

# A Reputation for Violence

Fractionalization's Impact on Criminal Reputation and the Mexican State

A Project Sponsored by the *Lampert Endowment* of the Colgate University *Institute for Philosophy, Politics, and Economics*.



**Mexico City- Criminal suspects from Los Zetas OCG are presented before of the media with the over 200 rifles that were seized after a raid on June 9, 2011.**

*Source: Los Angeles Times*

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Summer 2011

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## I. Introduction

Friday night, July 8<sup>th</sup> 2011- gunmen aligned with Los Zetas smash their way into a bar in the Northern Mexican city of Monterrey. They open fire and kill 20 people while wounding even more. The next morning, in an unrelated incident, police find 10 people shot and left to rot in an abandoned SUV. In just 24 short hours, 30 people are added to the ever-expanding casualty count.<sup>1</sup> Horrific days of violence like these have become more frequent over the past few years. The Government of Mexico responds to violent organized criminal groups (OCGs) by increasing enforcement and the OCGs retaliate with brazen acts of aggressive defiance. The 15,000 that died in 2010 alone, elevates the death toll from the Mexican Drug War to around 35,000 since 2007.<sup>2</sup> These huge numbers have a way of desensitizing us to the reality of death. That cannot be allowed to happen. On average, 14 sons, daughters, husbands, wives, friends and neighbors are murdered every day in the violent border city of Juárez.<sup>3</sup> Fourteen died yesterday and more will perish today, tomorrow, and the day after.

In an effort to reduce violence and the power of criminal organizations, US and Mexican strategy has focused primarily on removing high valued targets within an OCG's top leadership in order to fracture the organization's power structure. Mexican President Felipe Calderón believes breaking up the gangs will turn a criminal problem that threatens Mexican national security into a regional safety issue.<sup>4</sup> But in the short run fragmentation causes spikes in violence because conflicts arise within and between

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<sup>1</sup> *The Daily Mail Online*, "More than 40 bodies found in just 24 HOURS after three shootings in Mexico drug wars," July 10, 2011, <http://www.dailymail.co.uk/news/article-2013136/More-30-people-killed-just-24-HOURS-drug-wars-Mexico-continue.html>.

<sup>2</sup> Miguel R. Salazar and Eric L. Olson, "A Profile of Mexico's Major Organized Crime Groups," *Woodrow Wilson International Center for Scholars- Mexico Institute*, February 2011, p.1.

<sup>3</sup> Diana Villiers Negroponete, "Measuring Success in the Drug War: Criteria to Determine Progress in Mexico's Efforts to Defeat Narco-traffickers," *The Brookings Institution*, May 25, 2010.

<sup>4</sup> David A. Shirk, "Drug Violence in Mexico; Data and Analysis from 2001-2009," *Trans-Border Institute*, January 2010, p. 11.

criminal organizations. After the pre-existing power relationship disintegrates, leaders of criminal groups attempt to increase their market share by muscling out the competition. The United States Drug Enforcement Administration views this escalation in violence as “a sign of success in the fight against drugs” an instance of “caged animals, attacking one another.”<sup>5</sup> But this view may be oversimplified. Organized crime groups are horizontally structured for-profit criminal businesses that operate to maximize revenues gained from illegal activities. They typically engage in violence only when it serves a specific business purpose. The strategy of continually breaking apart criminal organizations has kept the balance of power from reaching a stable equilibrium. These uncertain conditions incentivize OCGs to forcefully take advantage of their rivals’ unstable control over market share. But physical violence is only one way to increase market share and control competitors. Establishing a threatening reputation from past displays of violence and corrupting government officials are integral components of a combined strategy that allow an OCG to attain a dominant status within the market hierarchy without having to resort to expensive warfare. The following analysis considers criminal violence in Mexico from an economic perspective of illegal firms’ incentives to build violent reputation capital. Studying the costs and benefits of utilizing violent intimidation and institutional corruption to gain an economic advantage provides an objective point from which the success or failure of the US-Mexican strategy of fragmentation can be analyzed. Reputation building by criminal organizations will be discussed in the context of their effect on the local population, the government and rival OCGs. This analysis will attempt to answer the central question of whether President Calderón’s war against the organized crime groups increases violence and destabilizes the Mexican state. In the end, the continuous periods of intense violence that occur when government enforcement keeps the market destabilized perpetuates an environment where reputation must be constantly rebuilt and reaffirmed with actual displays of violence. This violent environment selects for the most aggressive and brutal leaders all while overburdening

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<sup>5</sup> Anne-Marie O'Connor and William Booth, “Mexican drug cartels targeting and killing children,” *The Washington Post*, April 9, 2011, [http://www.washingtonpost.com/world/mexican-drug-cartels-targeting-and-killing-children/2011/04/07/AFwkFb9C\\_story\\_1.html](http://www.washingtonpost.com/world/mexican-drug-cartels-targeting-and-killing-children/2011/04/07/AFwkFb9C_story_1.html).

criminal justice system and eroding public confidence in the rule of law. Going after the dangerous criminals that control Mexico's illicit underworld sounds like a reasonable and responsible plan to weaken their power over the state but in the end, constantly breaking apart criminal organizations exacerbates many of the problems the government is trying to solve.

## **Definitions**

**Organized Crime Groups (OCGs)**-Although the media and popular culture often refers to Mexico's criminal enterprises as cartels or drug trafficking organizations (DTOs), these organized criminal groups (OCGs) do not always form multigroup alliances that fit within the economic definition of a cartel. OPEC, the organization of petroleum producing countries, fits the definition of a cartel because multiple entities work together to fix price and supply. Criminal enterprises in Mexico do not appear to work together in this way. In addition, these businesses cannot be labeled simply "drug-trafficking organizations" because they generate revenue through non-drug related activities such as contracted enforcement, kidnapping and extortion. Instead, this paper will use the term organized crime groups (OCGs) when talking about the organizations responsible for the vast majority of Mexican violence.

**The Criminal Groups in Mexico**- An important distinction must be made between the localized violence within retail drug markets, typically observed in disadvantaged minority areas within American cities, and the systemic violence generated by larger organized crime groups such as those in Mexico. In this paper, the violence and corruption perpetuated by these larger criminal organizations will be analyzed. There are currently seven OCGs that generate the vast amount of Mexico's violence. These seven all arose, in one way or another, from the disintegration of the Felix Gallardo criminal organization in the late 1980's. They include: the Sinaloa OCG, the Juárez OCG, the Tijuana/Arellano Félix Organization, the Gulf OCG, La Familia Michoacána, the Beltran Leyva Organization, and Los Zetas. A short history and explanation of each of the seven groups can be found in the appendix section at the end of this paper. For a more detailed

profile into Mexico's criminal organizations see Miguel R. Salazar and Eric L. Olson's paper *A Profile of Mexico's Major Organized Crime Groups*.

### **US-Mexican Strategy of Direct Engagement**

President Calderón, in an attempt to decrease violence and diminish the power of organized crime groups, deployed roughly 50,000 military and thousands of federal police troops<sup>6</sup> to affected states along the border and to specific violent regions within Mexico's interior.<sup>7</sup> To assist with these efforts the United States has allocated over 1.5 billion dollars since 2008, with the majority going towards training and equipping Mexican military and police.<sup>8</sup> These forces are tasked with going after the criminal organizations' leaders in an attempt to dismantle the criminal organizations.<sup>9</sup> Calderón believes that by disrupting the internal hierarchy of the gang he will be able to fragment larger OCGs, which can possibly threaten the power of the state, into smaller groups that can be dealt with by regional police forces.<sup>10</sup> In an attempt to accomplish this goal the Mexican government has conducted multiple joint police-military operations, arrested high-level OCG leaders,<sup>11</sup> and investigated and arrested corrupt political officials. Although this strategy has successfully broken apart some OCGs it has resulted in high levels of violence and no significant negative impact on their power.

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<sup>6</sup> CRS Report for Congress, "Mexico Drug Trafficking organizations: Source and Scope of the Rising Violence," June S. Beittel, *Congressional Research Service*, January 7, 2011.

<sup>7</sup> John Bailey, "Combating Organized Crime and Drug Trafficking in Mexico: What are Mexican and U.S. Strategies? Are They Working?," *Woodrow Wilson International Center for Scholars- Mexico Institute*, May 2010, p. 332.

<sup>8</sup> CRS Report for Congress, "U.S.-Mexican Security Cooperation: the Mérida Initiative and Beyond," Clare Ribando Seelke and Kristin M. Finklea, *Congressional Research Service*, February 16, 2011, p. 1.

<sup>9</sup> CRS Report for Congress, "Mexico Drug Trafficking organizations: Source and Scope of the Rising Violence," June S. Beittel, *Congressional Research Service*, January 7, 2011, p. 18.

<sup>10</sup> David A. Shirk, "Drug Violence in Mexico; Data and Analysis from 2001-2009," *Trans-Border Institute*, January 2010, p. 11.

<sup>11</sup> See appendix on OCGs for more detail.

## Why Breaking Apart OCGs Paradoxically Leads to More Violence

The paradoxical effect of increased enforcement against Mexican OCGs, which leads to increased and sustained violence, can be understood for the following reasons. Most obviously is the spike of violence that occurs during the period when the government directly engages with OCGs. In order to counteract the power of the state, OCGs will strike back, often employing contracted enforcement groups to increase their fighting capacity. A great number of aggressive individuals within the region all employed to fight off government and rival OCGs will inevitably result in more violence. Historically it has been exceedingly difficult to entirely eradicate large and established criminal groups. If the state is unsuccessful in its attempt to completely dismantle the organization's leadership, the conflict will have only served to bolster the group's reputation and increase their experience and knowledge of military tactics. If by chance the OCG's leadership is captured or killed surviving factions, either within that organization or from rival OCGs, will fight each other for dominance. Because of the absence of legally enforceable contracts, succession of power within an illegal organization is often uncertain and unstable. This results in an internal feeding frenzy where different potential leaders kill off their rivals until a balance of power has been achieved. Those who are successful at winning the seat of power have done so because of their aggressive advantage and ability for violence. Following internal conflicts for power the criminal leaders that emerge are typically less experienced in business, more tenuous in their ability to hold onto their leadership, and thus more brutal.<sup>12</sup> In a variant of Darwinian selection, this process rewards the most violent leaders and results in less stable future agreements between organizations. Not only does fractionalization lead to intra-organization violence but it also furthers inter-organization conflicts. When power relationships are well established and a single organization or alliance holds dominance, violent clashes will have predictable results and thus occur infrequently. But when

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<sup>12</sup> Daniel Kurtz-Phelan, "The Long War of Genaro García Luna," *The New York Times*, July 13, 2008, <http://www.nytimes.com/2008/07/13/magazine/13officer-t.html?pagewanted=4&adxnlnx=1314543859-PnYrIfad36qPEvdF4rCgEQ>.

fractionalization creates unknown weaknesses within an organization, and positional uncertainty increases, rival firms will attack in an attempt to gain valuable turf. Therefore, the government's repetitive unsuccessful attempts at completely eradicating OCGs disrupts relatively stable power equilibriums and keeps the system in a state of perpetual chaos and escalating violence.

## **II. The Importance of Reputation**

Black markets, the playing field in which Mexican criminal businesses operate, lack the typical legal channels such as police and the court system to negotiate and resolve conflicts. This forces organized crime groups to look towards other means of dispute resolution. To fill this void, OCGs utilize both the strategic show of actual physical force as well as the threat of violence as a means to resolve disputes and improve their position of power within the illicit market. Reputational strength is an amalgamation of the actual repetitive demonstration and willingness to use extralegal, oftentimes deadly, force. Violence, and the fear and intimidation it creates, allows OCGs to easily pass bribes by offering the ultimate choice: *Plata o Plomo* which literally translates to Silver or Lead. Citizens and public officials must either take the bribe or face violent consequences. Reputation, once built to high levels, can be used to intimidate rivals, legal institutions and legitimate business as a means to control their actions without the costly outright use of bribes or violence. From an economic perspective, building up reputation capital has particular advantages for an OCG because of the high expense of physical confrontations. Due to the cost of weapons and compensating employees for risk, sustained wars between criminal enterprises can be extraordinarily expensive. A strong reputation allows an OCG to stave off potential attacks by rivals. By lessening the probability of future conflicts the illicit firm can start substitute their accumulated reputation for expensive enforcement personnel.<sup>13</sup> Investing in building a reputation for violence is an effective way of lowering the future expenses of running and maintaining a criminal enterprise. Although

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<sup>13</sup> Peter Reuter, "The Organization of Illegal Markets: An Economic Analysis," U.S. Department of Justice, *National Institute of Justice*, February 1985, p. 28.



violence and bribery are primary mechanism for building reputation, these factors only produce a strong reputation when they start to impact peoples' behavior. Violence and corruption are observable and can be linked to distinct events over time. Conversely, reputation is an unquantifiable factor that may vary greatly depending on an individual's perception. Actors in the conflict, whether they are ordinary citizens, police, or rivals, will behave according to their own perception of how the OCG will impact their own lives. How these individuals are intimidated by reputation is complex and includes both a criminal organization's propensity for violence as well as the regional level of lawlessness and the likelihood of the legal system to hold OCGs accountable. When individuals cannot report crimes or stand trial without the very real fear of retaliation, the power OCGs have over the citizenry increases.

