the technical and regulatory support in place for the new military settlers in order to avoid simply creating a new class of alienated (and armed) citizens.

The next section, then, discusses both the importance of land ownership by small farmers and the most effective organization approach to insure that new land tenure patterns, either in established agricultural areas or in new Secure Settlements, are economically viable.

ii) Land Ownership for the Poor

Productive rural or urban land ownership -- that is direct ownership of economically useful land -- is the most powerful means by which the potential guerrilla can be dissuaded from taking up arms against the government. A landless person living in rural poverty who acquires land, and thus a stake in the existing economic structure, has his commitment to the existing political structure powerfully reinforcing.

The potential for land ownership as a viable mechanism of stabilization and CI is sometimes not understood. In Peru, which suffers from one of the most vicious and persistent guerrilla movements, 96% of the land is owned by the government. But just across Peru's border is one of the most stark examples of the moderating influence of land ownership.

Peru's Marxist revolutionaries -- the Sendaro Luminosa -- have for years been attempting to organize Bolivian peasants who live just across the border from Peru. They have failed completely despite the fact that until recently the economic conditions in Bolivia were in many ways worse than those in Peru.

Why has Sendaro failed in Bolivia? They had money. They had the support of the drug traffickers who worked both sides of the border. And Marxism is an international ideology, not peculiar to the Peruvian context. In short, Sendaro failed to organize the Bolivian peasants because the Paz Estenssoro government organized a viable land reform program in the early 1950s. In Bolivia the peasants owned their land and had no interest in Sendaro's utopia.

Such an obvious contrast suggests that real land reform could be a CI resource of inestimable proportions to Peru if used wisely. (See Appendix A for more detailed discussions).

There are many lessons in the Chinese experience. China has been able to introduce incentives and private production into its agricultural sector with a substantial and rapid economic impact. But the ability to move those reforms out of the rural areas and into the industrial sector awaits similar, national -- not just regional -- industrial reforms in the areas of ownership, finance, and demand-driven resource allocation.

With this incomplete example of China there are two interesting lessons for CI have emerged.

- First, in the recent non-violent rebellion in China, the disturbances were largely urban even though increasingly nationwide. There was little evident discontent in the rural areas which would likely not have been the case a decade before.
- And secondly, with only limited and scattered industrial reform and with only some of the foundations of a modern industrial sector -- mainly education, information and communications networks -- in place, a political revolution nearly dislodged one of the most entrenched, authoritarian bureaucracies in the world.

Real economic and social reform in the urban areas, which is inevitable, will virtually guarantee the institution of political reform and the displacement of the current leadership in due course.

This, then argues that first economic and then political reform (footnote: the USSR has embarked on reforms in reverse of this but with the anti-strike proposals seems to be trying to strike a greater balance between the two areas of reform) in both

urban and rural areas is a necessary part of a national CI strategy and the elements of such are discussed in the following two sections.

iii] Broad-Based Economic Reforms

There can be no standard formula for reform though in very general terms these reform efforts will be primarily aimed at reducing undue government interference in economic affairs, respect for private property, and the rule of law. In LDC economies that are dominated by privilege seeking economic elites their means of influence, and thus the barriers to competition and efficiency, vary greatly. The situation in two countries which face serious insurgencies is instructive.

- In Peru, for example, a small entrepreneur is effectively barred from ever incorporating in the formal economy by a daunting and lengthy registration process that no small, struggling entrepreneur could ever afford to undertake.
- In the Philippines, such registration is less lengthy but compliance with regulations, once registered, would overwhelm many small businesses trying to operate within the law.

Though these problems have existed for centuries (and fueled discontent throughout those years) they are now, with a fuller understanding of the issues, being addressed in both countries.

It is a key point to note that the reform which is suggested in this paper is not of the sort which normally is discussed in the IMF, what is called macroeconomic reform which, though necessary, is insufficient for the type of fundamental reform needed to deflect insurgent pressures. Nor are these reforms costly like a dam or bridge or rural health clinics or even an IMF adjustment program. Indeed, there is often a net economic gain such as that which would be realized by de Soto's program of eliminating tariffs on imported tires which provides the Peruvian consumer with \$110 per year net additional income at a possible cost of several hundred jobs. The key point here is that proper reforms should be both popular with and beneficial to the poor, precisely the objective.

