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NOTES FOR A RECONSIDERATION  
OF THE PERUVIAN EXPERIMENT

by Kevin J. Middlebrook  
Harvard University

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Introduction

Ten years after a reformist military government took power in Peru in October 1968, a substantial body of scholarly literature has emerged to evaluate the nature and significance of the "Peruvian Experiment." The military regime headed by General Juan Velasco Alvarado promised to expand opportunities for popular political participation, redress historical patterns of social injustice and economic inequality, and enhance national autonomy through a broad-ranging program of socio-economic and political reforms. The military's stated goal was a "fully participatory social democracy" in which citizens could actively participate at all levels of economic and political decision-making.

This call for broad structural reforms drew attention from both national and international observers due to its far-reaching implications for socio-economic and political change in the developing world. Not only were significant domestic reforms promised by a modernizing military government intent upon maintaining the institutional unity of the Peruvian armed forces, but the Velasco government's actions also held important consequences for Peru's relations with the United States, other Latin American countries, and the broader international community. Thus the "Peruvian Experiment" promised to offer important new insights into the role of the military in politics in Latin America, changing patterns of Latin American nations' relations with the United States, and the dynamics of socio-economic and political change in developing countries.

The Velasco government moved rapidly to translate its broad goals into specific reform programs. Between 1968 and 1975 Peru's military government nationalized several major foreign property holdings, revised the acceptable conditions for foreign investments, implemented an agrarian reform program at the expense of the landed elite, and reoriented the existing capitalist economy through structural reforms which instituted a "social property" sector (based on increasing worker participation in enterprise ownership and management in the fishing, mining, and manufacturing industries. These reform measures involved a significant increase in the state's role in the economy and sought to alter traditional socio-economic, political, and cultural relationships. For example, the agrarian reform relied upon the creation of agricultural cooperatives to transform the rural sector. The educational reform included programs for bilingual education, adult literacy and vocational training, and closer structural integration between the educational system and the local community.



All these measures were designed to increase citizen participation by reducing the socio-economic, linguistic, and cultural inequalities which had been historically imposed on a large part of the Peruvian population. The reform program sought to change national values and create the basis for a "new Peruvian man." The military government also sought to institutionalize these new opportunities for political participation through the creation in 1971 of a "National Social Mobilization Support System" (SINAMOS). This corporatist structure created new participatory organizations to structure and direct popular political participation through residential and occupational centers.

Internationally, Peru under the Velasco government played an energetic role in the Andean Group and looked to this regional integration framework as an important means of reducing external dependency. The Andean Group was to provide Peru with the economically rational basis for the regionally based industrial development and the strength for a greater international role. Peru also emerged as an important spokesman for non-aligned countries and took on a major new role in advocating the economic and political interests of developing countries in international arenas.

However, growing internal dissension within the armed forces and increasing social and political tensions generated by the reform process resulted in Velasco's removal as head of the military government in August 1975. The leadership transition marked a decisive turning point in the course of the "Peruvian revolution." Despite initial statements to the contrary, General Francisco Morales Bermúdez presided over a new phase of military rule which saw the modification or end of a number of the Velasco government's most important reform measures: the agrarian reform process slowed as further efforts to reduce inequalities among reform beneficiaries were suspended after 1976; the "industrial community" legislation was revised so as to reduce the opportunities for worker participation in enterprise ownership and management; and the SINAMOS structure for popular participation was quietly dismantled. Peru's growing external debt and critical economic problems produced demands by international creditors for economic austerity. Facing rising problems at home and abroad, the Morales Bermúdez government moved toward a return to civilian rule. Political parties resumed an important role in national affairs, a constitutional assembly convened, and plans were made to hold presidential elections in 1980.

In November 1978 an international group of scholars gathered at the Wilson Center in Washington, D.C. to evaluate post-1968 developments in Peru.\* While conference participants frequently differed in their judgments

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\*The conference, "The Peruvian Experiment Reconsidered," was held on November 2-4, 1978, at the Woodrow Wilson International Center for Scholars, Smithsonian Institution, under the direction of Abraham F. Lowenthal (Latin American Program, Wilson Center) and Cynthia McClintock (George Washington University). A list of conference participants appears in the Appendix. Many of the papers presented at the conference have now been published by the Wilson Center as part of the Latin American Program's "Working Papers" series. This essay may be usefully read in conjunction with these conference papers.

