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SOCIAL PROPERTY IN PERU:
FROM HEGEMONY TO SURVIVAL

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World Bank

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ABSTRACT

Social Property in Peru: From Hegemony to Survival

Those who formulated the Social Property Sector (SPS) in Peru saw its implementation, with strong assistance from the Peruvian state, as both the primary means of carrying out a transition to socialism and the mode of economic organization which would create socialist relations of production. The social property legislation and its supporting literature embody the most original and creative thinking of the "Peruvian Revolution," and its greatest hopes in the economic sphere. Once described by Velasco as destined for hegemony within a pluralistic economy, the SPS today is marginalized and for the most part barely surviving.

This paper begins by posing the basic objectives of a socialist society and the problems of the transition, emphasizing--with the help of some simple didactic diagrams--the problem of satisfying the basic needs of the population while permitting capital accumulation. The second section reviews briefly how the mechanisms set forth in the social property legislation were intended to achieve these objectives. The third section analyzes the SPS implementation process from May 1974 to the end of 1978, showing how a lack of any strong organized political support for the SPS outside parts of the military and the technocracy, coupled with a deepening economic crisis, forced major changes in SPS development strategy, resulting in a virtual halt to its expansion, but not its elimination. This process is traced through presidential statements, legislation affecting the SPS, the criteria used for evaluating SPS projects, and the financial resources made available to the new sector. The fourth section examines the future of the SPS in the light of the political climate at the end of 1978 and the attitudes of the major organized political forces inside and outside the Constituent Assembly.

The Peruvian experience with the SPS emphasizes the importance of broad political support and control over an investible surplus for carrying out a transition to socialism. The supporters of the SPS lacked both. The idea of economic pluralism showed itself to be wishful thinking. If hegemony for a new mode of economic organization is the objective, then the only way to achieve it in any reasonable amount of time is to convert existing enterprises to the new form of organization. No major expansion of the SPS is likely over the next few years. The best that can be expected is that the sector will survive as something more than a collection of production co-operatives, and that the experience gained in consolidating the existing social property firms as viable economic enterprises with a high degree of worker participation in management, property, and profits will be available in the future in Peru and elsewhere should political and economic conditions favor the development of workers' self-management.

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Introduction

The fundamental economic objectives of a socialist society are to meet the basic material needs of its members and to obtain rising standards of living for them in the future. These two objectives may not be compatible at low levels of development, and this potential conflict poses serious theoretical and practical problems. In practice, a society is socialist only if these objectives are achieved through direct control by the workers of the means of production and the disposition of the product. This is a definition of socialist relations of production used by Bettelheim,¹ who also provides a succinct definition of a dominant mode of production and a period of transition which I believe may help in the analysis of the Peruvian situation:

When the coherence of certain types of social relations (their degree of correspondence) is such that they dominate the set of other social relations and that their enlarged reproduction leads to a withering away or dissolution of other types of social relations, it is said that a dominant mode of production exists. If this is not the case, and in particular if there is a revolutionary rupture of the domination of certain social relations, without this rupture being followed by a weakening of the conditions of reproduction of the social relations characteristic of another mode of production such that their withering away be assured, one is in a period of transition. It is precisely the characteristics of such a period which require, for the new social relations to become ever more dominant, a specific intervention by the political power.²

The importance of the Social Property Sector (SPS) in Peru is that those who formulated it saw its implementation, with strong assistance from the Peruvian state, as both the primary means of carrying out a transition to socialism and as the mode of economic organization which would create socialist relations of production. That is, the means were conceived as the embryo, or fetus, of the end. The gestation was to take place within the womb of Peruvian society where the capitalist mode of production was dominant. The birth of the new mode of production was to be assisted by a technocratic midwife, and the growing infant was to be protected by a military-dominated state apparatus enforcing the rules of "economic pluralism" defined by revolutionary legislators in the hope of inducing peaceful competition or even harmonious collaboration between firms organized along radically different lines and grouped in "sectors."

At least five "sectors" were involved: a rapidly expanding group of state enterprises in basic and strategic industries; private-sector firms reformed by the introduction of "labor communities" (legal entities whose members include all those employed on a permanent basis by the firm), sharing increasingly in profits, property, and (in theory) management of their firms; various forms of cooperatives (many formed under the regime's agrarian reform);

and the nascent SPS, to be composed of essentially worker self-managed firms linked by regional and national organizations and for the most part to be started from scratch rather than converted from other forms of organization. Each "sector" was characterized by a different form of property, management, and distribution of the surplus remaining after paying the costs of production. The potential for abortion, miscarriage, infant malnutrition, or infanticide is obvious.

The social property legislation and its supporting literature embody the most original and creative thinking of the "Peruvian Revolution" and its greatest hopes in the economic sphere. The SPS, once described by Velasco as destined for hegemony within a pluralistic economy, is today marginalized and for the most part barely surviving. Threatened with "redefinition" and "improvement" in the "Tupac Amaru Plan of Government" for the period 1977-1980, the SPS is, nevertheless, still alive.

Elsewhere, I have analyzed the origins of the SPS, the process of policy formation within the Velasco government which gave birth to the Law of Social Property Firms (D.L. 20598 of April 30, 1974), and some issues concerning the political economy of its implementation.³ Specifically, these problems concerned economic pluralism, growth versus distribution, and the proper degree of decentralization. I have also examined the issues surrounding the "political economy of predominance."⁴ This paper begins by posing the basic objectives of a socialist society and the problems of the transition, with the help of some simple didactic diagrams. The second section briefly reviews how the mechanisms set forth in the social property legislation sought to achieve these objectives. The third section analyzes the SPS implementation process from May 1974 to the present in the light of the objectives and problems set forth earlier. The fourth section briefly examines the near-to medium-term outlook for the SPS. The final section summarizes the lessons of the Peruvian experience to date.

Basic Needs, Accumulation, and the Social Property Sector

The fundamental objectives of satisfying the population's basic material needs and raising living standards (as well as some of the problems and constraints which may be encountered in achieving these potentially conflicting goals) may be set forth graphically with the help of four diagrams (Figures 1-4) adapted from the work of Webb.⁵ In each diagram, the vertical axis measures value added per worker, and the horizontal axis measures the labor force. But the members of the labor force are arrayed along the horizontal axis in a special way: from left to right we begin with the worker with the highest value added, and proceed to workers having equal or lower value added, until ending with the worker having the lowest value added.

Among the principal characteristics of the Peruvian economy (and indeed those of most other developing countries) are the tremendous differences in value added per capita between the highly capitalized and/or rent-extracting enterprises composing the modern sector of the economy on one hand and the much lower value added per capita found in more traditional activities such as subsistence (or sub-subsistence) agriculture on the other. These differences are usually highly correlated with differences in skills (human capital) and effective political power. The area under the curve labeled a-a' on all four diagrams measures the gross domestic product (GDP). For any given

