

The Rise and Persistence of Illegal Crops: Evidence from a Naive Policy Announcement

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Abstract: Well-intended policies often have negative unintended consequences if they fail to foresee the different ways in which individuals may respond to the new set of incentives. When widespread and persistent, these may lead to a net reduction of social welfare. Focusing on the case of anti-drug policies, in this paper we show that the recent unprecedented surge in the growing of illicit coca crops in Colombia was the result of a naive and untimely policy announcement during peace negotiations between the government and the FARC guerrillas. On May 2014, the parties' peace delegations issued a press release announcing that coca-growing farmers would receive material incentives for voluntary crop substitution once a final agreement had been reached. To evaluate the anticipation effect of this announcement we exploit the cross sectional variation on both the cost advantage of growing coca (using an ecological measure of coca suitability) and the expected benefits of doing so (using a predicted measure of where the material benefits would have been targeted). Coca plantations levels remained high even after the implementation of the announced incentives' scheme. We explain this persistence by documenting that the surge in coca growing is differentially higher in areas with presence illegal armed groups, that benefited financially from availability of a key input in the drug trade.

JEL classification: K42, D78

Keywords: Coca growing, Drug war, Anticipation effects, Policy announcement, Colombia

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