### **Comparative Reputation**

Government credibility and the strength of its criminal institutions influences how civilians will behave when faced with a criminal organization's aggressive reputation. When public officials find themselves up against violent threats from multiple OCGs and upholding the rule of the state, they must make a choice that balances the risks and consequences of siding with each particular group. A September of 2010 *Reforma* poll indicated that 59% of Mexicans believed the organized crime groups were winning the fight against President Calderón's government.<sup>14</sup> Irrespective of which side may *actually* be winning, if such a thing can ever really be known, what matters is an individual's confidence in an expected outcome. When citizens do not believe the government can protect them after coming forward with information about crimes, they will not choose the state's mechanism of law to resolve conflicts. When faced with bribery and the threat of violence by two opposing criminal organizations a rational individual will align with whatever group he perceives has the strongest reputation in a particular city or region.

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<sup>14</sup> *Reforma* poll in "The Embarrassing Stats Hidden in the Informe," *Latin American Mexico & NAFTA Report*, October 2010 source comes from CRS Report for Congress, "Mexico Drug Trafficking organizations: Source and Scope of the Rising Violence," June S. Beittel, *Congressional Research Service*, January 7, 2011, p. 23

Because individuals interpret the power of an organization as compared with its rivals, reputation is all relative. What matters is the likelihood that a negative outcome (physical violence or incarceration) will occur after breaking one side's set of laws and siding with or against criminals or the government. If not accepting a bribe results in a 70 percent chance of a brutal beating or death and corruption results in a five percent chance of a brief jail sentence, then most individuals will choose to take the illicit money. Building and maintaining reputation is so essential because defeating an enemy during a conflict signals to the surrounding population that your organization possesses a greater ability to follow through with violent threats. In this way, violence used to build up a criminal group's reputation has the additive effect of simultaneously diminishing the reputation of its rivals. Although a strong reputation for violence is one of the few mechanisms criminal gangs have for deterring attacks and limiting the need for a standing army of enforcers, in the cases when conflict does arise between illegal organizations or with the state, maintenance of reputation demands swift retaliation to prevent further assaults and erosion of their market share. To control the behavior of the civilian populations a group, either criminal organizations or the government, must demonstrate that they monopolize the use of violent force within a particular region.

### **The Importance Government Reputation and Credibility**

For similar reason that OCGs have for maintaining a strong reputation, the Mexican government's criminal justice system must follow through with successful prosecution when individuals break the rules of law. The Mexican state, in simple terms, can be viewed as just another actor within the violent conflict that includes multiple warring organized crime groups and the government. The state maintains its reputation and credibility by arresting and successfully prosecuting those responsible for violent acts. This diminishes the perception of the OCGs' impunity, which degrades citizens' view of the police and legal institutions. As sociologist Max Weber famously defined in his lecture *Politics as a Vocation*, "a state is a human community that successfully claims the monopoly of the legitimate use of physical force within a given territory." The Mexican government must use strong shows of force as well as successful prosecutions

of criminals in order to reassure the populace that they hold monopoly control. Similar to illegal organization, if government does not rebuild its reputation after an attack they can lose the trust and support of individuals within the area. But enforcement against criminal organizations is just one way to reassure citizens that the government is the only credible institution in control of the region. Eliminating institutional corruption by purging bureaucratic agencies of corrupt officials helps in the effort to rebuild citizen confidence in their government. OCGs can control state systems through pervasive corruption that co-opts public institutions. This penetration eviscerates legal mechanisms diminishing the public's trust and the perception of a strong state. In order to reestablish their reputation and the rule of law, Mexico must show that it singularly controls the legitimate use of force and allow citizens to speak out against criminal activity without fear of corruption or retribution.

### **The Need for Reputation in a Violent Marketplace**

Economic theory stipulates that the laws of supply and demand allocate scarce resources in accordance to market conditions. But in illegal markets contracts and disputes cannot be enforced through the legal mechanisms of the state. This creates an environment where violence, corrupt deals and the threat of force rules as the dominant mechanisms by which resources are allocated.<sup>15</sup> Because property rights over valuable drug smuggling corridors<sup>16</sup> cannot legitimately exist, rival firms expand their market share through turf warfare. In order to deter attacks from other OCGs who view weakness in one of their rivals, violence must be used as a defense mechanism to rebuild reputation and stop further victimization. In a legal market this defense often comes in the form of a lawyer within a courtroom. But firms that operate in a prohibited market face high costs of self-

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<sup>15</sup> See for instance John J. Donohue III and Steven D. Levitt, "Guns, Violence and the Efficiency of Illegal Markets," *American Economic Review*, (88)2, May 1998, pp. 463-67 and Jeffrey A. Miron, "Violence and the U.S. Prohibitions of Drugs and Alcohol," *American Law and Economics Review*, (1)1/2, 1999, pp. 78-114.

<sup>16</sup> Figure 1 shows a map of some of these valuable drug smuggling corridors.

incrimination when using legal channels. Their best option for defense comes in the form of a thug with a gun on the streets.

The formation of reputation capital allows criminal organizations to expand within a violently competitive environment without constantly using actual warfare to settle conflicts. Continuous turf wars are both extremely expensive for OCGs<sup>17</sup> and disruptive of commerce<sup>18</sup> so the mere threat of violence presents an attractive and lower-cost form of deterrence. The effectiveness of this threat is based upon the group's previous displays of brutal violence and their ability to manipulate the legal consequence of these actions. In order to succeed in an illegal market "newcomers must 'invest' in developing their reputation."<sup>19</sup> This means small developing firms are likely to be most aggressive and violent, as their expenditures on violence and corrupt relationships will pay deterrence dividends in the future. Mature OCGs increase their wealth from their accumulated reputation capital as they substitute costly enforcers for their powerful appearance. An enemy so feared that none will threaten its supremacy has little actual need for enforcers to back up its violent appearance. As long as they stand unchallenged their strong reputation can be used to secure the most profitable smuggling routes without increasing spending on an army of enforcers.

### **A Model for Building Reputation**

Figure 2 demonstrates a simplified model of how Mexican organized criminal groups (OCGs) establish and build reputation capital. Utilizing a two-pronged approach, OCGs spend money on bribes and paramilitary enforcer groups to generate corrupt relationships

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<sup>17</sup> Jonathan P. Caulkins, Peter Reuter and Lowell J. Taylor, "Can Supply Restrictions Lower Price? Violence, Drug Dealing and Positional Advantage," *Contributions to Economic Analysis & Policy*, (5)1, Article 3, 2006, p. 3.

<sup>18</sup> Stephen D. Levitt and Sudhir Alladi Venkatesh, "An Economic Analysis Of A Drug-Selling Gang's Finances," *The Quarterly Journal of Economics*, (115)3, August 2000, pp. 777.

<sup>19</sup> Jonathan P. Caulkins, Peter Reuter and Lowell J. Taylor, "Can Supply Restrictions Lower Price? Violence, Drug Dealing and Positional Advantage," *Contributions to Economic Analysis & Policy*, (5)1, Article 3, 2006, p.14.

with public officials and inflict violence on rival OCGs and citizens. The direct effect of this combination of violence and corruption leads the public to perceive these criminal groups ought to be feared and can act with total immunity from the legal mechanisms of the state. Public officials observing that corruption is not severely prosecuted, and officials who do not comply with the demands of criminals groups are murdered or beaten, will side with the criminals. Rival organizations witnessing brutal acts of torture and threats being followed through with actual violence may reconsider launching a territorial offensive against a powerful enemy. Citizens witnessing criminal acts by OCGs will cease to report these crimes if they fear that violent retribution and an inefficient and corrupt investigation will result from their testimony. Thus fear, intimidation, and legal impunity that arise from people changing their behavior and siding with criminal organization build the foundation of a strong reputation. When individuals see their peers succumbing to the demands of an organized criminal group they will do the same in order to not stand out and attract unwanted attention. Reputation capital accumulates when individuals no longer need direct violence or corruption to change their behavior in ways that favor the OCG. Reputation generated to deter rivals or control citizens has a number of different positive benefits that modulate the revenues and expenses of running a criminal enterprise. A strong reputation for violence and corruption decreases internal and external risks and their associated costs of operating within an illegal market. When an organization runs a criminal enterprise, every employee is a potential liability. Police, through the threat of legal prosecution, can pressure a worker into informing against the OCG. In order to lessen this risk, employees must be more afraid of the violent repercussions that would occur after speaking out against their illicit employer than they are of the criminal justice system. Fear of retribution diminishes the likelihood that individuals, both employees and everyday citizens, will go to the police with incriminating information. Besides lowering the risk of individuals leaking incriminating information, reputation can help reduce the likelihood that rivals will launch a territorial offensive. In this way, a strong reputation for violence allows an OCG to operate with fewer paid enforcers. These profits accrued from the benefits of reputation capital are cycled through the OCG to expand and enhance their criminal empire.

### **III. The Costs and Benefits of Building a Violent Reputation**

As shown in the Figure 2, there are distinct monetary costs to building a reputation. The physical organization required to successfully implement coercion and violence, such as hiring and equipping paramilitary groups and bribes to corrupt officials, do not come free or without risks. An excessively violent reputation may create backlash that will attract disproportionate government pressure despite corrupt relationships. But utilized “correctly”, a violent reputation holds great monetary benefits for criminal organizations. A strong reputation can deter rivals from encroaching on valuable smuggling corridors. It intimidates the civilian population into cooperating and lowers the costs and risks of bribing public officials. In order to determine why criminal enterprises’ use violence and corruption to attain status in black market, policy makers must first understand how the costs and benefits of accumulating reputation impact the illicit firm’s business decisions. Earlier analysis indicates direct military engagement, which fractionalizes OCGs in an attempt to reduce their power, will likely create various seemingly paradoxical outcomes. The effect of these outcomes on the power of Mexican criminal organizations will determine the long-term effectiveness of US- Mexican strategy.

#### **The Benefits of Reputation**

The greatest benefit of attaining a strong reputation comes with the enhanced ability to exert control over extremely lucrative smuggling corridors. Because of lack of access to legal institutions, violence is intrinsic to the trade in illegal drugs<sup>20</sup> and must be skillfully wielded to maintain power and order over many employees and rivals. In 2006, when President Calderón started his assault on the OCGs, in an attempt to split their power, there were four dominant organizations. Now there are seven, and with an increased number of groups vying to control the same number of large and profitable smuggling

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<sup>20</sup> Robert J. MacCoun and Peter Reuter, *Drug War Heresies: Learning from Other Times, Vices and Places* (New York: Cambridge University Press, 2001).

routes competition has naturally increased.<sup>21</sup> When operations are non-violent and territorial boundaries are well-addressed, OCGs make huge profits by smuggling drugs and other illegal contraband into the United States.<sup>22</sup> Specific locations along the border, strategic highways, border crossings or airstrips, hold immense value to OCGs. Owning these smuggling routes allows a criminal organization to not only smoothly transfer its illegal products over the border but also permits them to “tax” rivals for the use of their routes.<sup>23</sup> The most profitable strategic locations are in limited supply and greater competition in a fractionalized market environment increases the demand for smuggling routes and may amplify the necessity to maintain reputational status. With increased number of group involved in the conflict, dominant OCGs face a greater likelihood that any real or perceived weaknesses in their reputation will result in rivals attempting to capture their market share through force. Fiercer competition mandates that reputation maintenance must be equally intense. This leads to an escalating cycle of violence. Fractionalization, because high-level leaders are unlikely to hold power for any considerable time, limits the possibility that non-violent collusive agreements between criminal groups can be created and sustained. With business cooperation playing a smaller role in settling conflicts, violence arises as the primary mechanism for dispute resolution. A strong reputation is an economic necessity for holding on to market share with the smallest possible expenditure of human and monetary capital. The need to control strategic smuggling locations will determine how successful a criminal organization will be and to maintain status and power they will expend considerable resources to defend and expand their territory.

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<sup>21</sup> CRS Report for Congress, “Mexico Drug Trafficking organizations: Source and Scope of the Rising Violence,” June S. Beittel, *Congressional Research Service*, January 7, 2011, p. 6.