Figure 1

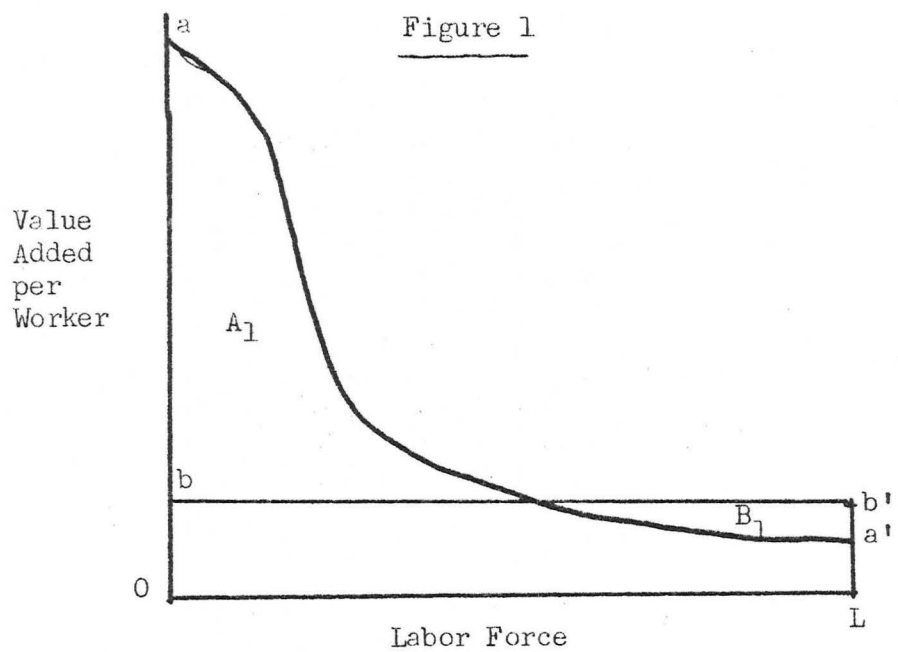


Figure 2

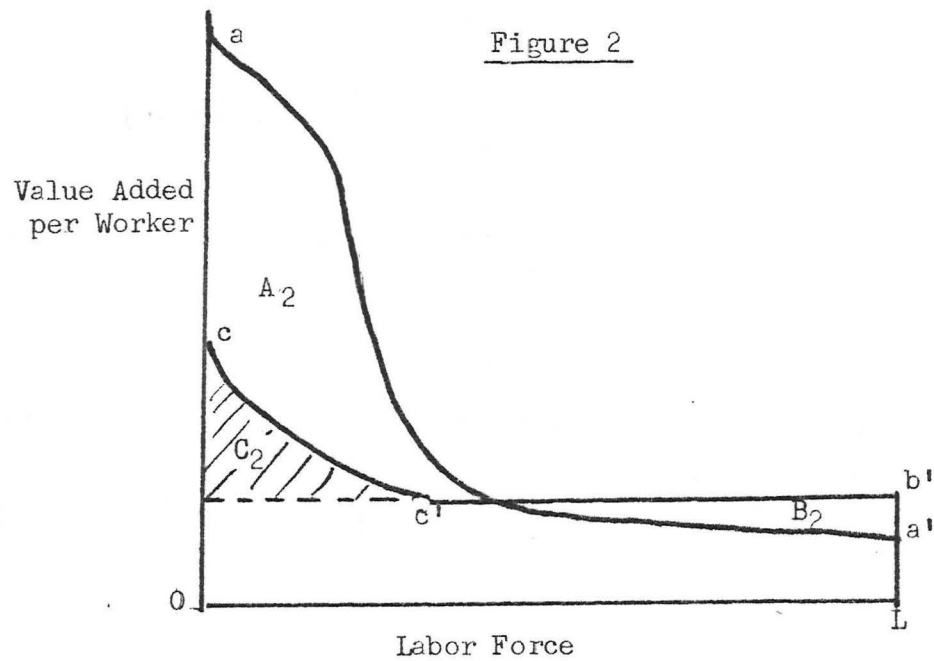


Figure 3

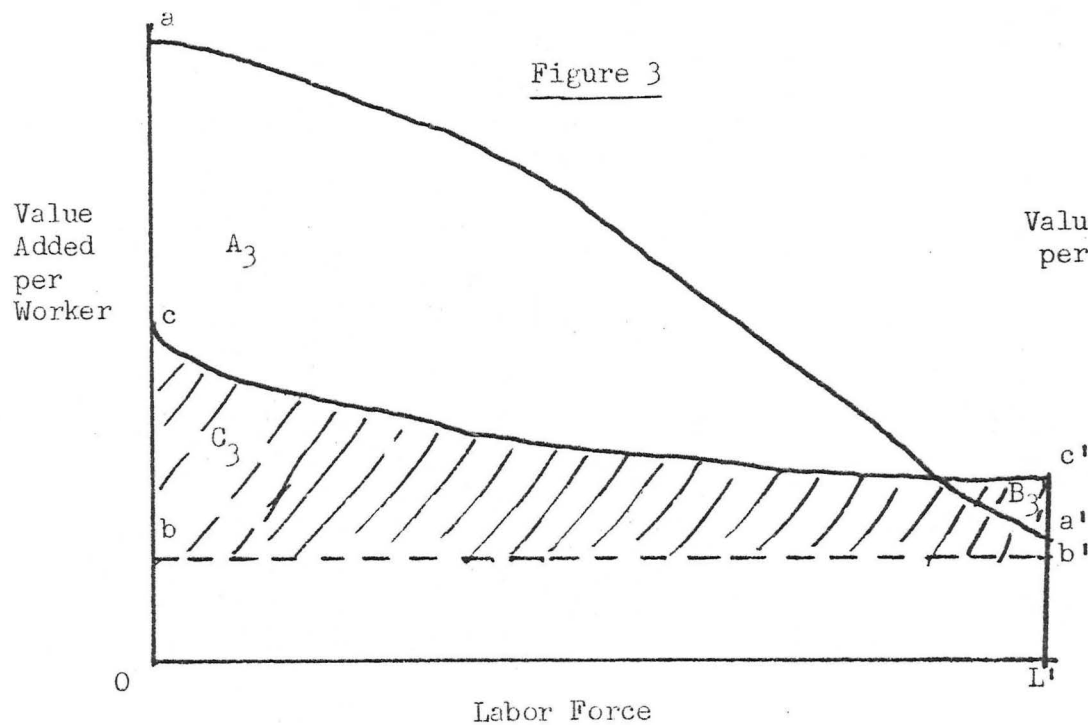
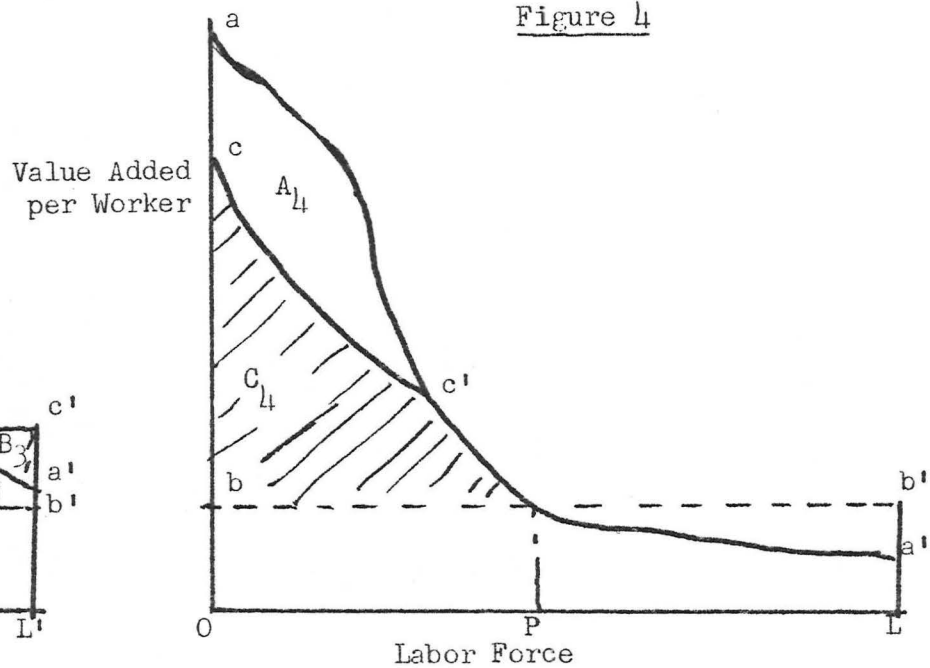


Figure 4



geographical setting, labor force, dependent population, and economic structure, it is possible to define a subsistence wage as that wage which will satisfy the basic material needs of the population and assure not only its healthy survival but its reproduction. While there may be differences in the needs of members of the labor force engaged in different types of work, having different numbers of dependents, etc., we ignore these here. The area below the line labeled b-b' on all four diagrams indicates the amount of output which is necessary to satisfy the basic needs of the population.

Now consider Figure 1. A totally closed economy with a totally equalitarian income distribution dedicated to the satisfaction of basic needs in the present and the maximum rate of accumulation destined to increase potential future consumption levels would distribute only the minimum subsistence wage to all members of the labor force (even those who did not produce value added equal to or exceeding the wage). The "surplus" (area A_1 , less the amount necessary to replace used-up means of production, less area B_1) would be used for investing in additional physical means of production and in increasing the skill levels of the labor force. Even in such a society the possibility exists that A_1 (diminished by the amount necessary to maintain the capital stock) is less than B_1 . In this case, the basic needs of some members of society cannot be met, and/or no growth can take place. Unless some members of society are "sacrificed," the economy will stagnate or decline.

Turn now to Figure 2, which depicts a somewhat more realistic situation. Here the curve labeled c-c' takes account of the fact that the socialist distribution rule is "to each according to his work," not "to each according to his need" which corresponds to the later stage of full communism.⁶ The idea is that, in socialism, material incentives are necessary to production. This requires some wage and salary differentials related to productivity. How large they must be depends on the political and ideological development of the population. Furthermore, Peru is not a closed economy, and indeed the possibilities of totally autarkic development in today's world are virtually nil. In Figure 2, basic needs will be met and domestically financed accumulation will take place only if area A_2 --after subtracting all payments to foreign factors of production remitted abroad (profits, debt service, technology costs, etc.), the costs of net imports (consumption goods, intermediate inputs, and capital goods necessary to maintain the capital stock), and the costs of replacing used-up domestically produced capital goods--is greater than the area B_2 . In Figure 1, A_2 (appropriately diminished) is certainly less than A_1 , other things being equal. However, there is still a possibility of increasing the domestic surplus available for accumulation. The shaded area C_2 in Figure 2 represents the additional surplus which potentially could be mobilized for investment by taxation or the establishment of capital markets which would allow personal savings from wage and salary income. Of course it is highly unlikely that some of the product represented by area C_2 will not be consumed. Beyond the surplus part of A_2 , supplemented by net personal savings (part of C_2), further domestic accumulation is possible only if there are net inflows of foreign resources (direct investment, loans, transfers) beyond any part of these inflows which might be consumed. But all inflows other than transfers normally imply future outflows. For net accumulation to take place based on capital inflows, the additional surplus generated and mobilized must exceed the present value of service payments.

Figure 3 shows our socialist economy after a successful accumulation process has continued for some years. Now wages and salaries are well above subsistence levels, and the productivity levels of members of the larger labor force (population has grown) are more uniform and higher than in Figure 2. Now consider Figure 4 which, I submit, roughly portrays the current crisis-ridden Peruvian economy. Personal income (including capital income) is given by the curve c-c'-a'. Personal income for those members of the labor force falling on the segment PL along the horizontal axis is insufficient to meet basic needs. The "most productive" members of the labor force receive incomes which are large multiples of the subsistence wage, reflecting the capitalist and underdeveloped nature of the Peruvian economy. Area A₄ is not sufficient to finance payments due foreign factors of production and the cost of imports. Net investment then may well be negative, part of productive capacity is not utilized for lack of imported inputs, growth is negative, and domestic personal saving through capital markets is very low.

The Social Property Sector: Basic Needs and Accumulation in the Legislative and Institutional Framework

I have argued elsewhere that the Peruvian social property legislation provides an institutional framework which in principle could permit the eventual establishment of socialist relations of production.⁷ Here I want to focus only on the issues of meeting basic needs and mobilizing an investible surplus, showing how the SPS framework was conceived in relation to these objectives.

With regard to meeting basic needs, the issue is relatively simple. Since the workers in social property firms (EPSs) must approve the scale of remunerations, it is highly unlikely that these would ever fall below the subsistence level. Initial experience (based on my observations at the end of 1975) showed that basic remunerations (the wage component of total remunerations to which productivity bonuses, family allowances, and distributed surplus may be added) tend to be at or slightly above the market for the lower skill levels. At the middle levels, including most technical positions such as engineers, remunerations tend to be fully competitive with the private and state sectors. At the upper management level, remunerations tend to be somewhat below the market. This is consistent with the experience of the Mondragon industrial cooperatives in northern Spain. The tendency to compress remuneration differentials is natural given the democratic decision-making process which establishes them, but it is limited by market considerations and the degree of ideological commitment of the more skilled workers.

