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# THE LIMITATIONS OF STATE CAPITALISM AS A MODEL OF ECONOMIC DEVELOPMENT: PERU 1968-1978

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## ABSTRACT

### The Limitations of State Capitalism as a Model of Economic Development: Peru 1968-1978

This paper attempts to elucidate the logic of the model of economic development established by the Gobierno Revolucionario de la Fuerza Armada in Peru after 1968, in order to distinguish intrinsic economic contradictions from those difficulties arising from external factors and policy errors.

It is argued that the combination of the collapse of the private investment mechanism in Peru and the barriers to further industrialisation posed by the existing ownership pattern were an integral part of the political breakdown of the 1960s; the emergence of state capitalism (where the state becomes the centre of capital accumulation within a market economy) was the natural concomitant of reformist military intervention under these circumstances. However, the new model was severely unbalanced because, although the public sector did manage to raise and redirect the level of investment, the regime did not have access to the economic surplus required to finance it. Recourse to foreign borrowing meant the sacrifice of reform objectives, while the restraining of consumption through wage control eroded the narrow basis of popular support. The resulting disequilibrium, exacerbated by the decline in the external terms of trade, led to a severe economic crisis after 1975, in which errors of demand management and price policy were contributory but not determinant factors.

Comparison with Brazil and Mexico, which also have large state sectors, is instructive. It appears that generation of adequate funds for public investment is derived from a close relationship with the private financial system, severe wage restraint, and a strong agricultural sector--none of which could be attained in Peru during the 1968-75 period. In contrast, the difficulties experienced by the Echeverría administration in Mexico (when these conditions did not hold) does seem to form a relevant parallel to the Peruvian case.

The paper concludes that the "Peruvian Experiment" had definite roots in the failure of previous civilian governments to establish a new model of capital accumulation, but that the state capitalist model which emerged in response to this failure had its own inherent economic inconsistencies which resulted almost inexorably in financial crisis and political weakness.

# THE LIMITATIONS OF STATE CAPITALISM AS A MODEL OF ECONOMIC DEVELOPMENT: PERU 1968-1978

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## Introduction

1978 may be taken to mark the end of the "Peruvian Experiment" in a double sense: not only because of the election in June of the Asamblea Constituyente to draw up the first constitution in nearly 50 years, but also because the economy was finally brought into some form of equilibrium at the cost of virtually suspending the expansion of the state capitalist model upon which the military regime had based its hopes of overcoming dependency and underdevelopment. Reflection on the experience of the decade since October 1968 may be somewhat premature at this stage: because the next couple of years might well see a democratic government (and perhaps the fulfillment of Haya de la Torre's semi-centennial aspirations) as well as improvement in the foreign trade position. Exactly where this will lead Peru is impossible to tell, but as there is no reason to believe that the state capitalist model will be abandoned--particularly since there is no evidence that the confidence of private investors in the economy will be any stronger in 1980 than it is now--the limitations of that model will continue to dominate policy.

In consequence, an analysis of the economic model pursued by the Gobierno Revolucionario de la Fuerza Armada is not only an important element in the understanding of the 1968-78 period itself--and one that has tended to be neglected--but also a means of illuminating the policy options open to the Peruvian authorities in the 1980s. Moreover, insofar as the Peruvian Model reflected the explicit beliefs of many Latin American planners as to the obstacles to be overcome (such as land tenure, foreign ownership, and insufficient infrastructure) and their implicit reliance on state capitalism as a means of achieving a new model of accumulation,[1] the Peruvian experience should throw light upon both the adequacy of their diagnosis and the validity of the original prognosis. Finally--and this is not intended to be a conflictive or presumptuous statement--the tendency for the Peruvian experience to be analyzed from the viewpoint of political sociology alone seems to have led to a certain lopsidedness in much of the published analysis, despite the professed allegiance of many such authors to the greatest of the 19th-century political economists.

In this paper I intend to argue that the economic problems which beset the Gobierno Revolucionario de la Fuerza Armada sprang from the intrinsic nature of the state capitalist model in general and from the particularly unbalanced form in which it was instituted in Peru; they were not just a matter of inept economic management or of exogenous circumstances. Of course, there are examples of both: on the one hand, the decision to press forward with anchovy fishing in 1970-71 despite evidence of overfishing, the almost willful neglect of food production between 1969 and 1974 and the lack of control over foreign borrowing between 1973 and 1976 can only be described as policy errors; on the other hand, the discovery that there was so little oil in the Amazon basin after all, the halving of the world price of copper in 1974, and the impact of transfer pricing by the multinationals were neither under the control of the planners nor easily anticipated.

In contrast, I wish to argue that for particular historical reasons related to the breakdown of the traditional Peruvian model of capital accumulation on the one hand and a "vacuum" in the political structure on the other, a model of state capitalism was installed. This model contains particular theoretical contradictions related to the "relative autonomy" of the regime that institutes it, a relative autonomy that is reduced to the extent that the state becomes a capitalist itself; but in the Peruvian case I shall suggest that the model was mortally weakened by the transfer of the burden of investment from the private to the public sector without the latter having access to the former's profit. I do not intend to dwell upon the details of economic strategy during the 1968-78 period, but rather to attempt an interpretation of the essential economic features of the model and relate them both to the social and political structure of Peru and to other economies.

## The State Capitalist Model

It would appear that the process of development from an export-led economy based on natural resources to one based on industry serving domestic markets requires an extensive restructuring of capital. This restructuring involves a change not only in the pattern of production (sectoral balance, input use and so on) but also in the ownership of assets on the one hand and in the relationship between capital and labour on the other. This restructuring, in which economic development essentially consists, also requires the establishment of a new model of accumulation which in turn involves new investment and savings patterns, a different distribution of income and the creation of capital in fresh forms. There is fairly convincing evidence[2] to the effect that, given the economic and political weakness of the "national industrial" groups in underdeveloped countries, unless this restructuring is to be undertaken directly by foreign enterprise the state will have to undertake this task itself, for two reasons: first, because it requires massive amounts of investment, close coordination, and little profitability in the short term; and second, because it involves action against the immediate interests of ownership groups which dominate the economy before such restructuring takes place--particularly "traditional" landowning, trading, and financial groups on the one hand and foreign interests on the other. This "historical task" is held to explain the occurrence of state capitalism in developing countries.

By "state capitalism" in this context[3] we mean a form of economic organisation in which the state takes responsibility for organising production and accumulation in the corporate sector of the economy, with public ownership replacing private ownership of the key branches of the economy. It must be clearly distinguished from the concept of "state monopoly capitalism" as used by Marxist economists to describe mature capitalist economies, where giant corporations enjoy a symbiotic relationship with a large welfare state--a case which does not apply to a developing country, where domestic business is weaker and the welfare function less important. It must also be distinguished from the purely formal jurisdiction that all governments have over business in any mixed economy through labour laws, investment permits, and so on. Although the relationship between capital and labour is similar to that obtaining under private capitalism, state capitalism should be capable of investing more rapidly, in a more coherent manner, in productive rather than profitable projects of more concern to national objectives (such as the balance of payments) than the individual private investor.