<sup>22</sup> The retail drug market in the United States is estimated at \$65 billion. Mark Kleiman, Jonathan Caulkins, and Angela Hawken, *Drugs and Drug Policy: What Everyone Needs to Know* (New York: Oxford University Press, 2011), p. 175.

<sup>23</sup> Scott Stewart, “Mexico: The Struggle for Balance,” *STRATFOR Global Intelligence*, April 8, 2010, [http://www.stratfor.com/weekly/20100407\\_mexico\\_struggle\\_balance](http://www.stratfor.com/weekly/20100407_mexico_struggle_balance).

Besides direct revenues from smuggling drugs, immigrants, and other contraband, reputation can be used to generate revenues through extortion. Reputation allows an individual or group to control a geographic region of the criminal market and gain taxes by permitting others to operate within this territory.<sup>24</sup> This control extends to not only drug dealing or smuggling but also other illegal businesses. If the organization obtains a violent enough reputation that it becomes the de facto authority within a jurisdiction, such as Los Zetas have in some border cities, it will be able to extort revenues from illegal and legal businesses.<sup>25</sup> In Michoacán, *La Familia* OCG reportedly controls 30 percent of official commerce<sup>26</sup> and an estimated 85 percent of legal businesses are tied to the criminal group in some manner.<sup>27</sup> OCGs do not limit themselves to just drug smuggling but rather operate as multi-dimensional for-profit illicit corporations that will generate revenues wherever possible. As OCGs have amassed power throughout areas of Mexico associated revenue generating criminal activities such as kidnapping, robbery, extortion, and migrant smuggling have significantly increased.<sup>28</sup> Maintaining a strong reputation is vital for an OCG to continue moneymaking operations. Violent reputation capital accumulated whilst fighting rivals or defending smuggling corridors can be used to intimidate civilians and extort business owners. Excluded from profitable smuggling corridors, smaller OCGs will expand into other non-smuggling forms of illegal activities to generate income and enhance reputation. In the realm of illicit business, market share can only be taken by force and violence. When competition comes at the end of a gun the

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<sup>24</sup> Peter Reuter, "The Organization of Illegal Markets: An Economic Analysis," U.S. Department of Justice, *National Institute of Justice*, February 1985, p. 26.

<sup>25</sup> Lisa J. Campbell, "Los Zetas: Operational Assessment," *Small Wars & Insurgencies*, (21)1, March 2010, p. 70.

<sup>26</sup> Tim Padgett and Ioan Grillo, "Mexico's Meth Warriors" *Time*, June 2010, p. 33 source comes from Miguel R. Salazar and Eric L. Olson, "A Profile of Mexico's Major Organized Crime Groups," *Woodrow Wilson International Center for Scholars- Mexico Institute*, February 2011, p. 11.

<sup>27</sup> William Finnegan, "Silver or Lead," *The New Yorker*, May 2010, p. 39 source comes from Miguel R. Salazar and Eric L. Olson, "A Profile of Mexico's Major Organized Crime Groups," *Woodrow Wilson International Center for Scholars- Mexico Institute*, February 2011, p. 11.

<sup>28</sup> CRS Report for Congress, "U.S.-Mexican Security Cooperation: the Mérida Initiative and Beyond," Clare Ribando Seelke and Kristin M. Finklea, *Congressional Research Service*, February 16, 2011, p. 4.



vitality and survival of a criminal enterprise depends on whose gun is bigger. Either get a bigger gun or extort weaker individuals.

Building a reputation for violence can also benefit criminal organizations by making it easier for them to pass bribes. A minimum level of violent intimidation must exist to ensure the success of corrupt relationships. Without the fear that rejecting a bribe will result in physical harm, honest public officials may otherwise refuse the offer and go to police with incriminating information. When the power and ability of an OCG to induce fear becomes sufficiently great, monetary incentives may not even be required to guarantee successful corruption. A credible reputation for violence means not having to ask twice or show physical muscle when demanding that public officials toe the line. US-Mexican enforcement that breaks large OCGs into multiple factions increases the demand for corrupt relationships in a similar way it increases demand for smuggling routes. If the supply of officials who can provide beneficial services to criminal organizations is not scarce, then an increase in competition will elevate demand and the total volume of corruption. If strong oversight and multiple layers of bureaucracy mean only a select few individuals can ensure legal impunity, then violent intimidation will increase as multiple OCGs compete to control the behavior of key officials.

Lastly, reputation's ability to intimidate and force cooperation can also be used to control the internal costs of employing large numbers of low-level gang members. Street soldiers and drug runners have the ability to snitch on the organization to gain leniency in sentencing decisions. They can also provide information to rival criminal organizations for personal gain. Internal violence fills the void left by the absence legal contract relationships to make sure employees do not reveal damaging information. The internal risks of worker disloyalty increase as the pressure to defect rises. Enhanced competition, from more factions vying for valuable smuggling corridors, amplifies incentives to gain strategic information by corrupting rival members. OCGs recognize this pressure and respond by subjecting their ranks to greater intimidation.

## The Costs of Reputation

Actual displays of violence and warfare required to build and maintain a strong reputation do not come cheaply. A criminal leader must compensate for the costs of labor (street enforcers) and machinery (weaponry) as well as the risks associated with employing such goods. Incarcerated members must be replaced and payments sent to families to cover funeral expenses.<sup>29</sup> Illegal weapons further expose these individuals to higher risks and extended prison sentences. Contractual relationships with outside enforcements groups may lower labor costs during periods of non-violence but once support units are required expenditures must increase accordingly. A study by Levitt & Venkatesh (2000)<sup>30</sup> showed significantly higher wages paid to labor and declines in profit during turf wars. The bulk of costs required to bring drugs to their final selling point are incurred compensating those involved in distribution. The markup for heroin from production to final sale may be as high as 100 times its original value.<sup>31</sup> When an OCG employs more enforcement labor to hold onto coveted smuggling routes, associated labor costs must be offset with higher contraband prices to maintain revenues.

Even though the majority share of a drugs price goes towards paying labor associated with its transportation and distribution, the wages paid to these workers are quite low. Entry-level street dealers and foot soldiers earn at or below minimum wage.<sup>32</sup> But, during times of conflict and war, higher wages are paid to compensate for the enhanced risk of death and imprisonment.<sup>33</sup> In this way fractionalization, by increasing the frequency of

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<sup>29</sup> Data collected by Stephen D. Levitt and Sudhir Alladi Venkatesh, "An Economic Analysis Of A Drug-Selling Gang's Finances," *The Quarterly Journal of Economics*, (115)3, August 2000, pp. 755-789 showed the gang in question paid \$5000, approximately three years of foot-soldier wages, to cover funeral expenses and compensate the family.

<sup>30</sup> The study's data came from an urban criminal located within a large American city and not from one of the large Mexican OCGs.

<sup>31</sup> Mark Kleiman, Jonathan Caulkins, and Angela Hawken, *Drugs and Drug Policy: What Everyone Needs to Know* (New York: Oxford University Press, 2011), p. 46.

<sup>32</sup> Stephen D. Levitt and Sudhir Alladi Venkatesh, "An Economic Analysis Of A Drug-Selling Gang's Finances," *The Quarterly Journal of Economics*, (115)3, August 2000, p. 757, 771.

<sup>33</sup> *Ibid.* 778.

conflict, may increase the labor costs of running a criminal enterprise. On the other hand, consistent violence perpetuated by OCGs may paradoxically decrease employee wages. In Mexico, unemployment has increased due to the global economic recession and businesses frightened away by violent criminal conflict.<sup>34</sup> The accumulation of reputation through violence reduces labor costs by depressing the regional market wage and decreasing legal employment opportunities. “In many cases poverty and unemployment do not just provide a greater supply of potential illegal labour for organized criminal activities, but they also create a favourable environment for criminals to exploit the social fabric of countries as a foundation for organized crime” (Buscaglia & Dijk, 2003). When warfare creates unemployment and normalizes violence, risk compensation during conflicts does not need to rise. The impact of fractionalization on risk-compensated labor costs within black markets is difficult to assess as multiple factors push costs in opposite direction. One possibility is that greater competition for highly skilled enforcers will result in higher observed wages. For instance, the original-founding members of Los Zetas were enticed by substantively higher salaries than they earned in the military.<sup>35</sup> Demand for unskilled foot soldiers may also increase, but violence induced regional unemployment may expand the supply of these laborers resulting in an undeterminable wage change. Risk compensation during dangerous periods of OCG conflict must only cover the difference in hazards during and between periods of conflict. If enforcement labor incurs similar risks of death or incarceration operating in a violent region whether or not their particular gang is fighting, then the differential compensation required will be low. Because the unemployment rate and social norms of acceptable criminal behavior change with the level of violence, the Government of Mexico will unlikely be able to create detrimental labor costs shocks through fragmentation.

#### **IV. How Criminal Organizations Take Control**

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<sup>34</sup> From 2007 to 2010 unemployment in Ciudad Juarez has climbed from almost zero to 20%. Emily Schmall, “Ciudad Juarez: From Boom Town to Ghost Town?” *AOL Daily Finance*, April 20, 2010, <http://www.dailyfinance.com/2010/04/20/ciudad-juarez-from-boom-town-to-ghost-town>.

<sup>35</sup> Lisa J. Campbell, “Los Zetas: Operational Assessment,” *Small Wars & Insurgencies*, (21)1, March 2010, p. 56.

Mexico's criminal enterprises take control of territory and exert their power over the population by mandating silence from civilians and corrupting government agencies with violent intimidation. This combination of intimidation and corruption generates an environment of impunity that allows criminal organization to operate freely within the public sphere. But civilians and police are not the only groups that can impose costs OCGs. Rivals, through direct violence rather than legal consequences, can threaten an organization's market share and regional power. To fight off other criminal groups and build a reputational brand that intimidates the populace, OCGs utilize a strategy of horizontally contracting paramilitary enforcer groups. Violent reputation's intimidating ability influences different segments of society in varying ways. In order to pressure the entire civilian population OCGs intentionally target journalists, public officials, and the most vulnerable of ordinary citizens. Corruption casts a similarly large net. Criminal organizations bribe government bureaucrats, police, and judicial officials in order to ensure impunity at every step of the justice system. This next section will analyze the ways in which Mexico's illicit organizations generate physical violence, intimidate segments of the population, and corrupt government institutions. The concluding subsection will give insights into the long-lasting repercussions of criminal impunity.

### **The Horizontal Structure of Mexican Contracted Enforcement**

To fully understand how US-Mexican policy of breaking apart large OCGs impacts their ability to control and corrupt segments of Mexican society, the way in which criminal organizations create violence and transfer that force into useable reputation capital must be further analyzed. The large criminal enterprises in Mexico generate violence through a structure of horizontally integrated subcontracted enforcement groups.<sup>36</sup> This means that the enforcer groups' leaders are not directly working under the larger organization in a

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<sup>36</sup> Miguel R. Salazar and Eric L. Olson, "A Profile of Mexico's Major Organized Crime Groups," *Woodrow Wilson International Center for Scholars- Mexico Institute*, February 2011, p. 2.

central hierarchy of command but rather linked in parallel to the contracting OCG.<sup>37</sup> During intense conflicts over valuable drug trafficking routes large organizations will employ these paramilitary enforcer groups to carry out needed acts of physical aggression. This strategy of keeping paramilitary gangs as detached entities or an autonomous wing of the larger OCG holds specific advantages that improve operational capacity and resiliency to government pressure. By horizontally integrating separate cell structures and creating small teams of vicious operatives, the enforcer organizations limit the information any one individual knows about his bosses within the command or the larger OCG that contract their services.<sup>38</sup> Using a system of externally contracting enforcers and forming brief alliances between OCGs allows criminal organizations to quickly hire large quantities of needed backup when threatened by the government or rivals. Sometime the paramilitary groups will even expand on this method by subtracting smaller violent domestic street gangs when operating in a new territory.<sup>39</sup> In order to maintain the strong reputation required for controlling valuable and coveted drug smuggling plazas, an OCG must be able to respond very quickly to any assault. If all enforcement capacity is managed internally then the OCG will be unable to recruit the quantity of help in the required time. An organized crime group that lacks the ability to adequately respond to attacks will be defeated by any enemy that can support its own troops with externally contracted enforcers.

As analyzed previously, the real value of reputation depends on how peoples' perception of an OCG's violent abilities alters their behavior. Enforcement groups specializing in violence build a reputational asset that acts as a brand and can be sold to other organizations through contract work.<sup>40</sup> Just hearing an organization is connected with one

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<sup>37</sup> See Figure 3 for a chart demonstrating horizontal integration that existed during the Gulf-Zeta alliance.

<sup>38</sup> Lisa J. Campbell, "Los Zetas: Operational Assessment," *Small Wars & Insurgencies*, (21)1, March 2010, p. 56.

