LATIN AMERICAN PROGRAM

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Number 20

INTERNATIONAL CAPITALISM AND THE PERUVIAN MILITARY GOVERNMENT, 1968-1978

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Author's note: This paper was presented at the November 2-4, 1978 Workshop on "The Peruvian Experiment Reconsidered" organized by the Latin American Program of the Woodrow Wilson International Center for Scholars, Smithsonian Institution, Washington, D.C. 20560. The author would like to thank Gastón Fernández for assistance in compiling some of the data used in this paper.

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ABSTRACT

International Capitalism and the Peruvian
Military Government, 1968-1978

The purpose of this paper is to consider the international constraints faced by the military government in Peru during the 1968-1978 period. What was the nature of those constraints, and how important were they in determining the types of policies followed by the government? The argument of the paper with respect to the nature of the international constraints is that they were the same ones which all Latin American countries face all of the time, i.e. the constraints imposed by being part of the process of capital accumulation on a world scale. In terms of the importance of the constraints, it is argued that they did not really become a problem during the Velasco (or radical) phase of the Peruvian regime. Furthermore, it cannot be said that international economic constraints caused the changes that took place under Morales, because his administration had already decided to move in a more conservative direction before the financial crunch arrived in mid-1976.

Discussion of these points is organized as follows: first a brief description of the Peruvian insertion into the international capitalist system prior to 1968, followed by an equally brief discussion of the models proposed by the military government and the ramifications which these models might have been expected to have on the international accumulation process and on Peru's own insertion. A very important aspect of the latter was the increasing financial resources that Peru would need; in fact this increasing need for finance formed the basis of the international constraints. The constraints are then discussed in terms of the flow (or lack thereof) of resources, concentrating on exports, bilateral aid, multilateral loans, private investment, and private bank loans. The crisis of 1976-1978, of course, was the culmination of these trends. Some comments are also offered on the financial and non-financial constraints posed by Peru's geo-political situation in Latin America. The concluding section returns to the question of the importance of the international constraints in the Peruvian case, and whether this has any implications for other Third World countries.

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The purpose of this paper will be to consider the international constraints faced by the military government in Peru during the 1968-1978 period. What was the nature of those constraints, and how important were they in determining the types of policies followed by the government?

The argument of the paper with respect to the nature of the international constraints which Peru has faced in the past ten years is that they are the same ones which all Latin American countries face all of the time, i.e. the constraints imposed by being part of the process of the accumulation of capital on a world scale. In other words, the Peruvian social formation, in both its economic and political aspects, operates within the international capitalist context. Two questions must then be examined: (1) How does Peru fit into this context in general? and (2) Have there been some special constraints at work since 1968? The primary focus of the paper will be on the second question, but the first must be addressed briefly as background.

In terms of the importance of the international constraints, it will be argued that the special features operating in the 1968-1978 period did not really begin to bite until 1975, i.e. they were not a major problem during the Velasco, or radical, phase of the Peruvian regime. If this is true, we must then ask to what extent international constraints caused the changes which took place under Morales. This question will be considered in detail in the concluding sections of the paper; suffice it here to say that there is a good deal of evidence to indicate that Morales and his top officials wanted to move in a more orthodox direction in any case. International constraints may have made them do so more abruptly than would otherwise have happened, but this is a quantitative rather than a qualitative effect.

Peru and the International Capitalist System

Capitalism had yet to make major inroads in the Peru of the 1960's. In socio-economic terms, the country had a dual economy.[1] About half of the population worked in subsistence agriculture, mostly under semi-feudal conditions in the sierra. The capitalist sector was limited to enclaves near the coast, consisting of export agriculture, mining, a small industrial sector, and attendant commercial and financial services. Although only beginning to move into industry, foreign capital was very important in the export sectors (agriculture and mining) and in banking.

Two of the largest "domestic" banks, Banco Continental and Banco International, were controlled respectively by Chase Manhattan and Chemical Bank, and both Bank of America and First National City Bank operated branches.[2]

In 1962, a mildly reformist government, under Fernando Belaúnde and the recently formed Acción Popular, took control of the executive branch. They represented the incipient domestic industrial bourgeoisie and certain professional-technical sectors who wanted to modernize Peruvian society. Under Belaúnde, Peru did move ahead in the (import-substitution) industrialization process, but no fundamental changes were made in terms of economic and political power, which continued to rest primarily with the agricultural-financial oligarchy. Even assuming that Belaúnde desired to make such changes, he was unable to do so because of resistance from the oligarchy. This led to the military take-over in October 1968.[3]

By 1968, then, Peru's role in the international system of capital accumulation was an intermediate type: the country exported primary goods and imported intermediate and capital goods to use in the industrial sector. This distinguished Peru, on the one hand, from the least developed Third World countries which exported primary goods and imported consumer goods. It also distinguished it from the most advanced ("semi-peripheral") countries which were beginning to export industrial goods and/or produce capital goods domestically.

The "normal" international constraints which a country in Peru's position would face would be fluctuating prices for its primary exports and resultant fluctuations in foreign exchange and therefore in its capacity to proceed with industrialization. In addition, there might be constraints--from either the supply or the demand side--on the volume of goods which could be exported, which would also place limits on the speed of industrialization. In order to overcome both the price and volume problems, long-term capital (private foreign investment and public and private loans) could be sought to supplement export revenues.

As is well known, such capital produces negative as well as positive flows, the former through profit repatriation, depreciation, interest payments, and amortization. It also leads to an emphasis on capital-intensive technology and thus a low rate of job creation, and to a sectoral distribution of investment which stresses the production of luxury goods over basic consumer items. The results of this kind of dependent insertion in the international capitalist system in the Peruvian and other cases have been slow and/or uneven growth, a highly unequal distribution of income, high rates of unemployment and underemployment, and uneven development across sectors and across space. Furthermore, reliance on foreign capital gives those groups providing it with leverage with which to pressure governments carrying out "undesirable" policies.

The Peruvian Models: 1968-1978

The military government which took power in Peru in October 1968 did not want to leave the international capitalist system, but it did want to change the patterns just described. Three major goals were specified, each of which had implications for Peru's role in the international accumulation process. The goal whose implications were most obvious in this sense was that of increasing national control over Peru's economy: "Reaffirming national sovereignty, which implies drastically reducing the existing conditions of dependency and vulnerability of the economy, guaranteeing national control of domestic resources, modifying the traditional scheme of international economic relations, and promoting the integration of the external sector into national development policy."[4] Specific policies which followed from this goal included the nationalization of certain foreign-owned firms; greater control over foreign investment (as manifested in the provisions of the Andean code for foreign investment); control over 200-mile territorial boundaries; support for international commodity agreements; and trade and aid agreements with socialist, as well as capitalist, countries.

The second major goal of the military government concerned more rapid economic development: "Accelerated and self-sustained development, basing itself mainly on the internal potential of the country, through an articulated and integrated economic structure--sectoral as well as regional--and characterized by a substantial increase in the national product, a greater degree of efficiency in the use of human and natural resources, and a greater rationality in the occupation of the national territory."[5] Given the nature of the Peruvian bourgeoisie, as one which had not proved itself capable of promoting a strong industrial sector and an independent economy in general, the goal of economic development was interpreted as necessitating a much greater state role in the economy. Thus state investment was to overtake private sector investment by 1972, and by 1975 state investment would account for 59 percent of the total.[6] Likewise the government would own or control certain key firms in the industrial, mining, agricultural, and banking sectors. It would also increase its control over wages, credit, and foreign trade as well as such non-economic areas as education and communications.

A final goal was that of greater equity: "Creation of a more just society, without privileges, free of marginalization and economic, social, political or cultural discrimination, which brings growing possibilities for achieving full development of human potentialities and the affirmation of an authentic national culture."[7] Policies associated with the equity goal were the agrarian reform, nationalization of certain firms, the establishment of the comunidades industriales y mineras (whereby the workers would share in the direction of the firms as well as the profits), higher taxes on the wealthy, and higher wages and social benefits for the working class and other poorer sectors of the society.

These goals were summed up through the idea of the Peruvian model as a "third way" to development, ni capitalista ni comunista; this was the theme of the Velasco government. Although these goals and policies

were not fully carried out, their enunciation and partial fulfillment were sufficient to alarm certain sectors of the international capitalist system. This will be seen later in the paper.

If the "third way" was the model for the first six years of the military government, things were beginning to change by late 1974. Like all third way experiments, the Peruvian had led to contradictions and divisions. Some wanted to go further and faster. They became convinced that an openly socialist strategy was the only viable way to attain the three goals set by the regime. Others moved in the opposite direction, believing that a more orthodox approach to development was preferable. The military had not managed to acquire a base of popular support, even among those groups which had actually benefitted from the reform measures (a relatively small percentage of the population when all was said and done). Furthermore, Velasco himself was beginning to lose popularity as a leader, both because of physical illness and charges of corruption and incompetence. Although, at the time, it appeared to many outside observers that the stage was set for a struggle between left and right factions of the military, hindsight tells us that the latter was the only viable force at the time and given the circumstances under which the military operated (e.g., lack of close contact and working relationships between the leftist military leaders and left political groups, unions, peasant organizations, etc.).

Prime Minister Francisco Morales Bermúdez was in de facto control of the government from early 1975, and in August 1975 he became the de jure leader as well. Although he tried to make it appear that his regime was merely a continuation of the Velasco government, it was obvious that the change in leadership meant a move to the right. Repression increased, leftist military officers were forced to retire, and more orthodox economic policies were pursued. Slowly a more traditional capitalist system was reintroduced. The idea of worker participation was played down and then dropped; the government sold off some of the companies which it had owned and, in general, decreased its role in the economy as market forces were again allowed more play; foreign capital was again invited in to exploit Peruvian resources.[8] It was not until 1978, however, that Morales officially buried the third way and proclaimed the return to capitalism as the official development strategy.[9]

We could, then, talk about two Peruvian models: the radical model of the early years and the more orthodox model of later years. In the discussion which follows in the next two sections of the paper, however, reference to the Peruvian model will refer specifically to the original version. Later on, some comments will be made on the switch and the more recent model.

The Velasco Model and the Need for International Resources

At the same time that the goals described in the previous section limited the privileges of international capital and the private sector in general (as distinct from threatening their existence), they also called for increased amounts of international capital. The key reason

was the selection of a highly capital-intensive development strategy.[10] Since Peru produced almost no capital goods, this implied the necessity for a large amount of imports and therefore large amounts of foreign exchange.[11]

It is extremely difficult to make an accurate estimate of the amount of foreign exchange which was needed for investment. The 1971-75 Plan, although covering 12 volumes and giving precise figures for investment in soles, nevertheless does not indicate foreign exchange requirements except for a few sectors. Some very rough guesses can be attempted, however, based on the structure of investment as shown in Table 1.

TABLE 1

INVESTMENT BY SECTOR IN PERUVIAN ECONOMY, 1971-1975
(millions of 1970 soles)

Sector	Public Inv.	Private Inv.	Total
Agriculture	11,390	--	11,390 (4.0%)
Fishing	6,789	10,547	17,336 (6.1%)
Industry	29,677	69,800	99,477 (34.8%)
Tourism	652	--	652 (0.2%)
Mining	20,889	38,353	59,242 (20.7%)
Electricity	16,220	--	16,220 (5.7%)
Petroleum	16,749	10,808	27,557 (9.6%)
Transportation, communications	25,079	7,000	32,079 (11.2%)
Housing	11,596	--	11,596 (4.1%)
Education	7,364	663	8,027 (2.8%)
Health	2,265	--	2,265 (0.8%)
TOTAL	148,670	137,171	285,841 (100.0%)

SOURCE: República Peruana, Presidencia de la República, Plan Nacional de Desarrollo para 1971-75.