I would like to thank Machteld van Nisbet and Lynn Exton for sharing with me, respectively, additional notes and tape-recordings of conference sessions which greatly facilitated the preparation of this essay. I have also benefitted from participants' written comments and observations circulated after the conference.

judgments as to the overall significance and impact of the "Peruvian Experiment," as well as the intent and consequences of specific reform programs and the criteria by which they should be evaluated, they shared a concern with the issues which the Peruvian experience raised regarding the sources of change and the prospects for reform in developing countries. Conference participants specifically sought to clarify the nature and significance of those reforms undertaken by the Velasco government, 1968-1975. Considerably less attention was devoted to developments in Peru since 1975 under the Morales Bermúdez government.

This essay provides a summary of the general themes and competing interpretations which emerged in the course of the discussions at this conference. While many participants might agree that a variety of factors account for Peru's current economic and political crisis, many of the interpretations offered are not easily reconcilable. The same problem is often given a considerably different meaning when viewed through different conceptual lenses. No attempt to reconcile these differences will be made here. On the contrary, the purpose of these notes is to highlight the principal areas of agreement and disagreement. This essay is neither a critical summary of the papers which provided the basis for these discussions, nor a review of existing published materials on issues related to recent Peruvian experience. Instead it attempts to present the arguments offered by conference participants in cogent and coherent form. Statements made here should be taken only as summaries of the major lines of argument. Different points are frequently identified with their specific proponents, but they were not necessarily endorsed by conference participants in general.

An important prior question underlies much of this recent scholarship on Peru: Was the "Peruvian Experiment" a failure? With some exceptions (Letts), participants at the Wilson Center conference answered this question in the affirmative, although their judgments widely varied as to the particular causes of this failure. However, one might argue that more attention should be given to the positive accomplishments of the military government's reform program. On the one hand, it may be too early to draw such general conclusions of "failure." It is difficult to judge the long-term consequences of important changes which have occurred in patterns of land tenure, social participation, and political awareness as a result of the military's reform measures (Sheahan). On the other hand, before such a general conclusion can be reached, more specific attention must be given to the question of who the primary beneficiaries and principal losers have been in the ten years since the beginning of the "Peruvian Experiment" (Pásara). In economic terms the middle class appears to have gained while the poorest stratas' position has remained relatively unchanged. The political dominance of the landed oligarchy has ended and there has been a considerable expansion in the politically active population, especially among urban sectors. Finally, before conclusions such as this can be drawn, the criteria by which to judge the "Peruvian Experiment's" success or failure--stated program goals or more general ideological determinants such as the creation of a "fully participatory social democracy"--must be clearly stated.

# I. Flaws and Contradictions in the "Peruvian Experiment"

Much of the early conference discussion focused on several central underlying questions: Was there a "model" or proyecto which guided the military's reform process? Was there any substantial degree of policy coherence, or was the reform process simply a collection of social redistributive policies? (Webb) In each sector, did the military have a clear and agreed-upon policy to pursue, and how was it arrived at? If such a policy did not exist, did the underlying concept become more or less clear over time (1968-1975) during the implementation process, i.e., was a "learning process" involved? (Lowenthal)

These questions elicited a wide variety of responses with emphasis on the economic dimensions of the reform process and the flaws and limitations which hindered reform measures' effective implementation. At the most general level, some participants argued that Velasco had no guiding philosophy beyond a "gut populism" by which to direct the reform process (Wicht, Knight). According to this interpretation, Velasco lacked an appreciation of the complexity of social forces and evaluated different actors largely in terms of their personal loyalty to him. Nor did he have the administrative skills and capacity for economic analysis which might have made the reform implementation process more successful.

To the extent that a "reform process" emerged during the Velasco regime, it was constructed incrementally from a variety of different alternatives (Pease, Thorp). In contrast, others concluded that the existence of a planned succession to follow the Velasco presidency suggested a power configuration identified with a coherent reform "plan" (Cleaves).

The contrasting answers to these more general questions are in part based upon differing evaluations of reform developments in specific sectors of the Peruvian economy. In the case of the rural sector and the agrarian reform, for example, some conference participants maintained that by 1972 a relatively clear policy had evolved with regard to agricultural institutions created by the reform such as the various forms of rural co-operatives (Caballero). But others argued that the overall agrarian reform process lacked coherence after 1973 and pointed to the government's effort to enhance the redistributive efforts of the initial land reform through the creation of "central cooperatives" (centrales) as one example of actions which indicated the absence of a clear-cut, coherent reform plan (McClintock). Not until 1975 and the end of the more activist Velasco period was it clear how extensive the agrarian reform would be in terms of the kinds of properties affected. Significantly, from the peasants' point of view there apparently was no coherent central agrarian reform policy (Bourque, Warren). To the extent to which the implications of the Velasco government's plans did become clear over time, peasants' support for the government declined as the agrarian reform program operated to undermine networks and strategies which peasants had developed earlier to further their integration into the national society and economy.