A program to stimulate the private economy through reform is not what is commonly understood by reforms from the western perspective. Privatization, for example, means little directly to the small entrepreneur except in so far as it means the elimination of a subsidized competitor, or a monopoly supplier, or a mandated purchaser of that businessman's output. Generally institutional reform means:

- The debureaucratization of the official mechanisms which control the small businesses.

- The reduction of regulatory laws which control business and the private market.
- Opening access to the benefits of facilitative law (limited liability, insurance, etc.) to those in the private economy whether large or small, formal or informal.
- Granting clear title to individuals who control improved rural and urban land, and a speedy means of distributing government owned land to landless individuals for shelter.

In general, the work of Hernando de Soto has pioneered the measurement of impediments and the design of reforms and should be the basis of this effort.

iv] Discrete Political Reforms

In the recent (latter half of 1989) debate on the dialectical "end of history" it was observed that classical liberal democracies have never warred on one another. Nor, it should be added, has one sustained a serious insurgency. In the final analysis a government structure which rules with the true consent of all the governed is sufficient in and of itself to thwart insurgency.

In a sense, then, political reforms that are sought as a part of a CI effort are the first steps in a race between some form of consensual government and a protracted insurgency. These steps are also, however, the most difficult and risky to US interests which is reflected by the timidity of the following proposals which are the minimal level of a political reform effort.

On the other hand, if the host government was itself convinced of the need for political reform, then the options would be greatly expanded. For example multiple parties, public opinion feedback mechanisms, political and bureaucratic accountability are options. But the mix of reforms will be unique to each country.

Leadership Training: At present AID has a program of sending persons to Lima for training in the ILD's approach to defining, studying, and changing informal and formal economies. Primarily the people being sent are academicians, established politicians, and development specialists.

AID and the development agencies of other Western democracies need to begin to identify activists and reformers who can learn not only how to define informality but how the environment is changing the legal and political environment in Peru. This will necessitate that US Embassy staffs begin to identify political activists in their countries who have the capacity to use the ILD training to seek change. This is risky.

The application of this program to America's CI is in the proposal that this effort at finding political activists be focused on unstable countries which are suffering from or have the potential for insurgent movements.

In the past US contacts with the political opposition, especially in countries where is an authoritarian government, have been politically difficult. Finding and encouraging economic activists in client countries is less obviously threatening to the regime in power. However, the political consequences that would arise from broad-based ownership and a truly popular economic reform movement will likely have the political consequences that we might normally seek from contacts with the purely political opposition.

Address the Insurgent's Grievances: No matter what these are and no matter what their objective validity, they should be identified, understood and then addressed either explicitly or implicitly. It must be kept in mind that at least nominally, these are problems for which people are willing to die to find a solution.

In Vietnam the NLF demonstrated the very effective techniques of combining an agitation program with a propaganda effort ("agitprop" and meeting the real needs of the people was discussed in Section ##, above). Again, the issue is not whether people are aroused for what we deem to be good cause but that they are aroused at all.

There is a corollary to the main point of this paper -- that is insurgency as failed development -- which is acknowledged in CI theory but rarely applied in practice. Most insurgents (and here we do not mean the revolutionary elites) are not criminals but are the fallout from an economy gone bad.

It follows then that in the field the individual guerilla should be treated with respect and in jails, segregated from the criminals. And when the government has implemented real reforms that address the basic issues of the insurgency, the ex-guerrilla will often be a useful supporter of the reformed structure. The Philippines offers both a past and present example of this.

- Taruk, the Huk leader of the 1950s has a lifetime of work in the Philippines as his mark and legacy.
- XYZ, alias Commander Dante, one of the founders of the NPA has given up "the cause" and returned to his home province to farm and to legally organize farmers.

In establishing a strategy, one of the key elements of the integrated response to specific conditions in the field, is flexibility. AID has argued generally that the heavy

earmarking by country and the functional accounts limits their ability to respond to conditions in the field or to elicit reforms by withholding funds. A recent House of Representatives task force (co-chaired by Lee Hamilton and Benjamin Gilman) called for greater flexibility of the foreign aid legislation. This need for flexibility is particularly true within the context of CI. In "Discriminate Deterrence" the Commission on Integrated Long Term Strategy writes:

US economic and security assistance -- the foreign aid programs to assist US friends and allies in reducing the underlying causes of instability -- have proven inadequate and inflexible. Congress has circumscribed the President's flexibility to deal with conflicts that threaten US interests

20. Conclusion

The key points of this paper are recounted here briefly.