By studying the lists of projects under each sector, it becomes apparent that the vast majority of investment in the industrial, mining, electricity, petroleum, and fishing sectors must consist of imported machinery. A substantial part of communications investment might also have a high import content, while agriculture, tourism, transportation, housing, education, and health investment probably centered on construction and therefore would use mainly domestic inputs. The five high-import sectors, however, constituted over three fourths of total programmed investment for 1971-1975. If this were all foreign exchange related, investment needs would be almost $1 billion per year.[12] The reality would obviously be somewhat less, but, on the other hand, the other sectors would need some imported materials too. A very gross estimate would perhaps place foreign exchange needs for investment alone

around $750 million per year. Since expected revenues from the export of goods and services were only $1.37 billion per year,[13] and since capital goods are only one category of imports, it can be seen that large amounts of long-term capital would be required. A further note shows that a deficit of $119 million was expected on loans and investment already contracted or in place,[14] so an even heavier burden would be put on new loans and investment.

Imports, moreover, were only one reason for needing foreign exchange. Other important areas included foreign debt service (interest and amortization), profit repatriation, and partial financing of the deficit in the central government budget. These three areas, however, had not traditionally been big users of foreign exchange. Debt service over the 1968-1970 period had averaged only about $150 million per year, profit remittances averaged $76 million, and external financing for the deficit averaged $20 million.[15] The positive trade balance during those years had been enough to offset the other items.

The question was whether such a favorable situation would continue or whether debt service and the budget deficit would become important drains on foreign exchange. (Profit repatriation could be expected to decline as foreign-owned firms were either nationalized or more closely controlled.) There is no indication in public documents that either potential problem was seen as especially serious. The 1971-1975 Plan, in fact, spoke quite optimistically of "continuing to strengthen the [government's] financial capacities, establishing a solid base for obtaining resources in part through the Tax Reform already underway, programming internal debt and using external debt in rational form to avoid aggravating debt service problems."[16] The Plan also spoke of generating a surplus in the state enterprises so that they would become a source of, rather than a drain on, resources.

In summary, then, seen from the vantage point of late 1970, it is possible to predict the following average annual demands for foreign exchange during the 1971-1975 period:[17]

Investment projects	$750 million
Other imports	850
Debt service	216
Budget deficit	29
TOTAL	$1,845 million

Given expected current account revenues of $1.37 billion per year, the government was tied to seeking somewhere around $480 million a year in long-term public and private capital flows.[18] In order to decide whether such a goal was feasible, or whether it would provide a major constraint on the government's plans, it is necessary to return to the discussion of Peru's place in the international capitalist accumulation process and the ways in which the military government planned to change this.

As a Latin American country well-endowed with mineral, agricultural, and fishing resources, Peru had been fairly attractive to foreign investment although net inflows during the Belaúnde years averaged only about $15 million.[19] As a modernization-oriented country during the same period, Peru had received loans from public agencies of $74 million.[20] Adding private bank loans and suppliers' credits, total capital inflows averaged $187 million per year.[21] Furthermore, such flows could have been expected to increase (significantly?), all other things being equal, due to the 1968 resolution of outstanding differences between the United States and Peruvian governments.

All other things, however, were not equal. The most important change was the indication that the Peruvian jungle contained large amounts of oil reserves; this factor could be expected to increase private foreign investment dramatically. Plans underway for developing new copper mines would have a similar effect. In addition, the prospect of having these future export flows could also make Peru an attractive borrower on the Euromarkets which were beginning to lend money to a select group of Third World countries. Given all of these factors, it would seem difficult but not impossible for a Belaúnde-type government to raise $500 million per year in foreign capital.

But the Peruvian military junta was not a Belaúnde-type government. That is, it was not willing to concentrate on growth and modernization at the cost of maintaining one of the most unequal distribution structures in Latin America and a meekly subordinate position within international capitalism. The steps that the government had taken during its first two years in power (in the international sphere focusing primarily, although not exclusively, on the expropriation of Standard Oil's International Petroleum Company) had already had negative ramifications on foreign capital flows. Such flows had dropped to about half of their 1965-1968 level (an annual average of only $84 million during 1969-1970).[22]

The crucial point would be to see whether capital inflows stayed low or whether foreign corporations' desire to participate in the new oil and copper revenues would overcome their disapproval of Peruvian policies. We will turn to this question, but first it is necessary to take a brief look at the possible sources of foreign exchange open to a Latin American country and their likely reaction to a radical government.

By far the most important source of foreign exchange, for Peru like any other country, would be exports. These revenues have already been taken into account, in the form of the government's own estimates which predicted an annual average inflow from sale of goods and services of $1.37 billion over 1971-1975. It should be pointed out that, in 1970, this appeared to be a very conservative estimate. Exports were to grow at only 4.1 percent per year, compared to a GNP growth rate of 7.5 percent. They included no oil revenues at all since Peru was only expected to become self-sufficient in petroleum in 1977 and begin exporting in 1978. Volume increases in copper were

calculated at only 3.2 percent per year and, taking unfavorable price projections into account, the value of copper exports was expected to increase at only 0.5 percent per year. Iron exports were projected to fall in value, while silver, zinc, and lead would increase by 8.8 percent. The latter three, however, accounted for less than one-third of mineral exports. Agricultural exports were expected to grow slowly, at only about 2.7 percent per annum, while fish products were predicted to be slightly more dynamic. According to INP projections, fish products should grow by an annual average of 3.2 percent.[23]

One cautionary note should probably be added. Although government economists appeared fairly bearish about exports in the short run, it is likely that they had a bullish long-term perspective. This suspicion is supported by the 1975-1978 Plan which scheduled exports to expand at 15.6 percent per year, while GNP increased at a 6.5 percent average annual rate.[24] The importance of this attitude would be reflected in a greater willingness to borrow, based on optimistic future prospects.

Short of an outright boycott or manipulation of the U.S. stockpiles, Peruvian export revenues were unlikely to be affected by the government's attempts to take a more independent line in foreign economic policy. The same could not be said of other sources of capital. Those flows which were most affected were public loans--from the U.S. government, the World Bank, and the Inter-American Development Bank. These public loan sources have traditionally been very important for Third World countries in qualitative as well as quantitative terms. That is, they have provided a large percentage of long-term capital, but in addition the terms of these loans have been more favorable than funds from private sources. The best terms were those given by the so-called "soft loan" windows of the World Bank and the IDB, generally 0.75 percent interest charges and 50-year maturities. Peru and most Latin American countries were not eligible for much of this money, however, since it was earmarked for the least developed countries. But even the normal loans from the development banks were on more favorable terms than those from the private sector; the interest rates were similar but the terms were longer (15-20 years). U.S. AID loans also tend to be long-term and at interest rates below the market level. The U.S. Export-Import Bank, which provides credits to governments wanting to import U.S. capital equipment, again provides better than market terms.

Private sector capital during most of the post-war period has been of two main types--private direct investment and suppliers' credits. Terms for direct investment vary drastically across countries, companies, and sectors; that is, the required profit rate, the amount of time that a company will be willing to carry an investment before beginning to extract profits, and the amount of reinvestment that will be done cannot be predicted except at the micro level. Suppliers' credits can be the most burdensome of all types of capital because of high interest rates and relatively short terms, but they may be the only alternative in some situations. At the beginning of the 1970's, a third type of private capital became available to certain Third World countries. These were

loans (and occasionally bond issues) from the Euromarkets. The loans were generally medium term (five to eight years) and at floating interest rates. That is, the interest would be set at a fixed percentage over the London Inter-Bank Offer Rate (LIBOR); every six months, the total percentage would be adjusted according to the current level of LIBOR.[25]

Table 2 shows how Peru's foreign debt was divided among the various sources in 1968. The country's most important creditors were suppliers, followed by private banks, governments, and international organizations. Private investment, of course, is not included but was estimated at $605 million in 1968.[26]

TABLE 2

PERUVIAN FOREIGN DEBT[a] BY TYPE OF LENDER, 1968

	Amount (mil. of $)	Percent
Governments	$234	21.3
Int'l Orgs.	193	17.5
Suppliers	408	37.1
Banks	265	24.1
TOTAL	$1,100	100.0

[a]Including undisbursed.

SOURCE: IBRD, World Debt Tables, Vol. II, 1975.

The Velasco Model and the Flow of International Resources

One of the most interesting aspects of the Peruvian experience during the 1968-1978 period was the differing reactions of the different capital sources. The political agents (U.S. government and multilateral banks) seemed to see Peru's actions as threatening to the international process of capital accumulation. Thus they maintained an informal credit blockade on Peru until an agreement on compensation for expropriated U.S. corporations was finally negotiated in February 1974. The economic agents (foreign corporations and banks) appeared more concerned with potential profits in the short and medium run. They therefore ignored the U.S. government position and provided capital to the military government. Another explanation, of course, would point to a different analysis on whether Peru's strategy was really threatening or not.[27] In any case, these differences enabled the Peruvians to find the resources they needed in spite of the radical nature of their policies. By 1976, however, the costs of having had to accept the shorter maturities of private loans began to be felt.

Exports and Trade

In comparison with most Third World countries, Peru's export structure was very favorable. That is, Peru did not have a typical monoculture economy, relying on a single product. Rather, as can be seen in Table 3, the country exported a variety of goods although fish products and copper were clearly the dominant items. To this picture would have to be added the expected future revenues from oil exports. Such a diversified structure--although, to be sure, all the products were primary or semi-processed primary goods--gave rise to a seemingly justified optimism about export revenues. Even if prices were to fall for some products, no real crisis was likely to result because other goods could compensate.

TABLE 3

PERUVIAN MERCHANDISE EXPORT STRUCTURE, 1968

Product	Value ($ millions)	Percent	
Fishmeal & fish products	$ 234	27.0	
Copper	208	24.0	
Lead and zinc	64	7.4	24.2
Silver	68	7.9	
Iron Ore	69	7.9	
Cotton	58	6.7	18.4
Sugar	59	6.8	
Coffee	33	3.8	
Other	74	8.6	
TOTAL	$866	100.1	

SOURCE: Banco Central de Reserva, Memoria Anual, 1969.

Contrary to popular mythology, this is exactly what did happen except for 1975. In fact, exports as a whole (merchandise and services) did much better than projected. During the period of the first Plan (1971-1975), exports were expected to grow at 4.1 percent per annum; they actually increased at an average rate of 8.4 percent. For 1975-1977, they grew at 17.5 percent or slightly above the projected rate of 15.6 percent. Overall, since 1968, the average rate of increase has been 10 percent (see Appendix 3).

Breaking these aggregate figures down, we can begin with the disappearing anchovies which have received a good deal of attention in the Peruvian story. From their position as 27 percent of merchandise exports in 1968 ($234 million), fishmeal and fish product exports rose to 33 percent of exports in 1970 ($346 million). They then began to fall off in absolute as well as relative terms and, over the past several years, have accounted for only about 15 percent of merchandise export revenue. Reasons for the decline seem to be a combination of bad luck

(changes in water temperature) and bad planning (over-fishing).

Although the export situation would obviously be better were it not for the decline in fish products, this drop has been more than compensated for by other products. Revenue from mineral exports (copper, lead, zinc, silver, and iron ore), although fluctuating as is the norm with primary goods, more than doubled between 1968 and 1977, going from $417 million to $969 million. The same is true for agricultural products (cotton, sugar, coffee, and wool) which climbed from $159 million in 1968 to $356 million in 1977 (see Appendix 3).

