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TRIP TO PERU

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PERU AT A FINAL CROSSROADS

Senator Kennedy was returning from Moscow the day before we were scheduled to leave for Peru. The Federation had played a role, over more than two years, in advancing his trip there and so I decided to spend part of Saturday afternoon at his press conference to gauge the results.

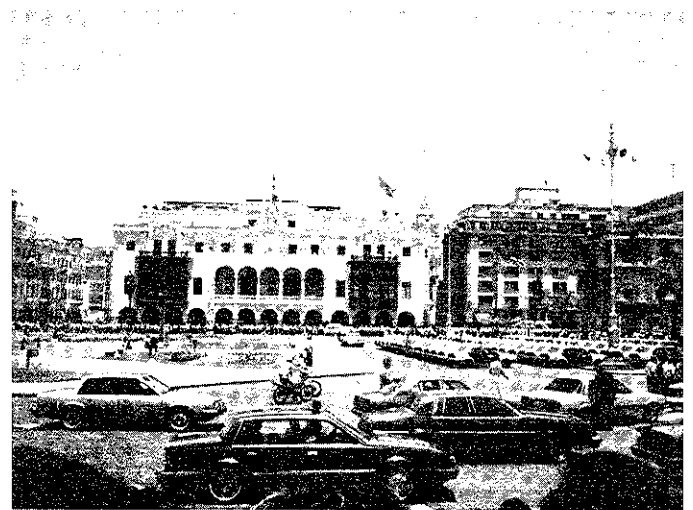
On the subway, two young women, seeing me reading "Lords of Cuzco" identified themselves as Peruvians and cautioned me that Garcia (Peru's new president) might be "too left". They were startled to hear that the morning's Washington Post reported that President Garcia had called for a curfew and emergency powers to control an upsurge in bombings.

Kennedy's trip had not produced what we had sought: the release of Andrei Sakharov and a consequent improvement in U.S.-Soviet relations. But it had obviously been useful in clarifying some arms control issues (the Soviets were clearly ready to move on intermediate range forces without any action on the Star Wars front) and it brought back the news that Gorbachev might delay the Summit if there were no results forthcoming.

Kennedy in Peru

Senator Kennedy had been in Peru just a few weeks before and, after the press conference, made a few suggestions for us. It was thought-provoking to realize how much his name and presence meant in such diverse areas of the world as Moscow (where Gorbachev's standing at the Party Congress would no doubt be enhanced by Kennedy's visit) and in Latin America (in Peru, Garcia was being compared with the young Jack Kennedy).

Peru is directly South of the East coast (i.e., in the same time zone) but it takes all day to get there from 7:30 a.m. departure to 9:45 p.m. arrival, with a stop-over in Jamaica. The city looks European, run down, polluted, crowded and like a street scene from a movie of a Latin American city



New police cars being awarded on Plaza de Armas

under siege. But the curfew is only for one a.m. and so the streets are still full of Peruvians waiting for buses. Almost all the Peruvians look like Indians. Street vendors are everywhere (350,000 of the 5.5 million inhabitants of Lima are street vendors.)

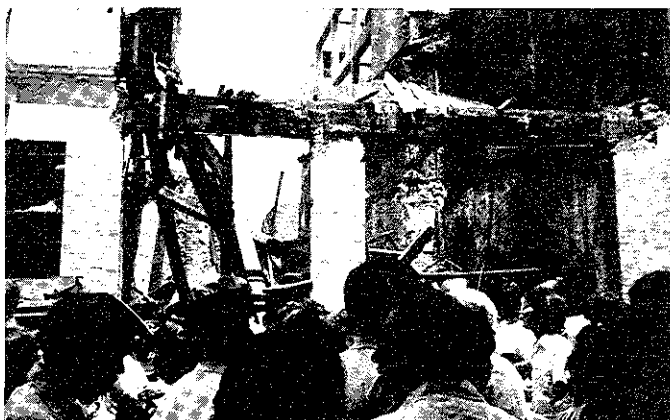
In the morning, looking at the city, we come across a burned out building, one of those that led to the state of seige. Crowds are looking at it nervously. The guerrillas are bold. Just beyond it lies the central Plaza de Armas with the President's Palace.

In the square, with crowds on each side, the President is presenting the Lima Police Department with 50 new squad cars--which must be nice for him so soon after purging the police force for corruption.

Background

In April, 1985, Garcia had won a startling victory with more than 47% of the vote for his APRA party. The Marxist-led United Left Coalition had received only 22% and the conservative Democratic Convergence ticket had received only 15%. The United Left candidate, Alfonso Barrantes, who was also the Mayor of Lima, had been quoted as saying: "The right has been erased from the scene in this country." Meanwhile, the ultra-maoist Sendero Luminoso (Shining Path) guerrilla movement had failed in disrupting the election, which had an absenteeism of only 12%. So it was a terrific mandate.

Garcia had immediately launched an attack on the International Monetary Fund (IMF), saying that he wanted to negotiate directly with the banks that, heretofore, had used the IMF as their economic guide. And he announced that Peru would pay no more than 10% of its export earnings to



Lima after terrorist attack

service the foreign debt. (This would allow payment of about \$300 million when, in fact, \$3.5 billion is owed this year in interest and amortization.)

In an eloquent address, he blamed both Peru and international capitalism for the present plight:

"Lacking a national project, lacking a historic and popular leadership, we have lived by adapting our economy to the great interests of international capitalism."

This would no longer continue: "The revolution that I hereby proclaim will be the real independence of our economic interests."

Garcia recognized that this could only be done, however, in conjunction with a "united Latin America" which could "achieve that the wealthy countries acknowledge their quota of guilt in this crisis and acknowledge their duty to assume lower interest, offer lengthier terms and the defense of the prices of our exports."

Meanwhile, however, close advisers were being quoted as admitting: "There is no possibility of militant solidarity from Latin America for the time being, we are going to be standing in the cold alone on the issue."

Reductions in Military Spending

At the time of his inaugural, the Peruvians were planning to pay \$700 million to the French for 26 top-line Mirage fighter plans. Garcia cut it back to 12 planes. (They had hoped the Chileans would respond with a cut, but no such luck!) They were also considering purchasing \$50 million in helicopters and tanks from the Soviet Union attracted by low-cost loans, long-term credit, and some possibility of paying in kind. But at that time, also, according to newspaper reports Peru had an agreement with the IMF for a 40% reduction in its military spending as one of the conditions for a new loan.