But in order to achieve the required restructuring of capital, the state must obtain--or more accurately, the political conditions must be such that there exists--a considerable degree of "relative autonomy"[4] from the various ownership groups or "fractions of capital" that are to be affected. The classical example of the "exceptional state" of this type is that of a nation at war, but the history of the push towards industrialization in peacetime has also involved significant cases, such as those of Japan and Germany. On the periphery of the world economy, the weakness of the domestic elite in post-colonial nations where a strong sense of nationalism resists a takeover by foreign investors seems to be an ideal situation for the emergence of so-called "intermediate regimes"[5] which attempt to tread the familiar path of ni capitalista ni comunista. I have argued elsewhere[6] that in Latin America, despite the antiquity of the post-colonial experience, the impact of foreign investment upon the domestic elites and the nationalism of the emergent "professional middle class" (which includes the military) might well create the conditions of relative autonomy--domestically if not internationally--for an intermediate regime to be established.

However, for a state capitalist model to be effective it must not only invest but also mobilise sufficient finance. This implies both high profitability for state enterprises and a surplus on fiscal account itself so that the public sector can generate savings commensurate with its investment burden: otherwise the treasury will generate too much demand pressure through budget deficits or else engage in excessive foreign borrowing. But heavy taxes, high enterprise profits, and wage control will weaken the position of the state on a domestic political plane; while its own role as a capitalist will inevitably force it into direct conflict with its own labour force on a social plane. Finally, if foreign technolgy is used in the industrialization process, this will leave the state in much the same relationship with the multinationals that is held to have weakened the domestic elites, particularly if its bargaining position is further compromised by a reliance on external finance for its investment programme. There are good reasons, therefore, to believe that the relative autonomy upon which state capitalism--in the absence of a strong political base beyond the interests of the bureaucracy and the military--rests, will be eroded by the very dynamic of the accumulation model itself. Specifically, it seems logical that a state capitalist model will of itself move towards an accommodation with foreign business and a confrontation with organised labour (thereby compromising any nationalist and populist base of domestic support), because the transition to socialism would require popular mobilisation on a scale incompatible with authoritarian rule, particularly of the military variety.

I have outlined elsewhere[7] the economic factors that underpinned the social and political changes leading up to October 1978 in Peru, and have tried to explain the conditions under which the hegemony of the domestic grand bourgeoisie broke down along with the traditional model of capital accumulation. This breakdown created a political vacuum at the same time that it demonstrated the need for a new model of accumulation if economic development was to be achieved, a "political space" which the military was willing to occupy, and an opportunity for the project which the progressive technocrats were willing to implement. The very considerable changes that did take place in the ownership pattern between 1968 and 1975 can easily be overlooked if the social impact of the so-called Revolución Peruana on the workforce alone is observed. If we take control over gross domestic product in the corporate sector as the appropriate indicator,[8] then in 1950 about 72 percent was controlled by domestic private business, 17 percent by foreign enterprise, and 11 percent by the public sector--mainly central government wages. However, the expansion of foreign mining interests (Toquepala and Marcona), the arrival of manufacturing multinationals, and the establishment of public enterprises changed these proportions to 51 percent private, 33 percent foreign, and 16 percent public by 1968; indeed one of the main reasons given for the military intervention of that year was precisely this increase in foreign penetration and the continued "oligarchic" control over much of export agriculture, banking, and heavy industry--these large multi-sectoral ownership groups may have accounted for as much as 25 percent of corporate production in 1968. The nationalization of mining, fishing, and heavy industry, the agrarian reform, and the expansion of public enterprise did, however, result in a considerable shift in the pattern of ownership after that date: by 1975, 31 percent of corporate sector output was controlled by the public sector, 17 percent was still in the hands of foreign firms, only 40 percent was accounted for by domestic private business, and 12 percent by the new cooperative sector, mainly as the result of the agrarian reform. In addition, the state had become responsible for three-quarters of exports, one-half of imports, over half of fixed investment, two-thirds of bank credit and a third of all employment in the corporate sector. These changes were achieved with remarkably little resistance, due mainly to the very breakdown in the political order that had permitted the new regime to exist--a "political space" which was subsequently to be sharply reduced not only by the economic crisis but also, perhaps more significantly, by the confrontations with labour and foreign enterprise brought about by the activities of the state capitalist model itself.

The new ownership pattern was part of the restructuring of capital that had clearly become necessary if development was to proceed, and a new relationship between capital and labour was another key element. I do not intend to dwell upon this at any length here, but it is clear that the intention to introduce worker participation in enterprise management and ameliorate social conflicts between labour and capital was overridden by the logic of the market economy. The agrarian reform created a form of cooperative[9] in the countryside essentially as an adjunct to the public sector but which entered into conflict with both freelabour and the state itself. Labour participation in state enterprise management or profits was ruled out at a very early stage, while the experiment with "social property" quickly foundered because of the lack of room for new firms in highly concentrated manufacturing branches. Even the industrial communities eventually served to strengthen the political cohesion of the labour movement and deter private investment rather than to foster harmony between the two. The major change of importance in ownership between 1968 and 1975 was not "worker participation" at all, but rather the foundation of the bases of state capitalism in Peru[10]--a system which has not yet been dismantled--the effect of which was precisely to reduce the scope for worker control of the means of production and create conflict between the government and trades unions.

Investment and Finance

The central economic aim of the "Peruvian Experiment" was the recovery of the system of accumulation and the shift of the structure of capital towards industry. There had been a long-run tendency for the rate of private investment to decline and, moreover, for there to be a shift away from productive investment towards profitable activities such as real estate development (Tables 1 and 2): in the 1960s the state had already begun to increase its infrastructure provision and development loans on an insufficient savings base, leading to inflationary budget deficits and considerable foreign borrowing. After 1968 this imbalance assumed far more significance because the state became the centre of accumulation--accounting for two-thirds of productive investment by 1974-76--while the private sector (apart from the foreign oil and mining ventures in conjunction with the Peruvian state) was investing only enough to cover replacement requirements. However, the state failed to acquire a significant proportion of the profits previously received by the public sector--although private profits (Table 7) and private domestic savings (Table 3) continued to rise as a proportion of national income, dividend distribution increased, and capital flight worsened (Table 8), while the rate of private investment fell. This was the basic imbalance in the Peruvian version of the state capitalist model: an imbalance expressed as inflationary budget deficits covered by illusory treasury funding from the state banks, large-scale borrowing on the North American and European money markets, and an excessive level of private consumption out of profits.