Breaking the statistics down into volume and price terms, it can be seen that both fluctuated significantly, but the latter varied much more than the former. Among the important variations in volume were fish products, which have already been discussed, and copper. Volume of copper exports reached a high in 1972 which was not repeated until 1976. The year 1975 was a low for both volume and price, with a link between the two through the CIPEC decision to limit production. Labor disputes were also influential. Both factors were eliminated the following year and, together with Cuajone's coming on stream, lifted copper volume significantly. Another volume change worth mentioning was the precipitous drop in iron ore exports in 1975 and 1976 due to Japanese boycotts after the Marcona nationalization. In overall terms, most of the increase in export value was due to price rather than volume increases.[28]

Probably the biggest blow in terms of exports was a "non-event" in the sense that it never showed up directly in balance of payments figures. The reference is to the petroleum exports which were expected to begin in 1978. Growing emphasis was put on oil by Peruvians and foreigners alike, although few went as far as the state oil company spokesperson, who declared when Petroperú struck oil with its first well in 1971 that "Peru's economic future is now assured."[29] By 1972, 16 oil companies were exploring for oil in Peru, and construction was begun on a trans-Andean pipeline which would cost around $1 billion. By 1976, however, hopes for large amounts of oil had faded, and most of the companies had left.[30] The main exception was Armand Hammer's Occidental Petroleum.

In spite of the disappearance of the anchovies and the oil, and the fluctuations of prices for other products, the problems with the trade balance cannot be laid primarily on exports (especially when compared with the Peruvians' own projections). Rather, the problems are more readily attributable to overruns in import costs. Imports of merchandise and services were supposed to increase by 10 percent per year during the 1971-1975 Plan; they actually increased by 26 percent. In part this overrun arose from increasing interest payments on the foreign debt, but mainly it was due to merchandise imports.[31]

With respect to merchandise imports, a breakdown is also in order on price and volume changes. The most spectacular price change, of course, was on oil imports, but Peru suffered much less from this jump than most other Third World countries because much of its oil

was supplied from domestic sources. There were also price increases for food and raw materials imports and for manufactured goods, but the chief source of the increase in import value was what had been expected from the beginning: In 1973-1975, there were large increases in the volume of capital equipment imports and intermediate goods for the industrialization drive.

Insofar as there was a major problem with the current account of the balance of payments (trade and services balances), it did not concern the absolute amounts. That is, the average deficit over the 1971-1975 period was only slightly over $500 million (see Appendix 2)--or very close to the estimate made earlier in this paper. Rather the key problem was one of timing. First, the large deficits were not spread out over the period, but concentrated at the end, giving the impression of a growing crisis. Second, there was a very unlucky coincidence of increases in world prices and the volume of increases in Peruvian imports for industry. Third, this need to finance large deficits on the current account coincided with the disillusionment about Peruvian oil reserves, so that borrowing became more difficult. These timing items, more than the failure of exports or even the overrun in imports, set the stage for the 1976-1978 crisis.

U.S. Government Funds

If Peru's trade problems can be attributed largely to some bad breaks in timing and to macro-level factors which affected all countries (e.g., price changes), the same cannot be said about capital flows. In looking at the U.S. government and multilateral agencies, we move from anonymous "market" forces into the realm of problems caused by the conscious manipulations of persons trying to make life difficult for a regime whose policies were seen as unacceptable. Decision-makers in the U.S. State and Treasury Departments and in the multilateral agencies, however, should not be seen as autonomous individuals. Rather they were also part of the international capitalist system, i.e., they were part of the capitalist state and had to maintain the integrity of the system as a whole. As employees of the capitalist state, there were limits on the kinds of decisions they could make. In fact, the Peruvian case (compared, for example, with Chile) probably represented the lower limit on sanctions that could be applied to countries which failed to "respect" the property of U.S. citizens.[32]

The issue that constituted the focal point of the U.S.-Peruvian controversy between the fall of 1968 and the spring of 1974 was the Peruvian government's nationalization without compensation of the International Petroleum Company (IPC), a subsidiary of Standard Oil of New Jersey. By any standard, IPC was a special case, even in terms of the shady history of U.S. foreign investment in Latin America. The company had been involved in disputes with successive Peruvian governments for 150 years. Its claims to owning subsoil rights in violation of the Peruvian constitution (and general custom in Latin America), and its use of crude economic pressure to obtain special tax status, had made IPC an object of special resentment in Peru. Questionable dealings in negotiations between IPC and Belaúnde had, in fact, provided part of the justification for the military coup in 1968.[33]

Some U.S. policy-makers recognized these facts, but they were nevertheless hemmed in by U.S. law and their role as protectors of U.S. private property. The most they could do was to tone down sanctions, not eliminate them. U.S. law called for terminating bilateral assistance (the Hickenlooper amendment) and support for multilateral lending (the Gonzâlez amendment), if compensation for U.S. property which had been expropriated was not paid within six months. Peru's sugar quota would also be cut off after the six-month deadline through a provision in the Sugar Act. Estimates on the amount of money directly involved in applying the sanctions in the first year were $45 million for the sugar quota and another $35 million in aid.[34] As has been pointed out, however, "the costs in dollars to the Peruvians . . . would go beyond the estimates of direct loss in terms of bilateral assistance and the sugar quota. The invocation of sanctions by the U.S. government would mean a loss of international credit standing for Peru with consequent difficulties for debt renegotiations, credits, and loans from the international banks."[35]

In the decision-making process with respect to Peru, the well-known split between Treasury Department hawks and State Department doves came into play, and the latter triumphed. Again it must be emphasized, however, that the differences were quantitative, not qualitative. Thus the policy that emerged was to defer formal invoking of the Hickenlooper amendment (from which the Gonzâlez amendment and the sugar quota restrictions would automatically follow), but to apply "non-overt economic pressures" As explained by one analyst, non-overt economic pressure works as follows: Disbursement of previously authorized loans continues, but no new authorizations are made. Public debt renegotiations are made very difficult, and signals are given to the private sector encouraging slowdowns in investment and credit flows. Economic rather than political justifications are given if such policies are questioned, with heavy focus on creditworthiness. In sum, "non-overt economic pressure is seen by State bureaucrats as a policy of applying 'skillful, innovative pressure' without public admission or confrontation."[36]

The result of this "skillful innovative pressure" was that Peru got almost no new funds from AID or the Export-Import Bank between 1969 and 1974. Total disbursements amounted to $72 million from previous authorizations (see Appendix 5a). Money lost through AID was not terribly significant since AID allocations began to dry up for Latin America in general about this time. More important was action by the Eximbank since large investment packages could not (would not?) go through without the Exim's participation. Thus Southern Peru Copper Corporation's Cuajone mine was delayed for several years. On the other hand, the government did not try to exert major pressure on private corporations and banks.[37] This meant that Peru was able to get the funds it needed although, as will be seen, at a higher cost.

The one exception to the U.S. credit freeze during this period came in connection with the 1970 earthquake in Peru. Aid was categorized as humanitarian assistance and therefore exempt from normal

restrictions. Earthquake assistance, defined broadly by the State Department doves, continued for two years, thus accounting for most of the AID funds indicated in Appendix 5a.

In February 1974, the United States and Peru formally resolved the controversy over nationalization without compensation. The resolution came through the signing of the so-called Greene agreement, negotiated by James Greene, former official of Manufacturers Hanover. In a feat of economic diplomacy, it provided a lump sum as compensation for all companies nationalized by Peru (which by that time, in addition to IPC, included W. R. Grace, Cerro de Pasco, a small Standard Oil of California refinery, and several fishmeal and engineering firms), with separate lists of recipients presented by Peru and the U.S.[38]

The IPC dispute was not the only controversy in which the United States and Peruvian governments were involved. Another concerned the 200-mile territorial boundaries which Peru and other Latin American countries claimed, but which the U.S. did not recognize. Thus U.S. tuna boats would enter Peruvian waters, and the Peruvians would fire on them or arrest them. Again, regardless of the opinions of U.S. bureaucrats, they were forced by their role as defenders of the capitalist system, and U.S. privileges within it, to attach countries which infringed on the "rights" of private enterprise. This included not only diplomatic protest but the cutoff of military credit sales as well. In the case of Peru, such funds were cut off in February 1969; the most that the State Department doves could do was to prevent announcement of the cutoff to avoid prejudicing negotiations over IPC.[39]

Meanwhile, Peru was becoming a leader in the movement which eventually would lead to Third World demands for a "new international economic order." Both Velasco and Foreign Minister Mercado Jarrín addressed the 1969 annual assembly of the United Nations Economic Commission for Latin America, calling for solidarity among Latin American countries with respect to U.S. economic imperialism. Other attacks followed in other forums. Peru's leading role in drawing up the Andean Pact rules on foreign investment, and the location of the Andean secretariat in Lima, further aggravated U.S.-Peruvian relations.

In spite of all these factors, however, and in spite of the economic pressure put on Peru, it must be recognized that the military government was still allowed breathing space. This is brought out most clearly in comparing Peru with Chile. In Chile, not only was a much tighter "financial blockade" imposed, but government funds were authorized to destabilize the country, and the CIA was encouraged to cause as much trouble as possible. The goal in Chile was to eliminate the Allende government; in Peru the U.S. never went as far.[40]

Multilateral Agencies

Peru's relations with the multilateral agencies were in large part shaped by the U.S.-Peruvian conflict, although the World Bank itself had a policy against giving loans to governments which nationalized foreign property without compensation. The U.S. later threatened the Inter-American Development Bank (IDB), implying that the absence of a

similar policy on its part might make it difficult for the U.S. to continue its association with the IDB.[41] During the 1968-71 period, U.S. pressure on the multilaterals was of the "non-overt" type; in January 1972, President Nixon's statement on expropriations made such a policy an open one. He said:

> When a country expropriates a significant U.S. interest without making reasonable provision for such compensation to U.S. citizens, we will presume that the U.S. will not extend new bilateral economic benefits to the expropriating country unless and until it is determined that the country is taking reasonable steps to provide adequate compensation or that there are major factors affecting U.S. interests which require continuance of all or part of these benefits. . . . In the face of the expropriatory circumstance just described, we will presume that the United States government will withhold its support from loans under consideration in multilateral development banks.[42]

Peru's relations with the World Bank and the IDB thus paralleled relations with the United States. For example, the only World Bank loan which Peru received between 1968 and 1973 was a $30 million credit for a road-building project in 1970. This was part of the earthquake "thaw" referred to in the previous section. Similarly, the Fund for Special Operations (FSO) of the IDB granted Peru a $35 million grant for reconstruction and rehabilitation of the area damaged by the earthquake. The FSO loan was of special significance because the U.S. has an outright veto over the Fund. Later the same year, the thaw was already beginning to end. The U.S. representative voted for a second FSO loan for Peru (a $23 million loan for irrigation), but expressed reservations and advocated waiting for the CIAP report on Peru before making further money available.[43] (See Appendices 5b and 5c for World Bank and IDB loans.)

CIAP (the Inter-American Committee for the Alliance for Progress) was the only remaining remnant of the Alliance. It had never had much power, perhaps because it tried to take a semi-autonomous stand and mediate between the United States and Latin American countries.[44] This autonomy led to a report highly critical of the U.S. stand on loans to Peru, thus putting the U.S. in an awkward situation, having asked for the report. This factor, plus the tradition that the country where the IDB annual meeting is held should be awarded a loan, led to a further credit for Peru in late 1971. The final loan which Peru received from the multilaterals before the signing of the Greene Agreement was also from the FSO in late 1971. The U.S. voted in favor (as it had to for the loan to be approved), but the representative again expressed doubts, noting that he was only voting in favor because some progress was being made in the negotiations over IPC.[45]

In addition to giving loans, another major financial function is served by the World Bank. It chairs the so-called country consultative groups, made up of a country's major creditors. Meetings may be called for purposes of debt rescheduling or to validate development plans. A key meeting of the latter type was held in April 1975. There, shortly before the Morales Bermúdez coup, and in the midst of increasing problems in the Peruvian economy, Peru's creditors gave the country its seal of approval and recommended that the government be granted loans for up to $3.5 billion over the next three years.[46]

A third multilateral agency, the International Monetary Fund (IMF), did not really become important to the military government until 1977. This will be discussed in some detail in the next section of the paper. Prior to that time, Peru had negotiated two fairly uncontroversial stand-by agreements, one in November 1968 (for $75 million) and the other in April 1970 (for $35 million). In addition to drawings on the stand-bys, Peru had borrowed a total of $269 million from the gold tranche, compensatory financing, and oil facilities (see Appendix 5d). Of this total, $191 million was drawn in 1976, constituting one of the reasons why the government went to the banks instead of the IMF in July of that year.[47]

Foreign Investment

Although the controversy with IPC tends to dominate the discussion of foreign investment under the military government, such should not be the case. As explained before, IPC was a special case, and other foreign investors had very different experiences. In fact, the diversity of experiences was a keystone of the Velasco government; it treated foreign corporations differently, depending on whether or not it needed what they had to offer.