<sup>39</sup> See for instance Lisa J. Campbell, "Los Zetas: Operational Assessment," *Small Wars & Insurgencies*, (21)1, March 2010, p. 56 and Strafor Global Intelligence, *Mexican Drug Cartels: Two Wars and a Look Southward*, December 17, 2009 source comes from CRS Report for Congress, "Mexico Drug Trafficking organizations: Source and Scope of the Rising Violence," June S. Beittel, *Congressional Research Service*, January 7, 2011, p. 9

of these vicious gangs invokes a level of fear that keeps most people from speaking out. If an OCG is known to be operating with the Zetas or other violent enforcement groups their credibility and reputation is instantly bolstered. This allows them to better position themselves to intimidate rivals and citizen or corrupt public officials through the threat of violence. Since fractionalization increases inter-organization competition and incentives the use of violence over collusive agreements, the policy will also serve to increase the demand for aggressive contract groups. The enforcer gang benefits from the arrangement by collecting revenue from the contract agreement. The OCG benefits from contracting by increasing their reputation and ability to source required manpower. Since US-Mexican policy increases the demand for violent enforcer groups it may also incentivize these gangs to use high-profile ways of accumulating violent reputation so they can win contracts over other rival groups. If a group is known to have a competitive advantage in violence then they can accumulate profits by selling their services to other criminal organizations. Fractionalization counter intuitively increases an organization's motives to build a reputational brand thereby amplifying the importance of violence as a means of dispute resolution.

### **Control Through Intimidation**

Actual acts of violence by an OCG generate fear that can be used to control segments of the population including journalists, public officials and ordinary citizens. Citizens can impose substantial costs to an organized crime group by supplying information to the government or rival organizations. Intimidation through the threat of violence lowers the risks and costs of such actions. If individuals fear physical repercussions they will act in accordance to the demands of an OCG. But fear of violence does not affect all segments of society equally. Police officers and rival criminal groups, who are accustomed to conflict, would generally not perceive a group as dangerously violent as fast as civilians unaccustomed to such brutality. For this reason reputation building comes easiest when

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<sup>40</sup> See for instance Stergios Skaperdas, "The Political Economy of Organized Crime: Providing Protection When the State Does Not," *Economics of Governance*, (2), 2001, p. 176 and Lisa J. Campbell, "Los Zetas: Operational Assessment," *Small Wars & Insurgencies*, (21)1, March 2010, p. 72.

targeted against the most vulnerable populations. Attacks against children and other civilians are intended to send a message to the population of the OCG's unbounded ruthlessness.<sup>41</sup> In addition, Mexican citizens, in theory at least, hold power over the government through political pressure. Targeting them directly can be used as a means to generate anger and mistrust of the government's crime control strategy. Trust in the protective capacity of government and law enforcement must occur for individuals to feel safe coming forward information about OCGs. But the violent environment that follows fractionalization, whether or not the operation was a legitimate government success, damages this feeling of security. As citizens are paralyzed by fear they become unwilling to help with police investigations allowing criminal elements within society proliferate in an environment of impunity. This silence further perpetuates reputation and the belief that citizens should keep their mouths shut when it comes to criminal violence.

As a way of silencing free press and publicizing their violent reputation, organized criminal groups use threats and intimidation to control the actions of journalists. Mexico now holds the not so privileged position as one of the most dangerous nation for the press.<sup>42</sup> In 2008 there were 233 attacks on freedom of expression, 85% were aimed at journalists.<sup>43</sup> Threatening journalists complicates their investigations and leads to irregular or inaccurate coverage on criminal violence. OCGs perpetuate violence against the press in an attempt to diminish the risks imposed by investigative reporting. In some cases OCGs manipulate journalists to cover specific stories of bloodshed when it serves a strategic importance that builds their own reputation. In areas of North Mexico where violence proliferates, criminal groups have been known to employ their own

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<sup>41</sup> Anne-Marie O'Connor and William Booth, "Mexican drug cartels targeting and killing children," *The Washington Post*, April 9, 2011, [http://www.washingtonpost.com/world/mexican-drug-cartels-targeting-and-killing-children/2011/04/07/AFwkFb9C\\_story\\_1.html](http://www.washingtonpost.com/world/mexican-drug-cartels-targeting-and-killing-children/2011/04/07/AFwkFb9C_story_1.html).

<sup>42</sup> El Universal, "Periodistas demandan justicia y abatir violencia," El Universal, July 9, 2010, ———, "Urge frenar ataques a medios: CIDH y SIP," El Universal, August 28, 2010 source comes from David A. Shirk, "The Drug War in Mexico Confronting a Shared Threat," *Council on Foreign Relations*, Council Special Report No. 60, March 2011, p. 8.

<sup>43</sup> *Latin American Herald Tribune*, "Foundation: 17 Journalists Killed in Mexico in 18 Months," August 3, 2009, <http://laht.com/article.asp?CategoryId=14091&ArticleId=339772>.

spokespeople to shape news coverage so the government is cast in a negative light.<sup>44</sup> Biased coverage may even create sympathy for criminal organizations and alters peoples' opinions of the ongoing conflict. When the press censor themselves out of concern for their own safety this sends a strong signal to everyday citizens that the institutions designed to protect their freedoms are dangerously weak. Intimidating the press generates spillover benefits for the OCG by publicizing their fierce reputation to the rest of the country.

Controlling the behavior of public officials with threats of violence improves an OCG's reputation twofold by simultaneously demonstrating to rivals and civilians the reach of their power while eroding society's confidence in government. Often times this intimidation comes with an ultimate choice: *Plata o Plomo*, take a bribe or take a bullet. The choice is morally difficult but rationally easy. Over a ten-month period starting in 2010, twelve Mexican mayors were murdered.<sup>45</sup> In addition, the risks of taking the bribe and working with the criminal organizations are strikingly small. In May of 2009, federal police arrested ten mayors and 18 other public officials in the Mexican state of Michoacán. They were all accused of working with drug trafficking organizations but 27 of the 28 officials were subsequently released after their cases fell apart in court.<sup>46</sup> With the exceedingly low risk of criminal prosecution from cooperation and the risk of honesty so certainly fatal, Mexico's environment of intimidation enables corruption to flourish within all levels of government. Breaking apart criminal groups increases competition and the necessity for a dominant reputation, which results in increased pressure to intimidate citizens, journalists, and government officials. Policies that increase the

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<sup>44</sup> David A. Shirk, "Drug Violence in Mexico; Data and Analysis from 2001-2009," *Trans-Border Institute*, January 2010, p. 8.

<sup>45</sup> CRS Report for Congress, "Mexico Drug Trafficking organizations: Source and Scope of the Rising Violence," June S. Beittel, *Congressional Research Service*, January 7, 2011, p. 1.

<sup>46</sup> David Luhnnow, "Questions Over Tape Face Mexico Politician," *Wall Street Journal*, October 16, 2010 source comes from CRS Report for Congress, "Mexico Drug Trafficking organizations: Source and Scope of the Rising Violence," June S. Beittel, *Congressional Research Service*, January 7, 2011, p. 4.



number of criminal organizations can have serious negative repercussions when those groups fight for control in the public sphere.

### **Control Through Corruption**

Organized criminal groups operate similarly to many other businesses in that they try to avoid the costs of regulation by affect the behavior of their regulators. In a legal market, lobbying groups attempt to influence the ideas and policies of bureaucrats with targeted donations and information. Their illegal counterparts seek to lessen enforcement by police (their regulators) with bribes and violence. OCGs employ these two tools of control in unison to ensure that non-cooperation is met with serious retribution. “Bribery and corruption help neutralize government action against the DTOs, ensure impunity, and facilitate smooth operations.”<sup>47</sup> Forming corrupt relationships with important government officials builds an OCG reputation by demonstrating to rivals and civilians the extent of their power. Without these relationships, accumulating a violence reputation would likely attract state pressure. Ordinarily this dilemma represents one of the largest drawbacks to building reputation, as the organization’s aggressive status creates disproportionate enforcement.<sup>48</sup> But corruption that penetrates high levels of state bureaucracy breaks this link and allows criminal groups to amass a violent reputation without redress. This important feature highlights why corruption typically accompanies violence as criminal organizations build their reputation. Without corruption, honest state officials would prosecute acts of violence. Corruption dramatically reduces the risks and costs of conflict by lessening the likelihood that individuals will be caught and arrested. But as outlined previously, corruption also needs help from violence. Most well paid honest public officials would not risk losing their job and going to jail for a bribe. Once violent intimidation comes into the equation, the risks of prosecution on corruption charges must be balanced against the probability of retribution.

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<sup>47</sup> CRS Report for Congress, “Mexico Drug Trafficking organizations: Source and Scope of the Rising Violence,” June S. Beittel, *Congressional Research Service*, January 7, 2011, p. 4.

<sup>48</sup> Peter Reuter, “The Organization of Illegal Markets: An Economic Analysis,” U.S. Department of Justice, *National Institute of Justice*, February 1985, p. 29.

Mexican police institutions are targets for corruption by organized criminal groups for three main reasons. They are rivals to OCGs that can inflict significant costs through direct enforcement and contraband interdiction. Secondly, corrupting the police force signals to the civilian population that government cannot keep them safe and they should be afraid of reporting crimes to authorities. Lastly, corruption can allow an organized criminal group to control the behavior of police so as to ensure disproportionate enforcement pressure falls on their rivals. In one extreme case, corrupt police under the command of *La Familia* OCG provided “institutional support” including “patrol cars, radio frequencies and uniforms” to allow the criminal organization’s hit men to escape honest state enforcement.<sup>49</sup> At this point corruption gives an organization the ability to build their reputation and supplement resources with police defectors. In most instances defection occurs within the lower ranks of police agencies that are most prone to corruption.<sup>50</sup> But in the most extreme example, as occurred with Los Zetas, highly trained military operatives may actually defect from the state in order to form aggressive paramilitary wings for an OCG. In order for a nation’s criminal justice system to operate properly police investigators must be able to rely on civilians for information about crimes. When corruption penetrates police institutions a strong signal is sent to the populace that government agents must not be trusted. Fear of being attacked by criminal organizations keeps people from speaking out and stepping out of line. As mentioned earlier, Mexican criminal organizations’ primary goal is to maximize profits from illegal sources. Corruption, similar to lobbying for legal firms, facilitates the smooth flow of revenue without interference from the state. Customs officials who monitor flows of drugs are key targets for bribes because they have the power to allow contraband to pass through the border or act on information and disproportionately interdict rivals’ shipments. Customs officials have the potential to inflict great costs on an organized crime group primary source of making money. Successful OCGs will ensure they have

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<sup>49</sup> *Borderland Beat*, “Police Commanders Help Mexican Cartel,” June 27, 2011, <http://www.borderlandbeat.com/2011/06/police-commanders-help-mexican-cartel.html>.

<sup>50</sup> Vanda Felbab-Brown, “The Violent Drug Market in Mexico and Lessons from Colombia,” *The Brookings Institution*, March 2009, p. 6-7.

multiple border agents under their control. Luckily for OCGs, evidence shows these bureaucratic officials, especially in developing nations, are the most prone to corruption.<sup>51</sup> In 2009, Customs and Border Patrol polygraphed between 10 to 15% of applicants and found 60% of those were unsuitable for service.<sup>52</sup> It is hard to know how the strategy of fractionalization impacts incentives to corrupt government officials. Increasing the number of OCGs by breaking up larger organizations would likely increase the competitive pressure to form corrupt relationships with certain key officials. On the other hand, these groups may have less power to access individuals high up in government institutions. If a criminal enterprise's size correlates with the level of bureaucracy it may influence, a strategy that splinters large groups into a number of smaller organizations may substitute high level corruption for more rampant low level corruption.

In order to fully control the mechanisms of the state and operate with impunity organized criminal groups must not only terrorize the civilian population into silence, corrupt police and government officials, they must also capture the inner workings of the judicial system. In Mexico a crime typically only has a one or two percent chance of actually leading to a conviction and jail time.<sup>53</sup> This almost certain level of legal immunity indicates a grave institutional weakness within the criminal justice system. Because of intimidation by criminal groups an estimated three quarters of crimes go unreported by citizens to afraid to speak out.<sup>54</sup> Even if a crime does get investigated it can be easily

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<sup>51</sup> Edgardo Buscaglia and Jan van Dijk, "Controlling Organized Crime And Corruption In The Public Sector," *Forum on Crime and Society*, (3)1/2, December 2003, p. 14.