In the case of the industrial sector's "social property" (propiedad social) reform, there were various "models" or proyectos rather than any single vision of the intended reforms (Knight). "Social property" was at once the means and the incomplete version of the reform's final goal--a more

democratic, egalitarian society. And in some cases specific components of the industrial reform program may have worked at cross-purposes to the reform's other provisions (Abusada). This was the case with the various fiscal incentives which the industrial reform plan offered to businessmen (which allowed employers to maintain managerial control through accelerated reinvestments) and the provisions designed to advance progressively expanded worker self-management and ownership.

More fundamentally, however, the economic model represented by the military's reform measures may have suffered from significant internal contradictions (Fitzgerald). In this interpretation, Peru in the late 1950s and early 1960s was characterized by a crisis in the existing model of capital accumulation which was evidenced by a long-term decline in export earnings and national private investment. The military government sought to implement a new strategy of economic development and capital accumulation which featured massive state investment and a restructured labor-capital relationship. In this sense, the military proposed a "state capitalism" model. Whether or not the military reformers perceived their program in these terms, in many ways they "moved into" an economic model following the agrarian reform which did in fact represent "state capitalism" (Fitzgerald). The political crisis which accompanied Peru's long-standing economic crisis constituted the relative autonomy which allowed the military to undertake this development strategy. In general, such "state capitalism" models arise in countries such as Peru where the national bourgeoisie is weak and such restructuring must be undertaken either by the state or by international capital. But as the state undertakes capitalist economic activities, it enters into a conflictual relationship with the labor force which must necessarily reduce the state's own relative autonomy over time. Likewise, an inevitable confrontation with foreign capital will also reduce the state's critical "political space." Thus the "state capitalism" model is in its own terms subject to important internal contradictions (Fitzgerald).

A number of specific problems were associated with the military's attempt to implement this model in the Peruvian context. Among the principal failings was the fact that the state did not have access to the private sector's savings despite high liquidity and profitability in the private sector (Fitzgerald). Nor was an effort made to rationalize the foreign exchange system. The military also overestimated national capitalists' willingness to step forward to invest when the obstacle posed by the national landed oligarchy had been removed. Instead, the national bourgeoisie resorted to "capital flight" to express its opposition to the military's reforms, especially the "industrial community" reform. Among the specific policy errors and problem areas were: the failure or inability to undertake a significant tax reform; the absence of a sustained effort to reduce private consumption (although this was in part a conscious decision on the part of the military to "buy" popular support); the obstacles posed by multinational corporations' aggressive transfer-pricing policies; major divisions within critical bureaucracies between those who planned reform measures and those who implemented them; the absence of a long-term program within the context of the agrarian reform to increase agricultural production; and massive losses by state firms.

To the extent to which mismanagement and corruption were obstacles to the successful implementation of the reform program, this interpretation would relate such problems to the conflictive political demands



made on the military government and the inevitable tension between such goals as increased agricultural production and "populist" food price policies (Fitzgerald), or the contradiction between the military government's redistribution goals and state enterprises' financial needs (Thorp). Rather than attribute the overall "failure" of the military government's reform measures to simple mismanagement, then, this perspective seeks to understand the dynamics of "state capitalism" and the model's more general limitations. The Peruvian case illustrates many of the model's potential difficulties (Fitzgerald).

Closely related to this general argument that the "Peruvian Experiment" was inherently unworkable as a developmental model is the notion that it was weakened by an essential incompatibility of its various aims and objectives. One might state this issue in terms of whether or not the reform goals of developing countries such as Peru are by nature mutually exclusive (McClintock). The answer to this question turns in part on the extent to which the Peruvian case offers general lessons regarding the ability of an authoritarian government to implement redistributive development projects, or whether specific, conjunctural factors resulted in failure in Peru (Cleaves, Pásara). While most conference participants recognized that at the very least the "Peruvian Experiment" involved various trade-offs (despite the Velasco regime's effort to avoid such choices). Others argued more explicitly that there is a mutually exclusive relationship between national autonomy for a developing country and technology-based capitalization and ties with multinational enterprises (Guasti).