One of the few constants in the relations with foreign investors was that the government did want foreign capital.[48] Velasco and his top officials emphasized that IPC was the exception and "for that reason, a case which has no relationship to the policies followed by the Revolutionary Government with other foreign companies that exploit the country's natural resources and whose legitimately acquired rights are respected and will always be guaranteed." Going further, Velasco stated unequivocally, "Latin American development requires foreign capital."[49] If they were eager to attract foreign investment, however, it was not to be on the old terms.

Several new rules were established in this area. First, foreign investment would be banned from the natural resource sector and basic industries; these would be reserved for state enterprises. Second, in those areas where foreign investment was allowed, it would be either through joint ventures or private companies which would revert to state control after principal and an "acceptable rate of return" had been covered. Third, foreign companies would be subject to the requirements of profit-sharing and worker control under the Ley General de Industrias. Other regulations on access to credit, profit repatriation, etc., were spelled out in Decision 24 of the Andean Pact which the Peruvians were influential in drafting.[50]

With respect to these new rules, we want to look at how foreign corporations were treated in practice and what their reaction was. As stated above, the treatment varied. The four major corporations of long standing in Peru--IPC (oil), W. R. Grace (agriculture), Cerro de Pasco (copper), and the Peruvian Corporation (railroads)--were all nationalized. Compensation was eventually paid for all, though in no case was it very generous. Other prominent firms nationalized with compensation agreements were ITT and the foreign fishing firms. In general, the U.S. government did not become involved in the negotiations.[51] In the automotive industry, a rationalization scheme

through competitive bidding was undertaken, eventually eliminating all but one firm (Toyota) from the Peruvian market. A similar strategy was followed with tractors, where Massey-Ferguson remained.

In natural resources, different strategies were followed. In oil, investment was partially handled through service contracts whereby output would be shared between the government and the corporations. All of the expenses of exploration were borne by the companies. In addition, however, Petroperú (the government corporation formed from the old IPC holdings) also explored on its own. Copper was also handled in a variety of ways. Two of the biggest mines--Toquepala and Cuajone--were owned and managed by Southern Peru Copper Corporation which, in turn, was owned by four U.S. mining companies. But the government also owned two important copper operations: Mineroperú, a newly established firm which was exploiting the Cerro Verde mine near Arequipa, and Empresa Minera del Centro, a firm consisting of the old Cerro de Pasco holdings. In July 1975, the Marcona Mining Company (iron ore) was nationalized, and agreement was eventually reached whereby the company was compensated in a combination of cash, marketing contracts, and shipping agreements.[52]

The response of foreign investors varied according to sectors. In the mining sector, many of the foreign corporations abandoned their Peruvian activities, either by relinquishing unexploited concessions (rather than develop them) or by offering to sell their operations to the government. Foreign industrial corporations, on the other hand, did not pull out of Peru, but restricted investment, hoping for more favorable policies. New manufacturing investment came mainly through joint ventures with the government, but even this channel did not produce the expected capital inflow.[53] Up until 1974, net private investment was negative or fairly small; after that point, private capital flows picked up, but they were heavily concentrated in oil and copper. In overall terms, the lack of foreign investment put increased pressures on the government as it had to undertake an even greater share of capital formation than originally had been anticipated. This, in turn, further increased the importance of international banks as a source of funds.

Private Bank Loans

The story of finance for the Peruvian development model is really the story of private bank loans. In the course of six years (1972-1977), over $2 billion came into Peru in this way. This new form of capital more than replaced any decline in traditional sources such as bilateral and multilateral aid and private foreign investment. The cost of these loans, however, was high in many senses.

The reason for the bonanza in private loans had to do with one of the few positive timing coincidences that Peru encountered. The private banks, which had not given large loans to Latin American governments since the 1920's, were back in the market. They had created new sources of supply funds in the 1950's and 1960's with the formation of the Eurocurrency market (and the Eurobond market to a much lesser extent) and had begun building up international lending to the

multinational corporations and some European governments. In 1970-1971, however, the multinationals' loan demand began to fall off, and the banks were faced with excess liquidity. The problem was greatly exacerbated after the 1973 oil price hike as (1) recession hit the advanced capitalist world, further dampening loan demand after a spurt in 1974 to finance transitory balance of payments deficits, and (2) the OPEC countries deposited the majority of their new revenues in U.S. banks.[54]

Faced with a potential falling rate of profit if they could not loan out this money at an adequate interest rate, the banks turned to a new set of clients: a small group of Third World countries with good export possibilities, such that obtaining sufficient foreign exchange to repay the loans was not considered to be a major problem. (In practice, of course, this did not always turn out to be true.) The narrow range of the group is indicated by the fact that Brazil and Mexico accounted for almost half of the early Euroloans to the Third World. Half a dozen other countries made up the bulk of the remaining half.[55]

Peru, with its oil and copper resources, was a prime client from the beginning. This was especially true since the government had been courting the market. It has already been explained that the capital-intensive nature of the Velasco model implied the need for large amounts of foreign resources. Another aspect of that model--the leading role for the state in investment--meant that loans would be more important than direct investment. With the U.S. government and multilateral agencies shut off, only the private capital markets could provide the funds needed. Realizing this, the government took early steps to prepare the ground. In 1970, it was taking control of the domestic banking sector, and Chase Manhattan's Banco Continental was on the list. In the most favorable compensation agreement reached with foreign investors, the government sought favor with Chase--and presumably the rest of the financial community--by buying its shares for 5 1/2 times their stock market value and three times their book value.[56] Two years later, Chase returned the favor by agreeing to head an international syndicate to find funds for the Cuajone copper mine--a key project whose financing had been stalled for two years.

In the meantime, the government began its own borrowing. In February 1972, it obtained its first loan, a $30 million credit from a syndicate led by Manufacturers Hanover. Later in the year, Mineroperú went to the market for two loans to begin the financing of the Cerro Verde copper mine. Borrowing from U.S., British, and European banks that first year, Peru obtained $160 million in loans (see Appendix 5e). This was nothing, however, compared to 1973. Urged on by Wells Fargo, which reportedly hired a Peruvian banker with the special assignment of building up Peruvian business, the government raised $628 million in Eurocurrency loans. In that year, they were the fifth largest Third World borrower. From then on, Peru obtained around $400 million per year on the Euromarket, drawing on all of the major international banks--Citicorp, Chase Manhattan, Morgan Guaranty Trust, Manufacturers Hanover, First Chicago, Lloyd's Bank International, Bank of Tokyo, Credit Lyonais, Cie. Luxembourgeoise de Banque.

The effect of this borrowing splurge was to dramatically change the size and structure of Peru's foreign debt. In terms of size, the public sector foreign debt doubled from $1.1 billion in 1968 to $2.2 billion in 1973. By 1976, it had doubled again to $4.4 billion (see Appendix 4). The change in structure meant that while banks accounted for 24 percent of Peru's debt in 1968, as shown in Table 2, they accounted for 49 percent by 1976.[57] The increasing size of the debt, of course, meant increasing service payments (interest and amortization). By 1971, Peru was already paying almost 20 percent of its export revenues as debt service. Including some prepayments made in 1973 and 1974, the country was paying over $400 million in interest and amortization, or approximately the amount being borrowed on the international markets.

The switch to private capital was part of the reason for the squeeze. As can be seen by comparing information in Appendixes 5b, 5c, and 5e, the maturity for private loans is significantly shorter than for public capital. Thus the majority of private loans had terms of five to ten years, while loans from the World Bank and the IDB were 15-20 years or up to 30 years for the FSO credits. There was also likely to be a longer grace period on public loans so that repayment would not begin so soon. This shortening of terms, together with repayment burdens already existing from rescheduling the debt inherited by the military government, led to a payments squeeze at precisely the time the trade balance crunch began to bite. Thus the stage was set for the 1976-1978 crisis to which we now turn.

The Morales Model and the International Crisis

In spite of the disruptive changes going on in the economy and the lack of political support, the Velasco government managed to maintain a "healthy" economy for five years.[58] Peru's gross domestic product grew at an average annual rate of 5.5 percent between 1969 and 1973, outpaced by industrial growth which averaged 7.1 percent. Over the same period, unemployment fell from 5.9 percent to 4.2 percent, while real wages and salaries averaged 6.6 percent annual gains and inflation was still held to an average of 7.2 percent per annum. The trade balance remained positive and, even though debt service generally dragged the current account into deficit, the latter was not large enough to cause any serious problem with financing.[59]

This tranquil surface may have hidden the fact that the Peruvian economy was resting on a tinderbox; that tinderbox was a potential balance of payments crisis. Timing would be all important. Eventually, the trade balance would go into deficit since imports were scheduled to rise faster than exports until the new oil and copper projects came on stream. When the trade balance turned negative, large inflows on the capital account would be needed. If this coincided with a rise in either debt service or the budget deficit, then the tinderbox could be ignited. The only way out would be if Peru's foreign creditors were willing to finance the deficit during the critical period.

That critical period began in 1974 and threatened to reach crisis proportions in 1975. Taking advantage of this crisis, a group of military officers who thought the Velasco model was getting out of hand staged a coup within the coup. Prime Minister Morales Bermúdez took over as President. As explained earlier, this marked the inauguration of the second Peruvian model: political activity took a turn to the right, and more orthodox economic policies were introduced. These included an extension of the austerity measures which Morales, as Prime Minister, had introduced the previous June. Price increases on basic consumer items were announced, together with measures designed to cut the budget deficit.

By the first half of 1976, the balance of payments crisis was worse. The traditional solution would have been to sign a letter of intent with the IMF. This would give access to IMF funds and, more important, would open further doors to bilateral, multilateral, and private banking sources who wanted an IMF "seal of approval" before lending. The problem was that the IMF would demand a drastic stabilization program which even the Morales government could not and would not accept. The results would alienate the workers through wage and employment cuts, the industrialists through a fall in demand and thus profits, and the military through curbs on the purchase of arms. Given the regime's lack of support in any case, the potential was too explosive; the government might be brought down.

Instead the government approached the major U.S. banks in March 1976 and asked for a large balance of payments loan without having reached a prior agreement with the Fund. The bankers accepted the Peruvian position because, in early 1976, they too feared the potential outcome of a further economic crunch. Prime Minister Jorge Fernández Maldonado and the leftwing faction of the government could conceivably come out on top in a confrontation, thus leading Peru back toward a radical nationalist position. It seemed safer to support the new Morales government, with its rightist tendencies, rather than risk such an outcome. One New York banker involved in the negotiations put the point very clearly. He said the "main reason" for the loan was "to perpetuate Morales Bermúdez in power" since the bankers considered this the best bet for getting their money back.[60]

The banks wanted to refinance the Peruvian loans for several additional reasons. First, Peru was important not only in real terms but also symbolically. Its debt, $3.7 billion, had become one of the largest in the Third World, and half of it was owed to the private banks. Second, a Peruvian default might have triggered a chain reaction among other Third World countries in trouble with their foreign debts. Third, default would have created animosity among the smaller U.S. banks and international banks involved in earlier Peruvian loans, making them highly reluctant to participate in future Third World loan syndications.