<sup>52</sup> Testimony of James F. Tomsheck, Assistant Commissioner, Office of Internal Affairs, Customs and Border Protection before the U.S. Congress, Senate Committee on Homeland Security and Governmental Affairs, Ad Hoc Subcommittee on State, Local, and Private Sector Preparedness and Integration, *New Border War: Corruption of U.S. Officials by Drug Cartels*, 111th Cong., 1st sess., March 11, 2010 source comes from CRS Report for Congress, "U.S.-Mexican Security Cooperation: the Mérida Initiative and Beyond," Clare Ribando Seelke and Kristin M. Finklea, *Congressional Research Service*, February 16, 2011, p. 22.

<sup>53</sup> Andrew Selee, David Shirk, and Eric Olson, "Five myths about Mexico's drug war," *The Washington Post*, March 28, 2010, <http://www.washingtonpost.com/wp-dyn/content/article/2010/03/26/AR2010032602226.html>.

<sup>54</sup> Instituto Ciudadano de Estudios Sobre la Inseguridad (ICESI), [www.icesi.org.mx](http://www.icesi.org.mx). source comes from

mismanaged by corrupted *ministerio públicos* (prosecuting attorneys) who have large discretion over the cases they pursue and how evidence is collected.<sup>55</sup> In addition, the bureaucratic apparatus surrounding the judges may also be prone to corruption. If the staff of a judge introduces errors into the file and the judge recognizes these errors they will dismiss the case.<sup>56</sup> Public officials who witness a failure to prosecute corruption are more willing to engage in illegal behavior themselves. Analysis by Buscaglia & Dijk (2003) has shown the independence and fairness of a judiciary to be the most important determinant of public sector corruption within all levels of government. Corruption of the judiciary is the linchpin that keeps the entire system from operating as expected. When citizens fail to come forward because of violent intimidation and police cannot rely on citizens reporting for assistance, the system starts to crumble. But still a few cases will make their way up to a judge's bench. When organized crime groups can infiltrate this final sphere they hold ultimate control over the entire process. Citizens and rivals criminal groups can do nothing when an OCG's reputation is strengthened by its complete control over state institutions.

### **The Problematic Effects of Criminal Impunity**

With an estimated 75% of crimes going unreported and 98% of crimes going unsolved, Mexico has a very serious problem of criminal impunity. As stated previously, reputation depends on people's comparative perception of both criminal organizations and the state. High impunity rates demonstrate to the civilian population that the government's legal institutions are extremely weak. Spikes in violence that occur after fractionalization weaken the justice system to such an extent that criminality begins to feed on itself and the number of offenses committed increases. Congestion-in-law-enforcement models show the probability of being punished is negatively related to the level of criminality

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David A. Shirk, "The Drug War in Mexico Confronting a Shared Threat," *Council on Foreign Relations*, Council Special Report No. 60, March 2011, p. 11.

<sup>55</sup> John Bailey, Personal interview, June 22, 2011.

<sup>56</sup> *Ibid.*

within a region.<sup>57</sup> Holding police presence constant in the short term, spikes in the crime rate can overwhelm existing state justice resources and further lower an already marginal prosecution rate. This creates positive feedback as criminals adjust and commit more criminal activity in response to lower risks. In Colombia during the drug wars of the 1980s, where this criminal theory has been tested, conflict between OCGs created such large increases in crime that the probability of punishment dropped to 3%. Even after the conflict subsided non-drug related criminal activity persisted with high rates of kidnappings, carjackings and bank robberies.<sup>58</sup> With conviction rates similarly low, Mexico may likely suffer from high crime rates far into the future unless it improves the conviction rate and decreases the real and perceived level of impunity. If not, criminals will continue to take advantage of low credibility within government institutions and use a weak judicial system to advance their own violent reputation. Here in lies the major problem with the US-Mexican strategy of breaking apart criminal organizations in an attempt to diminish their power. Fracturing OCGs creates short-term spikes in violence because criminal groups fight against each other and among themselves until a stable power-equilibrium develops. During these periods of violence the government's criminal justice resources are strained and the likelihood of prosecution drops. As the impunity rate increases, the cost of committing crimes declines further. Even if a single disruption in the balance of power is quickly settled, the problematic effects of the population's mistrust in government will persist. High spikes in violence, even in the short-run, damage criminal justice resources long after they have settled. The strategy of continually breaking apart criminal organizations keeps Mexico in an artificially elevated state of chaos and increases criminal organizations' power over the civilian population.

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<sup>57</sup> Alejandro Gaviria, "Increasing returns and the evolution of violent crime: the case of Colombia," *Journal of Development Economics*, (61)1, February 2000, p. 4.

<sup>58</sup> Alejandro Gaviria, "Increasing returns and the evolution of violent crime: the case of Colombia," *Journal of Development Economics*, (61)1, February 2000, p. 10.

## V. US-Mexican Strategy for Fighting Criminal Organizations

The details of United States' and Mexican strategy to confront the threat posed by organized criminal groups includes distinct programs specialized for each nation, such as new border policy goals and community revitalization projects. But overall the United States' "Beyond Mérida" and Mexico's "National Pact for Security, Justice, and Legality" strategies share more similarities than differences. They both aim to directly confront OCGs in an attempt to target key leaders for the purpose of weakening their power and organizational structure while simultaneously setting goals to improve Mexican rule of law and economic opportunities south of the border. The US "Beyond Mérida" strategy, as outlined within President Obama's 2011 budget request, allocates funding and military resources under four "pillars" targeted at "1) disrupting organized crime groups; 2) institutionalizing the rule of law; 3) building a 21st century border; and 4) building strong and resilient communities."<sup>59</sup> Although the United States' first goal seeks to disrupt organized crime groups it will accomplish this not by sending physical troops but rather by supporting Mexico's military. Mexican strategy as given by the National Pact for Security, Justice, and Legality created seventy-five commitments for the Government of Mexico's at the federal and state levels in order to improve public safety.<sup>60</sup> These multiple policies are best summarized by John Bailey's six-point framework to: (1) deploy federal forces into the most seriously affected areas, (2) attack criminal groups' finances, (3) dismantle OCG's political cover, (4) promote institutional reform, (5) generate grassroots support and recover the societal base and, (6) promote international cooperation.<sup>61</sup> Although, both countries' policies are complex and holistic

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<sup>59</sup> CRS Report for Congress, "Mexico Drug Trafficking organizations: Source and Scope of the Rising Violence," June S. Beittel, *Congressional Research Service*, January 7, 2011, p. 19.

<sup>60</sup> "Acuerdo Nacional por la Seguridad, la Justicia y la legalidad," ElUniversal.com.mx, August 22, 2008 source comes from John Bailey, "Combating Organized Crime and Drug Trafficking in Mexico: What are Mexican and U.S. Strategies? Are They Working?" *Woodrow Wilson International Center for Scholars-Mexico Institute*, May 2010, p. 332.

<sup>61</sup> John Bailey, "Combating Organized Crime and Drug Trafficking in Mexico: What are Mexican and U.S. Strategies? Are They Working?" *Woodrow Wilson International Center for Scholars- Mexico Institute*, May 2010, p. 332-333.

the forthcoming analysis focuses primarily on the US-Mexican strategy of direct military engagement with OCGs. Other policies not directly related to fractionalization, such as anti-money laundering, border reinforcement and international cooperation, are unfortunately beyond the scope of this paper. Although these strategies may tangentially affect a criminal organization's process of reputation building, this next section will instead analyze institutional reform and community revitalization policies that directly impact reputation and how the population interacts with OCGs and the state.

### **Mexico's Institutional Reforms**

In order to reestablish credibility within criminal justice institutions the Government of Mexico must show its citizens that the police and court systems can be trusted. This involves changing systems that for a long time have been viewed as corrupt and inefficient. This lack of confidence contributes to their ineffectiveness and at a time of such stress, when the government has engaged with multiple powerful organized criminal groups, functioning courts and police are of the utmost importance. President Calderón has attempted to bring about needed reform by completely overhauling the organizational structure of these two large Mexican institutions. The political climate however only supported his proposals for court reform and ultimately the proposal to dissolve state and municipal police forces, a measure that would require a constitutional amendment, to create a single national police force failed to get off the ground. The belief was that a single national police agency would be less susceptible to widespread corruption than multiple local agencies. Instead Calderón replaced the AFI (Federal Investigation Agency) and the PFP (Federal Preventative Police) with the PFM (Federal Ministerial Police) (Policía Federal Ministerial — PFM) and the PF (Federal Police) respectively.<sup>62</sup> Although scrapping two of the largest federal police agencies during a time of extreme criminality would seem ill advised these changes were arguably necessary as the AFI had

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<sup>62</sup> Daniel Sabet, "Police Reform In Mexico: Advances And Persistent Obstacles" p. 257 a chapter in "Shared Responsibility: U.S.-Mexico Policy Options For Confronting Organized Crime," *Woodrow Wilson International Center for Scholars and Trans-Border Institute*, October 2010.

been penetrated at high-levels by corruptive influence of OCGs.<sup>63</sup> Despite valuable investigative resources being lost or diminished during the transition and needed internal regulations not being fully implemented, data suggests that the new federal investigative police have addressed more cases and solved them in a shorter time period.<sup>64</sup> In an attempt to fight corruption and improve policing at the municipal level, President Calderón will allocate funding grants to local agencies for technology and infrastructure improvements if they improve their process of vetting future officers and professionalize discipline and promotion standards.<sup>65</sup> These measures are greatly needed and positive politically. In 2010 almost 10% of the force was fired after failing basic integrity tests.<sup>66</sup> This policy's impact on improving police effectiveness or decreasing corruption is yet to be determined but may only achieve marginal success. Organized criminal groups still have huge sums of money to corrupt and intimidate even well vetted police officers. Mexico for a long time has existed in a culture that accepts informal rules and bribes as part of everyday operations. Changing this larger political-social culture and establishing police credibility and trust between civilians and officials will take more than small reforms.

Police reforms are just one side of the criminal justice coin. In order to successfully bring gangsters and drug traffickers to justice, Mexico needs to reform its court system and greatly improve its one to two percent conviction rate. For years the government has attempted to do just that. In 2004 former President Vicente Fox put forward an ambitious package of constitutional reforms to modernize Mexico's court system and transition from an inquisitorial judicial system to an adversarial system more similar to the one in

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<sup>63</sup> Vanda Felbab-Brown, "The Violent Drug Market in Mexico and Lessons from Colombia," *The Brookings Institution*, March 2009, p. 7.

<sup>64</sup> Daniel Sabet, "Police Reform In Mexico: Advances And Persistent Obstacles" p. 258 a chapter in "Shared Responsibility: U.S.-Mexico Policy Options For Confronting Organized Crime," *Woodrow Wilson International Center for Scholars and Trans-Border Institute*, October 2010.

<sup>65</sup> *Ibid.* p. 261.

<sup>66</sup> *Economist Intelligence Unit*, "Mexico Politics: Whither the War on Drugs?" September 2, 2010, source comes from CRS Report for Congress, "Mexico Drug Trafficking organizations: Source and Scope of the Rising Violence," June S. Beittel, *Congressional Research Service*, January 7, 2011.



the United States. Although Vicente Fox's proposals never passed, this primed the political pump for President Calderón in 2008 to pass sweeping reforms that altered the nation's system of justice, improved defendants' presumption of innocence, and enhanced the rules of due process.<sup>67</sup> The new oral adversarial system pins the defense against the prosecution with the judge as an independent mediator all while lessening the power of the prosecuting attorneys and increases internal checks and balances.<sup>68</sup> The magnitude and scope of the institutional changes present the greatest challenge to its potential success. To compensate for the immense size and cost of President Calderón's reform program Mexican states and federal courts will be given until 2016 to fully implement changes.<sup>69</sup> In order to help Mexico transition into its new judicial system USAID, through Economic Support Funds allocated in the Mérida Initiative, has allocated over \$30 million to further the goal of finalizing reforms in all of Mexico's 32 states by the time President Calderón leaves office.<sup>70</sup> These changes will not be easy. Mexico's legal institutions and traditions, which have been molded for over a century, will now be expected to radically change in only eight years. There is real danger in attempting to perform such a gargantuan feat of public policy during a time when corruption and extreme levels of violent crime are testing the court system. In the short run this overhaul may weaken the resources and capacity of the courts and result in opportunistic spikes in violence and lower rates of successful criminal prosecutions. Whether or not Mexico's criminal justice institutions will be able to handle both the stress of change and the pressure from OCGs has yet to be determined.

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<sup>67</sup> David A. Shirk, "Justice Reform in Mexico: Change & Challenges in The Judicial Sector," p. 216 a chapter in "Shared Responsibility: U.S.-Mexico Policy Options For Confronting Organized Crime," *Woodrow Wilson International Center for Scholars and Trans-Border Institute*, October 2010.

<sup>68</sup> *Ibid.* p. 227.