## II. Mismanagement Under Peru's Military Government

A major alternative explanation to the "unworkable economic development model" approach holds that the failure of the "Peruvian Experiment" was due to the military government's extreme mismanagement of reform policies. This interpretation differs from the "unworkable model" perspective in two of its initial positions. First, for those who attribute the failure of the reform process to mismanagement under Peru's military government, mismanagement was in large part the result of the absence of any clear-cut plan or model on the part of the Velasco government (Knight). There was no "state capitalism" model--neither in the perceptions of the military government nor in fact (Wicht). Indeed, the government had no economic reform model of any kind beyond a commitment to nationalism and populist socio-economic reforms. Furthermore, nationalism blinded the military reformers to the necessity of choice, and thus there was no clear vision of what trade-offs were necessary. The government did not formulate its economic policies on the basis of a calculation of comparative advantage (Schydrowsky), and its unintegrated set of policy aims failed to recognize important international economic constraints.

Second, those who attribute the failure of the "Peruvian Experiment" to gross mismanagement on the part of the military reformers anchor their case on a positive evaluation of Peru's situation in 1968. As noted previously, this judgment is in basic disagreement with those who argue (Fitzgerald, Thorp) that Peru in 1968 suffered from a general economic and political crisis dating from the 1950s. Proponents of the "mismanagement" position argued that in fact Peru had emerged from a moderate recession in the mid-1960s and faced a generally favorable economic situation when the military came to power in October 1968 (Schydrowsky).

The central thesis of the "mismanagement" perspective holds that Velasco's military government continued to apply the existing import-substitution industrialization strategy in an increasingly inappropriate national context. The military reformers committed a fundamental error in strategy in failing to learn from other Latin American countries' (especially Chile's) experience with this model (Sheahan). The vigorous application of this 1960s, ECLA-prescribed development strategy in the 1970s only accentuated problems of un- and underemployment, agricultural stagnation, and rural-urban migration. In general, the military's evaluation of problems paid too much attention to their political implications and failed to perceive accurately economic necessities (Schydrowsky). Specific policy and administrative errors included: rapidly expanded current expenditures and a public sector deficit which exceeded output capacity (although public sector wage and salary expenditures were largely fixed; Thorp); a foreign exchange system which adversely affected exports and an exchange rate which encouraged the use of capital rather than labor inputs; unwarranted tax exemptions; and a tariff structure which offered extreme protection to domestic producers (Sheahan). Large defense expenditures and a greatly expanded governmental bureaucracy accelerated Peru's growing economic crisis (Ortiz de Zevallos, Thorp). The rapid expansion of a poorly managed state-owned sector only further undermined this deteriorating situation. Indeed, argued the exponents of this position, the actual conduct of the public sector in Peru was the most convincing argument against its further expansion. Public sector mismanagement largely accounted for problems such as the lack of state access to the private sector's savings.

While agreeing that mismanagement was indeed a serious problem under the Velasco regime, other conference participants offered important qualifications to this interpretation. For example, the context in which the various reform measures were implemented was also an important factor. In the case of the "social property" reform, continued economic pluralism made the measure difficult to implement effectively (Knight). Economic errors committed by the military reformers may also have been due less to mismanagement *per se* than to a failure to appreciate (as a result of the structure of international prices) the degree of economic stagnation which affected Peru at the time (Thorp). Finally, the military's economic program presupposed a competent state administrative apparatus. Yet for reasons relating to Peru's historical lack of national integration, this experienced administrative capacity was lacking. The reform program thus encountered problems of mismanagement (Thorp).

More generally, there is also some question as to the extent to which economic mismanagement contributed to the "failure" of the military's overall reform program. For example, although the private sector did see measures such as the reforma industrial as antithetical to its interests and the industrial reform in itself was internally inconsistent in that it pursued worker participation goals but gave employers the means to delay that result indefinitely, Peru's current economic crisis cannot be directly attributed to efforts to implement structural socio-economic reforms such as these (Abusada, Sheahan). Finally, the problem was not solely a question of economic "mismanagement" or "failure"; political factors were also involved since the solution to the balance-of-payments problem required a more activist state (Wicht).

This discussion of mismanagement by the military reformers focuses attention on the characteristics of the Velasco government's decision-making process and the extent to which they undermined the viability of the "Peruvian Experiment." To a considerable degree the military's policy-making style was characterized by closure and secrecy (hermetismo). It was excessively technocratic due to the military's exaggerated faith in "efficiency," and uncertainties and ambiguities characterized many decisions (Cotler). In addition to the predominantly vertical orientation of the policy-making process, técnicos frequently offered internal resistance to policy implementation (Salaverry). For example, in the case of the "social property" reform the implementation strategy was both unclear and too politicized (Knight). These difficulties were exaggerated due to the fact that the military reformers frequently lacked basic economic training (Abusada) and Peru in general suffered from a lack of managerial talent, a situation which became increasingly severe as government insufficiencies caused more managerial talent to emigrate (Thorp). At a more general level, political and economic decision-making was also hindered by the "unintegrated" societal context in which it occurred (Ortiz de Zevallos).