At the time of the inaugural, inflation was on the verge of 250% a year and the guerrilla war had taken more than 5,000 lives over the last five years. Right before the inauguration, the guerrillas had made their presence known dramatically: A car bomb exploded behind the headquarters of the Joint Chiefs of Staff; sabotage attacks blacked out a quarter of Lima and several provincial cities; and fires on barren hills overlooking the capital took the form of hammers and sickles.

Garcia Reduces Inflation

Immediately after the speech, Garcia reorganized the national police force, purging more than one hundred officers; mounted a campaign against government corruption; carried out major strikes against cocaine trade in the Amazon Jungle (with Columbia); and enacted an emergency economic program that reduced inflation from about 200% to 30%. This required freezing prices of consumer goods and rents and devaluing the sol with import restrictions on food and luxury goods. Meanwhile the minimum wage was raised 50% to \$40 a month.

Julio Cotler, head of the Institute of Peruvian Studies, whom we were to meet later, was quoted as saying: "Never in my wildest dreams would I have imagined a political blitz like the one Garcia has mounted in this past month." Inflation was so reduced that shifts from U.S. dollars back

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into the Peruvian "sol" had caused the Central Bank to run out of bills.

The independent Lima weekly *Caretas* entitled its article "Decision, Perseverance and Daring." By January, *Time* Magazine was headlining its account: "Flair, Firmness and Ideas" and calling Garcia "one of the most admired and influential leaders in Latin America."

Garcia inaugurated a practice of appearing on the Presidential balcony to greet crowds of well-wishers and Peruvians were already worried about efforts to assassinate him; threats against Garcia and aides had already been received.

The Lima Times & Crime

Peru has an English language weekly, the *Lima Times*, and we purchased some back issues. Outside, we had our first brush with the problem of street crime. King had earlier been warned by a passerby to remove his camera from a hip pocket lest it be snatched from him. Later, using a newspaper as cover, a pickpocket had snatched King's pen from his breast pocket so smoothly that he was not aware of it for an hour and thought only that his passport had made a narrow escape.

Two days later, King's wristwatch was ripped off his arm by one pickpocket while a confederate "bumped" him. Thinking quickly, King grappled the right man, felt the man's leg pocket and confirmed that his watch was indeed there. Putting his arm around this man's shoulder, he advised in Spanish: "That watch has sentimental value for me; return it and I will give you money." The man, large and overweight, replied: "Give me a dollar so I can eat and you can have it back." And this was done.

The *Lima Times* of August 2 was reporting on another quick-witted action of none other than former FAS Chairman, George W. Rathjens, MIT professor. While hiking this summer on the Cuzco Inca Trail, he and ten others, including British and French tourists, had been confronted by two purported Sendero guerrillas. While being searched by one, Rathjens had seen the other preparing to shoot a tourist who was threatening to resist. Thinking quickly, Rathjens had lunged at the gunman and hit him hard with his walking stick. The two guerrillas ran and the group escaped. George was quoted by the *Lima Times* as saying he was "Not about to have his holiday ruined."

Exploratory Visit to Peru

The FAS visit to Peru, interviews from which are contained herein, was designed to explore ways and means that FAS might be helpful in issues of international security affairs in South America. Edward L. King, who is a consultant to the Federation, made arrangements for the visit and participated as adviser, guide and interpreter, as he had on an earlier trip to Argentina (but is not responsible for the newsletter drafting or conclusions). As on that earlier trip also, the Federation expenses were partly defrayed by a travel grant from the Ploughshares Foundation to Colonel King.



Lima seen from the top of a hotel

Between the street crime and the guerrilla activity in the highlands where tourists would like to go, and of course the recession, tourist activity has fallen by 50% in the last few years.

The Guerrilla Problem

The back issues of the *Lima Times* gave some insight into the guerrilla problem. In July, for example, no less than 28,000 sticks of dynamite had been stolen on the outskirts of Lima. An item in late January began:

"The Movimiento Revolucionaria Tupac Amaru, MRTA, (second in size among guerrilla groups to the Sendero Luminoso) claimed responsibility for a dynamite explosion last week at Aurelia, an Italian delicatessen on Av. Petit Thouars, but said that bombs thrown at the Sears store downtown and the Galaz supermarket in the Chacarilla suburb were the work of another group."

After mentioning six other attacks, the article noted that the Sendero terrorists had been reported by police in the mountains (the sierra) to have tried to blow up the Tablachaca Dam, part of the Mantaro hydroelectric station that provides most of the coast's electricity. (And the coast, of course, is where most of the people are.)

On the plane to Lima, I had read about the Sendero. Imagine, if you can, a group living in the high sierra and painting on the walls, for the benefit of illiterate Indians and Peruvian security forces, the Chinese slogans: "Down with Deng Xiaoping the excrement of a dog" and "Support the Shanghai Gang of Four." There you have the "Shining Path" (Sendero Luminoso), a left splinter group of Peruvian Maoism which now considers itself the fourth and last sword of world revolution (after Marx & Engels, Lenin and Mao). Their leader was Abimael Guzman, then a 40 year old Peruvian philosophy professor who had split with the other Maoists (and the rest of the left) on the grounds that they had ignored armed struggle. Sendero had gone underground in 1977 and had begun armed action in 1980.

According to George Washington University Professor Cynthia McClintock, "Sendero's support-building strategies have been of a classic revolutionary character. One strategy has been to target wealthy landowners and shop-

keepers, threaten them so that they abandon their homes or kill them, and then distribute the land or goods among villagers. (One shortcoming of this tactic, however, is that there are very few wealthy landowners or shopkeepers in Ayacucho.)”