<sup>69</sup> CRS Report for Congress, "U.S.-Mexican Security Cooperation: the Mérida Initiative and Beyond," Clare Ribando Seelke and Kristin M. Finklea, *Congressional Research Service*, February 16, 2011, p. 15.

<sup>70</sup> U.S. Department of State, *FY2010 Supplemental Appropriations Spending Plan: Mérida Initiative/Mexico*, November 9, 2010 source comes from CRS Report for Congress, "U.S.-Mexican Security Cooperation: the Mérida Initiative and Beyond," Clare Ribando Seelke and Kristin M. Finklea, *Congressional Research Service*, February 16, 2011, p. 19.

## **Building Strong and Resilient Communities**

To successfully accomplish their criminal justice goals, Mexico needs to fundamentally alter the national morals that have grown to accept violence and corruption as the status quo. Building strong and resilient communities means creating social infrastructure that shuns criminality and provides legal employment opportunities for the young and disadvantaged. Restoring the rule of law by emphasizing honesty and lawfulness while under extreme pressure from powerful criminal organizations will require strong and self-empowered neighborhoods. Although the majority of the fourth pillar of the Mérida Initiative to “build strong and resilient communities” rests on the shoulders of the Mexican Government and international organizations like the World Bank, the United States has joined with Mexico to help institute pilot projects within violent cities.<sup>71</sup> USAID, as part of the 2010 budget, was allocated \$14 million to improve local Mexican crime prevention programs and the distribution of social services.<sup>72</sup> One such US effort in Ciudad Juárez is the “culture of lawfulness” program, which increases demand reduction funding and access to treatment services. In order to adapt to radically changing criminal justice institutions, Mexican communities and legal professionals must understand the government’s reform goals as well as the details of, and reasons behind, their new form of justice. Without these measures the country can never hope to win over the trust of the population in a way that will heighten the credibility of state institutions. Despite positive reforms and a steadfast desire to address problems of impunity there is a long way to go. According to a 2007 Gallup poll 58% of Mexicans said they do not have confidence in the judicial system.<sup>73</sup> The “We are Juárez” plan, which besides drug treatment also includes federal funding for education, job training, and community development

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<sup>71</sup> CRS Report for Congress, “U.S.-Mexican Security Cooperation: the Mérida Initiative and Beyond,” Clare Ribando Seelke and Kristin M. Finklea, *Congressional Research Service*, February 16, 2011, p. 22.

<sup>72</sup> U.S. Department of State, *FY2010 Supplemental Appropriations Spending Plan: Mérida Initiative/Mexico*, November 9, 2010 source comes from CRS Report for Congress, “U.S.-Mexican Security Cooperation: the Mérida Initiative and Beyond,” Clare Ribando Seelke and Kristin M. Finklea, *Congressional Research Service*, February 16, 2011, p. 23.

<sup>73</sup> Julie Ray, “Mexico’s Citizens Ready for Improved Justice System,” *Gallup*, February 20, 2008, <http://www.gallup.com/poll/104455/mexicos-citizens-ready-improved-justice-system.aspx>.

initiatives<sup>74</sup>, is a step in the right direction towards building the population's trust. This plan, along with other similar local revitalization strategies, hopes to tackle some of the social issues behind the increased violence. Community support for institutional reforms is essential for these changes to operate effectively. The scope of Mexico's judicial reforms will require greater trust and cooperation between police and citizens. Hopefully these outreach programs will create generate greater mutual understanding from both sides

## **VI. A New Strategy**

As outlined previously, US-Mexican strategy of directly engaging with OCGs in an attempt to target leadership figures and splinter an organizations' structure, will continue to prove unsuccessful at lowering violence as long as fractionalization increases competition in the marketplace and disrupts preexisting power equilibriums. Breaking apart a criminal enterprise creates internal power vacuums that are won by the most brutal successor. These individuals are typically more versed in violence than they are at business, which lowers the likelihood that non-violent agreements can be maintained in the future. Fractionalization causes spikes in violence that overwhelm judicial resources and furthers the problem of criminal impunity. Instead of going after all large and powerful organized crime groups, the Government of Mexico must specifically and explicitly persecute the most violent individuals and OCGs in an effort to directly disincentivize the use of violence as a mechanism for building reputation capital. By targeting and strategically enforcing against the most aggressive OCG, the government can raise the cost of doing business and "tax violence" in an attempt to drive down open displays of physical force. Simultaneously, anticorruption, judicial, and economic reforms will need to be implemented to rebuild citizen confidence in Mexican institutions. Finally, significant drug and immigration reform are needed to reduce the illegal revenue streams available to OCGs.

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<sup>74</sup> CRS Report for Congress, "U.S.-Mexican Security Cooperation: the Mérida Initiative and Beyond," Clare Ribando Seelke and Kristin M. Finklea, *Congressional Research Service*, February 16, 2011, p. 23.

## **A Change in Tactics**

A policy that hopes to control, to some extent at least, Mexico's criminality induced chaos must focus on reducing incentives for violence as a means to build reputation capital. Mexican military and police officials can accomplish this goal by raising the cost of doing business through excess enforcement burdens on those groups that commit the most flagrant acts. This means using the bulk of investigative and military resources to launch an immediate attack on an OCG when they commit an act deemed totally unacceptable by the government. This could include displaying bodies in public for the purpose of intimidation, kidnapping or murdering public officials, or attacking civilians and children. The goal should not be to take out criminal leaders but rather target the group as a whole and force them to spend large sums of money and resources fighting government officials. A particularly heinous act of violence thereby creates heavy short-term enforcement burdens that economically disadvantage an OCG relative to their rivals. This type of program would demonstrate to a criminal organization that certain displays of violence for the purpose of building a reputation are not in their best business interest. Interestingly enough, this policy will only work if OCGs know the government will disproportionately enforce based upon the quantity and severity of criminal violence. In order to change behavior criminal groups must understand that atrocious actions will not be tolerated. Mark Kleiman, criminology expert and professor of public policy at UCLA, suggests a public transparent process by which the Mexican government designates an organization as the most violent and shift enforcement resources to focus on dismantling that individual group. "After one group has been taken down, the process should be run again. If it worked, this kind of selective enforcement would force a 'race to the bottom' in violence; in effect, each organization's drug-dealing revenues would be held hostage to its self-restraint when it comes to gunfire."<sup>75</sup> Whether or not the policy focuses on single heinous actions or a month of accumulated violence does not matter as much as using

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<sup>75</sup> Mark Kleiman, "Marketing a 'Miracle' - Has Medellín's resurgence been oversold," Letter in response to "Half a Miracle" by Francis Fukuyama and Seth Colby, *Foreign Policy Magazine*, July/August 2011, [http://www.foreignpolicy.com/articles/2011/06/20/marketing\\_a\\_miracle](http://www.foreignpolicy.com/articles/2011/06/20/marketing_a_miracle).

displays of physical aggression as the metric by which government prioritizes enforcement.

When public violence becomes expensive, intimidation will become less effective or more costly. This policy, through the complimentary nature of intimidation and bribery, increases the price of both violence and corruption. OCGs will have to think twice before going through with violent threats, and this should alleviate some of the pressure public officials feel to form corrupt relationships. Once this policy is publicized, OCGs will start to understand that there are major disincentives to being labeled the most violent organization. But in order to accurately decide which group is responsible for the most violence, Mexican criminal justice officials must tackle the problem of corruption and police officers' low investigative capacity. Otherwise this policy could actually incentivize violence as long as the blame could be passed off on a rival gang. This strategic behavior would wrongly divert attention away from the most violent OCG and actually help in taking out their enemies. Currently Mexico's criminal justice infrastructure, because of chronic underfunding and corruption, does not have the capacity or resources to adequately address the real possibility of this negative outcome. In addition, if citizens and OCGs do not believe the Mexican Government can effectively target criminal organizations to quickly punish those who commit heinous acts of violent then the label "most aggressive" could potentially serve to boost a group's reputation. Specifically targeting the right OCGs requires investigative resources and a highly trained and technologically advanced police force. Successful anticorruption and institutional reforms will be required if Mexico hopes to implement this sort of complex law enforcement strategy.

### **Improved Criminal Justice and Economic Reforms**

Tackling corruption and the factors that lead society to tacitly accept bribery will require police reform and economic revitalization. A survey of police wages and workloads in Guadalajara and Ciudad Juárez showed the vast majority of local police earn less than

\$800 a month while working over 50 hours a week with no overtime pay.<sup>76</sup> Passing bribes requires very little coercion when local police officials can only make a decent living by cooperating with organized crime. To reduce the incentives for corruption, the Government of Mexico must institute a carrot and stick policy. Increased wages and a merit based promotion system will encourage police officials to stay honest. But when corruption is discovered those same officials must face immediate expulsion and criminal penalties. Corruption is most harmful when bribing a few key individuals allows an OCG to completely control or avoid government enforcement. This type of problematic corruption can only occur when a single agency holds all the power in a specific jurisdiction.<sup>77</sup> Successfully corrupting this department means a free ride for any criminal organization. It is possible that Mexico was fortunate that President Felipe Calderón's plan to create a unitary national police force was unsuccessful. While a single strong police force may be operationally efficient, corrupting this agency would have given an OCG access to all of Mexico's police tactics and future enforcement plans. The United States narcotics enforcement has been able to avoid some of this pervasive and damaging corruption because there are multiple different police agencies that administer over any one particular jurisdiction. This reduces the benefits of bribing any one particular police agency, as any of the other agencies can still enforce, and makes complete corruption almost impossible. In order to reduce the prevalence and benefits of corrupt relationships Mexico must maintain and take advantage of the inefficient information sharing that exists within overlapping police bureaucracies.

Economic hardships and a poor job market can also affect the power of black markets and violent crime. Regional economic downturns, especially in the tourism industry within Mexican border cities, have increased unemployment and reduced the opportunity costs of joining the illicit economy. A 2010 report out of the Mexican employers'

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<sup>76</sup> Marcos Pablo Moloeznik, David Shirk, and María Eugenia Suárez de Garay, *Justiciabárometro: Ciudad Juárez*, San Diego; Ciudad Juárez, 2010 source comes from David A. Shirk, "The Drug War in Mexico Confronting a Shared Threat," *Council on Foreign Relations*, Council Special Report No. 60, March 2011, p. 27.

<sup>77</sup> Peter Reuter, "The Organization of Illegal Markets: An Economic Analysis," U.S. Department of Justice, *National Institute of Justice*, February 1985, p. 17.

federation warned that violence in select areas of the country puts businesses at risk of failure and saps the country of vital foreign direct investment.<sup>78</sup> In order to break the cycle that drives young people to join criminal organizations because of few job opportunities and then increases violence that further destroys the limited employment available, government must do more to ensure legal work is available for the poor and disenfranchised. Although the Mexican government has spent time and resources to create lists of neighborhood improvement ideas and asked community members for their input,<sup>79</sup> real concrete programs will require investment in specific social infrastructure plans within local communities to create alternative employment opportunities.

### **Drug and Immigration Policy Reform**

Policies aimed at deconstructing incentives for criminality must address the primary reason individuals join Mexican organized criminal groups. This means seriously considering new ways to tackle the multi-billion dollar industry of smuggling drugs, people, and other illegal contraband into the United States. The OCGs operating south of our border are multi-dimensional enterprises engaging in illegal acts to accumulate power for profits rather than political change.<sup>80</sup> Their business is to amass wealth through illegal activities. The black market in illicit drugs and migrant labor provides criminal groups with a lucrative revenue opportunity and motivates risk-taking individuals to join OCGs as a way to get rich. Corruption and violence in Mexico cannot be significantly diminished until government policies take this revenue source out of the hands of criminals. In order to reduce the revenues available to OGCs demand for drugs and cheap labor must either be drastically reduced or regulated through an entity that operates within the rule of law. President Barack Obama's drug control strategy increases funds

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<sup>78</sup> "Business Calls for Action in Killings," *Latin American Weekly Report*, November 4, 2010 source comes from CRS Report for Congress, "Mexico Drug Trafficking organizations: Source and Scope of the Rising Violence," June S. Beittel, *Congressional Research Service*, January 7, 2011, p. 17.

<sup>79</sup> Eric Olson, Personal interview, July 7, 2011.