- o Insurgencies reflect a failure of development which in turn inspires a sense of hopelessness for the future and, so, a desire for change. The greater the failure, the more radical is the desired change.
- o People will fight for many reasons, the most common is to defend or establish their economic interests. In the Third World national interests are fragile and social interests often don't extend past the local community. But economic interests are fundamental and a national structure which defends their economic interests will itself be defended or at least tolerated. One that doesn't will be opposed.
- o No country lacks the elements necessary for development. If they haven't developed, they lack the will or the understanding or both.
- o Stability is necessary for development but not sufficient. Military action is only the first step in the process of countering an insurgency. Taken alone, military action will only exacerbate the tendency of a society to embrace insurgency as a means of effecting change.
- o Serious insurgencies may encourage established governments to accommodate their hostile citizens through meaningful change and this national will-to-reform should be seized.
- o With such a will-to-reform established, outside assistance can provide both the understanding and the resources for needed reforms.

o By understanding the informal economy and the reasons for the tendency of entrepreneurs to opt for informality, we can understand the necessary reforms for meaningful change.

o Though there will be great cultural variability in both form and pace of reform, at its essence such reform will be in the direction of liberal democratic political systems and private, free-market economies.

o The Informal Economy: Informality is a barometer that tells us two things; 1] the relative success or failure of the economic policies (ie. rate of change in the size of the informal economy) and the causes of that success or failure (the reasons for informality). It is estimated that well over half the citizens of the entire Third World are informal and in Central and South America the number of growing which is to say with few exceptions their economic systems are failing.

Informals know they are second class citizens and, so, are almost uniformly discontented and so are a constituency for change. Some elements will inevitably tap into the potential power of the informals and turn that stored discontent into action. Whether that action is peaceful political or violent military depends upon how the failing formal system adapts. In part this adaptation will reflect internal strength of the formals and, in part, the interests of the foreign donors and lenders.

We have a role to play, preferably before violence erupts. But the realities of diplomacy and the sensitivities of national sovereignty suggest that our ability for forceful action will come after the formal systems have played out the string of conventional solutions and face the imperative to change or collapse.

This paper presents an argument to support the idea that America's foreign aid establishment and her defense establishment must view their respective efforts in friendly countries facing an armed insurgency as integral parts of the same process. Accepting that argument calls for close cooperation to defuse those insurgencies where they run counter to US national interests.

Appendix A -- Effective Agroindustrial Development

The Economics of Land Reform

Land reform usually fails to deliver the kinds of economic (and political) payoffs envisioned by planners because it is poorly done, not because it is an inherently bad idea. To the contrary a piece of productive land -- whether a small house in a shanty town or a viable piece of agricultural land -- is the single most important deterrent to radicalization that exists in any LDC.

The failure of land reform comes because "reform" is often equated with a piece of worthless paper rather than the assurance of an economically viable piece of arable land. To find out why land reform fails, we must read the fine print on the "title" that is the heart of this land reform program.

If the title says the farmers must organize into coops to get title, or that they must sell their produce to marketing boards, or that the government can tell them what to grow and when, or that you cannot sell or subdivide (and thus cannot use the land as collateral which is a form of contingent sale), or that the price to be paid to the previous owner (usually with a large percentage to the government) is prohibitive, or that the critically needed water is controlled by a government agency, then the "title" is worthless.

It is economically destructive to replace the existing agricultural system -- semi-feudal share cropping or a modern plantation, whatever it is -- with a piece of paper. Agriculture is a system of inputs (seed, fertilizer, pesticides, tools, equipment), technology (proper cultural practices, the right seed) storage, possibly processing, transportation, and marketing. If any working system is to be dismantled, and this can be a legitimate act, then it must be replaced with another system.

In the past a system, no matter how inefficient or exploitative, was provided by the landlord or plantation owner. If that owner is given a handful of worthless land reform bonds and booted off the farm, there is no system to replace what he provided. This has been discovered all over the world in both land reform and large-scale land development projects using small farmers (eg. the Indonesian "transmigration" programs).

Small farmers cannot put an agricultural system in place and can rarely use the "title" they have received as it has no net value. This is due to the fact that it is often encumbered with debt when first received through land reform efforts or is proscribed from being used as collateral and so is valueless in terms of revenue generation at the outset of a new farming venture.