There were, however, elements of the military's policy-making style which may have contributed positively to the realization of reform goals (Cleaves). Ambiguity in policy formulation and implementation constituted a "reform-mongering" strategy which allowed Peru to move toward a "third way" of development (McClintock). It was especially functional in terms of allowing reform policies to elude potential political opposition, permitting flexibility in their implementation, and creating an impression of the Velasco government's commitment to "programmatic experimentation." But policy-makers' ambiguity also held important costs in terms of confusing or alienating would-be allies and denying the regime general popular support. Permitting citizen-input into the policy-making process, then ignoring it in the formulation of the final decision, alienated citizens and led to charges of moral and ideological bankruptcy. In general, the regime's overall goals were often unclear and specific policies were frequently confused and changeable over time (McClintock).

Those who viewed the failure of the "Peruvian Experiment" as a question (albeit complicated) of the mismanagement also considered alternative policies and plans which might have avoided Peru's current economic crisis. The principal alternative strategy advanced by advocates of the "mismanagement" perspective was excess-capacity utilization and export-led industrial growth (Schydrowsky, Wicht, Abusada). They argued that such policies would have been relatively easy to implement because they would have benefitted all groups concerned, and thus would have faced little internal opposition; would not have been limited by major supply or market constraints; and were relatively easy to design. Among the many benefits claimed for this strategy were: a faster rate of economic growth, reduced un- and underemployment, increased economic equality via income redistribution, modernization of the industrial structure, and greater national autonomy. While some problems would have been encountered with any reform program, the efficient pursuit of this strategy would have done much to avoid Peru's bleak economic present (Schydrowsky, Wicht).

However, several questions were raised concerning the viability of this alternative strategy. On the one hand, there was some doubt as to what Peru's exports in an export-led development strategy would be, given

serious supply and market problems for possible candidates such as textiles or automobiles. The national industrialists who would be the key to this kind of strategy would be largely absent in Peru even if relative prices favored such exports (Fitzgerald). More fundamentally, there are major internal and external obstacles to such an export-led development strategy, especially protectionist measures by developed countries (Kurth) and the need for a major restructuring of the agricultural sector and the subsequent resistance offered by peasants (Guasti). Such an alternative strategy would also pose major political problems, particularly the need to establish stringent controls on labor (Guasti, Kurth). At the most general level, export-led growth may be an inappropriate model if the final goal is an integrated society, since such a model produces differentiated demand structures which result in strong internal social tensions (Salaverry).

Three more general issues raised by this discussion of the "mismanagement" perspective set the stage for a consideration of factors which constituted "internal constraints" on the "Peruvian Experiment." First, the question arose as to whether or not regimes such as that headed by Velasco can be both reformist and economically efficient in reform implementation, or whether they must necessarily resort to repressive policies in the end (Sheahan). While mismanagement certainly occurred in many areas, neither important socio-economic structural reforms nor an import-substitution industrialization policy need in themselves result in failure. The critical variables are the quality of reform implementation and the kinds and degrees of economic distortion permitted (Sheahan). Second, in many cases it was not a question of reform management becoming more inefficient during the Velasco period. Rather, reform policies frequently became more ambitious in the course of their implementation, thus exceeding the state's administrative capacity (Hunt). Third, concerning the general question of why a presumably strong and autonomous military government did not undertake corrective measures to avoid economic crisis (Lowenthal), some argued that it is perhaps unfair to blame military reformers for "failure" due to gross mismanagement if in fact macroeconomic policy was the cause of Peru's current impasse; indeed, even academic observers were unaware of the potential results of such policies at the time of their implementation (Hunt). A related critical question is whether or not there were political constraints which prevented the military decision-makers from pursuing "rational" economic policies (Hunt, Cleaves), or whether more macrosociological "Latin American modes of thinking" were more important in this regard than specific political constraints (Hunt).