Just why private investment should have fallen off so sharply--from 13 percent of GDP in 1964-68 to 9 percent in 1974-76--is not entirely clear. To attribute it to a "lack of business confidence" after 1968 doubtless contains more than a grain of truth but is too facile a solution. First, the trend had been a downward one for some time, declining from 22 percent of GDP in 1955-68 to 18 percent in 1959-63 and to 13 percent in 1964-68; further, the rate of productive non-mining investment had already fallen by half between 1959-63 and 1964-68, and in fact remained at that level during 1969-73. Second, the decline cannot be attributed to a shortage of funds resulting from government borrowing ("crowding out"), because the profit rate remained high and unused credits were always available from development banks; although the consequent inflation did make speculation in stocks (inventories rose sharply--see Table 4) and against the sol (i.e., capital flight) a very attractive proposition. Third, although there was considerable excess manufacturing capacity into which output could expand without further investment in 1968, this had been mostly used up by 1974 and further private investment was urgently needed; only the sharp demand deflation from 1976 onwards prevented a severe crisis of underproduction. The military regime wanted "independent" industrialists to invest, and massive incentives were offered for this under the Ley de Industrias--against which the comunidad industrial was hardly an insurmountable obstacle. This strategy was apparently based upon a "cepalino" belief that the "independent industrialists"[11] had been blocked by traditional oligarchies and multinationals; ergo, the removal (or at least the pushing back) of these groups should have allowed these industrialists to spring forward as investors, but this they did not do. Part of the reason, in retrospect, was not their lack of confidence but rather that the structure of ownership in industry[12] was such that the two groups badly hit by other reforms--the "oligarchy" and the multinationals--were in fact

TABLE 1

AGGREGATE INVESTMENT (PERCENT OF GDP)

| | 1959-63 | 1964-68 | 1969-73 | 1974-76 | 1977-78 |
|---|---|---|---|---|---|
| Gross Fixed Capital Formation | | | | | |
| Private | 15.3 | 10.8 | 7.9 | 8.1 | 7.7 |
| Public | 3.3 | 4.6 | 4.8 | 8.4 | 6.6 |
| | 18.6 | 15.4 | 12.7 | 16.5 | 14.3 |
| Stockbuilding | 2.5 | 2.8 | 1.5 | 2.3 | 0.5 |
| Gross Capital Formation | 21.1 | 18.2 | 14.2 | 18.8 | 14.8 |
| "Productive Investment"* | | | | | |
| Private | 10.1 | 4.6 | 3.9 | 5.1 | 4.8 |
| Public | 1.7 | 2.4 | 3.1 | 7.2 | 5.7 |
| | 12.1 | 8.0 | 7.0 | 12.3 | 10.5 |

*Investment in the primary, secondary, and infrastructure sectors.

TABLE 2

COMPOSITION OF GROSS FIXED CAPITAL FORMATION (PERCENT OF GDP)

| | 1960-68 | | | 1969-76 | | |
|---|---|---|---|---|---|---|
| | Private | Public | Total | Private | Public | Total |
| Agriculture | 0.4 | 0.3 | 0.7 | 0.2 | 0.6 | 0.8 |
| Mining, oil | 0.3 | - | 0.3 | 1.5 | 1.1 | 2.6 |
| Fishing | 1.0 | - | 1.0 | - | - | - |
| Industry | 3.6 | 0.5 | 4.1 | 2.1 | 1.6 | 3.7 |
| | 5.3 | 0.8 | 6.1 | 3.8 | 3.3 | 7.1 |
| Transport | 2.1 | 1.2 | 3.3 | 0.4 | 0.9 | 1.3 |
| Other | 5.6* | 1.9 | 7.5 | 3.9* | 2.3 | 6.2 |
| Total | 13.0 | 3.9 | 16.9 | 8.1 | 6.5 | 14.6 |

*Mostly housing.

TABLE 3

AGGREGATE SAVINGS (PERCENT OF GDP)

| | 1959-63 | 1964-68 | 1969-73 | 1974-76 | 1977-78 |
|---|---|---|---|---|---|
| Personal Savings | 8.0 | 3.0 | 1.4) | 11.4 | 14.1 |
| Company Savings | 10.3 | 13.4 | 12.2) | | |
| Government Current Surplus | 1.7 | - 0.5 | 1.0 | 0.3 | - 1.5 |
| Internal Savings | 20.0 | 15.9 | 14.6 | 11.7 | 12.6 |
| Foreign Finance | 1.1 | 2.3 | - 0.4 | 7.1 | 2.2 |
| Total Savings | 21.1 | 18.2 | 14.2 | 18.8 | 14.8 |
| Private Funds | | | | | |
| Own | 18.2 | 16.4 | 13.0 | 11.6 | 12.6 |
| Foreign | 1.8 | - | - 2.2 | 1.5 | - 1.9 |
| | 20.0 | 16.4 | 10.8 | 13.1 | 10.7 |
| Public Funds | | | | | |
| Own | 1.8 | - 0.5 | 1.6 | 0.1 | - |
| Foreign | - 0.7 | 2.3 | 1.8 | 5.6 | 4.1 |
| | 1.1 | 1.8 | 3.4 | 5.7 | 4.1 |

TABLE 4

COMPOSITION OF NATIONAL EXPENDITURE (PERCENT OF GDP)

| | 1960 | 1965 | 1970 | 1975 | 1978 |
|---|---|---|---|---|---|
| Consumption | | | | | |
| Government | 8.4 | 10.8 | 10.1 | 11.6 | 11.0 |
| Other | 67.4 | 71.9 | 72.8 | 78.5 | 74.3 |
| | 75.8 | 82.7 | 82.9 | 90.1 | 85.3 |
| Gross Capital Formation | 21.6 | 18.6 | 12.9 | 19.7 | 14.6 |
| Plus Exports | 23.7 | 18.0 | 20.1 | 12.4 | 22.8 |
| Minus Imports | 21.1 | 19.3 | 15.9 | 22.1 | 22.8 |
| Gross Domestic Product | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

TABLE 5

PUBLIC SECTOR ACCUMULATION (PERCENT OF GDP)

| | 1959-63 | 1964-68 | 1969-73 | 1974-76 | 1977-78 |
|---|---|---|---|---|---|
| General Government | | | | | |
| Current Income | 15.3 | 17.7 | 18.7 | 18.8 | 17.5 |
| Current Expenditure | 13.6 | 18.2 | 17.7 | 18.7 | 19.0 |
| | 1.7 | - 0.5 | 1.0 | 0.3 | - 1.5 |
| Public Enterprise Surplus | - | - | 0.6 | - 0.2 | 1.5 |
| | 1.7 | - 0.5 | 1.6 | 0.1 | - |
| G.F.C.F. | | | | | |
| General Government | 1.6 | 2.4 | 2.6 | 2.8 | 3.6 |
| State Enterprise | 1.7 | 2.2 | 2.2 | 5.6 | 3.0 |
| | 3.3 | 4.6 | 4.8 | 8.4 | 6.6 |
| Economic Deficit | 1.6 | 5.1 | 3.2 | 8.3 | 6.6 |
| Public Financial Investment | 0.6 | 1.2 | 1.3 | 2.7 | 2.0 |
| Financial Deficit | 2.2 | 6.3 | 4.5 | 11.0 | 8.6 |
| Public Sector Borrowing Requirement | | | | | |
| Domestic | 2.9 | 4.0 | 2.7 | 5.4 | 4.4 |
| Foreign | -0.7 | 2.3 | 1.8 | 5.6 | 4.2 |