Nonetheless, the banks had no intention of making it easy for the Peruvians. For one thing, they had to avoid the reputation of being a "soft touch." Thus they needed to construct a set of requirements that would provide their pound of flesh. This was especially the case since Peruvian officials had been parading around the world

denouncing imperialism and capitalism for the last seven years. Also, a formula had to be devised to mollify the banks' clients who were at the very minute being threatened by the Peruvian government. These included Marcona Mining Company, still negotiating compensation for its iron mine nationalized in mid-1975, and Southern Peru Copper Corporation (SPCC), which faced problems over depreciation allowances and tax delinquency. Finally, a way had to be found to make sure that Peru generated sufficient foreign exchange to be able to pay the service on its past loans without resorting to further international credits for this purpose in the future.

The resulting deal between Peru and the banks was a three-part program which dealt with all of the banks' problems. It included:

(1) An orthodox stabilization program, though of a milder sort than the IMF would have imposed, involving a 44 percent devaluation, price increases, and minor budget cuts;

(2) Better treatment of foreign investment, including reopening the jungle and coastline to private oil companies, favorable agreements with Marcona on a price to be paid for its mine, and with SPCC on payments due;

(3) Partial withdrawal of the state in favor of local private enterprise, beginning with sale of Pescaperú's anchovy fleet to private interests and changes in labor legislation to attract more private investment.[61]

The most controversial aspect of the program was that the banks were to monitor the Peruvian economy to make sure that the agreed-upon inflation, budget, and other targets were met. Not since the 1920's had private banks become so involved in the domestic affairs of foreign governments. The loan was divided into two equal tranches; the first was drawn immediately, the second was held for several months. Release of the second part was to be contingent on agreement by 75 percent of the lenders (by dollar participation) that Peru was making satisfactory economic progress. Even the bankers admitted the weakness of the arrangement in comparison with the more detailed IMF monitoring. As one banker stated: "We won't be seeing any major changes. This second drawdown is just something to keep _some_ sort of control."[62]

The package was put together by Citibank, with the participation of Bank of America, Chase Manhattan, Manufacturers Hanover, Morgan Guaranty, and Wells Fargo. These six banks comprised the "steering committee" for the loan, since no bank was willing to take total responsibility as lead manager. The banks agreed to provide $200 million, contingent on a further $200 million to be raised from private banks in Western Europe, Canada, and Japan. The steering committee banks would themselves place half of their share with smaller U.S. banks, with the aim of spreading Peru's debt as widely as possible. Above and beyond the special conditions described above, the terms

of the loan itself were quite stiff. The interest rate was 2.25 percent above LIBOR, and the maturity was only five years.

The effects of the stabilization program on the Peruvian economy were dramatic and negative, but determining who was responsible for them becomes complicated. The banks imposed a set of conditions, but Morales and his top economic officials wanted to move in this direction in any case. They definitely favored private enterprise and foreign capital more than had the Velasco regime. Furthermore, they had announced stabilization measures before the loan negotiations even began (in January 1976). Thus it seems likely that many of the changes would have been made, with or without the banks' intervention, although the latter was certainly useful in helping overcome internal opposition to austerity measures. That is, some of the blame could be shifted to the bankers, who also provided access to extra funds which somewhat softened the austerity program.

One of the results of the bank measures was that production, which had already dropped sharply in 1975 due in part to the earlier emergency measures, slipped further. GDP growth, which had averaged 6.3 percent over 1972-1974 and fallen to 3.5 percent the following year, plummeted to 2.8 percent in 1976. This drop took place despite a very strong recovery in fishing, mining, and agriculture. That is, the declines occurred in those sectors most susceptible to government manipulation of internal demand--manufacturing, construction, and services.

Not surprisingly, this production slide only magnified Peru's unemployment problems. Unemployment, already up from 4.1 percent during 1972-1974 to 5.2 percent in 1975, hit 5.3 percent in 1976, while underemployment rose from 41 percent to 45 percent the same year. By far the largest effect of the 1976 measures was on workers' incomes. Real wages and salaries in the Lima area had peaked in 1973, 33 percent above their 1968 level. Having fallen somewhat in 1974 but held constant in 1975, their drop was so serious that it wiped out all the gains of the preceding eight-year period.[63] In addition to these negative effects on economic growth, unemployment, and workers' incomes, structural changes also resulted. Specifically, private enterprise in general, and foreign capital in particular, began to regain much of the economic and political power lost during the Velasco years.

The Peruvian drama repeated itself in 1977, but with an important change in the cast of characters. Though the balance of payments was expected to improve, a huge trade deficit still threatened, and service payments on the debt remained oppressive. Thus Peru had to look for foreign financing once more. This time, however, the banks refused to negotiate without IMF participation. Why did the bankers change their minds? The reasons for their switch are easier to understand than the explanation for their original decision to monitor the situation themselves.

Many factors were at work, yet all pushed in the same direction. First was opposition from other bankers who feared the banks would become scapegoats for the negative effects of stabilization.[64] Second were the positive advantages of closer collaboration with the Fund:

access to its "neutral" facade, its data on the Peruvian economy, and its expertise in setting up and monitoring stabilization programs. Closer collaboration would also jibe with the wishes of the Federal Reserve.[65] Finally, there was the factor which permitted closer collaboration--indications that the left had lost its political power in Peru and that therefore the IMF's more stringent policies could be applied.[66]

Given the banks' insistence on involving the IMF, the Peruvian government acquiesced, and a Fund mission arrived in Lima in March 1977. In a typical set of demands, the IMF "suggested" that Peru cut subsidies to public enterprises; raise gasoline and fuel prices; cut the budget deficit by slashing public sector investment and selling off firms to the private sector; tighten up the tax system; eliminate trade restrictions; devalue the sol by 30 percent; and limit wage and salary increases to 10-15 percent.[67]

The political implications of this program were intolerable even to Peru's conservative financial officials. The Central Bank's president, Carlos Santistevan, and several of its directors sent a letter to Finance Minister Luis Barúa, threatening to resign if the IMF program were accepted. The letter stated that the Fund was "seeking to balance the economy in an extremely short term, and its measures would have excessive and unnecessarily depressive effects which can, and should, be avoided."[68]

Santistevan and the Central Bank countered the IMF with a more flexible set of proposals, but at the same time other members of the government (especially Industry Minister Gastón Ibáñez) proposed measures to expand the economy. They wanted to increase government spending, to peg the exchange rate, to reinstate food subsidies, and to cut the price of gasoline. Caught between these opposing pressures, Morales made no decision and, in May, Finance Minister Barúa resigned in frustration.

The new minister, Walter Piazza, was the first private businessman appointed to a cabinet post since 1968. His proposals resembled those of the IMF, the main exceptions being a higher budget deficit and a higher expected inflation rate. On the basis of this program, Piazza managed to negotiate a deal with the Fund, but it was rejected by the cabinet, and he too resigned.[69] Nevertheless, certain elements of his program--mainly price increases--were put into effect, arousing strong popular opposition, including the first general strike since 1919.

The government response was two-edged. On the one hand, it imposed a curfew and sent in police and army troops. Hundreds of workers were arrested, and at least nine people were killed. Subsequently, laws were suspended to allow factory owners to fire strike participants; some 6,000 lost their jobs. On the other hand, the government also tried to mollify the strikers by raising wages and salaries. The increases, however, were not enough to cover increases in food and transportation.[70]

Three months later, the Peruvian government signed an agreement with the IMF which was very similar to the Piazza proposals. According to the agreement, the real crunch would come in 1978 when the government was to cut the budget deficit to one-third the 1977 total and inflation by one-half. This implied a further increase in unemployment and a further reduction in the purchasing power of wage earners. In return, Peru was to receive $100 million to be disbursed in bi-monthly installments over two years.

The first installment of the IMF loan was released in December, but in February the Fund's mission returned and declared Peru in massive violation of the agreement. When the banks heard the report, they called off a $260 million loan then under negotiation; the U.S. government also refused further assistance. This meant that Peru's only debt relief still on line was the Soviet Union's agreement to postpone 80 percent ($100 million per year) of the payments for arms purchases between 1978 and 1980.[71]

The dilemma of the Morales Bermúdez government at this point was dramatic. The Peruvian public sector foreign debt was $4.8 billion (private debt added another $3.4 billion), on which Peru was scheduled to repay over $1 billion in interest and amortization during 1978 alone. This sum constituted 55 percent of export revenues, and the government estimated that the figure could rise to 70 percent by 1980 (see Appendix 4). The Central Bank had virtually no foreign exchange, and lines of credit were shut off.[72] In practical terms, this meant that without quick action, Peru's imports would have to be drastically cut, throwing tens of thousands of people out of work and cutting the food supply.

The banks and the IMF nevertheless insisted on further austerity measures as the <u>sine qua non</u> before extending any relief. Although certain individuals in Peru--including members of the local bourgeoisie as well as the left--suggested a moratorium on debt payments rather than further austerity, there is no indication that Morales or any of his top economic officials seriously entertained this idea. Their own inclinations, and the overwhelming financial power of the banks and the Fund, pushed in the same direction. Thus, on May 15, prices were doubled on fuel, public transportation, and basic foodstuffs, as government subsidies were eliminated in order to cut the budget deficit.

Coming after workers had already lost one-fourth of their purchasing power to inflation in the first quarter of the year, the measures quickly produced clashes in the streets of Lima and strikes in provincial cities. After more than a dozen persons were killed, the government placed the country under martial law, jailed hundreds of leftist labor leaders, and announced a two-week postponement of elections to choose a Constitutional Assembly. This did not stop a two-day general strike on May 22-23. The strike was almost total in many parts of the country, but the power of the workers was simply not sufficient to outweigh that of the financial community.[73] This was especially true since the government was, at most, mildly against the austerity measures and possibly wholeheartedly in favor.

What did Morales gain from the price increases in addition to the heightened enmity of the vast majority of the population? Apparently he gained the support of the IMF, the banks, and the U.S. government in his search for debt relief. Within days of the new austerity measures, and with the sound of strikes and rioting still echoing in the streets, the international banks tentatively agreed to roll over some $200 million in amortization owed them during the rest of 1978. Interest was still to be paid, however, and the deal was tied to a new agreement being signed with the IMF by September.[74] In addition, the IMF agreement paved the way for a complete rescheduling of the foreign debt as the Peruvians requested. Thus, the "third way" model introduced after 1968 had now arrived back at the most orthodox capitalism. We will proceed to an analysis of the precise role of international capital in this transformation after some brief comments on the role of geopolitics and military spending.

<u>A Note on Geopolitics and Military Expenditure</u>

Some analysts consider geopolitical factors to have been a very important aspect of the international constraints on the Peruvian military government. In some instances, geopolitics may have acted in conjunction with the financial constraints; in others, it could be seen to function separately. There is obviously not sufficient space here to deal in depth with this issue, but an attempt will be made to outline the principal facets of this type of constraint.

Peru's geopolitical insertion in Latin America underwent two major changes during the 1968-1978 period. When the military government first came to power in October 1968, South American governments were a diverse mixture. Right-wing military governments were in power in Brazil and Argentina, but Chile, Colombia, and Venezuela represented the liberal democratic tradition fostered by the Alliance for Progress. Far-away Cuba was the only regime to the left of social democracy in the entire region. By the early 1970's, on the other hand, the situation had changed dramatically.

Most important was the election of a Marxist government in Chile, but a radical military regime also came to power in Bolivia in 1970, and, by 1973, Campora was elected president in Argentina. In the process, Peru changed from the only leftist regime in South America to one which seemed fairly tame in comparison to some of its neighbors. By the mid-1970's, however, the panorama had reversed itself again, and Peru was then much more isolated than it had been in the beginning, surrounded by so-called "bureaucratic authoritarian" regimes in many countries.