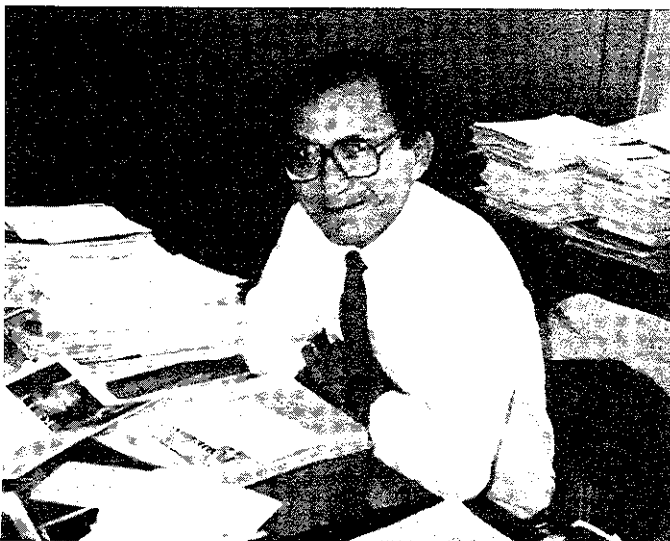
“Another strategy has been to commit innumerable acts of sabotage and thus draw the security forces to the region. The security forces then commit so many atrocities that citizens turn to the revolutionaries.”

According to McClintock, the security police were not up to the demanding task of infiltrating the Sendero to identify and arrest their leaders and did, indeed, so antagonize the populace that an unprecedented 15,000 turned out for the funeral of a young Senderista who died at the hands of the police in mid-1982. (During our visit, the Sendero had made an example of a military officer, Commandante Camion, in charge of an infamous detention center at Huanta by kidnapping and, presumably, killing him. At this center in August 1984, a young journalist who had dared to enter while his wife, sister and boss waited outside, simply “disappeared” with the military denying he had ever entered.)

Arms Limitations at the Foreign Ministry

On Tuesday morning, we met with Dr. Felix Calderon at the Foreign Ministry to discuss our notions. Calderon explained that Peru sees regional disarmament as part of general and complete disarmament. Peru has, accordingly, endorsed a complete prohibition on nuclear tests, the notion of amending the Atmospheric Test Ban to provide for such a complete prohibition, and championed chemical weapon disarmament.

Peru wanted to limit military expenditures on a regional basis and had tabled, on 21 October, an unusual General Assembly resolution calling for disarmament on a regional scale. This new departure combined the notion of conventional disarmament with the notion of regional agreements. The African states were beginning to think in the same way. And, on December 12, the General Assembly had passed by 128-0 (with 8 abstentions) a resolution supporting, generically, such regional schemes.



Dr. Felix Calderon, Arms Control Specialist in the Peruvian Foreign Ministry

I explained the ideas that had brought us to Peru. A number of Latin American governments wanted to reduce their military expenditures in any way they could. If they did so together, they might find protection in numbers, and the same kind of synergism that one saw in South America when a wave of democratization spreads from one country to another. Would it be possible to have an agreement which, like the human rights provisions of the Helsinki Accord, contained statements of principle to which all could subscribe? In this case, they would call for substantial cuts in military expenditures with a view to spending the monies thus freed on development and debt reduction.

In response, Calderon described his project—one in which a matrix of country versus weapons would be developed to reveal exactly who had what.

Concerning our proposal, Mr. Calderon gave us a copy of the “Declaration of Lima” which the Presidents attending Garcia’s inaugural had signed on July 29 and which had this paragraph:

“Considering positive and convenient the balanced reduction of military expenditures and the assignment of major resources for confidence building measures in the region and particularly between neighboring countries.”

“Balanced reduction” seems to be somewhere between negotiated reductions—which would be complicated—and the jointly announced separate reductions which we were urging. However, because of the way the declaration was put forward, as an adjunct to the inauguration of Garcia, and with many other principles being enunciated at the same time, it was correctly treated by the press as having little meaning. What it needed was the right context—which Garcia’s “united approach” to Latin American debt problems could be.

Undersecretary Jorge del Campo

We met with Calderon’s superior, Undersecretary for Multilateral Affairs, Ambassador Jorge del Campo V. who had been in his present position only for one week. He seemed sympathetic. The Lima declaration had a clause “receiving with interest” Garcia’s proposal to hold a meeting of Presidents of all Latin American nations in Panama. So there was some discussion of whether a declaration could be made at that time. But, of course, such a meeting, including Central American Nations, and many without serious debt problems, would diffuse the notion. (The New York Times had reported in September that this idea of a Panama meeting “had been shelved” for a lack of enthusiasm.)

Calderon observed that the military situation in Latin America was such that the issue was not really a threat of military conquest but an issue of secure borders. People talk, therefore, of the “level of security” rather than of a “threat.” He felt that democracy in Peru and in Latin America generally was in jeopardy if the debt problem could not be solved.

Calderon said that SIPRI’s estimate of Peruvian defense expenditures was “very high” and “wrong.” (SIPRI’s 1984 yearbook list the 1983 and 1984 Peruvian military expenditures, in 1980 prices with 1980 exchange-rates, as \$1.3

billion--8.3% of the gross domestic product or about \$65 per person. The U.S. ACDA estimates 5.6%)

An Independent View

We lunched with a foreign observer who made these comments. Garcia had taken on the military very quickly and effectively, "gotten the jump on them" and forced them to swallow much in prerogatives, salaries, etc. He had removed two key generals in the emergency zone and the Chairman of the Joint Chiefs of Staff over misuses of force. Garcia was sincere on human rights and deeply disturbed by military atrocities. He was eager for a meaningful dialogue with Ecuador and Chile to defuse tensions. He had brought the military into the war against drugs--involvement they feared lest they be corrupted by the money or fail in the job. So far, the Navy and Air Force are being used in the drug war. The Army is being used against the Sendero Luminoso. In the Fall, the Sendero Luminoso had tended to shift back to the interior from Lima activities. But the guerrillas were likely to grow indefinitely because Peru can't deal with the root causes.

Belaunde, Garcia's predecessor, was paying less than 8% of export earnings to foreign debts but not talking about it; Garcia's announcement that he would not pay more than 10% of export earnings led Secretary of State Shultz and Treasury Secretary Baker to turn various colors whenever Garcia is named.

Currently Ecuador is the teacher's pet of America with its President taking the Reagan free enterprise line. The real problem is Garcia's rhetoric which is inflammatory.

In any case, Garcia is the only game in town with the right wing and center having lost so much ground in the last election (the previous incumbent, centrist Belaunde Terry got only 4%!). Garcia has a good sense of humor but doesn't speak English.