TABLE 6

FUNCTIONAL DISTRIBUTION OF INCOME (PERCENT OF NDI)

| | 1960 | 1965 | 1970 | 1973 | 1976 |
|---|---|---|---|---|---|
| Earned Income | | | | | |
| Empleados | 22.2 | 23.8 | 24.2 | 24.4 | 23.9 |
| Obreros | 22.7 | 23.4 | 21.6 | 23.9 | 22.1 |
| Independents | | | | | |
| Agricultores | 13.3 | 11.5 | 11.8 | 7.9 | 8.9 |
| Other | 15.3 | 15.8 | 15.1 | 15.7 | 15.6 |
| Property | | | | | |
| Local Profits | 14.9 | 16.1 | 19.5 | 22.0 | 24.5 |
| Expatriated Profits | 2.8 | 1.9 | 1.7 | 1.3 | 0.8 |
| Rents and Interest | 8.8 | 7.5 | 6.0 | 4.7 | 4.2 |
| | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

TABLE 7

PRIVATE COMPANY PROFITS (PERCENT OF GDP)

| | 1958-63 | 1964-68 | 1969-73 | 1974-76 |
|---|---|---|---|---|
| Company Savings | | | | |
| Depreciation Funds | 5.6 | 6.0 | 5.0 | 5.0 |
| Retained Profits | 4.8 | 7.3 | 6.3 | 6.5 |
| | 10.3 | 13.3 | 11.3 | 11.5 |
| Distributed Profits | | | | |
| Domestically | 3.3 | 2.8 | 6.1 | 8.1 |
| Abroad | 2.3 | 2.1 | 1.3 | 0.9 |
| Profit Taxes | 3.9 | 3.1 | 3.7 | 3.9 |
| | 19.9 | 21.3 | 22.4 | 24.4 |

TABLE 8

BALANCE OF PAYMENTS SUMMARY

| | 1965-67 | 1968-73 | 1974-76 | 1977-78 |
|---|---|---|---|---|
| US $ millions | | | | |
| Exports f.o.b. | + 739 | + 950 | + 1384 | + 1930 |
| Imports f.o.b. | - 760 | - 768 | - 2133 | - 2035 |
| | - 22 | + 182 | - 749 | - 105 |
| Profit and Interest | - 119 | - 149 | - 229 ) | - 511 |
| Other Services (net) | - 75 | - 49 | - 202 ) | |
| | - 216 | - 16 | - 1180 | - 616 |
| Long Capital (net) | | | | |
| Public | + 112 | + 129 | + 655 | + 483 |
| Private | + 28 | - 17 | + 247 | + 66 |
| Short Capital* | + 52 | - 53 | - 298 | - 92 |
| | + 193 | + 60 | + 604 | + 457 |
| Reserves, etc. | + 23 | - 44 | + 576 | - 159 |

*Includes "errors and omissions;" mostly attributable to the private sector.

TABLE 9

EXTERNAL TRADE INDICES
(1963=100)

| | 1965 | 1968 | 1970 | 1973 | 1976 | 1978 |
|---|---|---|---|---|---|---|
| Exports f.o.b. ($) | 118.6 | 151.4 | 186.3 | 200.4 | 244.9 | 377.2 |
| Imports f.o.b. ($) | 127.4 | 129.9 | 135.1 | 199.4 | 405.4 | 381.1 |
| Export volume | 108.9 | 123.7 | 124.9 | 105.9 | 109.9 | 124.0 |
| Import volume | 123.2 | 145.4 | 149.5 | 167.5 | 208.0 | 149.6 |
| Export unit value | 91.8 | 81.7 | 149.2 | 189.2 | 222.8 | 304.2 |
| Import unit value | 103.4 | 89.3 | 99.8 | 119.0 | 194.9 | 254.5 |
| Barter Terms of Trade | 88.8 | 91.5 | 149.5 | 159.0 | 114.3 | 119.5 |
| Income Terms of Trade | 114.7 | 169.5 | 186.7 | 168.4 | 125.6 | 148.2 |

responsible for most of industrial assets; the major ownership groups were already in decay by the 1960s and were effectively dismembered by the post-1968 reforms, while the non-mining multinationals clearly regarded government policy in general--and the enforcement of Andean Pact provisions in particular--as inimical to their interests. The fact is that throughout 1968-78, if we except mining and oil (which were almost joint ventures anyway) and a couple of "special" projects such as the Bayer plant and the Lima Sheraton, there was not a single investment project of any significance in the Peruvian private sector. Multinational participation in joint ventures with the public sector was common--indeed the state capitalist model was based on this--but on the basis of technology rather than equity participation. I would argue, therefore, that the breakdown in private investment was a long-run phenomenon, exacerbated by a form of state intervention that was partly designed, ironically enough, to strengthen it.

In the virtual absence of private investment, the state itself became the centre of accumulation in the Peruvian economy, accounting for half of fixed investment, financing much of the rest, and being responsible for the negotiation of the two major foreign investment projects of the period: Amazon oil and Cuajone copper. I do not intend to dwell on these negotiations here, except to note that in both cases the strong nationalist position adopted involved considerable costs--the trans-Andean pipeline instead of Amazon tankerage or an Ecuadorian spur in the case of oil, and the two-year delay over marketing arrangements in the case of copper--and that the result was to integrate the economy more firmly than ever into the international division of labour as a virtual monoexporter. More important for our argument is the fact that the expansion of public investment and the decline of public sector savings rates expanded the public sector borrowing requirement from 2 percent of GDP in 1969 to 13 percent in 1976; shifts of this magnitude involved, in 1974-76, the transfer of over a quarter of private savings into the public sector and external official borrowing at a rate of 5 percent of GDP to cover nearly one-half of public investment. The effect of this imbalance upon any economy, let alone one with such an inelastic supply structure as Peru, was bound to be destabilising, to say the least. This problem can be characterized as a "fiscal crisis[13] of the Peruvian state," a crisis which I would argue represented a fundamental contradiction in a model of accumulation and not just, as the International Monetary Fund would hold, a problem of excess demand pressure on the parity stemming from too high a money supply. Whatever the causes, it was undoubtedly this external instability which led to the "retraction" of the model in 1977-78.