<sup>80</sup> CRS Report for Congress, "Mexico Drug Trafficking organizations: Source and Scope of the Rising Violence," June S. Beittel, *Congressional Research Service*, January 7, 2011, p. 15.

allocated to demand reduction but still many of these policies, such as youth anti-drug ad campaigns, have not shown to be effective<sup>81</sup> and operate on long time horizons. Placing these currently illicit drugs into a legally regulated system would allow consumers to eliminate their contribution to the underground economy. Legalizing cannabis alone could cut \$1.5 billion out of organized criminal revenues.<sup>82</sup> Ineffective global drug policies have flooded Mexican border towns with cheap drugs, expanded local drug markets and increased drug abuse. Violence within these cities can be traced back to not only the large OCGs trafficking contraband into the United States but also a rise in aggressively controlled street markets.<sup>83</sup> Fractionalization that increases competition in the international trafficking markets pushes illegal firms to expand their business of domestic drug selling. Direct military engagement with OCGs will never eliminate the criminal black market in drug trafficking because enforcement increases profits accrued by those who survive government pressure.<sup>84</sup> The only way to take this revenue source out of the hands of criminals is to bring supply of drugs into a legally regulated market. After years of supporting American prohibitionist drug policy the Mexican Government is beginning to come around. On August 26<sup>th</sup>, after an attack on a casino that left 52 dead, President Calderón urged the United States to “seek market alternatives in order to cancel the criminals' stratospheric profits.”<sup>85</sup> Similarly, increased customs and border enforcement as part of US-Mexican strategy to combat smuggling will not stop illegal immigration. A study by Christina Gathmann (2004) showed strict enforcement actually increases the reliance on criminal groups to bring immigrants over the border. When

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<sup>81</sup> GAO Report, “ONDCP MEDIA CAMPAIGN: Contractor’s National Evaluation Did Not Find That the Youth Anti-Drug Media Campaign Was Effective in Reducing Youth Drug Use,” *United States Government Accountability Office*, August 2006.

<sup>82</sup> Beau Kilmer, Jonathan P. Caulkins, Brittany M. Bond, & Peter H. Reuter, “Reducing Drug Trafficking Revenues and Violence in Mexico,” *RAND Corporation*, 2010, p. 3.

<sup>83</sup> CRS Report for Congress, “Mexico Drug Trafficking organizations: Source and Scope of the Rising Violence,” June S. Beittel, *Congressional Research Service*, January 7, 2011, p. 20.

<sup>84</sup> Mark Kleiman, Jonathan Caulkins, and Angela Hawken, *Drugs and Drug Policy: What Everyone Needs to Know* (New York: Oxford University Press, 2011).

<sup>85</sup> Tim Padgett, “Mexico's Narco-Epiphany: Is Calderón Suggesting the U.S. Legalize Drugs?” *Time*, August 30, 2011, <http://globalspin.blogs.time.com/2011/08/30/mexicos-narco-epiphany-is-calderon-suggesting-the-u-s-legalize-drugs/>.



government officials block off the easy transit routes Mexican migrants laborers seeking work in the United States must, instead of traveling for themselves, pay criminal organizations to transport them across the border. Removing the source of trafficking money from criminal enterprises will require immigration reform that acknowledges the dynamic between international supply and demand of labor. Temporary work visas must be expanded to allow immigrants to legally access jobs in the United States that they would otherwise illegally cross to work in.

## **Conclusion**

The current violence in Mexico can only be adequately addressed when government officials stop thinking ideologically and start thinking pragmatically. Drug enforcement policy is too often simplistically viewed as criminal law and order issue that can be solved by cracking down harder on those who engage in drug selling. Instead, government officials must analyze the economic incentives that motivate individuals to join criminal organizations. Policy analysts need to question why some OCGs are more violent than others. The model set forth, by which criminal organizations build violent reputation capital for the purpose of securing a beneficial market position, is just one way to view motives for criminal violence. Direct enforcement against illegal enterprises tends to further aggression in the short term because of how military engagement impacts competitive pressures within black markets. When government intervention tips the balance of power and upsets the market equilibrium, violent OCGs begin attacking one another in an attempt to control market share. This sets forth a series of conflicts in which OCGs must constantly reaffirm their reputations with physical displays of violence. Although government pressures have eliminated criminal groups in the past, they have been unable to substantially diminish illicit smuggling through military engagement alone. One reason is that the demand for illicit drugs, immigrant labor, and untaxed commodities ensures a market will arise to supply those desires. Ordinarily conflict would only exist in the short run until one OCG reestablishes dominance. Ongoing government enforcement never allows stable power equilibriums to be achieved. It is here where the model for understanding comparative reputation becomes so important.

Violence, even if the fighting is contained within or between criminal groups, utilizes scarce government resources and scares citizens into cooperating with OCGs. Violence, no matter the cause or the culprit, increases the power of organized crime.

In the past, intense government actions against criminal organizations have successfully pushed violent drug dealing out of one country into another. The decrease in OCG presence in Columbia occurred because enforcement by government and rival paramilitaries destabilized the market to such an extent that it allowed Mexican contract smugglers to expand their power along the supply chain.<sup>86</sup> But law enforcement pressure cannot squeeze the balloon and transfer OCGs out of Mexico because of the strategic border it holds with America, the world's largest drug consumer. This time, the United States and Mexico must work together and acknowledge that a combination of American drug demand and weak judicial institutions in Mexico are the cause of the intense violence. Politically controversial drug policy and judicial reform will be required to tackle the problem. If violence persists, economic and legal institutions of the Mexican state could be irreversibly damaged.

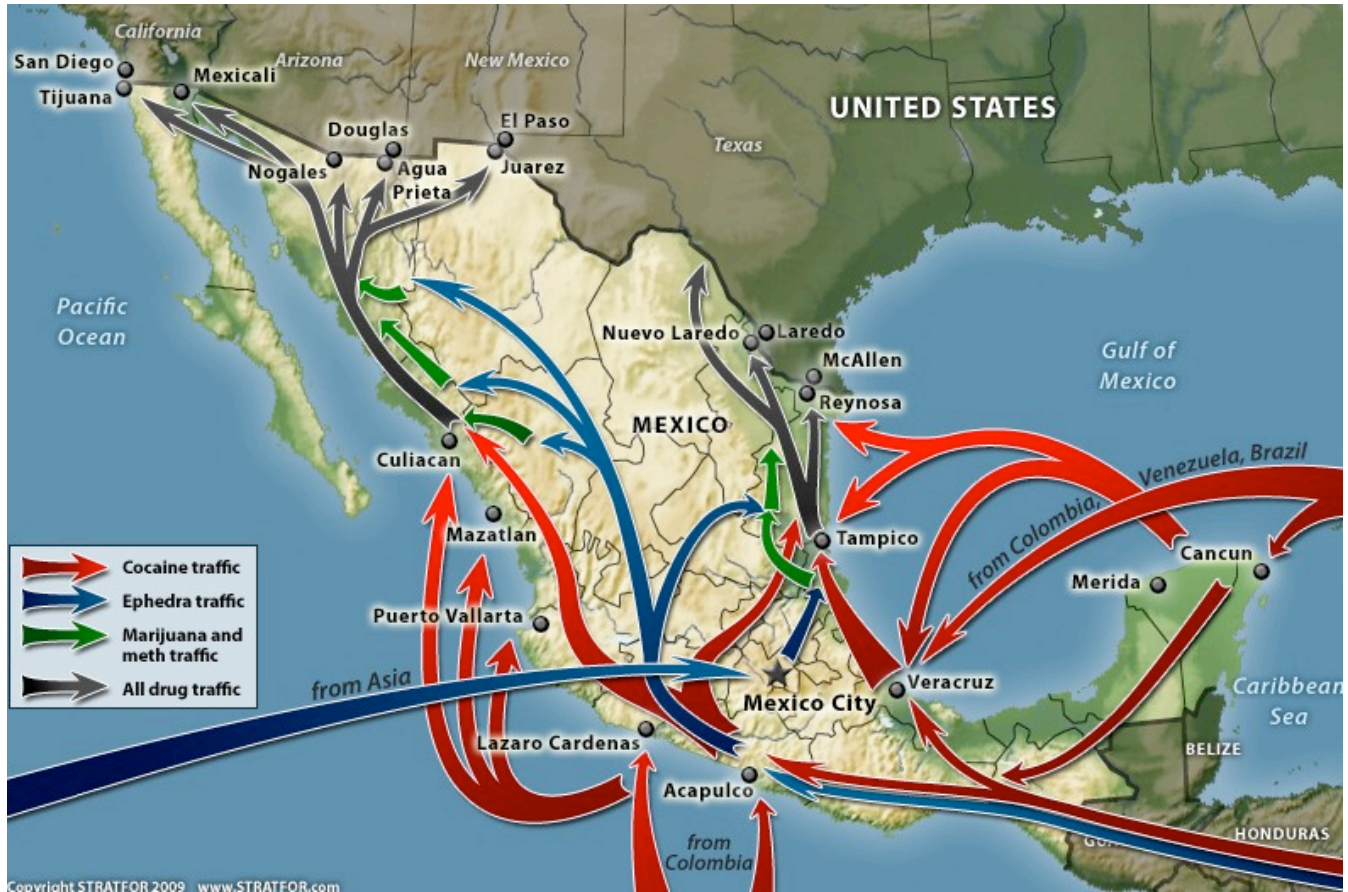
President Calderón's use of the military to combat organized criminal groups was required because local police were outmatched in regards to money and firepower. But his war against the drug organizations constitutes more than just the decision to use military force. The strategy of targeting key criminal leaders in an attempt to fractionalize OCGs has increased short-term violence and prevented stable power equilibriums from establishing. Years of fighting have stressed criminal justice institutions and still rampant drug trafficking and corruption persist. The effect of his war strategy has been greater violence and destabilization. Efforts to reform the judicial system and rebuild local economies are important steps in the right direction, but they will never solve the problem of criminality as long as current law enforcement strategies perpetuate violence. Instead government pressure must target violence itself rather than the criminal organizations. OCGs build a violent reputation in order to hold their place within a

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<sup>86</sup> CRS Report for Congress, "Mexico Drug Trafficking organizations: Source and Scope of the Rising Violence," June S. Beittel, *Congressional Research Service*, January 7, 2011, p. 5.

dangerous illicit market. Government strategy will only be successful when they acknowledge that this incentive to hold power can never be eliminated through force. The goal, as long as black markets exist, will be to create policies that motivate illicit enterprises to establish stable hierarchies without the side effects of violence and corruption. Only by coming to grips with the fact that black markets will always be a reality, and trying to understand their complex paradoxes and relationships, can we ever attempt to control them.

Figure 1.<sup>87</sup> Mexico's Drug Smuggling Routes and Corridors



<sup>87</sup> STRATFOR Global Intelligence, “Mexican Drug Cartels: An Update,” May 17, 2010.