Successful land reform may require an efficient government program which could, in theory provide an alternative system for the small farmers. This rarely happens. Or an agroindustrial firm whose interest is primarily in the processing of agricultural produce could provide the nucleus around which to build a system even to the point of acting as the credit agent of the local government.[1] Or, finally, private firms could step into the breach and provide the services for profit as is now done throughout the US where, for example, a chain of firms throughout the Western part of the country will provide all inputs, technical advice, field services (planting, harvesting), a guaranteed market, and even credit.

The Politics of Land Reform

"Land reform" can come in many forms. Such programs may be the distribution of land already in production by another owner or it may be the parcelling out of titles to newly opened lands or it may be simply giving title to the current occupant. For a CI program to be based on agricultural development, as this paper proposes, it is critical that such lands be newly opened or at least fallow and not subject to serious peasant claims. But even with the successful creation of secure settlements on uncontested lands, the issue of how to support the new farmers in those areas remains.

The negative political, economic, and security effects of failed land "reform" programs, such as in El Salvador, suggest caution in any program which distributes or redistributes land, especially land that is already in production. However, in Peru where less than four percent of all the nation's land is privately held the scope for land distribution is enormous and the need for land redistribution (ie. retitling existing agricultural land) is not compelling.[2]

Well planned and correctly financed programs can institute land "reform", that is the redistribution of land already privately owned. But in time of war the probability that this can be done without enormous political repercussions is very slight in most unstable countries where the US has an interest

[1] This approach was discussed in detail in a book called Agribusiness and the Small-Scale Farmer -- A Dynamic Partnership for Development, Westview Press, 1985.

[2] In a recent Wall Street Journal article Hernando de Soto argues that a program of true rural land reform, where peasants are given clear title to nominally government land, is the only approach which will break the back of coca production by restricting the transfer of the title only to an agreement not to grow coca.

One source of the confusion which clouds sensible solutions is the enduring myth that small farmers prefer organizing themselves in communes and holding land collectively. The communalization of agricultural holdings has, historically, been done for purposes of ideology (eg. communist collectives and Ujama villages in Tanzania) or for administrative ease (eg. the Spanish organization of Indian farmers in Peru).

Unfortunately Western development experts and ethnologists have tended to amplify this unpopular and highly inefficient means of organizing agriculture. Large farms or plantations offer efficiency only when the owner is a profit-seeking corporation not but where the collective ownership prevails there is virtually no instance where the production is efficient and frequently there is a de facto breakup of the farms into individual plots. However, these plots don't enjoy the recognition of the law and, thus, can never achieve the levels of efficiency needed to raise the farmers production much past subsistence.

Interestingly where farmers rebel against the prevailing agricultural system it is either to grab existing plantation land for personal use or to break up existing communal farms into individual holdings.

Collective approaches to land tenure have repeatedly failed:

- In the USSR 25% of Soviet agricultural production in the early 1980s came from 4% of the land which was the privately held plots on which people were free to grow.
- In China the decollectivization of agriculture generated and sustained enormous agricultural growth.
- In Vietnam the country went from being a food deficit country to a major exporter in virtually a single year simply by decollectivization and opening markets.
- In Tanzania, Ujama villages were an economic and, in some cases, an ecological disaster. The program, justified under some vague ideological notion of "African socialism", was abandoned but the damage to the agricultural sector has been profound.
- In Peru since the arrival of the Spanish over 400 years ago until today the Indian farmers have had the ownership of agricultural land recognized collectively. Today bureaucrats and development specialists assume that this is the preferred social arrangement. But in recent nationwide research by the IID de Soto has determined that within each commune, land is broken down into individually-owned plots. Historically, this has always been the approach to land tenure and has proven to be so in every part of the country and in every example studied.

An Effective Agroindustrial System

Not surprisingly the solution to the critical issue of establishing economically productive farming with politically popular land tenure patterns is a hybrid that draws on the best of plantation agriculture and small farmers.

There is almost no tropical crop that can be substantially better grown on a plantation than it can by small farmers assuming that they have a reasonable plot of land (10+ acres) and are a part of a total system. A case in point; a majority of all natural rubber in the global rubber boom of the early 80s came from Malaysia. Malaysia, then, was host to several of the largest European-owned rubber plantations in the world. Yet nearly 55% of all Malaysian rubber was grown and tapped by small holders who actually got higher yields per acre than did the plantations of Dunlop and others.

The reason for this enormous success was that the Malaysian government had a very well-planned, cost-effective program of extension, replanting, and marketing. It worked and the small Malaysian farmer was the dominant force in this globally important and financially significant industry.