As Table 5 indicates, the principal feature of the general government account was the stability in current income as a percentage of GDP ("presión tributaria"); despite efforts[14] to improve direct tax collection, rationalize consumption taxes, and raise import tariffs, there was no real improvement in government savings, even though current expenditure was kept within reasonable limits up to 1976. This had already caused severe difficulties under Belaúnde, but he had faced insurmountable congressional opposition to his tax proposals.[15] It is very difficult to understand why a substantial tax reform was not carried through after 1968: the Plan Nacional de Desarrollo 1971-75 did include direct tax increases that would have raised general government current income from

19 percent of GDP in 1970 to 22 percent in 1975, but these were never carried out; in view of the increased rate of profit in the private sector, there was "room" enough to raise company tax or even an urban land tax, and in political terms it could hardly have been more difficult than (say) the imposition of the comunidad industrial. Meanwhile, the public enterprise sector was not generating a surplus either, for three main reasons: first, the fact that many of them (such as Centromin, Pescaperú, and the railways) were virtually bankrupt;[16] second, the reluctance to raise key prices (such as that for petrol) ostensibly to protect real wages; and third the losses on the subsidised sales of imported foodstuffs. Overall, then, the public sector was not generating nearly enough resources for its own investment, while private consumption was allowed to rise as a proportion of national income--the algebraic consequence being the expansion of "external savings," that is, the current account deficit on the balance of payments. The crucial point is that the public sector continued to subsidise the private sector in general and profits in particular, even though it had taken over the burden of investment that previously justified such subsidies.

The worsening external situation and the eventual success of the IMF's efforts to get the U.S. private banks to support its intervention in Peruvian economic policy forced a retraction of the model in 1977-78.[17] However, despite the increases in public enterprise prices[18] that restored the non-government public sector to some sort of equilibrium, the central government budget (which had not been a major problem in previous years) entered into a serious deficit due to the weakness of tax revenue during a depression and the higher cost of foreign exchange payments with the massively devalued sol: the economic deficit of the public sector in 1977-78 was of the order of 7 percent of GDP, a reduction on the 9 percent of 1974-76 but still far more than the 4 percent of 1969-73. In consequence, the required suppression of aggregate demand had to be achieved by the time-honoured means of real wage cuts.[19] The effect was to drive down real GDP growth, which was already decelerating due to export stagnation, from the 6.0 percent per annum average of 1971-74, to 3.2 percent in 1975-76, to -1.5 percent in 1977 and 1978. Industrial output fell by 6 percent in 1977 and 5 percent in 1978, and average income per head fell by about 4 percent in both years--by 1978 real wages were back down to the level of ten years before.

## The External Balance

The relationship between the balance of payments and the fiscal crisis in Peru is not quite as simple as the "monetary approach to the balance of payments" espoused by the IMF would have us believe, for this is where the inconsistency in the Peruvian state capitalist model was exposed. On the export side, the gradual exhaustion of natural resource projects[20] and the need to use more coastal land for domestic food supplies had made new "steps" in export revenue more difficult to achieve, as well as more urgent--by 1970 fishing was clearly in crisis and there had been no new mining projects for over ten years. In fact, most of the growth in export revenue had been from improvement in the terms of trade rather than increased volume (Table 9). The disappointment over oil was a severe blow to the planners, and the extreme difficulty of securing agreement on Cuajone while Mineroperú insisted upon real control over marketing held up the copper increment until the real price of copper had fallen to half its 1970 level. Meanwhile the purchasing power of exports (dollar revenue deflated by the import price-index (known technically as the "barter terms of trade") had declined by 1976 to a level almost identical to that ten years before, when real demand in the economy had been about 60 percent of its 1976 level. In addition, import price rises against Peru seem to have been excessive,[21] due no doubt to the transfer pricing practices of both multinational and national firms. In other words, there were considerable "exogenous" forces working for a deterioration in the balance of trade. In addition to this, the Peruvian state had engaged in a massive investment programme without cutting back on private consumption (and thus imported inputs to industry), a programme that was financed by long-term borrowing, but which placed enormous pressure on the balance of trade in 1974-76. A tax reform might have covered the budget deficit but would not of itself have provided more foreign exchange, unless domestic demand had been cut proportionately or import-substitution had been pursued more aggressively. However, with no new net investment in private manufacturing, and the insistence by public enterprises that they use the "best" (*i.e.*, foreign) technology, this latter was not possible. Direct foreign exchange rationing[22] was only introduced in 1976 when it was really too late.

Meanwhile, on capital account of the balance of payments--and this has generally been overlooked--the private sector was generating a massive *outflow* of funds. Despite the inflow of capital for the oil and mining projects, the amortisation of previous investments in other sectors and (more importantly) the smuggling of currency on a vast scale (revealed under "errors and omissions" in Table 8), in fact, nearly *half* of public long-term borrowing in both 1968-73 and 1974-76 was needed just to cover this outflow. The outflow was related to speculation against an overvalued currency, but my own direct observation of the market was that this was more "political" than "economic" in nature. The exponential growth of external indebtedness that resulted is well known: total official long-term debt rose from a mere $875 million at the end of 1970 to $3641 million at the end of 1976, while the debt service ratio rose from 13 to 30 percent between these years. The continued availability of credit from the North American and European money markets--due initially to their own excess liquidity rather than Peru's creditworthiness, and subsequently to their fear of a Peruvian moratorium--allowed this disequilibrium to continue for a time, but it seems reasonable to suggest that sooner or later the Peruvian authorities would have acted dramatically themselves to cut imports.

The IMF had been pressing for devaluation to a parity of 100 *soles* to the dollar since 1974, not apparently from a belief in the "elasticities" effect upon export supply or import demand but rather in an attempt to cut domestic demand through the inflationary impact on real wages.[23] In the case of Peru, the fact that exports are resource constrained while imports are linked to industrial output means that the only solution appeared to be to reduce investment and consumption demand: the decision to choose public investment and workers' consumption as the targets was a decision not only pressed by the IMF but also one which reflected the political shifts within the military itself. In the event, imports in 1978 were cut back to the 1968 level in real terms by the depression we have already noted. Meanwhile, exports began to rise, as the Cuajone production came on stream--with faint echoes of the stabilization policies of 1958 and 1967. However, even though exports slightly exceeded imports in 1978, the debt service ratio was 36 percent, requiring continued massive borrowing.

## Income Distribution and Political Support

In sum, the twin failures to gain access to the domestically realized surplus (*i.e.*, profits) and to rationalize foreign exchange use became the "Achilles heel" of the new model of accumulation. The ownership changes that accompanied the model were insufficient[24] to gain control over profits and foreign exchange use directly, while company taxation and industrial licensing were inadequate to achieve it indirectly.