Education may be considered as both a basic need and a form of accumulation. The provisions for encouraging "permanent training" in the EPSs and higher levels of the SPS are designed to turn every enterprise into a school and in general promote human capital formation. Housing is considered in D.L. 20598 through provisions for obligatory and voluntary payments into a housing fund. Of course, access to safe water, sewerage, and normal education and health services may depend upon public authorities, but to the extent that these needs are not met through public services, it is likely that SPS workers would seek to provide for them at the firm level.

With regard to accumulation, rather complex mechanisms for socializing the accumulation process within the SPS and mobilizing domestic and international resources from outside the sector were established by the social property legislation. It is impossible to treat the subject fully here, but the major provisions will be sketched out. As explained below, not all provisions of the legislation had been implemented by the end of 1978. Figure 5, which shows the basic organization of the SPS according to the legislation as of 1976, and Figure 6, which schematically presents the operation of the accio-bono scheme for tapping private capital markets, may be helpful in following this discussion.

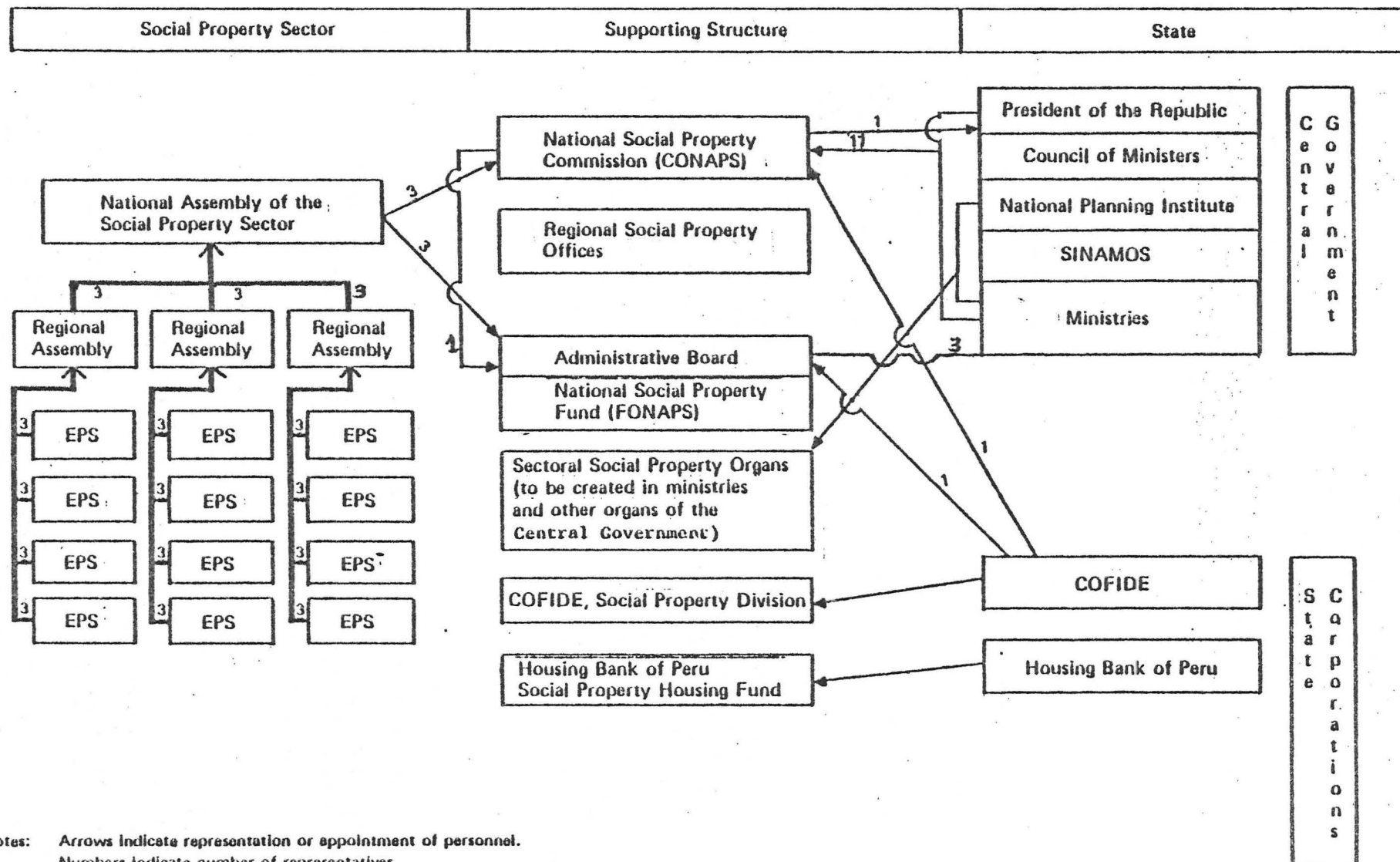
If direct seizure is ruled out, there are three basic methods of mobilizing an investible surplus: through the price system, through taxation, and through capital markets. All three and some interesting combinations are provided for in the social property legislation (see Table 1 for a list of the legislation directly concerning the SPS through 1976).

Self-finance through the price system is possible and indeed encouraged by D.L. 20598. Workers set prices subject to the limitations of the market and any economy-wide price controls imposed by the state.

Accumulation at the level of the SPS as a whole is concentrated in the National Social Property Fund (FONAPS). FONAPS makes something similar to loans (called aportes transitorios) to EPSs and may, in addition to interest and amortization, set special capital charges (called compensación de la renta) designed to extract location rents and other income due to factors unrelated to work effort. This is one kind of tax internal to the SPS. Another is a kind of "profits tax" levied on the "economic surplus" (see Table 2 for the definition) slightly adjusted. In addition, any liquid assets in excess of limits specified in the agreement establishing an aporte transitorio must be deposited in a demand account in FONAPS until needed for current operations. Once an EPS has finished amortizing an aporte transitorio, it continues to pay the compensación de la renta and must annually either reinvest in fixed assets an amount equal to the average of the five years of highest amortization payments or purchase an equivalent amount of "immediately convertible bonds" from FONAPS. These bonds may be converted to pay for future investments in fixed assets by the EPS, but normally they must be repurchased from FONAPS at the end of the year--thus any portion not reinvested in the year generated is almost certainly a contribution to FONAPS and thus to social accumulation at the level of the SPS. The law does not specify whether "immediately convertible bonds" will bear interest, nor if so, the rate. The lower the rate of interest, the greater the incentive to the EPS to reinvest in fixed assets, which may generate future income--part of which may accrue to the workers of the firm in higher remunerations and/or distributable surpluses. Any reinvested surpluses in effect represent a form of accumulation which is more of a group (workers of the firm) than of a social or sectoral nature, since the workers of the firm have the right to its usufruct without having to amortize it in favor of FONAPS or pay the compensación de la renta to FONAPS. Formally, however, the property of these fixed assets, like all other SPS property, resides with the totality of the workers of the SPS.

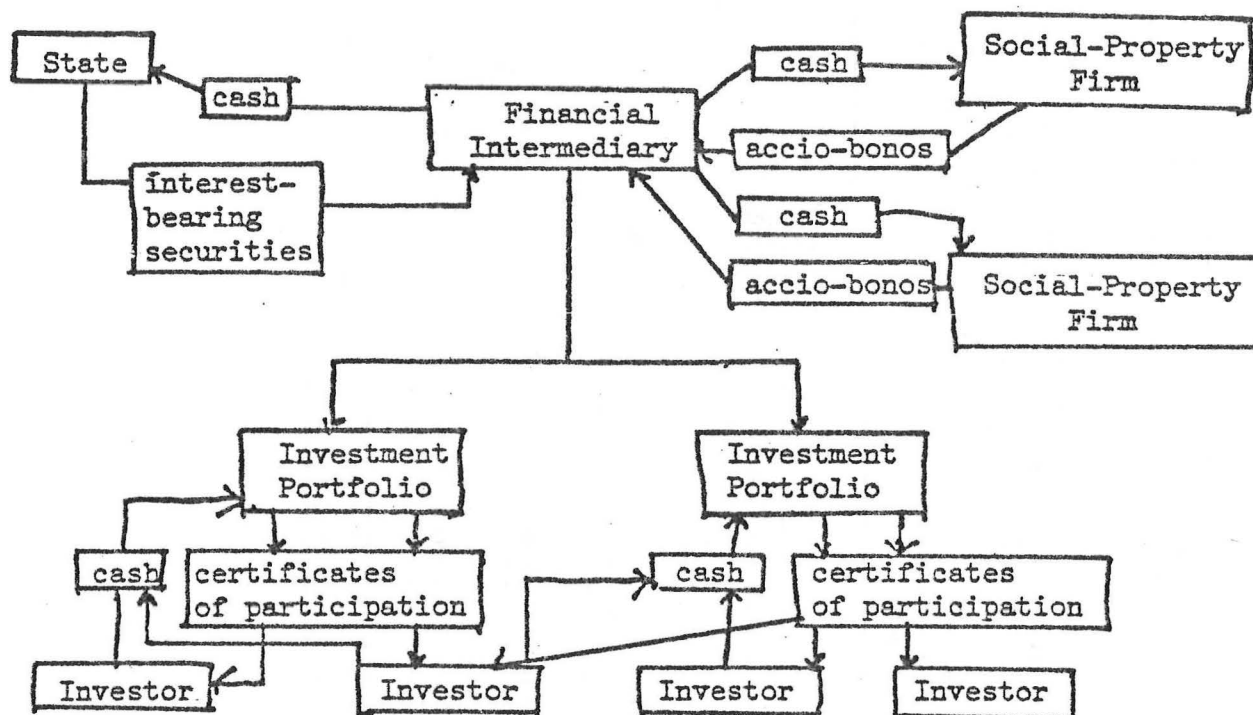
Figure 5

ORGANIZATION OF THE SOCIAL PROPERTY SECTOR



Notes: Arrows indicate representation or appointment of personnel.
Numbers indicate number of representatives.