Cacao, coconut, African oil palm, peanuts, bananas, pineapples, and other crops can be competitively grown by small farmers. The key to their success is that there must be a complete system of inputs and marketing that supports them and this system -- whether public or private or a bit of both -- must be cost-effective to the farmer.

What a farmer cannot do cost-effectively is process and then sell finished products on the world market and therein lies the basis of a "deal". Few agroindustrial processors want to grow their inputs. They will if they must but their preference is to work with growers and process someoneelse's produce. That doesn't mean that these large firms don't perceive their own best interests to lie in the sustained efficiency of the small farmers who supply them with their inputs.

For example, in the Philippines -- a major exporter of both pineapples and bananas -- the large US firms use both methods. For pineapples they use large plantations but for bananas they use contract growing with all sizes of local farmers. The shared role is clear; the farmers grow and the firms process. There is even the possibility of farmer ownership of a portion of the processing facility through the increasingly important mechanism of the ESOP.

The importance and effectiveness of efficient agricultural reform for CI is seen in the fact that although both Dole and Del Monte sit in the heart of the communist insurgency in

Mindanao neither have been seriously troubled by the NPA. This is so because their employees and contract farmers have no desire to take up arms; this is truly "pacification".

Obviously this approach is no secret as major US and British corporations as well as indigenous firms throughout the Third World are increasingly attracted to this technique of contract farming (the centerpiece of the Westview Press book cited above). In establishing these systems there is a role to play for outside support through foreign aid. Building on this base of knowledge, the use of land reform and agricultural development for CI is realistic and an appropriate role for development experts and aid agencies.

Appendix B -- Supporting Troops in the Field

A devious issue in VN fifteen years ago and in the Philippines today is the provision of food for the indigenous troops while they are in the field. Traditionally, they have limited provisions and must scrounge from the local economy. Technically, officers are provided with provisioning funds but in both VN and the Philippines these funds are too often stolen by the commanding officer. Consequently, the soldiers to survive were forced to confiscate local produce and livestock.

To farmers who live on thin margins this loss was often irreplaceable. To CI experts this looting frequently undid any political benefits that might have come to the government and frequently drove the now desperate farmer into the arms of the insurgents. The soldiers, though, have little choice but to scavenge which, once begun for food, often deteriorates into theft and other abuses.

This particular issue also hurts the insurgent's cause and lies at the heart of the pox-on-both-your-houses attitude so often exhibited by peasants in contested areas. For example, recent reports from El Salvador in the aftermath of the urban assault by the Marxist FMLN note that many of the poor who were forced to provide logistical support to the FMLN guerillas during their occupation of the poorer suburbs of San Salvador. It is reported that these poor deeply resented the presence of their supposed liberators and that few accepted the FMLN call to arms.

A Solution

It is far easier for an established government to find a logistical solution to the combat ration problem than it is for a guerilla force which, by definition, lives off the land. There is, today, very effective food processing technologies that can manufacture low-cost, dehydrated foods which are light, and which can be carried and reconstituted in the same cheap sealed plastic bags that, in turn, allow a very long useful life without the need for refrigeration or even special storage requirements. This is a variation on the US Army's "long-range reconnaissance packs" or LRRPs that were carried by American Rangers in VN.

For a variety of reasons the US military's LRRPs were relatively expensive but with advances in technology and by using indigenous food products in LDCs a high ration cost is not necessary. What is needed is an R&D effort for the manufacture and production of LRRP packs based on indigenous food products and spices.

A continuously operating processing line capable of supplying large numbers of troops would cost well under US \$1 million.

Research carried out by both the French and by an American firm suggest that the best product will be a combination of local root crops (potato, sweet potato, yam, cassava which are highly nutritious) combined with a source of complex proteins which are cheap such as trash fish or abattoir by-products. These products are mashed, mixed, boiled, dehydrated, flaked and then sealed in a plastic bag. These products can be easily spiced with traditional local spices in order to appeal to the indigenous palate.

A Sample Process

Franco-American joint-venture in West Africa developed a product that was a combination of table potatoes and trash fish. Trash fish is perfectly nutritious protein source but one that cannot be fileted for eating (size or skeletal structure usually). It is often used as fertilizer or just left to rot.

With this process the fish are put in water and boiled whole for an extended period during which the fish is reduced a basic protein "jelly". At the same time, potatoes are boiled and mashed. The two products -- mashed potato and a gelatinous fish protein -- are mixed.