Nor did the ownership reforms--as has frequently been pointed out[25]--lead to a massive downward redistribution of income. Leaving aside the problem that after 1976 the stabilization policy itself involved a substantial decline in real corporate wages and presumably urban slum earnings (although what happened in the countryside with the improvement in the internal terms of trade is uncertain), there are two points that seem to have led to some confusion. The first arises from the dual[26] structure of the economy itself. The dichotomy between the corporate element (using capital, organising wage labour, generating profits, and engaging in external trade) and the non-corporate element in each production sector of the Peruvian economy is such that only one-third of the workforce is employed in organised jobs (little more than a quarter when government employees are taken into account), so that any system of profit redistribution at the firm level was bound to be limited in its effect, and limited to the better-paid quartile of the labour force at that. In fact, the increase in the incomes of those affected was probably quite considerable, but the roots of dualism in the economy are to be found in the flinty soil of uneven capitalist growth and cannot be pulled up that easily. Just how income could have been redistributed to the non-corporate sector is not at all clear. The post-1975 food price increases were officially defended as improving peasant incomes, and the national accounts do show some improvement between 1973 and 1976, but they also depressed *barriada* real incomes and almost certainly those of rural labour with sub-subsistence landholdings. It is true that the determined use of more labour-intensive technologies in industry (particularly food, drink, and textiles) and public works, plus a major agricultural drive, might have improved the situation in the long term--and would also have had positive results in terms of foreign exchange use--but not in the short run. It is regrettable that the social property venture was not seen in this context. Above all, the nature of the state capitalist model is such that high rates of accumulation are financed from profits based on wage restraint, and involve industry rather than agriculture, high rather than low technologies--it is, after all, a capitalist model. Indeed, a combination of high investment/savings rates *and* higher consumption for the poor would require a form of utopian socialism the political preconditions for which certainly did not exist in Peru then or since. As we have noted above, this is one of the intrinsic contradictions of state capitalism, and one which conduces to its inevitable confrontation with organized labour, a confrontation that might have been ameliorated or postponed in other cases by an effective populist party--for which the SINAMOS was little more than an apology.

The redistribution required by the model for its internal stability was not from profits to wages but rather the redistribution of profit from the private to the public sector. In the longer term, an internally balanced model of state capitalism might[27] have generated the resources to effect a reduction in dualism, but few funds were in fact allocated to agriculture between 1968 and 1978: just 6 percent of total national investment was in that sector between 1969 and 1976, as opposed to 4 percent between 1960 and 1968. The redistribution problem was not only connected to agriculture through employment creation: insufficient food supplies contributed to lower real wages and thus to a deterioration in the income distribution[28] which in Peru could only be halted by massive food imports. Food output had risen by 46 percent between 1960 and 1967, but only by 27 percent between the latter date and 1975. Food-crops output per head of population, when measured at the average for 1946-50, stood at only 102 in 1966-70 and actually fell to 97 in 1971-75. The aggregate increase had been from livestock output, which was not accessible to the majority of the population. The substantial improvement in the internal terms of trade after 1975 does not appear to have stimulated greater production: average agricultural output growth in 1977 and 1978 was only 0.2 percent, compared to an average of 2.1 percent between 1970 and 1976, itself well below the population growth rate. The low and apparently inflexible growth in food output is considered by Kalecki to be the "gist" of the problem of financing economic development:

> In other words the rate of increase of supply of necessities, as fixed by institutional barriers to the development of agriculture, determines the rate of growth of national income _r_ which is warranted without infringing our basic postulates [_i.e._, that there should be no deterioration in the income distribution]. Next is determined the rate of growth of total consumption _c_ which makes sufficient allowance for investment required for the expansion of the national income at a rate _r_. In order to restrain the increase in total consumption to the rate _c_ appropriate taxation of higher income groups and non-essentials must be devised. This seems to me to be the gist of the problem of financing development in a mixed economy.[29]

This simple lesson appears to have been overlooked by the Peruvian planners; it certainly was not considered in the 1971-75 or 1975-78 Development Plans.

The economic difficulties encountered by the model, the social tensions generated by the expectations raised by the reforms, and the political stress generated by the means used to regain macroeconomic equilibrium all led the military regime to decide to effect a transition to civilian rule. This is not the place to discuss the results of the June 1978 election in any detail, but three points are worth mentioning. First, the domestic bourgeoisie seems to have lost political force, its influence now being exerted only through foreign bankers. Second, the left had been immensely strengthened by the 1968-78 experience in general and the recent general strikes in particular. Third, APRA still had more organizational capacity than most observers had credited. These points, and particularly the first, confirm my original judgment[30] of a political "vacuum" in 1968. But more significantly, the implications of this sort of economic analysis--neo-Keynesian though it may be[31]--cast doubt upon what might be called the "Sociedad y Política school" interpretation of the Peruvian Experience. The question that this line of argument--which holds that 1968 represented a re-establishment of bourgeois hegemony on the basis of a new alliance between local industrialists and the manufacturing multinationals[32]--must answer seems to be this: why did private investment fall off so drastically after 1968? If the agrarian reform really was designed to allow the landlords to become industrialists, why were the facilities never taken up? In contrast, I would argue that the military regime did have a considerable degree of political autonomy, but that the economic contradictions of the state capitalist model which that freedom allowed it to institute in themselves served to reduce that freedom--above all with respect to foreign capital. The failure to institutionalise the regime meant that it could not rely upon popular support to resist external pressure, while the strains imposed by coping with economic crises reduced the internal cohesion of the government, which--as Stepan points out[33]--was as detrimental to the relative autonomy of the state as the elimination of the political vacuum by the "closing in" of foreign banks and organised labour.

## Peru in Comparative Perspective

The two obvious Latin American comparisons to Peru are Brazil and Mexico, if only because they too have large public sectors--in both cases the state accounts for over half of fixed investment and finances a considerable proportion of the rest. However, it should be borne in mind that both of these economies are far more developed than Peru, have a longer history of industrialization, enjoy far wider domestic markets, and possess a domestic technological capacity. Nonetheless, there are some points that merit discussion in the context of the "fiscal crisis of the state," even though a direct comparison of the state capitalist model is not possible because neither Brazil nor Mexico has undergone such widespread ownership changes, nor have they instituted central planning, government control of trade, land reform, or control of foreign capital to anything like the same extent as Peru. At a political level, in neither case has the state in the postwar period enjoyed the relative autonomy from domestic elites experienced by the Peruvian military regime, and thus neither has had the same scope for reform. Nonetheless, from their respective reactions to the problem of financing public investment, Brazil and Mexico do present an interesting contrast and parallel respectively to Peru.

I have argued elsewhere[34] that the process of industrialization led naturally to the greater intervention of the Latin American state in the support of private investors, an intervention which not only required greater expenditure on infrastructure and welfare but which also weakened tax receipts due to the fiscal incentives extended to investors, and lower tariff revenue as import-substitution took hold. The result in most countries was for the budget deficit to become a "structural" problem which generated steadily greater external debt and which required successively greater pressure on real wages to keep aggregate demand under control. The imposition of stabilization policies has, in recent years, involved a number of attempts to "roll back" this state involvement and return to "open" economies based on primary exports and imported technology. The major economy that does not fit into this pattern is, however, Brazil: severe public sector deficits had been experienced in the early 1960s as state savings were only a fifth of the national total while public investment approached one half, a deficit exacerbated by the operating losses of public enterprises and leading to inflationary domestic borrowing and external debt. Fiscal pressure had been increased in the late 1950s by raising consumption taxes, but much of the impact of this was lost by the virtual elimination of export duties (equivalent to profit taxes on agro-exporters), and the new revenue failed to balance new expenditure commitments established under Kubitschek. However, a major step was taken in the mid-1960s: the income tax system was reorganized in 1964 so as to bear more heavily on personal income but less so on profits (the effective rate of corporation tax fell), and regional sales taxes were reformed in 1967 on the basis of a value-added tax. Total tax pressure rose from 16 percent of GDP in 1950 to 20 percent in 1960 and 27 percent in 1970, finally reaching the extraordinarily high level of 31 percent in 1975. In addition, public enterprise pricing policy was set so as to maintain an overall public sector surplus of the order of 5 percent of GDP, and social security funds were tapped as the main source of local currency finance. Although this system did not prevent Brazil from building up a massive external debt, it does seem to have given the Brazilian state much greater financial stability than in Peru. The feasibility of achieving a tax reform based on extracting the income of labour rather than capital must, however, have been increased by the political condition of Brazil at the time, while the fact that the state was not regarded as a threat to domestic or foreign business meant that private investment rates could be maintained as public intervention increased.