Throughout the decade, the key position was represented by Chile, both as symbol of the changes and because of Chile's special importance, in geographical and historical terms, with respect to Peru. From 1970 to 1973, the Allende government was a great help to the Peruvian military government. There were many joint activities between the two, especially in areas of international economic policy. In addition, as explained above, the Marxist government took much of the heat off the Peruvians in the sense of making the Peruvian military appear less

radical in the eyes of international capitalism. With the coup in 1973, however, the Peruvians found themselves with a neighbor to the south that not only represented an ideology hostile to their own, but which was also seen as a military threat as well. This threat was magnified by the approach of a symbolic date--1979, the 100th anniversary of the War of the Pacific. The arms race which developed between the two countries, fed by talk of war, was the most obvious consequence, but the other factors discussed in the following paragraphs were important as well.

One way in which Peru's geopolitical location was important, then, was in how it affected the perception of foreign governments and investors. Whether the military government seemed leftist or moderate varied in comparison to its neighbors as well as its own actions. Second, and more fundamental, were Peru's relations with those neighbors. Whether the government felt threatened or supported could affect its actions. This would show up in terms of military spending, but it would also show up in more indirect ways too.

Domestically, there might be economic ramifications on investment decisions; for example, some say that the decision to spend $1 billion on an oil pipeline was a military rather than an economic decision. The fear that the Brazilians might intercept oil sent by way of the Amazon dictated the necessity for the more expensive transport method. A similar analysis has been made of the Majes irrigation project.[75] Politically, the amount of internal opposition that could be tolerated might be affected by geopolitical considerations: the greater the perceived threat from the outside, the tighter the control which would be exercised at home. In fact, some analysts claim that the very decision by the armed forces to support Morales over Velasco was due to geopolitical factors.[76] In the international sphere, geopolitics may have influenced the Peruvian government's decision on whether to continue strong support for debt relief, commodity agreements, and other demands for a "new international economic order."

The issue of military spending would seem to bear a fairly direct relation to geopolitics. That is, military governments may be inclined to purchase arms regardless of whether they feel threatened from the outside, but they will almost surely do so if an obvious threat exists. Military spending, in turn, may be related to the financial constraint in at least two ways. First, large military expenditures may increase the government budget deficit, part of which is financed externally. Second, arms imports may put direct pressure on the balance of payments.

Some data on government spending can be seen in Table 4. The Peruvian military government did indeed allocate a large percentage of the budget and GDP to military spending compared with other countries in Latin America. Only Cuba, and the Dominican Republic of the early 1960's, appear to have spent as high a percentage of GDP on the military as did Peru.[77] But, as Table 4 indicates, this high percentage does not seem to have been the result of the military coup in 1968. Throughout the 1960's, military expenditure in Peru was high in comparative terms.

TABLE 4

MILITARY EXPENDITURES AS SHARE OF GDP, 1960-1972

Year	Peru	Rest of Latin America[a]
1960	2.4%	1.8%
1961	2.6	1.7
1962	2.4	1.9
1963	3.2	2.0
1964	2.9	1.9
1965	2.9	1.9
1966	2.6	1.8
1967	3.2	1.7
1968	3.2	1.6
1969	3.3	1.7
1970	3.2	1.6
1971	3.2	1.6
1972		1.3

[a]Unweighted average; average weighted by GDP would be slightly lower.

SOURCE: Statistical Abstract of Latin America, vol. 17, 1976, p. 247.

The question of arms imports is more difficult to document, since neither buyers nor sellers are eager to provide information. The best source of data is Peruvian government statistics on foreign debt as seen in Table 5. New debt contracted each year is categorized by use, while the category "other" is generally assumed to be mostly defense expenditure.[78] Over the 1970-1976 period as a whole, roughly one-third of all new debt went for arms purchases, ranging from a low of five percent in 1972 to a high of 56 percent in 1976.

TABLE 5

NEW DEBT BY USE, 1970-1976 (MILLIONS OF DOLLARS)

	1970	1971	1972	1973	1974	1975	1976
Primary	0.5	76.4	104.9	153.1	339.6	30.1	30.1
Secondary	15.2	6.0	110.2	113.7	33.8	84.6	188.6
Tertiary	25.2	103.3	142.1	135.4	406.0	445.9	372.6
Refinancing	49.5	3.1	114.6	293.0	135.4	160.0	15.0
Other	64.8	29.3	23.3	329.5	379.5	263.1	772.6
TOTAL	225.6	220.9	500.2	1024.7	1294.2	984.3	1382.9

SOURCE: Oficina de Crédito Público, Ministerio de Economía y Finanzas, cited in Rosemary Thorp, "Economic Constraints and Policies of the Peruvian Military Government, 1968-1978," Latin American Working Paper No. 26 (Washington, D.C.: Woodrow Wilson International Center for Scholars, 1979).

Thus it seems clear that arms purchases were a major factor in the Peruvian debt picture, adding heavily to the debt service the country had to pay. On the other hand, this statement must be qualified in a couple of ways. First, Table 5 clearly demonstrates that arms purchases accelerated tremendously in 1973, the date of the right-wing coup in Chile. At least to some extent, then, the expenditures can really be justified in terms of national defense. Second, that part of the debt attributable to military expenditure was probably less burdensome than other parts because a large portion was financed by bilateral government credits which were presumably on more favorable terms than private debt. Also, repayments on Soviet arms credits, reportedly amounting to $100 million per year beginning in 1978, were the first part of the debt to be rescheduled.[79] Nevertheless, the importance of geopolitics in general, and arms sales in particular, as contributing factors to Peruvian economic problems is obvious.

Conclusions

In evaluating the constraints which international capitalism imposed on the Peruvian government, two factors must be taken into account: (1) timing--at what point in time did the constraints really become important? and (2) types of constraints--were the "special" constraints aimed at the Peruvian military government the important ones or were "normal" constraints sufficient?

With regard to timing, the argument being made is that the financial constraint did not become important during the Velasco, or radical, phase of the Peruvian process. The effective years of the U.S.-led credit blockade were 1969, the first half of 1970, and 1971. (The earthquake-inspired credits neutralized the squeeze during the second half of 1970.) During this period, however, there was no great need for foreign capital for at least two reasons: (1) the government was still in the planning stages with regard to its expensive projects and therefore could not have absorbed large amounts of foreign capital even if it had been available and (2) these were years with a positive trade balance. In fact, in 1970, Peru even achieved that rarity in Latin America--a positive balance on the current account. In 1969, the trade balance and service/transfer balance exactly cancelled each other out; only in 1971 was there a current account deficit and this was small ($34 million).[80] By 1972, Peru and the private capital markets had discovered each other, and these flows more than compensated for the public capital squeeze. The fact that the private credits were given on relatively disadvantageous terms (i.e., shorter maturities than public loans) did not become important until 1975-1976. Thus, it is hard to argue that the Velasco model itself was seriously constrained by international capital.

If this is true, the key issue is to what extent the change from Velasco to Morales (with his more orthodox development model) can be traced to the constraint of international capital. Two types of explanation are involved. On one level, it can simply be argued that Morales, who became de facto leader of Peru in early 1975, wanted to change directions with or without international pressures. The stabilization measures he introduced in June 1975 and January 1976 are one piece of evidence with regard to his more orthodox approach. His

greater reliance on private capital, domestic and foreign, also seems clear from policies he followed before the July 1976 agreement with the banks. For example, the social property area was played down in general; some state enterprises were hived off, and many small and medium-sized firms were exempted from the comunidad laboral in an attempt to increase private investment. In institutional terms, the National Planning Institute lost importance to the more conservative Ministry of Finance.[81] Politically, he began maneuvering out leftist military officers and other Velasco appointees well before the crunch when the Fernández Maldonado-de la Flor-Gallegos trio were forced to resign in July 1976. Prominent among them were generals Leonidas Rodríguez Figueroa and José Graham Hurtado and the editors of all the state-controlled newspapers.[82]

All of these tendencies were reinforced and exacerbated by the 1976 negotiations with the banks and, much more important, by the 1977-1978 negotiations with the IMF. Morales' anger with the Fund over the extent of their deflationary demands was probably real. On the other hand, he obviously welcomed some kind of outside help in imposing what he regarded as needed changes (austerity, more emphasis on the private sector).

But an analysis must also be made at another level. The question that needs to be addressed is why Morales wanted to move in a more orthodox capitalist direction. Here we come to the distinction between the "normal" vs. "special" constraints of capitalism. The normal constraints are sufficient to make "third way" strategies in Third World countries non-viable. The fluctuations of the trade balance and the continually negative service balance create the need for long-term capital whose owners must be catered to. (An exception to the non-viability rule might exist under special circumstances of abundant and increasing resources; maybe if Peru's oil bonanza had materialized, a third way would have worked for a while.) Perhaps Morales saw this all along; perhaps it only became clear in the mid-1970's (as the oil illusion faded?).

If a third way is not viable, this implies, by definition, that it is necessary to move either toward capitalism or toward socialism. If socialism is ruled out, either because it is considered undesirable or unfeasible,* then a move toward capitalism follows logically. The only questions are ones of extent and timing. The argument here is that Morales had already decided to move; the 1976-1978 crisis merely influenced extent and timing. A more interesting question, which must be left to those who do counter-factual history, is what effect the 1976-1978 crisis would have had if Velasco had still been in power, trying to continue his third way.

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*Defining socialism as undesirable or unfeasible is also an aspect of capitalist constraints, this time operating at the ideological level, as Gramsci's analysis of hegemony reveals.

In summary, then, the most important international constraints faced by the Peruvian military government were those imposed on a small dependent country by the operations of international capitalism. The need for foreign capital to supplement export revenues (and perhaps to supplement domestic revenues as well) gives economic and political leverage to those who own that capital. Some would therefore say that the idea of relying on foreign capital to finance a non-capitalist project is absurd. Perhaps so, but the Peruvians almost made it. They had a better-than-average chance to carry it off because of their diversified natural resource base and the government's ability to exploit the contradictions between the different sectors of international capital. As late as April 1975 (the World Bank meeting on Peru), it looked as though international capital would carry them through the balance of payments deficits until the new projects came on stream.

What some see as "overborrowing" during the Velasco period can also be seen as a calculated risk. There were no real alternatives as long as a capital-intensive development strategy was pursued. The extraordinary bad luck in timing (as discussed above) meant that that risk failed, and the 1976-1978 crisis arose. But by that time, the government had changed course in any case. International financial constraints thus played a secondary role in explaining the actual development of events in Peru. Of more interest to other Third World countries is the question of whether there are ways to avoid the timing problems through better foresight and planning and, if so, if the use of international finance is really incompatible with a non-capitalist (as opposed to an anti-capitalist) project. The Peruvian experience provides a useful place to begin such an analysis, but it does not provide the answer.

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[1]The term "dual economy" does not imply that there is no relationship between the two parts. Quite the contrary, the existence of the dualism results from the uneven nature of capitalist development.

[2]For background information on Peru and the military government, see Abraham Lowenthal, ed., The Peruvian Experiment (Princeton University Press,1975); E.V.K. Fitzgerald, The State and Economic Development, Peru since 1968 (Cambridge University Press, 1975); Aníbal Quijano, Nationalism and Capitalism in Peru (New York: Monthly Review Press, 1971); and Latin American Perspectives (IV:3), 1977 (special issue on Peru). The most complete political economic history of Peru is: E.V.K. Fitzgerald, The Political Economy of Peru, 1956-77 (Cambridge University Press, forthcoming).

[3]For an analysis of the Belaúnde period, see Pedro-Pablo Kuczynski, Peruvian Democracy under Economic Stress (Princeton University Press, 1977).

[4]República Peruana, Presidencia de la República, Plan nacional de desarrollo para 1971-1975, vol. I, p. 14.

[5]Ibid.

[6]Ibid., p. 19.

[7]Ibid., p. 14.

[8]For analysis of policy changes, the best source is Latin America Reports. See especially Latin America Political Report X:10 (March 5, 1976) and X:18a (May 7, 1976), and Latin America Economic Report IV:15 (April 9, 1976).

[9]New York Times.