The mixture is then reduced and what is left is a substance that looks like mashed potato. Local spices can then be added and the entire mixture which is then fed through dehydrating drums (\$50,000 to \$125,000 each). What comes off the drum is a light, dry flake just like dehydrated mashed potatoe flakes that are still available in the US.

These flakes can then be put in simple plastic bags and sealed without sophisticated machinery. The expected shelf-life should be at least a year. The soldier in the field then needs only boil water and add it to the plastic bag for a satisfactory meal that meets his basic nutritional requirements.

Similarly, troops in garrison should be provisioned well and cooperation between military advisors and AID to be sure that the local military is well-fed and that the control of the conditions which lead to civilian abise are minimized.

Appendix C: Hernando de Soto & Peru

A Peruvian economist named Hernando de Soto has published a study of the poor in Peru [footnote: The Other Path, Harper & Row]. Written for a Peruvian audience, the book seeks to explain the nation's poverty to Peru's educated elites. Western readers have also found a fuller understanding of the poverty we seek to affect in the pursuit of both our political and economic objectives.

But the lessons of The Other Path speak to an audience beyond Peruvian and Western elites. This book -- originally written only for this narrow audience -- has become a bestseller in all of Spanish-speaking Latin America which reflects the fact that it describes the broad Latin American economic reality.

Moreover de Soto's book is a vehicle for a fundamentally new understanding of political, economic and social change though the basic ideas are as old as Thomas Jefferson and Adam Smith.. The West has spent 70 years battling Marxism but this is a conflict of ideas since in practice Marxism is an economic failure. Curiously, though the West is economically successful, our ideas have failed to inspire the reformers and revolutionaries of emerging countries. The book's exceptional popularity promises that it will have important political consequences which could influence the vital national interests of the United States.

De Soto's Thesis

TOP documents a parallel economy in Peru that is an invisible and technically illegal 40% of GNP and 60% of hours worked. He calls this economy, which is characterized by the pursuit of legal ends through illegal means, "informal". As this informal economy is the dominant and growing reality (while the formal economy is increasingly irrelevant and shrinking) in Peru and we cannot ignore it.

Since the publication of the book in Spanish, de Soto has come to learn that all of Latin America is dominated by a large and growing informal economy which remains essentially invisible to donors and lenders thus limiting our perspective and range of options in dealing with reform. The informal economy is a completely unsubsidized, competitive system though one nearly invisible to planners, investors, lenders, and aid donors. Informals come from the poorest strata of society but as a group has invariably organized themselves democratically and capitalistically:

- Power on the local level is by the consent of the governed even when the national government is operating under a military dictatorship. That is to say, there are no "mafias" where individual groups have taken power and usurped the right of political choice and freedom of association.
- The informal economy is based exclusively on private ownership of all productive assets. There are no communes or cooperatives in the Peruvian informal sector, curiously not even within what governments in Lima called agricultural "cooperatives" for nearly four centuries.

The Significance

De Soto's conclusions about the formal economy are equally important especially to Western policy-makers. What he has discovered is that Latin American countries (and evidently most LDCs) are not capitalist economies even when nominally driven by a private sector.

These economies continue to suffer from the legacy of their colonial masters of a century ago; mercantilism.

- Though based on market demand mercantilism is not based on free markets nor open competition.
- And though based on private ownership mercantilism respect open entry into the system nor the freedom to utilize what is nominally privately owned.

Today notions of economic privilege in Latin America and most LDCs rather than competition still drive the economy through a "neo-mercantilist" system that replaces the monopoly charter from the king with a host of other mechanisms which, though justified by the rulers in quasi-capitalist terminology, are in effect the modern equivalent of royal charters which are aimed at the restraint of competition from both fellow citizens or foreign corporations [footnote: though even sometimes foreign corporations take on local protective coloration and wallow in the protectionist trough].

The Implications of ILD Work for CI Policy

The consequences of this new view of LDC economies is important for policy makers concerned both with economic development and with counter-insurgency activities in LDCs. Indeed, long-term counter-insurgency efforts are essentially economic.

While the words "democracy" and "capitalism" may not be a part of the informals' vocabulary these principles nonetheless define the way most poor in LDCs organize their lives despite

they may use Leninist vocabulary when they speak of change. The apparent lack of recognition of these common values between ourselves and the Peruvian poor seeking reform is a lack of mutual understanding in both directions. This mutual perception of that we are in conflict causes confusion and hostility.