In contrast, the Mexican case appears to have more in common with the Peruvian experience. After two decades of rapid growth and industrialization (sustained in part by the success of post-war agricultural investment by the state and the activities of development banks), it had become apparent by the end of the 1960s that large-scale public investment in oil, agriculture, heavy industry, and social services was required if growth was to continue. Again, like Peru, private investment in productive sectors had been slackening and the trade deficit widening. However, it proved politically impossible to carry through a projected tax reform (based on the enforcement of existing imposts on profits and real estate), and as a result the rapidly expanding state sector under Echeverría began to generate an enormous resource deficit (reaching 10 percent of GDP by 1975) which even the sophisticated Mexican banking system could not handle--as Tables 10 and 11 indicate. With open exchanges, a massive export of private capital--for security as much as speculative reasons--took place, effectively financed (as in the case of Peru) by large-scale government borrowing on North American and European money markets. A drastic stabilization policy based on devaluation and real wage cuts was implemented in 1976-77 under IMF supervision, but it proved very difficult indeed to reduce the "structural" budget deficit significantly, and it is only the prospect of imminent oil revenues that prevents further foreign (and domestic banking) pressure for renewed demand restraint. The Mexican state had encountered many of the same inconsistencies as the Peruvian model and many of the same external pressures as it attempted to curtail the penetration of foreign companies; but the crucial parallel seems to have been the assumption of the responsibility for the bulk of capital accumulation by the state, which, in the face of a commitment to maintain real wages, was incapable of restraining consumption and balancing the budget by fiscal access to profits.

TABLE 10

MEXICO: AGGREGATE ACCUMULATION ACCOUNT (PERCENT OF GDP)

| | 1947-56 | 1957-66 | 1967-71 | 1972-76 |
|---|---|---|---|---|
| Public Sector Saving | 4.3 | 3.8 | 4.7 | 1.8 |
| Private Sector Saving | 9.6 | 11.3 | 12.3 | 15.9 |
| | 13.9 | 15.1 | 17.0 | 17.7 |
| External Finance to | | | | |
| Public Sector | 0.6 | 1.5 | 0.9 | 2.1 |
| Private Sector | 0.1 | 0.3 | 1.3 | 1.2 |
| | 0.7 | 1.8 | 2.2 | 3.3 |
| Total Savings | 14.6 | 16.9 | 19.2 | 21.0 |
| Public Sector Investment | 5.4 | 6.1 | 7.4 | 9.0 |
| Private Sector Investment | 9.2 | 10.8 | 11.8 | 12.0 |
| Total Investment | 14.6 | 16.9 | 19.2 | 21.0 |

SOURCE: E. V. K. FitzGerald, "The State and Capital Accumulation in Mexico," Journal of Latin American Studies Vol. 10, No. 2.

TABLE 11

MEXICO: PUBLIC SECTOR ACCUMULATION (PERCENT OF GDP)

| | 1950-59 | 1960-68 | 1969-72 | 1973-76 |
|---|---|---|---|---|
| Federal Government | | | | |
| Current Income | 7.7 | 7.5 | 8.2 | 9.8 |
| Current Expenditure | 4.5 | 6.1 | 6.5 | 8.9 |
| Current Surplus | 3.2 | 1.3 | 1.6 | 0.9 |
| Other Public Sector Saving | 0.9 | 1.4 | 2.6 | 0.3 |
| Total Public Sector Saving | 4.1 | 3.7 | 4.2 | 1.2 |
| Public Sector Investment | | | | |
| Federal Government | 2.1 | 2.0 | 2.2 | 3.2 |
| Other Public Sector | 3.3 | 4.9 | 5.1 | 6.0 |
| | 5.4 | 6.9 | 7.3 | 9.2 |
| Public Sector Borrowing | | | | |
| Internal | 0.5 | 2.1 | 2.5 | 5.4 |
| External | 0.8 | 1.1 | 0.6 | 2.6 |
| | 1.3 | 3.2 | 3.1 | 8.0 |

SOURCE: E. V. K. FitzGerald, "The State and Capital Accumulation in Mexico," Journal of Latin American Studies Vol. 10, No. 2.

Underlying the problem of sustaining a high rate of industrial accumulation is the real wage and, underpinning that, food production. Brazil in its period of rapid growth between 1964 and 1974 restrained real wages through coercion, but also successfully encouraged a dynamic capitalist agriculture which could both feed the workforce and earn foreign exchange. In Mexico the mechanism was different, involving the strong control by an official party over trades unions and massive public investment in agricultural infrastructure before the main import-substitution drive. In consequence, state expansion in both countries took place within a stable surplus-generating system; it did seem that they had, so to speak, grasped Kalecki's "gist of the problem of financing economic development in a mixed economy." In sharp contrast, the Peruvian military faced a weak agriculture which urgently required capitalisation, and no politically acceptable means of controlling the labour force; here again the parallel with the Echeverría administration is striking, with the trade unions escaping from the control of the PRI and food output growth rates falling below that of the population. In the long run, of course, the Peruvian agrarian reform may have unexpected results in terms of both production (and thus the real urban wage) and the political structure itself, but unless the Peruvian state is able to allocate substantial resources to agriculture (with further strain on the budget) it is difficult to see this occurring in any but the long term.

## Conclusions

As I pointed out at the outset of this paper, it is far too soon to conduct a post-mortem on the Peruvian Experiment, although one thing is certain--it will not be soon forgotten by the Peruvians themselves or by those concerned with the fate of the Third World. At an academic level, analysis of the Peruvian Experiment should increase our understanding of the nature of state intervention in economic development, where failures are as significant as successes. In particular, it would seem that if the state is to take on the burden of accumulation, then it must be granted commensurate access to the economic surplus. The inability to attain this in a market economy is the inherent contradiction of state capitalism as a "middle road" between capitalism and socialism on the economic plane, which undermines the stability of "intermediate regimes" on the political plane. But for the smaller late-developing countries without a strong entrepreneurial group, such a course seems to be the only alternative to further penetration by the multinational corporations, and if state capitalism cannot achieve accelerated development in Latin America without arrangements equivalent to those of a transition to socialism, then the prospects for independent industrialization may be bleak for all but the largest economies, such as Brazil and Mexico.