1968-1980: Generals Velasco and Morales Bermudez

Earlier in 1968, the Peruvian military had moved in a bloodless coup to supplant an Administration headed by Belaunde Terry (in his earlier administration.) The coup leader, General Juan Velasco Alvarado, placed his officers in key positions and, using the personal respect in which he was held and the military respect for hierarchical structures, presided over that spectrum of social views they represented. But his own views were distinctly left of center and, for seven years, he managed to maintain a radical course which, in particular, ended the political and economic power of the oligarchy and expropriated their large land holdings which were turned into cooperatives.

Velasco also moved against the heretofore foreign-controlled economy. In 1968 when he entered office, three quarters of mining; half of the manufacturing industry; two-thirds of the commercial banking system; and a third of the fishing industry was under direct foreign control. The Velasco government proceeded to nationalize most of the major foreign-owned firms in mining, agro-industry, fishing, banking, electricity supply and transport and communications.

The military also encouraged education, and did so in a nationalistic fashion with curricula that took a Third World point of view.

But by 1975, the swing had been too far to the left for the military consensus. Velasco had lost his legs in an operation, and he was overthrown in another bloodless coup by General Francisco Morales Bermudez.

Morales Bermudez reversed the leftward drift and removed the progressive officers. His administration began with the enormous economic problems that Peru faced in 1975 when prices fell for its raw material imports. And his orthodox austerity program methods of dealing with the problem failed to solve it. By 1980 he returned the government to civilian rule.

Interview with Morales Bermudez

Five years after his retirement, he started a small political party, the Democratic National Front, which had received only about 1% of the vote in the 1985 election. We met with him in his headquarters in the wealthy Lima suburb of Montaflores.

The impression he gives is less than dynamic. Asked his opinion of President Garcia, he reached for a press release of February 7 and proposed to read it. The press, he noted, had not picked it up which he felt was a sign of their favoritism to President Garcia.

His party felt, the press release revealed, that Garcia had not yet told the public his "plan of government," denying Bermudez a chance to analyze it. There was no point, he felt, in Garcia telling the international monetary authorities in advance that he would pay only 10%. The government should be "flexible." It did not have a negotiating plan. Bermudez's party however, did not want to be "hypercritical."

President Bermudez began discussing agricultural policies; we observed that his son, Remigio Morales Bermudez, had just been appointed Agricultural Minister by Garcia. He acknowledged that this was so and said "the agriculture minister" was going to give a speech soon which, he indicated, would put things to right.



General Morales Bermudez, President of Peru, 1975-1980

He was in accord with reducing defense expenditures if it did not hurt the national security. The methods would be "regional accords, sub-regional accords and bilateral agreements."

His party was concerned about the growing Peruvian relations with the Communist bloc. In particular, they were non-plussed by the action of the Peruvian Vice Minister of the Interior who had gone uninvited to North Korea and purchased small arms from the Koreans, arms that were not really of the right caliber.

Asked about the Sendero, he said that in the early sixties, the terrorists had standard methods which were easy to defeat: training centers, group actions, etc. Later they began an intellectual subversion of academics. They had very little contact with foreign countries. (When they were captured, those detained were all Peruvian.) They bought weapons with the money from bank robberies. He thought they did have links with the drug traffic and with terrorists in other countries.

His elected successors, the Belaunde government had erred by dismantling the surveillance technology (for listening in on phones, etc.) in the name of democracy. This had made it more difficult to keep track of the guerrillas. Now the Sendero had infiltrated most of society but the infiltration of society into Sendero was "very limited."

The goal of the guerrillas was to completely destroy what they viewed as the "rotten society".

I asked him "Who was in charge of the ideological war against the Sendero?" He said "no one." Did anybody try to change their mind when they were, for example, captured? "No".

Army Intelligence

Brigadier General Ciro Medina DelGado, Chief of Peruvian Army Intelligence, received us in a well-appointed office in the palatial and well-guarded headquarters of the Peruvian Army.

He said Garcia had taken a realistic position on the external debt since one could not attack the causes of revolution without money, and if the money was to be used for the foreign debt, Peru would simply be maintaining the causes of revolution. On the other hand, some economic circles

did not seem to care what happened to the country so long as they got their money.

It was hard to say where the contacts of the guerrillas were; they got their ideas from many communist sources.

Asked whether the military used psychological or ideological methods to persuade Senderos to come over to the U.S. side, he laughed and said: "This is a good question to ask the joint staff."

Were the Sendero cleverer than the Army? One could not say that. If the Peruvian army had been fighting another army for six years and had lost, then one could reach that conclusion. But because the struggle is a general political struggle and not just a military one, one cannot lay the blame at the feet of the military.

We asked to see whomever was in charge of political or psychological warfare, or to talk to the Chiefs about this, but no appointment ensued.

The press revealed however, that the military wants major, new development projects in the sierra to help defeat the guerrillas. The Garcia government was being told by the military: "Without a political strategy the long-term war is lost." The Sendero have tied up 7,000 troops at 58 bases and have lost 300 men. Meanwhile, 7,000 deaths and disappearances have occurred in the emergency zones in the last three years.

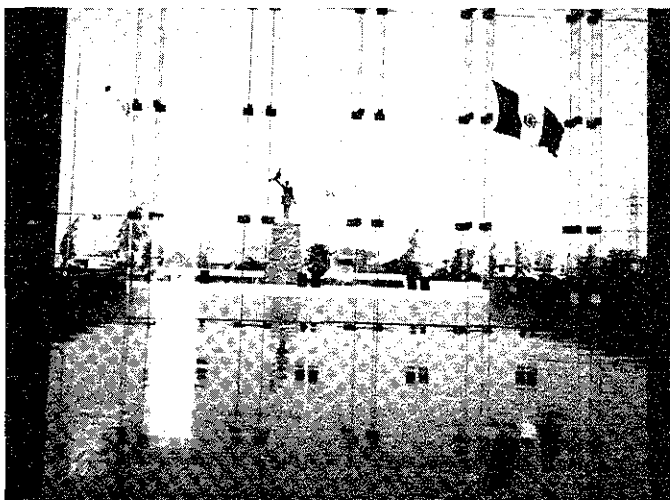
Julio Cotler of SEPI

We had been studying an important series of essays, "The Peruvian Experiment Reconsidered" (edited by Cynthia McClintock and Abraham F. Lowenthal, Princeton, 1983). The lead essay by Julio Cotler had this thesis: "Peru's central historical problem may be defined, in summary form, as the absence of a leadership group capable of sustaining the process of Peru's national and political integration." In his view, capitalism had penetrated Peru for over a century while the propertied classes and the state "neither intervened nor had the capacity to negotiate the terms of this entry." Cotler ran an institute of Peruvian studies with about 24 researchers.