### III. Internal Constraints on the "Peruvian Experiment"

A third major theme which emerged from conference discussions concerned the internal constraints which bound the Velasco government. The internal limitations on the military regime's capacity to implement its reform program pertain to:

#### National Integration and the State

The viability of the "Peruvian Experiment" was significantly undermined by Peru's historically low degree of national integration and the state's inability to incorporate mobilized groups and establish its own political hegemony (Cotler). The state's reform and modernization capabilities were severely constricted by Peru's blocked or restricted internal



markets, an inability to achieve territorial unification and integration, and the obstacles to socio-cultural homogenization posed by the country's colonial heritage. The Peruvian state's historical inability to unify the national population for common goals and its failure to achieve political hegemony meant that Velasco's military government lacked "directive capacity" (Cotler). The state's historical incapacity to incorporate the national population meant that it could only act through resort to force. The military sought to resolve this problem by implementing reforms "from above."

These historical problems were in part the result of external constraints and the nature of Peru's integration into the international economy. Penetration by foreign capital posed a critical obstacle to the Peruvian state's consolidation of political hegemony (Cotler). The resulting political crisis became apparent after 1956 as the state was increasingly obliged to "open up" in segmental fashion to groups seeking political access. However, this selective incorporation failed to absorb growing numbers of newly mobilized groups, a function which APRA had performed until the 1960s (Cotler). The form of foreign capital penetration in Peru's export-oriented economy (leaving substantial room for a fruitful symbiotic relationship with local interests) over time led to relatively little industrialization and an "underdeveloped" state (Thorp).

These historical problems became apparent in the individual reform programs introduced by the military. The social cohesion necessary for the effective implementation of economic plans or structural reforms was missing (Ortiz de Zevallos). For example, in the implementation of the agrarian reform program the state was incapable of exercising control over the rural population. The principal problem was one which involved the existing social structure rather than mismanagement or technical incapacity on the part of the military reformers (Cotler). From this perspective, "ambiguity" and "mismanagement" were necessarily characteristic outcomes of the policy-making process because the military government itself embodied both the armed forces as an institution and existing contradictions within civil society. The effort to satisfy and conciliate conflicting class interests resulted in policy incoherence. After 1975 policy continuity appeared only because a specific social element gained control within the government (Cotler). The military's problems in reform implementation during the Velasco period (1968-1975) were certainly exacerbated by the Peruvian state's "underdevelopment"--its lack of administrative capacity and the shortage of trained personnel due to the rapid expansion in state structures (Whitehead). More generally, however, there may have been a basic contradiction in the military government's efforts to exercise its relative state autonomy: while conjunctural factors may have temporarily increased state autonomy, an attempt to exercise that autonomy altered the combination of factors that had produced it (Stepan).

#### The Military as Reformers

Problems associated with the military as reformers constituted a second important internal constraint on the Velasco government's successful implementation of its far-reaching reform program. While at least one conference participant questioned the military's overall ability to undertake socio-economic and political reforms successfully (Perlmutter), others pointed to specific areas in which the Velasco government encountered significant difficulties.

First, Velasco's military government was unable to build a viable political base of support for its reform measures. The military sought to implement its plans for social change without a consideration of the realities posed by Peru's class structure (Cotler, Letts). The military was severely hampered in this regard by its anti-capitalist and anti-liberal Catholic orientation and its assumption that the state existed "above" society. This philosophy was embodied in its "ni capitalismo ni comunismo" ("neither capitalism nor communism") credo. The military assumed that the historic alliance between the armed forces and the people could occur as a "revolution from above" implemented without participation by popular classes or the military/state's identification with any particular social group. One result of this was the failure of the military's corporatist political model due to the absence of a political party structure capable of mobilizing popular support beyond government policy initiatives. Thus technocrats and ideologues were often the only vocal advocates of measures such as the "social property" reform, and the reform program received no popular defense when economic crisis struck (Cleaves, Knight). The military's perception of itself as autonomous from any specific socio-economic group or class also contributed to the hermetismo of its decision-making style and compounded the confusion as to the Velasco regime's overall policy goals (McClintock, North). The military's policy-making process became more open only as reform goals grew more radical and efforts to generate popular support produced few results (Cleaves).

Mobilizing mass popular support is a problem which reformist military regimes encounter everywhere (Trimberger), but in the case of Peru support for many of the Velasco government's reforms was limited because they were directed to a minority of the population (Pásara). Even those groups which did benefit from the reform process did not support the regime because the government's goal was national integration and the elimination of social conflict. The reform measures lacked an identifying orientation which would have attracted the mobilized support of particular socio-economic and political actors. This problem, in turn, was linked to Peru's extreme social heterogeneity, incoherence in the economy, and the absence of a defined sense of nationhood (Pásara, Cotler).