[10]The role of military expenditure will be discussed later in the paper.

[11]Fitzgerald, The State, p. 14.

[12]The value of the sol at this point was 45 per dollar.

[13]Plan 1971-75, Vol. I, p. 22.

[14]Ibid.

[15]For statistics on service payments and budget deficit financing, see Barbara Stallings, "Peru and the U.S. Banks: Privatization of Financial Relations," Latin American Program Working Paper No. 16 (Washington, D.C.: Woodrow Wilson International Center for Scholars, 1978). On profit remittances, see IMF, Balance of Payments Yearbook, Vol. 23 (1972).

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[16]Plan 1971-75, Vol. I, p. 27.

[17]Projections for other imports, debt service, and budget deficits are 1969-70 figures extrapolated by the 7.5 percent expected annual growth rate over the five years.

[18]Here the question might arise as to the possible substitution of domestic for foreign resources, i.e. could the Peruvian government, by greater mobilization of domestic resources, avoid the need for so much foreign capital? Such a substitution would be possible only to a very limited extent, centering mainly on financing of the central government budget deficit. In other cases, the need for foreign currency remained. For example, equipment for investment projects had to be brought in from outside since Peru did not have the capacity to produce capital goods. As long as the Peruvian currency was not fully convertible, foreign exchange inflows through exports and foreign capital remained a crucial bottleneck. This idea is discussed in the literature on the so-called two-gap model, which is probably more relevant for a country where the state is doing most of the investment than for a traditional capitalist economy.

[19]IMF, Balance of Payments Yearbook, vols. 19 and 23 (1968 and 1972).

[20]Ibid.

[21]Ibid.

[22]See Appendix 2.

[23]Calculated from Plan 1971-75, vol. II, p. 22, 166-68; vol. III, pp. 185-90, 285-87.

[24]República Peruana, Presidencia de la República, Plan nacional de desarrollo 1975-78, p. 91.

[25]For a more extensive discussion of different types of loans and bibliographical references, see Stallings, "Peru and the U.S. Banks: Privatization of Financial Relations."

[26]U.S. Department of Commerce, Survey of Current Business, October 1969.

[27]See James Petras and Morris Morley, The United States and Chile (New York: Monthly Review Press, 1975), chp. 4.

[28]Statistics on price and volume are most readily available in IMF, International Financial Statistics (monthly publication). Figures in the IMF report, "Peru - Recent Economic Developments" (1977), are slightly different.

[29]Latin America Political Report X (1971).

[30]Latin America Economic Report IV:4 (January 23, 1976).

[31]Expected imports calculated from figures in Plan 1971-75, vol. I, p. 22. Actual increases taken from Appendix 3.

[32]The next two sections draw heavily on Jessica Einhorn, Expropriation Politics (Lexington, Mass.: Lexington Books, 1974). The information contained in this book is very useful, even if the approach is flawed. Specifically, Ms. Einhorn fails to deal with the question of the limits on the range of decisions which can be made by the policy-makers she studies. In other words, she neglects the question of "non-decisions."

[33]Einhorn, pp. 12-17.

[34]Washington Post, March 16, 1969.

[35]Einhorn, p. 25.

[36]Ibid., pp. 28-29.

[37]Ibid.

[38]Latin America Economic Report II:9 (March 1, 1974).

[39]Einhorn, p. 39.

[40]See Petras and Morely, chp. 4 and passim.

[41]Einhorn, p. 80.

[42]New York Times, January 22, 1972.

[43]Einhorn, pp. 77-78.

[44]See Teresa Hayter, Aid as Imperialism (Hammondsworth, Middlesex, England: Penguin Books, 1971), pp. 103-6.

[45]Einhorn, p. 82.

[46]Latin America Economic Report III:17 (May 2, 1975).

[47]See IMF, Annual Report, 1968-78.

[48]Analysis on foreign investment in Peru can be found in Quijano; Shane Hunt, "Direct Foreign Investment in Peru: New Rules for an Old Game," in Lowenthal; Charles Goodsell, American Corporations and Peruvian Politics (Cambridge: Harvard University Press, 1974); and Laura Guasti, "Peruvian Industrialization within the Global Multinational Economy, 1968-1976," Latin American Program Working Paper No. 24 (Washington, D.C.: Woodrow Wilson International Center for Scholars, 1979).

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[49]Hunt, pp. 311-12.

[50]See sources mentioned in footnote 48.

[51]Einhorn, pp. 70-74. Most of the companies apparently did not want U.S. government participation. Neither were they in favor of the use of available sanctions, thinking that this would make the Peruvian government more likely to penalize foreign investors in general.

[52]Latin America Economic Report IV:38 (October 1, 1976). In the Marcona case, the U.S. government did take an active role.

[53]Guasti.

[54]For an analysis of these loans in terms of differently timed cycles in the advanced and Third World countries, see Michael Kuczynski, "Semi-developed Countries and the International Business Cycle," BOLSA Review, January 1976. On the OPEC deposits, see U.S. Senate, Committee on Foreign Relations, Subcommittee on Foreign Economic Policy, International Debt, the Banks, and U.S. Foreign Policy, 1977.

[55]The best source of data on Euroloans is World Bank, Borrowing in International Capital Markets (quarterly publication). A good analysis of Third World participation in the Euromarkets is Phil Wellons, Borrowing by Developing Countries on the Eurocurrency Market (Paris: OECD, 1977).

[56]Hunt, pp. 316-17.

[57]World Bank, World Debt Tables, October 26, 1977. Supplement.

[58]Much of this section is taken from Barbara Stallings, "Privatization and the Public Debt: U.S. Banks in Peru," NACLA Report of the Americas XII:4 (July-August 1978). This article is a shortened and revised version of the one referred to in footnote 15.

[59]Ibid., p. 5.

[60]Washington Post, March 14, 1978.

[61]Accounts of the package can be found in various places. See, among others, The Andean Report, August 1976; Latin America Economic Report IV:30 (July 30, 1976); New York Times, July 24, 1976 and August 4, 1976; Financial Times, July 27, 1976; and Nancy Belliveau, "What the Peruvian Experiment Means," Institutional Investor, October 1976.

[62]Belliveau, p. 34.

[63]Stallings, pp. 10-11.

[64]Belliveau, passim, and Harvey Shapiro, "Monitoring: Are the Banks Biting Off More than They Can Chew?" Institutional Investor, October 1976.

[65]Business Week, March 21, 1977.

[66]Especially important in this sense was the lack of protest over the removal of the three leftist cabinet members: Jorge Fernández Maldonado, Miguel Angel de la Flor, and Enrique Gallegos.

[67]Details are presented in the Lima weekly Caretas, April 5, 1977, pp. 11-15.

[68]Latin America Economic Report V:15 (April 22, 1977).

[69]For a more extensive account of the contradictory sequence of events surrounding the IMF negotiations, see Nicholas Asheshov, "Peru's Flirt with Disaster," Institutional Investor, October 1977.

[70]Bill Bollinger, "Workers' Militancy Grows in Peru," The Guardian, April 26, 1978.

[71]New York Times, February 24, 1978, and Wall Street Journal, May 22, 1978.

[72]Information comes from television speeches by Morales Bermúdez and Finance Minister Javier Silva Ruete. See Wall Street Journal, May 22, 1978, for the former, and Latin America Economic Report VI:24 (June 23, 1978) for the latter.

[73]Bill Bollinger, "Peruvian Workers Stage General Strike," The Guardian, May 31, 1978.

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[75]Comments by Peruvian sociologist Julio Cotler at conference on U.S. Foreign Policy and Latin American and Caribbean Regimes, Woodrow Wilson Center, Smithsonian Institution, March 1978. See also Fitzgerald, Political Economy.

[76]Cotler.

[77]Statistical Abstract of Latin America, vol. 17 (1976), p. 247.

[78]See Rosemary Thorp, "Economic Constraints and Policies of the Peruvian Military Government, 1968-1978," Latin American Program Working Paper No. 26 (Washington, D.C.: Woodrow Wilson International Center for Scholars, 1979).

[79]New York Times, February 24, 1978, and Wall Street Journal, May 22, 1978.

[80]See Appendix 2.

[81]See footnote 8.

[82]Latin America Political Report IX:44 (November 7, 1975).

APPENDICES

APPENDIX 1

PERUVIAN CENTRAL GOVERNMENT ACCOUNTS, 1968-1977 (MILLIONS OF SOLES)

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977[b]
Current Income	30,206	33,952	38,844	41,382	45,636	53,363	68,560	87,896	111,397	152,000
Current Expenditure	27,218	27,949	32,361	37,071	42,333	51,995	62,444	90,507	122,718	180,600
Saving on Current Account	2,988	6,003	6,483	4,365	3,303	1,368	6,116	-2,611	-11,321	-28,600
Capital Expenditure[a]	6,087	6,385	10,093	12,468	14,134	15,416	20,206	27,452	37,111	42,400
Deficit	-3,099	-382	-3,610	-8,103	-10,831	-14,048	-14,090	-30,591	-48,432	-71,000
Financing	3,099	382	3,610	8,103	10,831	14,048	14,090	30,591	48,432	71,000
External (Net)	(1,300)	(-1,241)	(2,630)	(9,070)	(8,976)	(7,151)	(3,342)	(13,778)	(32,796)	(49,600)
Internal (Net)	(1,799)	(1,623)	(1,250)	(-967)	(1,855)	(6,897)	(10,748)	(16,813)	(15,636)	(21,400)
Deficit/Total Expenditure	9.3%	1.1%	8.5%	16.4%	19.2%	20.8%	17.1%	25.8%	39.5%	46.7%

[a]Not including amortization.

[b]Estimate.

SOURCE: Banco Central de Reserva.

APPENDIX 2

PERUVIAN BALANCE OF PAYMENTS, 1968-1977 (MILLIONS OF U.S. DOLLARS)

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977
Trade Balance	167	221	335	159	133	79	-406	-1099	-741	-327
Exports, F.O.B.	(840)	(880)	(1034)	(889)	(945)	(1112)	(1503)	(1290)	(1359)	(1768)
Imports, F.O.B.	(673)	(659)	(700)	(730)	(812)	(1033)	(1909)	(2390)	(2100)	(2095)
Services and Transfer Balance	-208	-221	-150	-193	-165	-252	-322	-456	-451	-484
Services	(-57)	(-36)	(-1)	(-68)	(-44)	(-89)	(-149)	(-275)	(-80)	(-48)
Profits, Interest	(-151)	(-185)	(-149)	(-125)	(-121)	(-181)	(-219)	(-240)	(-371)	(-436)
Current Account	-41	0	185	-34	-32	-191	-807	-1538	-1192	-811
Long-term Public Capital	81	124	101	15	119	375	710	764	480	596
Long-term Private Capital	-13	20	-77	-43	-5	69	202	342	196	69
Short-term Capital, Errors & Omissions	-42	-109	49	-14	-33	-240	178	-145	-351	-189
Capital Account	26	35	73	-42	81	204	1090	961	325	476
Deficit/Surplus	-15	+35	+258	-76	+49	+13	+282	-577	-867	-335
Net Reserves	130.6	165.8	423.2	347.0	397.3	410.6	692.5	115.8	-751.8	-1086.8

SOURCE: Banco Central de Reserva.