FIGURE 6

External Financing of the Social-Property Firm via Accio-Bonos

The issue of accio-bonos must be approved by

- An absolute majority of all workers of the firm in a meeting of the General Assembly with a quorum of 2/3 present
- The appropriate Regional Unit
- CONAPS

CONAPS will also determine

- The maximum share of any firm's net assets which may be obtained by the sale of accio-bonos
- The maximum percentage of any firm's accio-bonos which can be held in a given portfolio of a financial intermediary
- The maximum share of any portfolio of a financial intermediary to consist of accio-bonos from each branch of economic activity
- Annually the fraction of portfolios of financial intermediaries to consist of state securities

TABLE 1

 DECREE LAWS DEALING WITH THE SOCIAL PROPERTY SECTOR

<u>D.L. Number</u>	<u>Date of Promulgation</u>	<u>Summary of Contents</u>
20598	2 May '74	Basic legal framework of the social property sector.
20751	2 Oct. '74	Provides for transformation of agricultural firms into EPSs.
21123	11 Apr. '75	Provides for representation on CONAPS of the Ministry of Housing and Construction.
21238	12 Aug. '75	Provides credits for mining investments by EPSs.
21244	30 Sept. '75	Allows EPSs to execute public works projects without meeting normal requirements for age of firm.
21290	14 Oct. '75	Grants ministerial rank to the President of CONAPS.
21304	12 Nov. '75	Creates the National System for the Development of Social Property (SINADEPS). Provides that the head of SINADEPS will be the President of CONAPS and will sit on Interministerial Committee for Financial Affairs. Provides for the creation of Regional Social Property Offices depending on CONAPS in geographically defined regions, Sectoral Social Property Organs in economic ministries and other organs of the central government, and sub-regional organs when and if CONAPS decides to create them. Revokes Arts. 185 and paragraph (e) of Art. 187 of D.L. 20598.
21317	26 Nov. '75	Provides for direct creation of EPSs under the agrarian reform, with expropriated properties to be transferred to FONAPS. Voluntary transformation of existing associative enterprises (CAPs, SAISs, etc.) into EPSs is authorized. The value of land and other assets of a newly created agricultural EPS is to be considered as an <u>aporte transitorio</u> . Payments on the agrarian debt prior to transformation of an associative enterprise into an EPS are to be considered as an <u>aporte social</u> , and the unpaid balance as an <u>aporte transitorio</u> .

TABLE 1 (continued)

 DECREE LAWS DEALING WITH THE SOCIAL PROPERTY SECTOR

<u>D.L. Number</u>	<u>Date of Promulgation</u>	<u>Summary of Contents</u>
21484	12 May '76	Creates the Center of Higher Social Property Studies (CESPS) as a decentralized public agency under CONAPS to prepare professional personnel for social property firms, conduct research on the SPS, and promote the formation of professionals, technicians and specialists in social property for the Peruvian educational system in coordination with the Ministry of Education.
21506	26 May '76	Gives FONAPS juridical personality as the financial institution of the SPS with economic and administrative autonomy under the norms of the Sector of Economy and Finance for financial institutions. Provides that the Administrative Board of FONAPS shall consist of eight rather than six members: three SPS workers named by the Assembly of the SPS, four representatives of the Sector of Economy and Finance appointed by the Minister of Economy and Finance (one of which will be the President and cast a tie-breaking vote) and one representative of CONAPS. In effect this places FONAPS under control of the Minister of Economy and Finance rather than the Assembly of the SPS as provided for under D.L. 20598. Confirms the juridical personality of EPSs in formation which had been established in practice. Revokes Arts. 154, 156, 157, 158 and 159 of D.L. 20598.

TABLE 2

DEFINITION OF SURPLUSES IN THE PERUVIAN SOCIAL-PROPERTY LAW

1. = Total Revenue
2. minus Total Cost (including remunerations)
3. = EXPLOITATION SURPLUS
4. plus or minus Capital Gains and other Financial Adjustments
5. = ECONOMIC SURPLUS
6. minus Accumulated Losses
7. minus Transfer Payment to FONAPS ($0.1(-5 + R^{\frac{a}{-}} - 2MWB^{\frac{b}{-}})$)
8. minus Reinvestment
9. minus Revaluation Surplus
10. minus Legal Reserves, including 0.05 (-5)
11. minus Donations
12. minus All Other Deductions Allowed by Tax Laws
13. minus Amortization of Aporte Transitorio (or Equivalent Payments^{c/})
14. minus Deduction for Housing Fund^{d/}
15. = TAXABLE SURPLUS
16. minus Taxes
17. plus (13)
18. = DISTRIBUTABLE SURPLUS

Accio-Bono Dividends.

Cash Distribution to
Workers and/or Common
Services

a Remunerations.

b Twice the Lima legal minimum wage times the number of workers.

c Refers to deductions to be made after the aporte transitorio has been amortized and to be used for reinvestment in the firm or purchase of immediately convertible bonds from FONAPS

d A percentage of the economic surplus after deducting that part of accumulated losses which is covered during the year. The percentage will be fixed annually by CONAPS.

Individuals and non-SPS enterprises may also invest in the SPS, but without acquiring any rights to control of EPSSs. This is accomplished via the sale of non-voting shares (accio-bonos) by the EPSSs--upon decision of each firm's General Assembly and with the approval of the National Social Property Commission (CONAPS) (see Figure 5 for CONAPS' position in the SPS)--to financial intermediaries authorized by CONAPS to maintain portfolios of these securities and a required portion of state interest-bearing securities. The financial intermediaries, in turn, sell "certificates of participation" (akin to mutual fund shares) to the investing public. This process is represented schematically in Figure 6. These financial intermediaries, and indirectly the holders of certificates of participation, have a right to a portion of the firm's distributable surplus (see Table 2 for definition) and reinvestments (via required issue of additional accio-bonos to the holders of existing accio-bonos) proportional to the share of accio-bonos in the total net assets of the firm. Holders of certificates of participation benefit from a double tax exemption--up to 50 percent of their taxable income can be used tax-free for acquiring the certificates, and the income generated is also tax-free. The value of accio-bonos is corrected for inflation as are most assets and liabilities of the EPSSs. Certificates of participation are also exempt from the inheritance tax.

All in all, since there are various external controls on the level of remunerations within EPSSs (primarily via the initial act of constitution and the agreements governing *aportes transitorios*), the collective incentive of an EPS' workers to share in present (and via reinvestment, future) distributable surpluses also benefits the (indirect) owners of its accio-bonos, who nevertheless share the risk--albeit limited by the diversification required of financial intermediaries' portfolios, the requirement that all such financial intermediaries must include fixed-interest state securities in proportions to be determined annually by CONAPS, and the generous tax incentives. To date, no EPS has, to my knowledge, issued accio-bonos.

Individual workers and their dependents may share in income generated by EPSSs after the worker leaves his firm, since when a worker retires with more than 20 years of service in one or more firms of the SPS, or dies or is disabled while working in an EPS, all the firms in which he has worked must convert part of their net assets, representing that worker's contribution to their formation, into accio-bonos which are held by the state development bank (COFIDE) in a special retirement fund. Retired or disabled workers and their immediate heirs receive "certificates of retirement" in an amount equal to the total retirement accio-bonos credited to the worker in question. Like the certificates of participation, these certificates are something like mutual fund shares. A major difference is that while certificates of retirement can be inherited, they become null after the corresponding worker and his spouse are both dead and their children have reached majority. At this point, private individuals holding the certificates cease to have any further rights over the income generated by EPSSs, and that part of each firm's net assets corresponding to retirement accio-bonos is treated as a new *aporte transitorio* which must be amortized in favor of FONAPS; presumably a *compensación de la renta* could also be charged, further contributing to social accumulation.

This interesting provision harnesses the worker's incentive to reinvest part of his firm's economic surplus in order to increase the financial

security of his family in a fashion which eventually contributes to social accumulation and in the process may help correct any over-capitalization of the firm which low or null interest rates on "immediately convertible bonds" might stimulate. At the same time, unlike the certificates of participation, the provisions for certificates of retirement avoid the intergenerational transmission of wealth, except for the socially justifiable function of helping with the maintenance and education of a worker's children after his death and that of his spouse.

Finally, the EPSs may also have recourse to the banking system and suppliers' credits, with the restriction that a firm's fixed assets cannot be pledged as collateral except to financial institutions of the state. Loans from the state development bank (COFIDE) fall under this category of finance from institutions external to the SPS. COFIDE has received a \$35 million loan from the World Bank, up to 30 percent of which can be used for sub-loans to social property enterprises. Thus international sources of capital can also be tapped by the SPS.

In addition to funds generated internally in the SPS, FONAPS may receive direct transfers from general tax revenues of the Peruvian state (thus, in principle, general taxation can be used to further the accumulation process), and loans (for example, from the Central Reserve Bank of Peru).

Suppose that the Peruvian economy were entirely run along the lines set forth in the social property legislation. Would the mechanisms and institutions set forth in the legislation be adequate to assure a substantial rate of accumulation? In particular, could they keep remunerations sufficiently low in high-surplus-producing activities to fuel the accumulation process rather than allow those remunerations to be used to create a new "labor aristocracy" with consumption levels far above those of workers in less "profitable" firms? In principle, the three-tiered participatory planning system envisaged in the legislation⁸ could, together with CONAPS if necessary, bring sufficient political and legal pressure to bear on individual high-surplus enterprises to keep tendencies toward what has been called "group egoism" in line. This is indeed in large measure the purpose of the whole superstructure above the firm level (see Figure 5), along with the objective of planning production more in relation to the felt needs of the population. No firm answer can be given to this important but hypothetical question. In practice, the full apparatus (particularly the National and Regional Assemblies) has not been set up. Furthermore, political and economic conditions have deteriorated to such an extent in the past three years that the establishment of these assemblies, and indeed part of the supporting structure within the state apparatus or largely controlled by it, is threatened. Abandonment of these aspects of the originally conceived SPS would probably lead to perpetuation or indeed aggravation of the highly unequal productivity and incomes depicted in Figure 4.