**Figure 2. A Model for Building Reputation Capital**

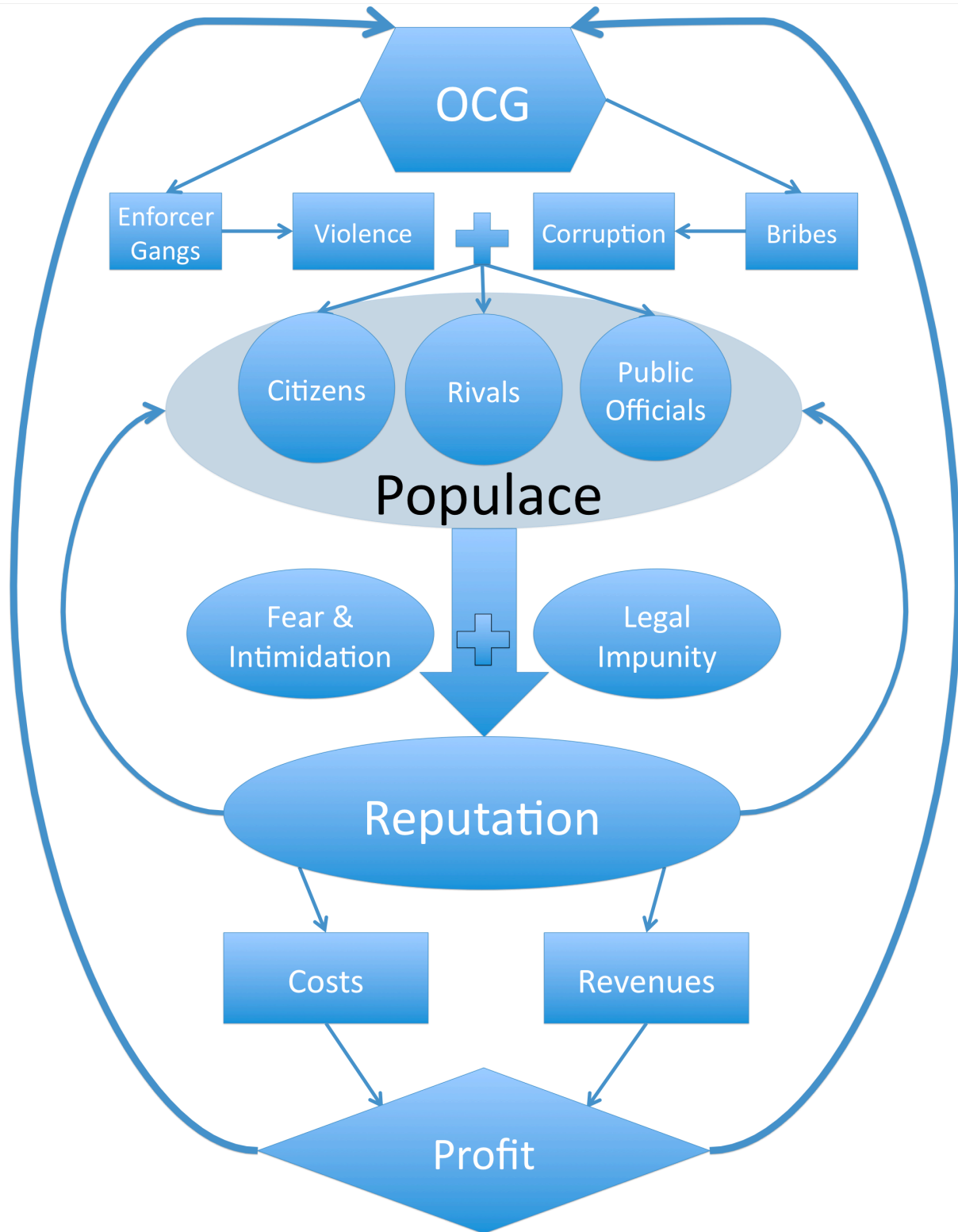


Figure 3.<sup>88</sup> Horizontal Integration Within Contracted Enforcement

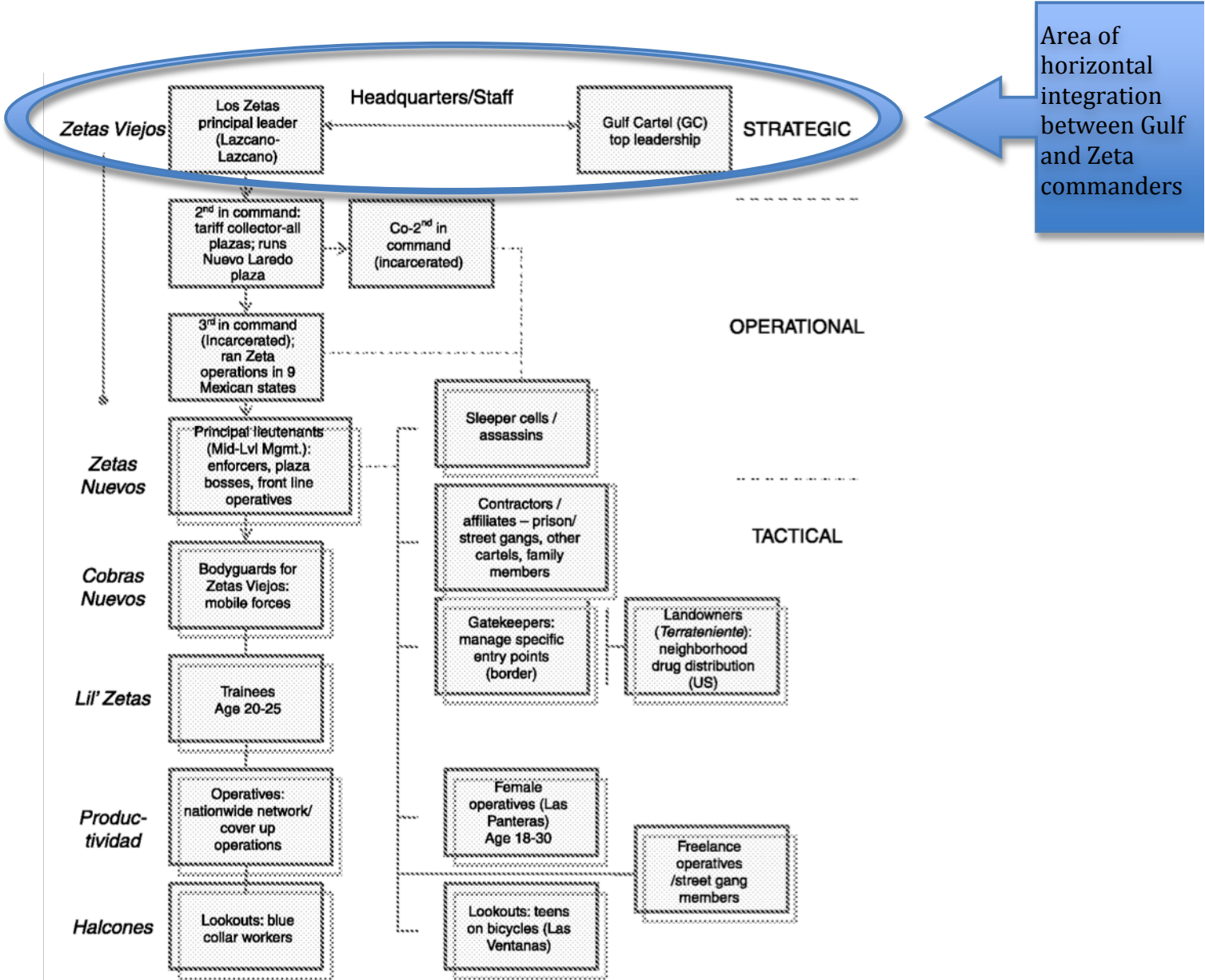


Figure 1. Los Zetas composition: operations.

Note: The use of STRATEGIC, OPERATIONAL AND TACTICAL in this figure are to provide a reference for friendly forces (the 'good guys') to understand and relate Zetas' overall operations to traditional levels of operations.

<sup>88</sup> Source: The underlying chart (Figure 1. Los Zetas Composition: operations) comes from Lisa J. Campbell, "Los Zetas: Operational Assessment," *Small Wars & Insurgencies*, (21)1, March 2010, p. 58. Her paper gives a detailed and interesting look into the structure, history, and power of one of Mexico's most violent OCGs.

## Appendix

### Short Profile of the Major OCGs Operating in Mexico<sup>89</sup>

#### Sinaloa OCG

The Sinaloa criminal organization, run by Joaquín “El Chapo” Guzmán Loera, who escaped Mexican prison in 2001, and Ismael “El Mayo” Zambada, is considered the largest and most powerful in Mexico. Up until 2008 the Sinaloa organization was the dominant member in the cartel alliance known as the “La Federacion,” which also included the Juárez OCG, the Tijuana/Arellano Félix Organization, and the Beltran Leyva Organization. In 2005 and 2006, in an attempt to combat the Gulf OCG’s paramilitary group, Los Zetas, the Sinaloa OCG established the Negros and Pelones to carry out violent tactical enforcement operations. In early 2010, the Sinaloa OCG created an alliance with its former rivals the Gulf OCG and La Familia Michoacána to fight the powerful Los Zetas paramilitary organization who had broken away from the Gulf OCG. The Sinaloa enterprise, the most powerful of all criminal groups, is estimated to control as much as 45% of Mexico’s drug trade.

#### Juárez OCG

The Juárez OCG is currently led by Vicente Carrillo Fuentes brother of Amado Carrillo Fuentes who took control of the valuable Ciudad Juárez border crossing after the breakdown of the Felix Gallardo OCG. Since 2008, the Juárez OCG has been engaged in a vicious battle over the city of Juárez with the Sinaloa OCG. This battle, which claimed over 6,000 lives in 2009 and 2010, has involved support on behalf of the Juárez OCG from the Beltran Leyva Organization, Los Zetas, and the smaller La Linea and Azteca Asesino gangs.

#### Arellano Félix Organization or Tijuana OCG

Arellano Félix Organization (AFO), also known as the Tijuana OCG, was started by five nephews of Miguel Angel Félix Gallardo and holds its base in Baja California with Tijuana being its primary smuggling route into the United States. The AFO used to be one of the largest players amongst the Mexican criminal gangs and at one time was believed to supply 40 percent of America’s cocaine demand. Since the height of its power in the late 1990s, the organization has suffered multiple attacks to its leadership structure and by 2008 all five brothers had been either arrested or killed. After the original leadership disappeared a power struggle emerged resulting in an eventual split and gang war between underbosses Fernando “El Ingeniero” Sanchez Arellano and Eduardo Teodoro “El Teo” Garcia Simental. This conflict caused of the majority of Tijuana’s violence over the last few years, but hopefully violence will subside as Mexican authorities arrested “El Teo” in January of 2010.

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<sup>89</sup> Much of the information in this section was sourced from Miguel R. Salazar and Eric L. Olson, “A Profile of Mexico’s Major Organized Crime Groups,” *Woodrow Wilson International Center for Scholars-Mexico Institute*, February 2011; STRATFOR Global Intelligence, “Mexican Drug Cartels: An Update,” May 17, 2010; and *In Sight: Organized Crime in the America’s* page on Mexican Criminal Groups <http://insightcrime.org/criminal-groups/mexico>.

**Gulf OCG**

The Gulf OCG, which originated out the northern Mexican state of Tamaulipas, was until recently a dominant criminal organization and the primary rival of the Sinaloa OCG. The Gulf OCG rose to power when former leader Osiel Cárdenas Guillén developed a relationship with Mexican Special Forces agents later defected and formed the Gulf's powerful paramilitary squad known as Los Zetas. After a series of internal conflicts Los Zetas split with the Gulf OCG in 2009 and created their own power structure and revenue source from extortion and smuggling. On November 5th 2010, the Gulf OCG was dealt another blow when Mexican Marines killed their leader Antonio Ezequiel Cárdenas Guillén during a firefight in Tamaulipas. The rise of an independent Los Zetas, a shift in the balance of power, and the subsequent Sinaloa assault on former Gulf strongholds has contributed to a significant share of Mexico's recent violence.

**La Familia Michoacána**

La Familia started as quasi-Christian cult vigilante organization in the 1980s, but entered into Mexico's criminal conflict when the Gulf OCG tried to force the smaller El Milenio OCG out of the central state of Michoacán. Los Zetas, who were part of the Gulf OCG at this time, trained members of La Familia to help defeat El Milenio. After the Gulf OCG set up a base in Michoacán, tension grew between La Familia and Los Zetas causing a conflict that pushed out Gulf presence in the area and initiated an alliance between La Familia and the Sinaloa OCG. La Familia Michoacána stated in January of 2011 that it had officially disbanded, and two months later a group known as Los Caballeros Templarios publically said they would be taking up power in the region. It is unclear how much truth there is to either of these statements, but in all information indicates the OCG has fractured following the death of its principal leader Nazario Moreno González in December 2010.

**Beltran Leyva Organization**

The Beltran Leyva Organization (BLO) originated in the Mexican state of Sinaloa as poppy farmers who were recruited by the Sinaloa OCG to help combat the growing paramilitary threat posed by Los Zetas. Since the death of former leader Arturo Beltran Leyva in 2009 and the capture of Edgar "La Barbie" Valdez Villarreal in 2010, the BLO OCG has been significantly weakened and holds on to power only forming alliances with the Juárez OCG and Los Zetas.

**Los Zetas**

Los Zetas are a powerful paramilitary style organization that originated in the state of Tamaulipas as the Gulf OCG's enforcer gang. This group began when several Mexican Special Forces Officers deserted from the division known as Grupo Aeromovil de Fuerzas Especiales (GAFE). Los Zetas use tactical violence, public displays of brutality, and street blockades to overpower local police and even Mexican military in their attempt to control valuable territory along the Texas-Mexican border. Although many of the groups original 31 Special Forces have been killed, the organization has thousands of younger enforcers who although are less tactically trained are more than capable of vicious brutality and intimidation.



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**Acknowledgements**

There are many people I must thank who helped to contribute to this project physically, intellectually, and emotionally. First is Colgate University, the Institute for Philosophy, Politics, and Economics, and Ed and Robin Lampert for their endowment that allowed me to perform this research. I would like to personally thank Professor Michael Johnston for sponsoring my project. His wisdom, edits, and kindness turned this research from a massive collection of ideas and equations into an actual paper. I would like to thank Professor Stanley Brubaker for his continued support and growing interest in my project and drug policy. I must take time to thank all the experts whose knowledge and insights helped contribute to this paper's final form. This list includes: John Bailey, Stephen Morris, Mitchell Seligson, David Shirk, Eric Olson, Vanda Felbab-Brown, Jeffrey Miron, Jonathan Caulkins, Mark Kleiman, and Sanho Tree. I must thank my friends and family for their support and willingness to listen for hours about my project. In particular I must thank my roommates Griffin Markay and Mark Janett who lived with me through different stages of this project and offered important suggestions, as well as Nick Murray for being my intellectual confidant and peer in drug-policy. Finally I must thank my loving parents for their support and acceptance of my unique academic interests.