APPENDIX 3

EXPORTS AND IMPORTS OF PERU, 1968-1977 (MILLIONS OF U.S. DOLLARS)

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977
Exports	866.1	879.5	1034.3	889.4	945.0	1111.8	1503.9	1290.9	1359.4	1768.1
Fish Products[a]	(233.5)	(219.6)	(346.3)	(327.7)	(265.9)	(157.2)	(261.4)	(208.1)	(200.7)	(242.0)
Mineral Products[b]	(418.0)	(474.0)	(471.8)	(365.2)	(427.3)	(631.2)	(753.0)	(590.9)	(744.0)	(969.2)
Agricultural Products[c]	(159.1)	(146.3)	(160.0)	(152.1)	(188.1)	(216.7)	(322.4)	(386.7)	(281.8)	(355.5)
Others	(56.0)	(39.6)	(55.8)	(44.4)	(63.7)	(106.6)	(156.5)	(105.2)	(132.9)	(201.4)
Imports	631.4	603.3	622.1	751.7	796.2	1018.5	2028.7	2584.8	2100.0	2095.0
Consumer Goods	(97.1)	(90.4)	(88.3)	(97.2)	(109.2)	(154.4)	(185.9)	(238.7)	n.a.	n.a.
Fuel & Lubricants	(23.3)	(18.9)	(12.2)	(24.8)	(44.8)	(56.6)	(224.5)	(317.7)	n.a.	n.a.
Raw Materials and Intermediate Goods	(301.9)	(288.7)	(296.5)	(399.1)	(401.5)	(407.5)	(879.0)	(1088.3)	n.a.	n.a.
Capital Goods	(206.9)	(204.3)	(224.2)	(226.8)	(236.8)	(381.2)	(733.0)	(936.8)	n.a.	n.a.
Others	(2.1)	(1.1)	(0.9)	(3.8)	(4.2)	(18.8)	(6.2)	(3.4)	n.a.	n.a.

[a]Fish meal and fish oil.

[b]Copper, iron and iron ore, silver, zinc, lead, petroleum.

[c]Cotton, sugar, coffee, and wool.

SOURCE: Banco Central de Reserva.

APPENDIX 4

PERUVIAN DEBT AND DEBT SERVICE, 1968-1978 (MILLIONS OF U.S. DOLLARS)

Year	Public Debt[a]	Service Payments[b]	Service Ratio[c]
1968	1,100	146	14.6
1969	1,132	126	11.8
1970	1,196	168	13.7
1971	1,309	209	19.6
1972	1,606	213	18.5
1973	2,155	434	32.2[d]
1974	3,008	449	24.4[d]
1975	3,466	402	23.0
1976	4,383	505	29.0
1977	n.a.	811	49.5
1978[e]	4,800	1,000	55.0

[a]Disbursed and undisbursed public and publicly guaranteed debt.

[b]Interest plus amortization.

[c]Service payments/exports.

[d]Includes prepayments without which ratios would be 23.6% (1973) and 18.1% (1974).

[e]Public debt figures are for mid-1978; service payments and ratio are those that would result if Peru paid full amount owed during 1978.

SOURCE: World Bank, "Peru: Informe Socioeconómico," January 1978, and television speeches by Peruvian President and Finance Minister.

APPENDIX 5a

U.S. GOVERNMENT LOANS AND GRANTS TO PERU, 1968-1978
(MILLIONS OF DOLLARS)

Agency for International Development				Export-Import Bank	
Year	Loans	Grants	Total	Year	Credits
1968/69	0.1	5.4	5.5	1968/69	4.7
1969/70	-	4.0	4.0	1969/70	9.8
1970/71	-	11.3	11.3	1970/71	-
1971/72	3.0	3.9	6.9	1971/72	4.3
1972/73	27.6	4.1	31.7	1972/73	-
1973/74	-	3.8	3.8	1973/74	-
1974/75	-	2.1	12.1	1974/75	55.3
1975/76	10.0	1.9	8.9	1975/76	16.3

SOURCE: Agency for International Development, U.S. Overseas Loans and Grants, 1977.

APPENDIX 5b

WORLD BANK LOANS[a] TO PERU, 1968-78

	Amount ($ millions)	Interest Rate (%)	Term (Years)
1968/69	0	-	-
1969/70	0	-	-
1970/71			
Roads	30.0	7.25	30
1971/72	0	-	-
1972/73	0	-	-
1973/74	75.0		
Agriculture	25.0	7.25	18
Education	24.0	7.25	24
Roads	26.0	7.25	25
1974/75	0	-	-
1975/76	174.1		
Electricity	36.0	8.5	30
Mining	40.0	8.5	13
Highways	76.5	8.5	25
Urbanization	21.6	8.85	20
1976/77	60.0		
Irrigation	25.0	8.5	17
Dev. & Finance Co.	35.0	8.7	17
1977/78	0	-	-

[a]All loans are from the IBRD; Peru received no loans from the IDA.

SOURCE: IBRD, Statement of Loans, 1978.

APPENDIX 5c

INTER-AMERICAN DEVELOPMENT BANK LOANS TO PERU, 1968-1978

	Ordinary Capital Resources			
	Purpose	Amount ($ millions)	Interest Rate (%)	Term (Years)
1969/70	Electric Power	5.4	8	15
1970/71	-	0	-	-
1971/72	-	0	-	-
1972/73	Mining	6.0	8	15
1973/74	Tourism	26.5	8	20
1974/75	Sanitation	1.0	7	n.a.
1975/76	Industry[a]	15.0	8	15
	Electricity	32.3	8	20
1976/77	Mining	33.4	8.6	15
	Pre-Investment Study	2.0	8.6	20
1977/78	Industry	20.0	n.a.	n.a.
FUND FOR SPECIAL OPERATIONS				
1968/69	-	0	-	-
1969/70	-	0	-	-
1970/71	Earthquake aid	35.0	2.25	25
	Irrigation	23.3	2.25	20
	Highways	11.8	3.25	15
1971/72	Agriculture	12.0	2.25	20
1972/73	-	-	-	-
1973/74	Agriculture	6.0	2	30
	Health	6.3	2	30
	Tourism	2.8	2	25
	Water	4.7	2	30
1974/75		30.5	2	30
1975/76	Highways	37.6	2	25
1976/77	Agriculture	30.0	2	30
	Pre-Investment Study	8.0	2	20
1977/78	-	0	-	-

[a]Venezuelan Trust Fund

SOURCE: Inter-American Development Bank, Annual Report, 1969-1977.

APPENDIX 5d

PERU'S USE OF IMF FACILITIES, 1968-1978

Year	Facility	Amount (millions of SDRs)
1968	Stand-by agreement[a]	25 (total = 75)
1969	Stand-by agreement[a]	30
1970	Stand-by agreement[a]	18 (total = 35)
1971	Gold tranche	16
1972	Gold tranche	30.75
	Compensatory financing	30.75
1973	-	0
1974	-	0
1975	-	0
1976	Gold tranche	30.75
	Special drawing[b]	44.59
	Oil facility	52.66
	Compensatory financing	61.50
1977	Stand-by agreement	10

[a]Two stand-by agreements: November 1968-November 1969 and April 1970-April 1971.

[b]Under Executive Board Decision 102 (1952).

SOURCE: IMF, Annual Report, 1968-78.

APPENDIX 5e

EUROCURRENCY CREDITS TO PERU, 1972-1977

Date	Lead Bank	Borrower	Interest Rate (% Over LIBOR)	Amount ($ millions)	Term (Years)
2/72	Manufacturers Hanover	Central Government	1 1/4	30.0	5
8/72	Williams & Glyn	Minoperú[a]	n.a.	12.7	5
8/72	Williams & Glyn	Minoperú[a]	n.a.	21.2	10
10/72	Cie. Luxembourgeoisie de Banque, S.A.	Central Government	n.a.	30.0	7
11/72	Manufacturers Hanover	Banco de la Nación	2	14.0	7
12/72	Wells Fargo Ltd.	Banco de la Nación	n.a.	40.0	7
12/72	Williams & Glyn	Corp. Financiera de Desarrollo[b]	n.s.	12.0	n.a.
TOTAL 1972				159.9	
4/73	Wells Fargo	Central Government[c]	2	100.0	8
4/73	Wells Fargo	Central Government	1.75	35.4	7
4/73	Crocker National Bank	Central Government	n.a.	40.0	7
6/73	Bank of Tokyo Ltd.	Corp. Financiera de Desarrollo[d]	n.a.	40.0	9
6/73	Bank of Tokyo Trust Co.	Corp. Financiera de Desarrollo[d]	n.a.	2.6	n.a.
9/73	Citicorp International Bank Ltd.	Banco de la Nación[e]	1.600	130.0	10
12/73	Wells Fargo	Central Government	1.250	80.0	10
12/73	Chase Manhattan	S. Peru Copper Corp.[f]	1.875	200.0	10
TOTAL 1973				628.0	

[a]Purpose: Finance Cerro Verde copper mine.

[b]Purpose: State petroleum, mining, and other.

[c]Purpose: Finance public investments and meet current external obligations.

[d]Purpose: Finance industrial projects.

[e]Purpose: Finance economic development of Peru.

[f]Purpose: Finance Cuajone Copper Mining Project.

APPENDIX 5e (continued)

EUROCURRENCY CREDITS TO PERU, 1972-1977

Date	Lead Bank	Borrower	Interest Rate (% Over LIBOR)	Amount ($ millions)	Term (Years)
2/74	Morgan Guaranty Trust Co.	Central Government	1.00	76.0	10
6/74	Wells Fargo Ltd.	Central Government[a]	1.125	80.0	10
4/74	Bank of Tokyo Trust Co.	Banco de la Nación[b]	1.150	50.0	10
7/74	Commerzbank International	Central Government[c]	n.a.	10.0	10
7/74	Cie. Luxembourgoise de Banque, S.A.	Central Government[d]	1.375	82.0	10
12/74	Rabomerica International Bank NV	Central Government	1.500	10.5	7
12/74	Lloyd's Bank International	Southern Peru Copper Corp.[e]	n.a.	32.5	12.5
/74	Crocker National Bank	Banco de la Nación	1.250	30.0	4
TOTAL 1974				371.0	
1/75	Credit Industrial et Commercial	Banco de la Nación	1.5	10.0	7
3/75	Amex International Ltd.	Central Government[f]	2.125	20.0	7
3/75	Wells Fargo	Petroperú[g]	1.750	50.0	7
4/75	Wells Fargo	Petroperú[g]	1.750	50.0	7
7/75	Cie. Luxembourgoise de Banque, S.A.	Corp. Financiera de Desarrollo	2.0	24.3	5
10/75	First Chicago	Banco de la Nación[h]	1.875	50.0	3.5
10/75	Manufacturers Hanover Ltd.	Central Government[i]	1.875	150.0	5
11/75	First Chicago	Central Government[h]	1.875	60.0	3.5
3/75	Amex International Ltd.	Central Government	1.491	20.0	7
TOTAL 1975				434.3	

[a]Purpose: Prepay portion of external debt.

[b]Purpose: Finance public sector debt maturing in 1974.

[c]Purpose: Finance irrigation project.

[d]Purpose: Finance government operations.

[e]Purpose: Finance operations in Cuajone Mine.

[f]Purpose: Finance regional and rural hospitals

[g]Purpose: Finance construction of North Peruvian pipeline.

[h]Purpose: Finance oil imports.

[i]Purpose: Finance major development projects.

APPENDIX 5e (continued)

EUROCURRENCY CREDITS TO PERU, 1972-1977

Date	Lead Bank	Borrower	Interest Rate (% over LIBOR)	Amount ($ millions)	Term (Years)
4/76	Wells Fargo	Emp. Minera del Centro[a]	n.a.	50.0	n.a.
4/76	Wells Fargo	Emp. Minera del Centro	n.a.	50.0	n.a.
12/76	Credit Lyonnais	Banco Central de Reserva	2.25	90.0	5
12/76	Citicorp International Group	Central Government[b]	2.25	210.0	5
TOTAL 1976				400.0	
3/77	Svenska Handels Banken	Central Government	n.a.	91.0	n.a.
12/77	Chase Manhattan	Southern Peru Copper Corp.	n.a.	53.4	n.a.
TOTAL 1977				144.4	

[a]Purpose: Finance pre-export of mineral shipments.

[b]Purpose: Finance balance of payments deficit.

SOURCE: Barbara Stallings, "U.S. Bank Loans to Latin America: The 1920's vs the 1970's," in progress.