Implementation of the Social Property Sector

This section is divided into two parts. The first provides a brief overview of the political and economic conditions within which the implementation of the SPS has taken place. The second deals with the implementation process itself, providing some quantitative indicators of SPS development but concentrating on the changing criteria and guidelines which have been used to steer SPS development and which clearly reflect changing economic and political conditions.

General Political and Economic Conditions. The implementation of the SPS from May 1974 through the end of 1978 has been profoundly influenced by the absence of any strong, organized political support for the new sector outside the military and the technocracy. As I have pointed out elsewhere,⁹ the SPS was pushed from the top by Velasco and his core group of military supporters and designed by a group of civilian advisers and technocrats. There was no real popular comprehension of the SPS or support for it.

"Economic pluralism" created an inhospitable climate for SPS development. The SPS was supposed to be protected and nurtured by the state, when in fact the state apparatus was busy creating a highly capital-intensive system of state corporations which placed great demands upon the Peruvian economy's declining savings and absorbed the lion's share of loans negotiated in international financial markets.¹⁰ Private-sector capitalists did not demonstrate any enthusiasm for the planned proliferation of EPSs in direct competition with their own firms and enjoying preferential support from the state. Many private capitalists struggled for available loan funds while taking capital out of the country to the extent possible using both legal and illegal means.¹¹ Members of agricultural production cooperatives created by the military regime's agrarian reform (especially the relatively rich sugar cooperatives) on the whole resisted calls by the more radical elements of the regime for their absorption into a social property system which was designed to socialize accumulation and increase control by non-members (through the whole superstructure of the SPS above the enterprise level) over economic decisions at the enterprise level in the name of combatting "group egoism" or "group capitalism."¹² Even the workers of the reformed private-sector firms proved less than enthusiastic about the SPS. They seemed more concerned with improving their position vis-à-vis the traditional capitalists (and some would say the unemployed) than with a model they could not experience in its entirety and over which the state, increasingly perceived by them as hostile, had ultimate control.

After Velasco was removed from power in August 1975 in a coup led by the current president, General Francisco Morales Bermúdez, the fate of the SPS was increasingly exposed to a power struggle within the armed forces between what have been called "conservatives, developmentalists, and radicals."¹³ Throughout the Peruvian revolutionary process, the "conservatives" sought to create conditions appropriate for modernizing the country through capitalist development with class conciliation, a transitorily strong state, and dynamic small and medium capitalist enterprises. The "developmentalists" wanted to interpose the state as a shield between international capital, with which the state would negotiate contracts and joint ventures, and the nascent national bourgeoisie located in the most dynamic sectors of the economy, reserving the traditional sectors of the economy for associative organizational models (cooperatives of various sorts and the EPSs) as a means of absorbing unemployed and underemployed members of the labor force. The "radicals," who with their civilian advisers were the driving force behind the SPS, sought to use the state as an instrument to create conditions for a transition from dependent capitalism to participatory socialism, nationalizing key sectors of the economy, extending supervision and control of the state over other sectors, and creating worker self-managed enterprises which, with the assistance of popular organizations promoted by the state's social mobilization agency (SINAMOS), would progressively convert themselves into the predominant mode of production and assume political and economic control of the country.

When Velasco fell, Morales Bermúdez, supported by a coalition of "developmentalists" and "radicals," continued to provide substantial support for the SPS until mid-1976, when a realignment within the military forced the expulsion of the "radicals." This realignment was precipitated by a grave and deepening economic crisis, the basic outlines of which may be seen in Table 3. Interpretations of observers differ in the relative emphasis placed on different factors contributing to the crisis.¹⁴ These are generally agreed to include economic mismanagement (neither Velasco nor any of his closest associates had any significant training in economics but did dictate economic policies), rising military spending (stimulated by increasing tension with Chile after the fall of Allende), bad luck (such as the failure to discover as much petroleum in the Amazon region as was once expected, changes in Pacific Ocean currents which contributed to the sharp decline in fishmeal and fishoil exports after 1971, and the sharp fall in the prices of mineral exports after 1974), and the economic model adopted by the military regime.

While all of these factors certainly played a role, the very nature of economic pluralism, by creating great uncertainty among domestic and foreign capitalists while failing to mobilize sufficient domestic resources for investment either by taxation or by transfer of highly profitable private-sector firms to the state sector or the SPS, resulted in sapping the dynamic potential of capitalism without achieving the superior control of the surplus possible under socialism. The regime counted on substantial private investment (both domestic and foreign) to realize its development plans. But those nationalizations which were carried out, the continual introduction of new economic reforms effectively changing the rules of the traditional capitalist game beginning in 1969, the increasing emphasis in official speeches on the planned hegemony of the SPS beginning in 1971, and the attacks on bastions of the bourgeoisie such as the national Society of Industries, the College of Lawyers, and the principal Lima daily newspapers (which were "socialized" in 1974) all served to stimulate both passive and active resistance to the regime by capital. This took the form of greatly decreased private investment (except that derived from tax-exempted reinvested profits and foreign investment in Amazon petroleum exploration) and capital flight, as well as overt political activity. But the regime's commitment to economic pluralism kept it from seizing control of private-sector sources of accumulation or the means of communication most important in promoting non-essential forms of consumption and mobilizing the popular masses, namely radio and television.

Since mid-1976, an alliance of "conservatives" and "developmentalists" has forced major changes in the SPS development strategy (as will be seen below), resulting in a virtual halt to its expansion, but not its elimination. At the end of 1978 the military were clearly seeking to extricate themselves from the day-to-day conduct of government and turn management of the deepening economic and political crisis over to civilians. To that end a popularly elected Constituent Assembly was debating, among other matters, the future organization of the Peruvian economy.

Despite active repression of the left prior to the elections, and the fact that illiterates (40 percent of the adult population) were barred from voting, and the refusal of several leftist movements to participate in the elections, 30 percent of the seats in the Constituent Assembly were won by the left. The rightist Popular Christian Party (PPC), which is the civilian

TABLE 3

PERU: SELECTED MACROECONOMIC INDICATORS, 1973-1978

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Indicator	1973	1974	1975	1976	1977	1978 ^{a/}
Real Growth Rate of GDP (% over previous year)	6.2	6.9	3.3	3.0	-1.2	-1.6
Gross Investment as % of GDP	16.3	19.5	20.8	17.7	14.1	12.1
Domestic Saving as a % of GDP	13.9	12.4	9.0	9.5	7.2	9.1
Military Spending as a % of GDP	n.a.	3.5	4.6	4.9	7.3	5.5
Rate of Increase in Consumer Price Index (Dec.-Dec.)	13.8	19.1	24.0	44.7	32.4	73.7
Index of Purchasing Power of Salaries (1973=100) b/	100.0	91.8	87.7	77.2	66.6	49.2
Index of Purchasing Power of Wages (1973=100) b/	100.0	94.2	94.0	97.8	77.4	63.2
Underemployed as % of Labor Force	41.3	41.9	42.3	44.2	48.0	46.9
Unemployed as % of Labor Force	4.2	4.0	4.9	5.2	5.8	7.2
Trade Balance (millions of US\$)	79	-406	-1099	-741	-438	340
Current Account Balance (millions of US\$)	-192	-807	-1538	-1192	-926	-193
Medium and Long Term Public Foreign Debt (millions of US\$)	1491	2182	3080	3734	4814	5346

SOURCES: Central Reserve Bank of Peru and author's estimates except military spending 1974-1977 (Thorp, 1979), underemployed, and unemployed as % of labor force (Schydrowsky and Wicht, 1979).

Notes: a/Estimated. b/Calculated from data from Ministry of Labor. 1975-June 1978 based on survey of establishments with more than 10 employees.

group closest to the "conservatives" in the military, won less votes than the four major leftist groups. Nevertheless, as junior partner to the most successful party, the right-of-center APRA (which is close to the "developmentalist" position), it controls the assembly. The assembly's debates are taking place in an atmosphere of economic crisis characterized by negative growth of GDP, sharply accelerating inflation (74 percent in 1978, up from 32.4 percent in 1977), severe balance-of-payments problems which have brought the country to the brink of default on its mushrooming foreign debt, continued rapid devaluation of the sol, the implementation of an IMF-backed stabilization plan, sharply falling real wages and salaries (estimated at 49 and 63 percent respectively of their real 1973 value in 1978), rising unemployment and underemployment (totaling 54 percent of the labor force in 1978), and tense confrontations (including nationwide general strikes) between organized labor and the representatives of capital, both public and private.

The SPS Implementation Process. CONAPS has been the key agency charged with implementation of the SPS through 1978. FONAPS and COFIDE have played important secondary roles. Through July 1976, in a struggle to establish the SPS as a reality, its first head, Ing. Angel de las Casas, rushed to establish EPSs in a broad range of economic activities. In addition to establishing the SPS' presence, the objective appears to have been to stake out the new sector's claim, established in its founding legislation, to embrace all but those economic activities reserved exclusively for the state. This effort to establish the "credibility" of the SPS required setting up CONAPS' own initial organization, establishing policies, prodding reluctant state agencies to provide the support (including project preparation) mandated by the social property legislation (no sanctions for non-compliance were specified in the legislation), and stimulating the public (including popular organizations) to present projects for EPSs.