On the Sendero, Cotler felt that many Indians in the sierra had had "self-respect, had owned land and yet things had gone down hill"; as a consequence, they were ready for revolt. Many Sendero had come from the sierra to the university and then gone back to the sierra. The Sendero had been isolated, at the university, from other left groups and had been the part of the left that was not "assimilated" into normal political activity; 25% of the population was voting for the left. (Guzman had evidently followed an extreme form of Lenin's approach: when faced with a choice, keep the movement smaller if necessary in order to keep it unified and totally under control.)

Guzman had written early about the importance of utilizing women in the revolutionary struggle, and young people. (Evidently, the social promotion thus accorded women and youth had worked to bind them to the Sendero; many of the guerrilla leaders were women.)

When the Sendero arrived, they killed the authorities, closed the schools and worked to separate the peasants from the cities and markets. But this had produced resentment since it prevented the peasants from buying candles, matches,



Looking out of the Defense Ministry entrance



Dr. Julio Cotler of SEPI

etc.; things which made a difficult life bearable. It all sounded much more like Pol Pot than Chairman Mao.

Cotler said: "Of course, that is what we all say, they are Polpotists."

More generally, Peru had a political culture in which the masses think that "without pushing really hard, no one gets anything" and so there was, he felt, a growing "sendero-ization" in which young people privately felt in accord with the violence.

Poverty and Uncertainty in Peru

The poverty in Peru was tremendous with about the worst infant mortality in Latin America. SEPI's interviews had shown that the young people had tremendous uncertainty about the future and they wanted job security more than higher pay.

Peru has fallen from 8th to 14th in Latin America in per capita income during the 1980-1985 years of Belaunde. People are asking: What good is democracy? Garcia got a country in shambles. There is capital flight. No security in the streets. Kidnapping.

But Garcia changed everything in 24 hours; he established authority, fired generals, and showed concern about the poor.

Was there anything that he felt Garcia was doing wrong? Cotler felt that he was making too many decisions himself, trusting no others, and hence training no others. This leads to authoritarianism. Democracy meant delegation of power. Garcia seemed to have no confidence in anybody. Peru should have a strong president but he should not be a desk officer for everything.

Still, it seemed to me that, if this were the worst that could be said of Garcia, it was pretty good. Latin America had always favored a tradition of caudillos and Cotler himself had complained that Peru's basic problem was that it was rather thin on leadership groups. Perhaps this was the best Peru could do.

The Ford Foundation supports organizations like Cotler's SEPI and, since 1960, has been trying to strengthen indigenous social science research with about \$3 million per year spent in Peru, Argentina, Columbia and Chile and dispensed out of a Lima office.

It seemed a fairly barren landscape intellectually; in an interview, Jeffery M. Puryear, the director said, "There is not a lot of work being done yet."

Arms control tended to be "taboo" because the military did not want to talk about it. Disarmament here was more important as a domestic issue than as a foreign policy issue given the role of the military in the society.

Oswaldo de Rivero: Undersecretary For Economic Affairs and Integration

Back at the Foreign Ministry, Undersecretary de Rivero introduced himself jovially as a leader in that new science of avoiding one's debts ("debtology").

As far as the Mirage fighters, it was a complete "dead-lock" but it was their "problem" (i.e., the French firm Dessault). Did Peru have assets in France that could be frozen? "No."

We asked how defense spending was determined. The Army, Navy, Air Force and the Police had separate budgets which were reviewed by parliament. Within those budgets, they pretty much decided themselves how to spend the money. Each Latin American country, he joked, was strongly influenced by what they read in SIPRI's yearbook about the spending of the other countries. The Europeans had, also been a strong influence in selling material with pamphlets and hard sell. "Janes", the famous bibliographer of weapons, had become a common "broker" in weapons. They put more pressure on arms selling than the U.S. or USSR. (Indeed, the records we consulted later do show that of \$11.8 billion in arms sold to Latin America in 79-83, \$5 billion came from non-U.S. NATO--as compared to \$3.6 billion from the Soviet Union and only \$.7 billion from the U.S.)

Turning to the debt problem, per se, Secretary Rivera said: "We don't have any more social capacity for adjustment" and are risking blowing up the democratic system of Peru. The rules of the international lending game require



Oswaldo de Rivero, Undersecretary for Economic Affairs and Integration

us to deal with IMF. The banks would rather deal with us directly but fear losing face with IMF. Peru is a victim of circumstances. We are now in a transition period and the IMF is losing power. The Baker initiative is a new step because it shows the U.S. taking responsibility.

But to get help under this plan of the U.S. Secretary of the Treasury, we have to adopt a completely free enterprise system and welcome in the foreign capitalist. They want us to pay the debt with (i.e., by selling) equities in the oil companies (Peru had just finished nationalizing the oil companies under the Velasco period 1968-75). We want a plural economy like France. We don't want to sell our enterprises.

We have state capitalism. In Latin America, the problem is that there is no bourgeoisie. And to the extent that Peruvians become capitalists, they just take the money away to Miami. Therefore, it is impossible to turn everything over to the private sector.

America should understand that it is better to have 20 Yugoslavias down here (economically speaking) than to have "who knows what" if conditions continue to worsen.

The debt crisis is, historically, the result of the world business cycle. First, international capital invested in our basic resources. In a later generation, it was investing in our industry. Still later, it was in loans to our government on the theory that Nations were an ultimately secure debtor.

But even if we paid our loans now, we would not get new loans simply because the money is not out there, and will not be for a generation. The rent on capital is no longer profitable and the risk of default is too high.

We believe the bankers have "co-responsibility" for the loans because they "pushed the money on us". (Here he agrees that Peru approaches this problem much as do farmers in America who complain that the banks encouraged them to take out larger loans than they should have.)

I asked Secretary Rivera this question:

"If all of the loans were paid off and the developed countries were willing to lend more monies, how long would it be before Peru was hopeless in debt?"