As for Peru, it is very difficult to see how, on the one hand, a democratic government could control wages or capital outflows after 1980 any more successfully than the military, or how the probable centre-left coalition could encourage foreign investment. On the other hand, the attitude of the armed forces and foreign bankers would seem to preclude a transition to socialism. The "Peruvian Solution" to this problem will doubtless be as significant as the "Peruvian Experiment" itself.

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[2]J. Petras, "State Capitalism and the Third World" Development and Change 8:1 (1977).

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[5]"Social and Economic Aspects of Intermediate Regimes" in Kalecki, Essays on the Economic Growth of the Socialist and Mixed Economy (Cambridge University Press, 1972).

[6]E. V. K. FitzGerald, "On State Accumulation in Latin America" in E. V. K. FitzGerald, E. Floto, and A. D. Lehmann (eds.), The State and Economic Development in Latin America, Conference Series No. 1 (Cambridge: Centre of Latin American Studies, 1977).

[7]FitzGerald, "Peru: the Political Economy of an Intermediate Regime," Journal of Latin American Studies 8:1 (1976). The argument is further developed in FitzGerald, The Political Economy of Peru, 1956-78: Economic Development and the Restructuring of Capital (Cambridge: Cambridge University Press, 1979), ch. 3.

[8]See Appendix to FitzGerald, The State and Economic Development: Peru since 1968 Cambridge University Department of Applied Economics Occasional Paper No. 49 (Cambridge: Cambridge University Press, 1976). Also see ch. 4 of FitzGerald, The Political Economy of Peru, 1956-78.

[9]J. M. Caballero, "Agrarian Reform and the Transformation of the Peruvian Countryside," Working Papers Series No. 29 (Cambridge: Centre of Latin American Studies, 1977).

[10]This term did cause me some problems in Peru: I was criticised by a Brigade-General for using it in an internal planning document on the grounds that "¿eso es lo que tienen en Rusia, no?"

[11] A. M. Ferner, "The Role of the Industrial Bourgeoisie in the Peruvian Development Model" (unpublished Ph.D. dissertation, Sussex University, 1977) has an interesting analysis of the political and class roles of these industrialists in the events of 1960-75, although he pays insufficient attention to their limited economic role.

[12] Roughly one half of production was in the hands of foreign firms and a further sixth in those of the "oligarchy," plus ten percent in those of state enterprise in 1968, leaving no more than a quarter to the independent industrialists. Source, see footnote 8.

[13] The term stems from J. O'Connor, The Fiscal Crisis of the State (New York: St. Martin's Press, 1973). I have argued that O'Connor's model is rather more relevant to Latin America than it is to the USA, where his application of it is rightly regarded as somewhat simplistic. FitzGerald, "The Fiscal Crisis of the Latin American State," in J. F. J. Toye (ed.), Taxation and Economic Development (London: Cass, 1978).

[14] In fact the first just about compensated for the decline in the third due to import-substitution.

[15] Kuczinski has an excellent "insider" account of this period. P. P. Kuczinski, Peruvian Democracy Under Economic Stress (Princeton University Press, 1977).

[16] Which is one reason why they were relatively easy to take over.

[17] R. Thorpe, "Stabilization Policies in Peru, 1959-77," in R. Thorpe and L. Whitehead (eds.), Inflation and Stabilization in Latin America (London: Macmillan, 1979) contains a good account and critique of this imposition of stabilisation policy on monetarist principles. B. Stallings, "Peru and the US Banks: the Privatisation of Financial Relations," in R. F. Fagen (ed.), Latin America and United States Foreign Policy (Stanford: Stanford University Press, 1979) throws light on the role of the U.S. private banks. Some of the relevant IMF documentation is included in H. Cabieses and C. Otero, Economía Peruana: un Ensayo de Intepretación (Lima: DESCO, 1978).

[18] The net effect of devaluation was probably to increase this surplus too, for the parastatal enterprises exported more than they imported.

[19] Lima real wages fell by 27 percent between mid-1976 and mid-1977, and by another 14 percent in the following 12 months, according to the private-sector Lima quarterly Informe Económico Trimestral.

[20] R. Thorp and G. Bertram, Peru, 1890-1977: Growth and Policy in an Open Economy (London: Macmillan, 1978).

[21] Between 1973 and 1976, Peruvian import prices rose by 98 percent while the IMF world import price index (including oil, which Peru was not importing in large quantities) rose by only 57 percent.

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[22]Potentially an extremely effective means of rationalizing the private sector, but the political conditions by that time prevented it being used except as a general restriction.

[23]I am indebted for this point to Michael Kuczinski: it corresponds to a "classical" as opposed to a "neo-classical" position on the effects of devaluation.

[24]The absorption of the 200 largest private firms into the public sector was seriously considered by the planners in 1975, but the change in presidency and the increasing leverage of the IMF soon put a stop to it.

[25]A. Figueroa, "The Impact of Current Reforms on Income Distribution in Peru," in A. Foxley (ed.), Income Distribution in Latin America (London: Cambridge University Press, 1976), and R. C. Webb, Government Policy and the Distribution of Income in Peru 1963-73 (Cambridge, Mass.: Harvard University Press, 1977).

[26]By this term I do not mean the neo-classical separation of "modern" and "traditional" sectors. Rather it refers to the incomplete articulation of capitalist relations of production within a social formation characterized by the capitalist mode of production; the dynamic of accumulation takes in the "corporate" sector, but the non-corporate sector supplies food and petty urban services to it, deriving therefrom its own limited dynamic and absorbing the remainder of the workforce not needed by the technologically advanced corporate sector. See Szentes, The Political Economy of Underdevelopment, ch. III.

[27]Although it could be argued that the model could not achieve this because of the entrenched political position of those that benefit from the dual economy.

[28]A point well made for Peru in the 1960s by Thorp, "A Note on Food Supplies, the Distribution of Income, and National Income Accounting in Peru."

[29]"Problems of Financing Economic Development in a Mixed Economy," in Kalecki, Essays on the Economic Growth of the Socialist and Mixed Economy, p. 152.

[30]One shared, incidentally, by Julio Cotler, "The New Mode of Political Domination in Peru," in Abraham Lowenthal (ed.), The Peruvian Experiment: Continuity and Change under Military Rule (Princeton University Press, 1975).

[31]At least, Pillado seems to think it is. A. Pillado, Acumulación, Crisis, Estado y Socialismo (Lima: DESCO, 1978), pp. 55-61.

[32]For an excellent sociological critique of this position, which exposes its logical inconsistencies, see D. Booth, "Newspapers, Relative Autonomy, and Dependence: Peru 1968-1978," paper presented at National Development Conference, Glasgow, 1978.

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[34]E. V. K. FitzGerald, "The Fiscal Crisis of the Latin American State."