The very large number of projects processed by the nascent CONAPS is shown in Tables 4 and 5. As of 31 July 1976 there were 518 projects, but of these, only three were fully-constituted operating EPSs. Of the 63 firms declared "in formation" (a legal category which provides juridical personality to an EPS but greatly restricts its autonomy), only 31 were actually in production, and most of these produced below their planned levels. The operating EPSs spanned activities ranging from agriculture and mining, through construction and manufacturing, to services. They also included a broad range of geographic locations, with concentrations in the Lima-Callao metropolitan area and the department of Puno. Most of the projects were for the formation of totally new firms--a time-consuming and difficult process in any environment, the more so in a climate of deepening economic crisis--and there were tremendous differences in the quality and degree of preparation of the projects presented to CONAPS. The social property legislation itself established very stringent conditions, making it virtually impossible for workers of viable private-sector firms to press for their transformation into EPSs even if they wanted to. But despite legal limitations on the transfer of bankrupt firms to the SPS, political realities led CONAPS to recommend this course in a number of cases in an effort to mobilize support for the SPS among the organized labor force. The presentation of economically weak firms or inadequately prepared projects for essentially political reasons resulted in severe tensions between CONAPS and COFIDE.

TABLE 4

SOCIAL PROPERTY FIRMS AND PROJECTS ACCORDING TO STAGE OF DEVELOPMENT

	5 December 1975	2 May 1976	31 July 1976
Constituted Firms	1	3	3
Investment ^{a/}	170	850	1,270
Workers	340	2,149	2,480
Firms in Formation	37	53	63
Investment ^{a/}	16,581	17,394	20,358
Workers	43,478	44,936	46,233
Projects Approved by CONAPS ^{b/}	58	74	77
Investment ^{a/}	10,504	11,266	13,107
Workers	22,129	26,737	25,880
Projects in CONAPS Approval Process	42	53	61
Investment ^{a/}	3,287	5,988	6,348
Workers	15,969	30,130	23,539
Projects submitted by CONAPS for Intersectoral Consultation	67	61	65
Investment ^{a/}	11,555	10,714	35,229
Workers	31,564	15,922	71,475
Projects under Preliminary Study by CONAPS	165	199	202
Investment ^{a/}	8,517	35,686	13,561
Workers	16,356	78,789	22,962
Projects Temporarily shelved by CONAPS	31	41	47
Investment ^{a/}	1,266	1,476	1,476
Workers	3,322	3,646	3,646
Total Firms & Projects	401	484	518
Investment ^{a/}	51,880	83,374	91,349
Workers	133,168	202,309	196,215

^{a/} Millions of soles^{b/} "Conveniencia y Procedencia"

SOURCE: 5/12/75 and 2/5/76, CONAPS, "Propiedad Social: Nueva Forma de Propiedad y Modelo Peruano de Autogestion" May 1976 and 31/7/76, CONAPS "Estado de Proyectos y Empresas de Propiedad Social de 31/7/76".

TABLE 5

SOCIAL PROPERTY FIRMS IN OPERATION AS OF 31 JULY 1976

Firma	Origin	Standard Industrial Classification	Location	Investment ^{a/} (million soles)	Approved FONAFIS Financing (million soles)	Number of Workers ^{a/}
Normetal ^{b/}	Transformed State	380	Chimboze	170	55	340
Motoandina ^{c/}	Popular Initiative	384	Trujillo	500	85	700
Lima Metropolitana ^{d/}	Transformed Coop.	761	Lima	600	583 ^{e/}	1,440
Metal Callao ^{f/}	Transformed Private	381	Callao	100	29	130
Incosur	Popular Initiative	900	Lima	6	8	30
Complejo Alpaca Peru	Popular Initiative	111	Puno Cuzco	1,380	52	4,900
De la Chacra a la Ola	Popular Initiative	111	Lima	251	7	673
Jugetas Educativos	Popular Initiative	390	Lima	26	2	100
San Hilarión	Popular Initiative	832	Lima	20	4	400
Forestal Iparia	Transformed State	331	Huanuco	208	20	600
Minero Puno	Popular Initiative	230	Puno	1,646		20,000
Asentamiento Rural Choroyacu	Popular Initiative	111	Loreto	33	16	150
Incolana	Public Initiative	610	(Huancayo (Lima (Puno	120	78	200
Electromecanica Andina	Transformed Coop.	383	Lima	25	7	50
Complejo Agroindustrial Lurin	Public Initiative	311	Lima	65	56	360
Transportes Mineros COOTISA	Public Initiative	711	Huancayo	61	34	49
Cenit	Popular Initiative	322	Lima	8	8	300
Servicios Profesionales ^{g/}	Transformed Private	832	Lima	11		100
Cemento Escoria	Public Initiative	369	Chimboze	1,446		330
Confecciones Populares	Popular Initiative	322	Lima	14	18	124
Molino Ferreñafe	Transformed Coop.	311	La Libertad	21		40
Depositos y Ventas	Public Initiative	719	Lima	60	70	60
Sacsayhuamán	Public Initiative	500	Cuzco	269		1,244
Frigo	Popular Initiative	311	Callao	200	4	500
Automotriz Revól	Popular Initiative	711	Lima	31		75
Luchadores de Tierra Roja	Popular Initiative	122	Loreto	42	4	190
Equimaci	Transformed Private	610	Lima	93		29
FABRIMET	Transformed Private	382	Callao	136		513
Decisión Campesina	(Transformed Agrarian Reform Cooperative	111	Lima (Dept.)	300		658
Empresa Rural Kolkapari	Public Initiative Agrarian Reform	111	Puno	17	27	182
Empresa Rural Umaschiri	Public Initiative Agrarian Reform	111	Puno	9	31	249
Empresa Rural Kauruma	Public Initiative Agrarian Reform	111	Puno	27	29	140
Empresa Rural Nuñoa	Public Initiative Agrarian Reform	111	Puno	28	29	180
Empresa Rural Alianza	Public Initiative Agrarian Reform	111	Puno	14	15	140
TOTAL				7,937	1,271	35,196

^{a/} Investment and number of workers as indicated in project proposal as registered by CONAFIS. Most firms in operation have not yet reached these levels.

^{b/} Constituted 19 April 1975. CONAFIS lists as public initiative.

^{c/} Constituted 9 February 1976.

^{d/} Constituted 24 April 1976

^{e/} This EPS also received the only COFIDE loan for US\$875,000.

^{f/} CONAFIS lists as popular initiative.

^{g/} CONAFIS lists as public initiative.

Sources: Columns 1, 2, 3, 4, 5, 7 CONAFIS "Estado de Proyectos (Empresas de Propiedad Social al 31/7/76)", Column 6, COFIDE, "Proyectos de Propiedad Social Encargados FONAFIS/COFIDE: Estado de Situación de Proyectos en Cartera al 31/7/76."

While de las Casas was head of CONAPS (May 1974-July 1976), CONAPS sought to apply 15 criteria in approving projects. The process for applying the criteria (which are listed in Table 6) was haphazard at first, then became increasingly systematized. But the problems inherent in applying the various criteria in the face of obvious potential contradictions between them (for example "contribution to depressed and marginal areas" v. "social accumulation" or achieving a "preponderant situation in the markets for products and inputs" or "rupture of monopolistic and oligopolistic enclaves") suggest the need for a carefully elaborated expansion strategy for the SPS based on both political and economic analysis. The need for well-planned expansion was also heightened by the general scarcity of public funds given the competing demands of massive public investment projects (irrigation projects and the oil pipeline in particular), the seemingly insatiable appetite of the growing number of state enterprises (both for their own investment projects and increasingly to subsidize popular consumption of imported foodstuffs and petroleum products), and the rapid expansion of military spending which by 1977 exceeded domestic saving as a percentage of GDP. But SPS planning mechanisms and expansion strategy were clearly underdeveloped. CONAPS personnel were overworked and the atmosphere of frenetic activity which prevailed within CONAPS under de las Casas suggested that the calm necessary for planning longer-term strategy was lacking.

Despite the fact that Velasco had played a key role in pushing through the social property legislation and supporting the initial steps toward implementation, there was continued support from the top of the state after his fall in August 1975 until mid-1976, although there were also strong signs of resistance to the SPS both within the state apparatus and in the private sector. In November 1975, the Central Reserve Bank of Peru made a line of credit equal to about US \$60 million available to FONAPS at two percent interest. Through 1978, this remained the single most important source of funds for FONAPS. In the same month, decree laws were promulgated authorizing the creation of the National System for Development of Social Property (SINADEPS), allowing the creation of regional social-property offices under CONAPS, giving the head of SINADEPS a seat on the Council of Ministers, and allowing direct creation of EPSs under the agrarian reform law as well as voluntary transformation of pre-existing agrarian reform enterprises (various types of cooperatives) into EPSs. The last major measures during the de las Casas period were taken in May 1976, following the recommendations of a national meeting of social property workers and a strong press campaign inspired by the supporters of the SPS, including "radicals" within the military: FONAPS was established as a separate financial institution rather than as an account in COFIDE, and a Center for Higher Social Property Studies (CESUPS) was set up in an effort to partially fill a glaring gap in training and research capacity for the SPS. But the apparent advance in SPS autonomy had a high price--modification of FONAPS' Administrative Board to bring it under the effective control of the Minister of Finance, and a very small initial budget for CESUPS, restricting what it could expect to accomplish.

In July 1976, de las Casas resigned as head of SINADEPS and CONAPS following a series of economic stabilization measures implemented at the end of June, the declaration of a State of Emergency in July, and the forced resignations of the then prime minister and minister of war (General Jorge Fernandez Maldonado), the minister of foreign affairs (General Miguel

TABLE 6

CRITERIA USED BY CONAPS FOR SOCIAL PROPERTY SECTOR PROJECT EVALUATION
THROUGH JULY 1976

1. Social accumulation (similar to profitability)--ability to contribute to the sector's future growth by generating surpluses and paying a high compensación de la renta on its aporte transitorio.
2. Employment creation.
3. Impact on the regional economy--in essence the contribution to decentralizing economic activity away from Lima-Callao.
4. Preponderant situation in the markets for products and inputs--a factor judged important in moving toward predominance of the SPS in the Peruvian economy.
5. Complementary effect in relation to other EPSs existing or planned in a given region or related group activities--essentially the presence of forward and/or backward linkages within the SPS.
6. Integration and complementation with state sector enterprises--essentially backward or forward linkages to the state sector.
7. Addition of value added to export products.
8. Contribution to national autonomy in strategic products.
9. Improvement in the rural-urban terms of trade (in favor of rural areas).
10. Contribution to adjusting production to what the popular masses require and revision of consumption habits to achieve greater harmony with national production possibilities--these goals to be obtained by greater popular control over production and marketing activities in the SPS.
11. Food production--an "absolute priority" and including production, transformation, and marketing.
12. Rupture of monopolistic and oligopolistic enclaves--particularly in activities dominated by direct foreign investment.
13. Contribution to depressed and marginal areas.
14. Production of goods assigned to Peru within the Andean Group sectoral industrial development programs.
15. Broadening of the economic frontier--apparently refers principally to economic activities in the Amazon region.