A second specific problem which hampered the Velasco government was the tension existing between the "military government" and the "military institution." Initial coercive power flowed from the military as an institution, but the differentiation and hierarchy which were helpful in the 1968 military takeover later hindered the military as government and constituted an inherent limitation on military radicalism. By 1974 the Peruvian military as an institution was no longer committed to the Velasco-era reforms. The military saw itself increasingly isolated from the population, and at the same time its perceptions of external threat grew. Political and economic constraints curtailed the military's search for political hegemony. The same security concerns that motivated intervention in politics later argued for a military withdrawal from politics (Stepan).

Many of the problems faced by the military reformers could be attributed not to functionaries' lack of administrative ability but to the internal characteristics of the regime (Pease). The overriding need for the internal conciliation of diverse interests and positions gave

economic policies their particular configurations. Furthermore, this imperative prevented the military from establishing links with other social groups or classes. From this perspective, then, it was the particular kind of regime which produced certain socio-political and economic policies, policies which were more the result of political compromise and the internal "rules of the game" than specifically political or socio-economic in their original conception. Many of these tensions resulted from differences of opinion within the armed forces with regard to their role as a military government. For example, the contradiction between government control and citizen participation in newly created political organizations was never adequately resolved.

However, as in the case of the characteristics and consequences of the military's decision-making process, other conference participants found that these internal institutional tensions made positive contributions to the reform process. For example, while ideological differences within the armed forces produced the prolonged political crisis of the Velasco years, they also created much of the "political space" which produced the Velasco regime's more radical policies, including that concerning an expanded role for popular mobilization and political participation (North). The ideological character of the military government was also critical in the case of other specific reform measures. In the case of the industrial reform law, for example, the government's high degree of ideological abstraction was very important in determining how radical the technocrats thought the reform could and would be (Cotler).

Third, the military's overriding concern with national security issues significantly affected its conduct of the reform process. The military's perceptions of both internal and external security were important in this regard. Major development projects such as the trans-Andean oil pipeline and other infrastructure development projects in Peru's northern areas can only be understood in these terms (Cotler). The military's perceived need to build "living frontiers" (fronteras vivas) was especially important in this respect. And due to the military's concern with internal security needs, some members of the Velasco government saw the kibbutz model as the key to national defense and counterinsurgency (Cotler).

While agreeing with the important consequences which the military's security concerns held for the reform process, other conference participants offered qualifications to this interpretation. While the Majes irrigation project in northern Peru might be best attributed to geopolitical concerns, often there were important economic motivations behind projects such as these (Thorp). In general, internal security concerns were less important than perceived external threats (especially from Chile) in explaining particular decisions by the Velasco government (Stepan).

#### The National Bourgeoisie

Several conference participants pointed to the characteristics of the Peruvian national bourgeoisie as a third major constraint on the Velasco government's ability to implement its reform program successfully. From this perspective, the weakness of the national industrial bourgeoisie had important consequences for the viability of the reform package (Thorp).

The national bourgeoisie's weakness was demonstrated by its willingness to enter into joint ventures with multinational corporations when the Velasco government sought to rely upon it as a source of capital accumulation. This problem was in part related to the political fragmentation of the national social structure and Peru's historical problem of national and political integration (Cotler). The historical pattern of Peru's export-led growth and integration into the international economy had resulted in relatively little industrialization and a weak industrial bourgeoisie (Thorp).

Some participants vigorously disagreed with this interpretation and argued that Peru does have an active, vigorous national entrepreneurial group. Moreover, the Peruvian industrial bourgeoisie did not "fail" (Schydrowsky). However, other participants sought an additional explanation for the national bourgeoisie's behavior, indicating that it had not moved to promote export-led development in a post-reform context in which the landed oligarchy (the presumed obstacle to the bourgeoisie's active participation) was eliminated (Pásara).

#### IV. External Constraints on the Military's Reform Process

External constraints on the successful achievement of the "Peruvian Experiment's" objectives constituted the fourth major theme that emerged from discussion at the conference. The impact of foreign direct investment and the influence of multinational corporations received specific attention. While foreign capital penetration had been identified earlier as an important element in understanding the internal constraints imposed on the "Peruvian Experiment" by the historical absence of state political hegemony and national integration (Cotler, Thorp) most conference participants viewed the role of foreign direct investment and the influence of multinational corporations as external constraints on the reform process. The broader questions here concern the degree to which there was a fundamental conflict between foreign direct investment and the military's political model, or among the goals of export-led development, capital formation, and the political goal of national integration (Cleaves, Knight).