He said: "not long".

We are trying to create an urban technological society with an enormous expansion of population and without enough food. The people want to purchase what the American have. Peru, he felt, was being pulled apart by Sendero and the IMF, neither of which really cared about Peru.

I cautioned Rivera's assistant, Gavier Paulinich, that Peru had a heavy responsibility to avoid triggering a "debt bomb" that could devastate the world while, like a neutron bomb, leaving the buildings upright. He agreed. By October 1985, U.S. bankers were obliged to set aside 25% of their Peruvian loans against possible default. Fortunately Peru is not a large debtor. Its \$14 billion is dwarfed by the \$100 billion debt of Brazil, the \$95 billion debt of Mexico and the \$50 billion of Argentina. (The Third World owes \$1 trillion in total.) Reschedulings, restructuring, refinancing and other deals are getting more difficult to put together as banks show more reluctance to throw good money after bad. (Most recently, the plight of the Mexicans with their falling prices could trigger general halts in interest payments by Latin America debtors who have been moving closer together in

forming a collective policy. In Montevideo, eleven countries in the so-called Cartagena group have already sketched key elements of a debtors plan.)

The press shows that the U.S. itself has been acting absurdly on the debt issue by threatening to withhold cooperation (and small amounts of money) in fighting drug dealers until Garcia cooperates on the debt problem! But Americans spend an estimated \$110 billion on drugs, an amount increasing at 10% a year.

Luis Passera: Center for Study of Law and Society

We now have "the best government we could have" and, at least, the situation is "not worse". The Government has made "no big mistake" and people are "happy with the words--very important words". But they could easily become frustrated. Some people are already thinking of leaving the country. (The press showed hundreds of bodyguards being hired, and savage dogs adopted, as much out of fear of criminals as of guerrillas.) If Garcia failed, an election in 1990 would show the extremes gaining strength over the middle.

As far as the Sendero are concerned, he said, no one has seen Guzman for five years and, in 1983, the general in charge of suppressing the insurrection thought that Guzman was dead. The Sendero may have some connection with Libya but there is no proof that they are connected with drug dealers. (But press reports suggest, very plausibly, that the drug collectors on their motorbikes pay protection money to the Sendero and turn over medicine in return for having their airstrips guarded.)

Both sides--Sendero and the Army--have been in a contest to show who has more strength.

I suggested that "Whoever first recognizes that this is a mistake may win." He said: "I think so."

But the Sendero is too authoritarian to change while the Army could, depending upon the government.



Luis Passera, Political Scientist

The Geopolitical Context In South America

It is not easy to get a grip on the motivations of the often autonomous and, somewhat secretive military establishments of Latin America. FAS was fortunate to discover Professor Jack Child's "Geopolitics and Conflict in South America: Quarrels Among Neighbors" (Prager, 1985), from which the following summary of Peru's situation is drawn.

Peru's major threat comes from its southern neighbor, Chile, and its less serious threat from its northern neighbor, Ecuador.

1879-83: War of the Pacific

Peru and Bolivia are drawn together by memories of common suffering at the hand of their common neighbor Chile in the War of the Pacific (1879-83).

In 1866, Chile was expanding north along the Pacific coast in search of guano deposits, rich in nitrate. These lay along Bolivia's access to the sea. When war broke out, Peru--which had a secret agreement with Bolivia to prevent exactly such Chilean expansion--was dragged in.

In the ensuing war, Bolivia lost its access to the sea; regaining this access is the single driving geopolitical concern of Bolivians. Meanwhile, Peru saw its Navy destroyed, saw Lima occupied and ravaged, and lost some of its own sea-coast in a dispute that was not even settled for half a century.

Child reports that neither country has "fully accepted" the outcome and that relations with Chile will "probably never be normal" until Bolivia's desire for an outlet to the sea is satisfied. The Treaty of Ancon, which settled the War of the Pacific, gives Peru a veto power of any arrangement involving territory it once possessed and this makes a separate Chilean settlement with Bolivia impossible since, if it left the formerly Peruvian territories alone it would create an isolated Chilean salient out of that land.

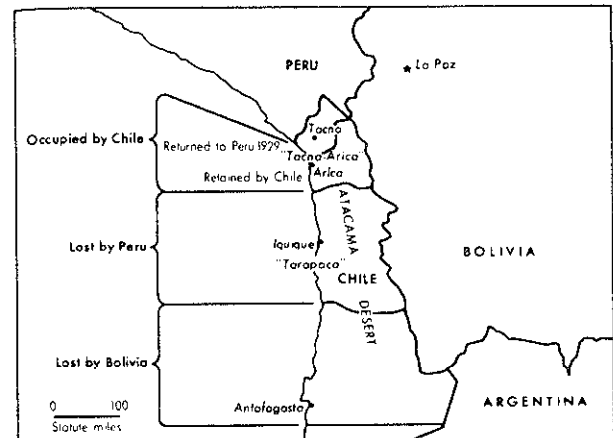
The map from page 87 of Child's book shows the coastal situation.

Renewed Tensions Between Bolivia and Peru

Tensions flared at the 100th anniversary of the war, since, in both Bolivia and Peru, a common nationalistic slogan swears that they will not let a hundred years pass without recovering the lost territories. Chileans assumed that Peruvian arms purchases from the Soviet Union were directed at them. In the 99th year, Bolivia broke diplomatic relations with Chile over delays in trying to reach agreement. (Peru, for its part, had proposed that a Bolivian corridor extend to Arica, the Peruvian-Chilean border, where a trinational government would reign.) Tensions eased when the military government of Peru was replaced by the civilian President Fernando Belaunde Terry in 1980.

Child summarizes the military situation as favoring Chile since its heartland is a long way from the border while Peru's (Lima) is within the range of aircraft stationed in northern Chile. Peru could reclaim territory but its advance would grind to a halt before reaching vital Chilean areas.

Child thinks the likelihood of such an attack has diminished since the centennial and tensions have eased.



Territorial Losses in the War of the Pacific, 1879-83

Source: *Geopolitical and Conflict in South America* by Jack Child, p. 87 (Praeger, 1985).

Ecuador

The Peruvian sense of aggrievement with its southern neighbor, Chile, is matched by the unhappiness of its northern neighbor, Ecuador, with Peru itself.