Angel de la Flor), and the minister of agriculture (General Enrique Gallegos), all of whom were close associates of former President Velasco and members of the "radical" group within the military. Additional signs that July 1976 marked a watershed in the development of the SPS came in President Morales Bermúdez' July 28 Independence Day speech, in which he set forth a number of guidelines which General Rosas, the new head of SINADEPS and CONAPS, summarized in the following list of "Policies for the Development of the Social Property Sector," which are virtual quotations from the President's speech:

- (i) EPSs should contribute efficiently to the production of goods and services useful for the national majorities;
- (ii) EPSs should generate economic surpluses related to the investment in the projects, for the self-sustaining development of the Sector;
- (iii) Develop EPSs in activities which require a high labor content in relation to the total cost of production, preferentially in depressed areas;
- (iv) The SPS should develop without interfering with the other forms of enterprises in unproductive competition, maintaining the complementary character of the property sectors;
- (v) Encourage the creation of production centers developed by the initiative of their workers; and
- (vi) Promote the development of EPSs in activities in which personal effort and not the concentration of capital have the greatest influence on the results of the operation, a situation which with advantage occurs in rural areas.

These guidelines were translated into selection and "prioritization" criteria by CONAPS (see Table 7), which were used to evaluate all SPS projects in the months of September and October 1976. The results of the "selection and prioritization" are summarized in Table 8. The new criteria differ from those previously used by CONAPS principally in that they give greater emphasis to profitability while no longer including a "preponderant situation in the markets for products and inputs" or the "rupture of monopolistic and oligopolistic enclaves--particularly in activities dominated by direct foreign investment." Instead, a project is favored if it is complementary to, rather than in competition with, the private sectors. Another criterion which was eliminated was the production of goods assigned to Peru within the Andean Group sectoral development programs. Of the total of 516 projects, over half (275) were definitely scrapped, 123 were combined with other projects, and 118 were retained for further development. The projects retained included almost every enterprise already in operation, on the grounds that they had "organized economic bases" (i.e., a labor force). These included two fully constituted firms which actually had negative scores: Lima Metropolitana (the Lima bus company) and Moto Andina (the Trujillo motorcycle company). Among the rejected projects was a glass complex planned for the Pisco-Ica region and being developed by COFIDE. A large metal-mechanical complex being planned for Arequipa and also being developed by COFIDE with UNDP assistance was classed as an EPS in formation "whose situation should be defined on the basis of further studies." As of

TABLE 7

NEW CRITERIA AND WEIGHTS FOR SPS PROJECT SELECTION AND PRIORITIZATION

<u>Selection Criterion</u>	<u>Prioritization Criterion</u>	<u>Prioritization Weight</u>
1. Significantly contribute to employment creation, preferentially in depressed areas	1.1 Projects with a low capital-labor ratio given their branch of economic activity	4
	1.2 Projects which open zones of economic frontier, principally tending to diminish regional disequilibria	1
	1.3 Projects in geographic areas defined in the emergency plan as "Areas for action of the SPS"	4
2. Have a benefit-cost ratio greater than one	2.1 Profitability of the project according to its branch of economic activity	2
	2.2 Projects with a short maturation period	1
	2.3 Projects in operation and/or with approved financing	1
3. Contribute significantly to the national accumulation effort in the short and medium term	3.1 Projects which contribute to the generation and/or saving of foreign exchange	2
	3.2 Projects which increase the production of essential goods	2
	3.3 Projects which have favorable conditions for financing	2
	3.4 Projects which contribute to the development of local technology	1
4. Be conceived in inter-related systems of firms and/or contribute to the integration of the enterprises of the SPS	4.1 Projects which are vertically and horizontally integrated and make possible economic interrelations among EPSS	4
	4.2 Projects which articulate with and are complementary with associative peasant enterprises	2
	4.3 Projects destined to satisfy the demands of the National Public Sector	1
	4.4 Projects which realize activities complementary to those of the private and reformed private sectors	1
	4.5 Projects which realize activities of intermediation between rural and urban production activities	4

SOURCE: CONAPS, "Selección y Priorización de Proyectos" (Lima, October 1976).

TABLE 8

SUMMARY OF THE RECOMMENDATIONS OF THE CONAPS REPORT ON PROJECT SELECTION AND PRIORITIZATION

<u>Recommendation</u>	<u>Number of Projects</u>	<u>Status of Projects</u>
Support development of the enterprise	30	Constituted or in formation and high priority according to new evaluation criteria
Support development of the enterprise	16	Constituted or in operation and lesser priority according to new evaluation criteria but already has an organized social base
Postpone development	12	In formation but requiring complementary studies
Postpone development	3	In formation but requiring redesign of business objectives
Terminate activities	3	In formation but rejected for technical-economic reasons
Terminate activities	3	In formation but rejected as being of low priority according to new evaluation criteria
Incorporate in future development plans of SPS	57	Not yet in formation and with high priority according to new evaluation criteria
Integrate with other projects which are to be incorporated in future SPS development plans	123	Not yet in formation and with high priority according to new evaluation criteria
Definitively discard	90	Not yet in formation and with low priority according to new evaluation criteria
Definitively discard	179	Not yet in formation and rejected for technical-economic reasons

SOURCE: CONAPS, "Selección y Priorización de Proyectos" (Lima, October 1976).

December 1978, this "complex" is to be composed of private-sector firms. But the electronic complex planned for Tacna, again under development within COFIDE, was given a green light for further development with full support. It entered production late in 1977.

On September 12, 1976 the Lima daily El Comercio printed a long interview with President Morales Bermúdez by Pierre Maliniak of Le Monde which dealt at length with the role of the SPS in the "second phase" of the Peruvian "Revolutionary Process." In this interview, the President stressed economic pluralism as a fundamental concept in replying to the journalist's question concerning what had happened to the priority of Social Property which Velasco had referred to as becoming hegemonic or preponderant. Morales Bermúdez replied that the coexistence of the four sectors (SPS, state, reformed private, and fully private) should avoid "unproductive competition" between them. The reference to the priority of the SPS contained in the "Ideological Bases of the Peruvian Revolution" (a document made public in February 1975 and which Morales Bermúdez had repeatedly insisted forms the identity of the "Second Phase" of the "Revolution" together with the October 3, 1968 Statute of the Revolutionary Government) was described by the President as a "philosophical criterion whereby, as the resources of the country permit we can proceed with developing this Sector...." "If some people understand the criterion of Social Property would be that all or a high percentage of the State's resources will be allocated by this criterion of priority for Social Property, the State would not have even the resources to develop its own state enterprises. Thus, by this I am indicating to you that when we speak of a priority of the Social Property Sector, it is because the thinking, the philosophy of the problem, leads us to give support to the Sector, as we are giving and will continue to give."

The President went on to say that he had stopped using the word "socialism" (it did not appear in his July 28 Independence Day speech) because "the greater part of the groups on the right confuse the word Socialism with Communism." When questioned on whether relying on highly labor-intensive projects might threaten the ability of the SPS to finance its own growth, the President replied that the government was eliminating a series of proposed SPS projects precisely because they were not likely to be profitable. Maximum employment creation should be a prime characteristic of EPSs, he continued. But this would not exclude some highly capital-intensive production units if they were necessary to assure the overall profitability of an agroindustrial complex other parts of which were relatively labor-intensive.

On November 22, 1976, President Morales Bermúdez made an important speech on economic organization at the closing session of the Annual Conference of Executives (CADE 76) in Arequipa. Regarding the SPS, he again emphasized the importance to be given the criteria of employment-creation and profitability in project selection. The major new point was the introduction of the concept of "organic individualization" of EPSs to better "identify responsibilities, assure profitability, and really comply with the requisite of full worker participation." The government's vision, the President asserted, "is to conceive productive units that are each independent of the others and responsible for their acts, in which the workers benefit directly from the results obtained in enterprise management

or suffer the consequences of the errors committed." The new concept appears to conflict with the object of developing highly interrelated complexes of EPSs, one of the criteria maintained in the October 1976 CONAPS study on project selection and "prioritization." It remains to be seen what "organic individualization" will mean in practice, but it suggests that the provisions for social accumulation and participatory planning contained in D.L. 20598 may be subject to revision.

This suspicion is further strengthened by the Tupac Amaru Plan of Government for the period 1977-1980, announced by the Morales Bermúdez government in 1977. The section on enterprise reform in this document nowhere mentions the SPS by name. Rather, after discussing the state and reformed private sectors and before noting that the government will continue to promote the small fully private-enterprise sector, the "social sector of property" is discussed. This new sector would include "all those enterprises in which the means of production are the total property of the workers (Social Property Enterprises, Agrarian Production Cooperatives, Service Cooperatives, Agrarian Social Interest Societies, Peasant and Native Communities) with each form maintaining its own characteristics." Thus the other "social sector" firms would not be converted into EPSs and integrated into an expanded SPS. Furthermore, the plan calls for "perfecting the Social Property Enterprise Law, revising its present structure so as to make each enterprise truly the property of its own workers and assure that it will function as an autonomous production unit." This would be tantamount to establishing group rather than sectoral property and abolishing the participatory planning structure envisioned in D.L. 20598 but never implemented. Finally, the plan called for developing EPSs "in such a manner that:

1. The programming of resources to be assigned is subjected to an ordering of investments in accord with priorities.
2. They develop principally activities which require a high use of labor in relation to production costs and where personal effort, and not the concentration of capital, influences with priority the results of the enterprise.
3. Favors with priority creation of production centers developed by initiatives of the workers."