- We fail to grasp this underlying reality due to the informals' use of the concepts of Marx and the vocabulary of Lenin. We must cede the battle of lexicography to Lenin and focus, rather, on the reality behind the words. For example, de Soto never uses the word "private sector" or "capitalism" nonetheless the poor he studies are validating Adam Smith while the elites are trying to maintain the vestiges of Guild Hall Europe. We must not be confused by the vocabulary of socialism if it masks an essentially capitalist reality nor by the vocabulary of capitalism if it masks a mercantilist reality.
- We cannot support the privileged private sector and then wonder why the poor and their leaders flee from us and our "capitalism". De Soto makes a strong case for saying that capitalism has not failed in Latin America, it has never been tried. If that is so, we should not be surprised when we fail to find a common ground with the poor.

If we confuse private markets with free markets, and elections with democracy we will have conflict. Everywhere the poor try to understand their poverty and both Marx and de Soto find the same villain in the piece; monopoly capitalism or mercantilism. But they diverge widely in their conclusions.

Marxism has failed because it proved unable to distinguish between what the private sector was in the early 19th Century -- that is mercantilism -- and what it was capable of becoming -- that is free-market capitalism. Consequently Marx writes a set of prescriptions aimed at fixing a transitional form of capitalism which was in the process of fixing itself through the democratic process. Thus today European mercantilism's moribund offspring can only be found in the formal portion of some LDC economies which is precisely where Marx's power -- and essentially correct -- class analysis is politically relevant.

It is in the realm of prescription that Marx and de Soto diverge.

- Marx's inevitable economic failure came from the fact that he started with a theory of the causes of poverty and from that theory that grew into a set of prescriptions aimed at creating a new reality -- Marx's reality -- for the poor.
- De Soto's potential success comes from the fact that he moves from the specific to the general; he starts with the

daily reality of the poor and moves to a theory of poverty. Thus the prescriptions that grow out of de Soto's work are based on values and preferences of the poor themselves in seeking to reduce their poverty. [footnote: Relative affluence, at least in comparison to the conditions in the rural areas from which most of the poor migrated]

It is the dominance of the formal neo-mercantilist economies over the informal free-market economies which allow Marx's failed revolutionary theory to gain adherents and bedevil US interests. 140 years of history show us that Marx's explanations of poverty still have enormous intuitive appeal which lend credence to the prescriptions he and his successors continue to offer to the unsophisticated poor.

But employing a similar analysis of poverty de Soto's approach to overcoming that poverty, one diametrically different from Marx, also has demonstrated a powerful intuitive appeal to the illiterate poor. This critical fact is evidenced by the wide popularity of his ideas and programs with the poor of Peru.

The Peruvian Revolution

Since the publication of TOP in 1987, de Soto's institute has become the most prolific promulgator of new legislation in Peru where he has addressed urban land ownership, rural land tenure, restrictive monopolies, nationalization, debureaucratization, elimination of trade barriers, and democratic rule-making all in the name of the poor.

What is most interesting about this profound alteration in Peruvian socioeconomic life is that these changes are supported by both leftist, conservative, and centrist politicians as well as a broad base of the working poor. Indeed, to de Soto's surprise it is the left -- primarily communists -- which are the strongest supporters of his ideas.

De Soto's explanation of this fact is a key conception in arguing for the thesis of this paper. He says that few Marxists understand Marx and less care. What they know is that he provides them with a satisfying explanation of their poverty and identifies the enemy as those who exploit them. In a political universe where conservatives want to maintain an exploitative status quo and stop progress any change is preferable to the status quo and Marx is the only champion of change. At least he was until now.

The Political Impact in Peru

Focus on the fact that all parties to the presidential election are running on Sotismo as is Banzer.

De Soto's popularity and the widespread respect for his ideas with the votes has created a very curious situation in Peru's upcoming presidential elections:

- The probable challenger for from the left -- a communist -- used de Soto's legislative proposals to become the largest titler of private property in Peru's history as the mayor of Lima.
- The probable challenger from the right is a friend and early supporter of de Soto and wrote the introduction to his book.
- And the current left-of-center president is implementing at a rapid pace with revolutionary consequences.

Perhaps most interesting of all, both the communist and conservative candidate have publicly expressed an interest in having de Soto run as their vice-presidential candidate.

end/