In 1941, Peru took from Ecuador some 100,000 square miles of essentially unpopulated Amazonian jungle which included navigable affluents of the Marañon and the Amazon that gave Ecuador a back door to the Amazon. These lands may also contain oil.

With World War II breaking out, a 1942 Rio Meeting of Ministers of Foreign Affairs induced Ecuador to settle the crisis (it was being threatened with even worse losses and had lost a salient along its coast near Tumbes). But Ecuador still considers access to the Amazon to be a "permanent objective" according to one foreign minister.

Consequently, Ecuador has a motivation to put the proceeds of its oil sales into weapons and to ally itself, where necessary with "the enemy of its enemy" (i.e. Chile or perhaps Brazil) if the occasion warrants. This makes the Peruvian military nervous.

As Child shows, this dispute--like all other border and territorial disputes in Latin America--is fought out in part with stamps decorated with maps with such slogans as:

Ecuador: "Ecuador has been, is, and will be, an Amazonian nation."

or Peru: "These lands and these rivers have been, are, and will be Peruvian. Frontier fixed by the Rio de Janeiro Protocol of 1942."

Oil exploration in the 1970s, with some success, intensified the concerns on both sides. In January, 1981 an incident involving a Peruvian helicopter and an Ecuadorean outpost led to shooting, escalation and at least 200 dead. There have been shooting incidents in 1983 and January 1984. The Ecuadoreans may welcome the tension because it draws attention to their claim that the 1942 protocol is not to be considered valid. The Peruvians claim the only issue is the final demarcation of the boundary.



Lima Arcade

Child believes the Peruvians have the military advantage although the advanced aircraft of the Ecuadoreans could permit retaliatory attacks on Peruvian industrial installations.

Child quotes a senior Peruvian military officer as saying: "We Peruvians must buy many weapons because, like Israel, we are surrounded by enemies: Chile to the south wants to re-fight the War of the Pacific; Ecuador to the north wants to steal our Amazon territory and our oil fields; Colombia to the northeast has not forgotten the 1932 Leticia

episode; and then there is Brazil--Brazil, which like the United States of a hundred years ago, believes she has a Manifest Destiny to occupy the continent and reach the Pacific. And in South America, Peru is California."

Geopolitical Thinking

In judging how likely Latin American countries are to go to war with one another, one has to consider the geopolitical thinking of their military men especially when they are in power.

When Salvador Allende was overthrown in Chile in a military coup in 1973, he was replaced by the author of "Geopolitica", President/General Pinochet who has been quoted as saying:

"No matter how much one would like to think of law as an equalizing element among nations, it is always true that when countries face hard realities in border litigations, the country with the advantage is the one which is stronger militarily, economically, diplomatically, and demographically. Of this, we have various examples in South America."

Chilean geopolitical thinking, in particular, and Latin American geopolitical thinking in general, tends to justify the strong over the weak and a social darwinism for states. It treats states as social organisms that require living space and resources and which have life cycles in competition with other organic nation-states competing for the same living space. All this makes Peru nervous.

LATIN AMERICAN MILITARY EXPENDITURES

	Population (millions)	1983 Military Expenditures (millions 1982 \$)	Military Expenditures/GNP	Military Expenditures per capita (1982 \$)	Military Expenditures divided by Central Government Expenditures	Military Imports* (millions 1982 \$)	Military Imports* divided by Total Imports	1984 Debt Service (\$ billions)	Military Imports* divided by Debt Service	Military Expenditures divided by Health & Education Expenditures
Brazil	131	\$1700	.7%	\$12	2%	\$117	.5%	\$12	1%	15%
Venezuela	17	\$ 880	1.3%	\$52	5%	\$167	.2%	\$ 5	3%	20%
Colombia	28	\$ 440	1.2%	\$15	9%	\$ 57	1.6%	\$ 1	6%	33%
Ecuador	9	\$ 180	1.6%	\$21	11%	\$197	9%	\$ 1	20%	29%
Argentina	30	\$1500	2.7%	\$49	15%	\$440	5.3%	\$12	4%	53%
Chile	12	\$ 980	4.5%	\$85	12%	\$243	5%	\$ 3	8%	53%
Peru	19	\$1000	5.6%	\$54	26%	\$258	8.6%	\$ 4	6.4%	55%

* For Military Imports, a 5-year average (1978-83) was used, except in the case of Argentina, where the years 1977-82 were used to avoid the unusual year 1983.

Sources: *Economic and Social Progress in Latin America* (Inter-American Development Bank, 1985).

World Military Expenditures and Arms Transfers (ACDA, 1985).

World Military and Social Expenditures (Ruth Leger Sivard, World Priorities, Inc., 1985).

CONCLUSIONS

The working hypothesis on which we had visited Peru was the possibility that some kind of joint proclamation of South American nations might be able to catalyze savings of military expenditures that could, in turn, be used effectively for development and debt reduction. On the basis of this visit and some subsequent research, what can be said about this?

In the first place, the table below shows the military expenditures of the seven largest South American nations.

They can be divided into sections according to low, medium, or high military expenditures. In the first category, we find the largest country, Brazil. Its military expenditures are low in every proportionate sense: they are only .7% of GNP, only \$12 per person, and only 2% of central Government expenditure. Thus, reductions in military expenditure would have little to do with such issues as fiscal stability.

Nor would such reductions be of much help with regard to Brazil's problems of external debt since military imports are only .5% of total imports and only one percent of the foreign exchange required for debt service.

No doubt every dollar saved from military expenditures could be used for such basics as health and education. But, even by this measure, all of Brazil's military expenditures, if abolished, would only produce a 15% increase in its budget for health and education.

The second category of South American countries, Venezuela and Columbia, show intermediate levels of defense spending. Their military imports have little to do with the Nation's capacity to service their debt. The central budget sees defense as 5% and 9% respectively. And the percentages of military expenditures, versus expenditures on health and education combined, have risen only to 20% and 33%.

Countries Spending Heavily on Defense

The heaviest costs of defense are associated with Ecuador, Argentina, Chile and Peru where the percentage of GNP devoted to military expenditures are 1.6%, 2.7%, 4.5% and 5.6%. Now the central government budget sees military expenditures as a serious problem, ranging from 11% of the budget to 26%. (With the U.S., the relevant numbers are 6.6% and 25%). In these countries, military expenditures can be 50% as much as health and education expenditures.