While through 1978 there had been no changes in the social property legislation to implement these recommendations, the SPS since mid-1976 has clearly been accorded a role consistent with the position of the ruling alliance of "developmentalist" and "conservative" factions within the military.

Table 9 shows that from the 1976 "reprioritization" exercise through November 1978 only eight additional EPSs have begun production, only four more EPSs have achieved the status of fully constituted, and a number of projects previously declared "in formation" have been dropped. Total employment in the 42 operating EPSs was estimated at 6,115. As of the end of 1978, the total disbursed investment of FONAPS was S/ 4.3 billion (US\$21.5 million at an exchange rate of 200 soles per US\$, although this

TABLE 9

SOCIAL PROPERTY SECTOR IMPLEMENTATION, JULY 1976-NOVEMBER 1978

<u>Degree of Implementation</u>	<u>July 1976</u>	<u>November 1978</u>
EPSSs Constituted	3	7
EPSSs in Formation and Operating	31	35
EPSSs in Formation but Not Operating	32	11

SOURCE: CONAPS, "Estado de Proyectos y Empresas de Propiedad Social de 31/7/76" and FONAPS, "Necesidades de Recursos Financieros del FONAPS para 1979."

underestimates the value of investments made at lower exchange rates), of which S/ 3.4 billion came from Central Reserve Bank credit lines and S/ 0.9 billion from other sources including donations of assets by the state, amortization of aportes transitorios by FONAPS, and transfers of economic surplus by EPSSs. The gross value of production of all operating EPSSs in 1978 is estimated by FONAPS at S/ 6.8 billion. No data were available on value added in the SPS, but considering that several important EPSSs are involved in commercial activities, it is unlikely that the value added exceeded half this amount. Little accumulation is taking place in the EPSSs--in fact many appear to be in continual need of new infusions of working capital, if they are to survive. Management problems abound, compounded by the extremely depressed level of business activity related to the economic crisis.

Only seven of the 42 operating EPSSs had the relative autonomy guaranteed by the original social-property law, and in practice all of them were subject to control and intervention by the state. At the end of 1978 the SPS had some characteristics of a state conglomerate, though financial and administrative control were split between SINADEPS (of which CONAPS was by far the most important part) and other financial institutions of the state, particularly COFIDE. At the firm level, varying degrees of worker participation were found. CESUPS continues to operate on a very small budget. In addition, several groups of técnicos formerly associated with the SPS and other types of self-managed firms have banded together to form supporting enterprises not formally a part of the SPS, but committed to its development. One of these has obtained significant financial support from abroad and now has the capacity to provide not just technical assistance but also loans and loan guarantees to the EPSSs. It is ironic, to say the least, that the SPS, once seen by its designers as one of the principal instruments to reduce Peru's dependence on international capital, is now increasingly dependent on grants and loans from abroad.

The Future of the SPS

Summarizing the admittedly sketchy data on the SPS implementation process through 1978, the SPS, envisioned by Velasco as destined for hegemony within a pluralistic economy, is today a very small operation struggling for survival in a hostile political and economic climate. A major political question must be whether the opening represented by the election of the Constituent Assembly

and the plan for turnover of power to an elected civilian government will in fact be successful in these crisis conditions. If it fails, then the probable result is a highly repressive and authoritarian government not likely to support the SPS. It would more likely be a government of the right than one of the left, despite the increased popular mobilization which, together with the economic crisis, is a major legacy of the Peruvian "experiment." The following analysis assumes that the opening will proceed, with some continued influence being exercised by the military.

Within the Constituent Assembly, which is dominated by a center-right coalition of the APRA and the PPC, there is a Commission on the Economic and Financial Regime, which is chaired by Dr. Ernesto Alayza Grundy, a former Christian Democrat who joined the right splinter group which formed the PPC in 1967. In an interview reported in La Prensa of 8 December 1978, Dr. Alayza Grundy said the Commission was inclined toward establishing four productive sectors which would compete within a general regime of economic pluralism: the public, private, cooperative, and communal sectors. The SPS could in the future become a fifth sector if it achieved an "adequate development and volume." The prospective constitution would not bar the path to the development of EPSs--"it recognizes that today and for the future they may grow as much as they can."

An APRA spokesman in the Constituent Assembly, Ing. Jorge Torres Vallejo, who is also one of the ten members of the Commission on the Economic and Financial Regime and one of the six in the APRA-PPC majority block in that Commission, said that the "communal sector" would include "the EPSs, the SAISs, and all this type of enterprise which may be created in the future" (Correo, 9 December 1978). The most extensive and authoritative statement of APRA's somewhat ambiguous position on the SPS may be found in the April 1978 document Cooperativismo y Constituyente written by Luis F. Rodríguez Vildosola, APRA's leading expert on cooperatives. The APRA has always given great importance to the development of cooperatives, and Rodríguez Vildosola is one of the drafters of the General Cooperative Law (Ley 15260 of 14 December 1964). In Cooperativismo y Constituyente, he argues that the social property law was unnecessary, because the provision for Production and Labor Cooperatives in Law 15260 could have been implemented by appropriate regulations, much as was done for the Agrarian Production Cooperatives (CAPs) formed under the Agrarian Reform. The principles of the SPS, he argues, could have been embodied in regulations governing Production and Labor Cooperatives (no regulations were ever promulgated for these categories of cooperatives established by Law 15260).

Rodríguez Vildosola favors developing the National Bank of Cooperatives to perform functions for the cooperatives similar to what FONAPS provides for the EPSs. One may infer from this discussion that the APRA would probably prefer either to leave the EPSs within the newly proposed "communal sector" or perhaps (if it had its way) to eliminate the SPS, incorporating the EPSs into a new and strengthened cooperative sector. APRA reportedly already has predominant influence in about one-fourth of the operating EPSs.

The only political parties explicitly supporting the SPS are the Christian Democrats and the branch of the Socialist Revolutionary Party (PSR) led by retired General Leonidas Rodríguez Figueroa. Neither party has a very large mass base, and together they won only eight of the 100 seats in the Constituent Assembly. The rest of the parties of the left, represented in the Constituent Assembly or not, have no real ideological commitment to the SPS. Their support, if forthcoming, would probably only be tactical--although the Peruvian Front of Workers, Peasants, and Students (FOCEP), a Trotskyist coalition led by Hugo Blanco with some support by Maoist splinter groups, would probably support some form of worker control. FOCEP won 17 seats in the Constituent Assembly.

The third head of SINADEPS (named in September 1978), General Carlos Gamarra Pérez, has argued that the SPS should be explicitly recognized in the new constitution (La Prensa, 8 December 1978), and the Morales Bermúdez government appears to be supporting this position, on the grounds that the SPS is a major creation of the "Revolution." Assuming that the most likely short-term political outcome is some kind of accord between the APRA and the military, possibly with the participation of the PPC, the social property legislation is not likely to be revoked. But little financial and political support for the SPS can be expected from the state in the near to medium term. Whether Production and Labor Cooperatives provided for in Law 15260 are reglemented or not, the APRA is likely to try to give priority to its conception of cooperatives, possibly by modifying some aspects of the social property legislation to reduce the amount of direct state control over the EPSSs exercised by CONAPS and FONAPS. The role of the National Cooperative Bank would be enhanced.

Summary and Conclusions

1) A strong political base is necessary to implement a major change in economic organization such as the SPS, which was conceived both as the primary means of carrying out a transition to socialism and as the mode of economic organization which would create socialist relations of production. The Peruvian military regime alienated its potential supporters as well as its natural enemies. The SPS was pushed from the top by Velasco and his core group of military supporters and designed by a group of ideologues and technocrats in and around the state apparatus. There was no real popular comprehension of the SPS or support for it, so that when the economic crisis deepened and cleavages within the military support group deepened, SPS promoters had virtually no one to turn to.

2) In addition to a political base, any proposal to implement major new investments must count on a source of investible surplus. Peru had hopes of developing this through mining, fishing, and petroleum exports. A combination of bad luck, bad management, and rising military spending, coupled with delays occasioned by the fears of foreign investors and falling international prices for Peru's most important export products, eliminated this possibility. Privately controlled radio and television, and newspapers dependent on private-sector advertising, continued to promote production and consumption of non-essentials, while little was done in the way of tax reform to mobilize the surplus. Rather, potential tax revenue was allowed to be invested in still more private-sector production capacity.

3) The idea of economic pluralism showed itself to be wishful thinking. As long as a government is counting on private-sector saving and investment, introduction of reforms and speechmaking--which destroy the "investment climate" by creating deep uncertainty among investors--will scare off much of the capital which might be provided by the private sector (domestic and international) and may precipitate capital flight.

4) If "economic hegemony" is the objective, then the only way to achieve it in any reasonable amount of time is to convert existing enterprises to the new form of organization. This requires strong political support and a clear commitment from the top of the state. Establishing new firms is a slow and difficult process under the best of circumstances.

5) Those in charge of SPS implementation began the process without developing a clear implementation strategy adequate to the political and economic realities. There was a lack of economic analysis in designing the social property legislation, and that implementation strategy which existed was improvised. The lack of economic analysis went all the way to the top--Velasco was singularly lacking in any ability in this field.

6) No major expansion of the SPS is likely over the next few years. The best that can be expected is that the sector will survive as something more than a collection of production cooperatives, and that the experience gained in consolidating the existing EPSs as viable economic enterprises with a high degree of worker participation in management will remain available in the future in Peru and elsewhere should political and economic conditions favor the development of worker self-management.

¹Charles Bettelheim, Calcul Economique et Formes de Proprieté, Economie et Socialisme 13 (Paris: François Maspero, 1970), p. 55.

²Ibid., p. 61.

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¹²Alfred Stepan, The State and Society: Peru in Comparative Perspective (Princeton, N.J.: Princeton University Press, 1978), ch. 6.

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