For these countries, also, cuts in military imports could help with debt service since they vary from 4% to 20% of the debt service required.

On the other hand, it is, inevitably, these same Nations which have reasons, or felt reasons, for higher military expenditures. Indeed, the four higher military spenders are caught up in a complicated and interrelated web of potential threats--a web that does not involve the lower spenders.

Columbia and Venezuela have military issues involving each other and the Carribean but not, really, the southern cone Nations. And Brazil, with a tradition of solving its foreign policy problems peacefully, and for other reasons, has less well developed apprehensions vis a vis the high spending four.

But, as noted earlier, Peru sees Ecuador awaiting its chance to get back its Amazonian frontier. Chile sees Peru and

Bolivia awaiting their chance to redress the War of the Pacific and, conversely, Peru sees Chile--especially under military rule--as a devotee of a kind of power geopolitics that could just possibly expand against Peru again if it weakened, as even our quick look showed it easily could.

Even Argentina, which has permanently good geopolitical relations with Peru (even allied relations since the "enemy of my enemy is my friend") can indirectly increase Peruvian expenditures. After all, Argentina is competing with Chile over the the Antarctic, over the Beagle Channel and potentially over Patagonian areas, all of which relate to the defense expenditures of Chile and Argentina. Hence increases in Argentine expenditures can lead to defense increases in Chile and hence to problems for Peru.

Accordingly, efforts to limit defense expenditures for the four high spending Nations must recognize that their defense expenditures have two components.

The first component has to do with internal security; the army in Latin America will long be an arbiter of internal order and, in the case of Peru, has the important task of dealing with a vigorous guerrilla insurgency. Such tasks provide a core of spending below which the Nations cannot be expected to go either unilaterally or jointly.

Regional Accords to Reduce Tensions

Over and above that level, there are those expenditures associated with the threat of external attack (or the preparations for external attack). These can only be lowered, one presumes, through the regional, subregional and bilateral accords mentioned by General Morales Bermudez.

Here a number of different cases should be distinguished.

If all four of these Nations were, simultaneously, under democratic governments that completely controlled their military forces, and clearly had no intention of attacking the other, each would reduce its expenditures to the level required by internal issues without further ado. Agreements would not be needed.

If the Governments were as above except that they only weakly controlled their military departments, one can imagine the utility of a joint declaration in which the civilian governments took the opportunity to announce together their desire and intention to lower defense expenditures (in principle or by a fixed percentage) simply as a means to make it easier for each Government to force what would otherwise be a bitter pill down the throat of its military. (This is the kind of model with which we had gone to Peru.)



Fashionable suburb with a view of the ocean

In a third case, there can be imagined real underlying problems of national defense that are not easily resolved through arms limitations. In this case the underlying problem must be solved to make the reductions possible. Thus, the Chileans may be able to save their military costs only by working out a solution to the issues which motivate Bolivia and Peru, thus defusing that quarrel. (And to the extent that its defense hardware is being bought for Argentine contingencies, it would have to resolve them.) Meanwhile, Peru might have to satisfy Ecuador by compromising its position on the lands taken in 1941 in order to get real and lasting security on its Northern border.

Garcia Takes Strides on All Fronts

In this context, President Alan Garcia of Peru seems to be working ingeniously on all fronts.

He has made unilateral gestures: eliminating a naval cruiser, cutting back from 26 to 12 Mirage 2000 fighters, and seeking to cut military expenditures by 10%.

Meanwhile, he has called on all Latin American nations to stop importing foreign weapons. More concretely, he has proposed to the Chileans that they both halt such spending. This would save each Nation approximately \$250 million per year in foreign currency--and 25% of their military budgets. According to a recent article surveying such developments by the Chilean analyst Augusto Varas, the Peruvian military is more sympathetic to this approach than the Peruvian but President Pinochet has made sympathetic references to the proposal. (Chilean military expenditures, Varas shows, have been drifting toward higher expenditures for internal operations.)

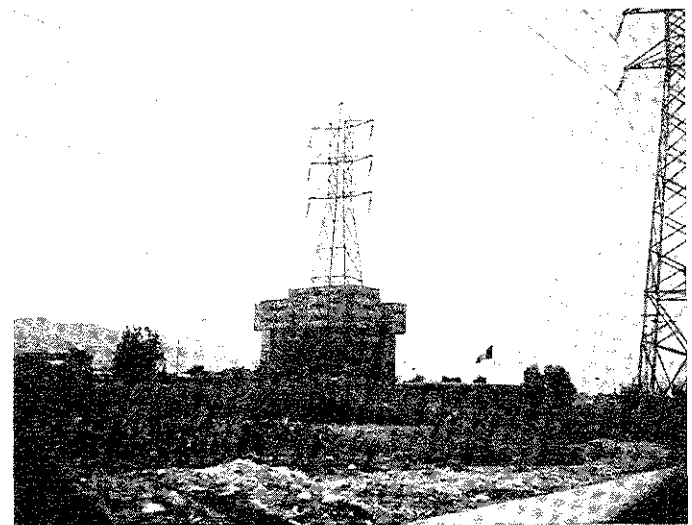
The Peruvian and Chilean foreign ministers appear to have moved toward methods of mutual trust (lowering contingents on their mutual border) rather than agreeing at the outset to halt all military imports. But they have arranged for their military leaders to meet on this issue in May. The United States itself and other interested parties should do all they can to make this meeting a success. An agreement

between Peru and Chile on foreign military spending is absolutely central to making progress in South America on arms limitations more generally in the high-military-spending countries.

More generally, Peru is in serious trouble of every kind: falling standard of living (back the level of 1965 now), serious guerrilla insurgency, great poverty, enormous debts (about \$700 per capita and twice the annual net balance of merchandise sales). It badly needs to save internal and external military expenditures, if only to find the development monies to do something effective about the guerrilla insurgency if not to fend off the foreign creditors also.

All things considered, Peru seems a useful point of reference for the Federation's interest in the link between military expenditures, debt, and development. We are working towards accumulating a critical mass of experts who can help us make a contribution to this problem. Members with interests or ideas are encouraged to write to us. □

—Jeremy J. Stone



Peruvian Defense Ministry from outside

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