Multinational corporations' opposition to an expanded state sector and measures such as the "social property" reform took on particular importance due to their control of roughly one half of the industrial sector (Fitzgerald). The Peruvian government's policies sought to advance national goals against the policies of multinational corporations and constituted both an internal and external challenge to them (Guasti). The Velasco regime fully comprehended the challenge which its reform policies constituted to the multinational corporations' strategy of global profit-making. However, while the use of capital-intensive technology as the means to achieve industrialization was a risky strategy, it was not foolhardy; exogenous factors (see below) had a particularly negative impact on the reforms attempted under the "Peruvian Experiment" in this respect (Stallings).

In general, the interplay between the government and these external economic actors on issues such as the balance-of-payments, "fade-out" clauses, and the "industrial community" reform undermined the industrialization program (Guasti). However, there were important variations in the



multinational corporations' response depending upon the economic sector involved. Multinational firms in extractive activities generally withdrew from Peru while those in manufacturing activities reacted by withholding new investment until government policies were clarified to their satisfaction. The negative reaction of international banks increasingly forced Peru to rely upon international lending agencies. In this sense, the government's industrialization objectives and its national autonomy goals were contradictory since the policy of national autonomy challenged the sources of investment necessary for high-technology industrialization (Guasti).

Closely related to the question of the impact of foreign direct investment and multinational corporations on the reform process is the issue of changes in the international environment and external constraints over time. Questions concerning the international environment were closely related to the larger question of whether or not the Peruvian reforms were viable at all, since it was unclear whether or not international capitalist creditors would "carry" Peru (Stallings). This was particularly true in terms of Peru's gamble to borrow heavily to finance short-term oil and copper exports while industrial exports were developed. In broader terms, in the future other developing countries may find their ability to pursue an export-led development strategy blocked by the new wave of protectionism sweeping the developed, industrialized nations (Knight). In the Peruvian case problems resulted not because of specific international constraints so much as a result of the general, world-dominant model of capitalism. Cyclical changes meant that, in the downturn, part of the "experiment" would have to be dismantled, the only uncertainty being the degree of dismantling necessary (Kurth, Eckstein). However, despite these external limitations, others maintained that Peru's current crisis was internally generated and would have occurred regardless of external conditions (Sheahan).

The specific reaction of the international financial community to the Peruvian military's reform measures is of particular interest in this discussion of external constraints. One might ask why the international financial community continued to support Peru if the military government was guilty of general mismanagement and faulty policy-making (Cotler). To some extent commercial bank lenders apparently "discovered" developing countries at about this time and were convinced that Peru believed in fiscal responsibility (Hunt). The oil crisis and the petrodollar surplus, the Eurodollar liquidity surplus, and OECD perceptions of developing countries' needs all made Peru a worthy credit risk (Schydrowsky, Guasti). And owing to export prices, reports of extensive petroleum reserves, and the Guajone project, Peru's economic future appeared bright in 1973-1974 (Abusada). In terms of the political situation, the banks believed that the military had a firm control on domestic politics, and the international banks' position in the geo-political region was secure (Whitehead). However, the banks may also have failed to analyze the situation sufficiently well (Schydrowsky), and no one had expected the international financial community to allow Peru to pursue essentially erroneous policies until near-total collapse occurred (Thorp).

## V. The Impact of Exogenous Factors

Although it is difficult to evaluate their relative importance in comparison to the other factors indicated here explaining the course of the "Peruvian Experiment," a variety of exogenous factors affected the outcome of the military reform process begun in 1968. Among those factors which might be grouped under the term "bad luck" were: the failure to discover the projected large petroleum deposits in the Amazon basin region; the disappearance of the large anchovy schools off Peru's coast and the subsequent crisis in the national fishing industry; Velasco's severe illness and its effect upon his ability to lead the reform process forward; falling commodity prices on the world market for many of Peru's important exports; and political changes in other Andean countries, especially the fall of Allende's government in Chile. The government had engaged in extensive foreign borrowing to bring short-term copper and oil projects on-line until more long-term industrial exports could begin. Thus failure to discover petroleum in the anticipated amounts was a particularly serious blow to the Peruvian economy since it had been on this basis that such extensive borrowing had been undertaken (Stallings, Fitzgerald). However, such "bad luck" may be inherent in the world capitalist economy (Kurth). Boom periods in commodity prices regularly produce great expectations on the part of developing countries and international lending agencies, and developing countries subsequently suffer in the cyclical downswing of international prices.

## VI. Peru's Future and Issues for Further Research

In an evaluation of Peru's future it is important to appreciate the degree of socio-economic and political transformation effected under the Velasco government (McClintock), as well as the substantive results which remain after the first ten years of the "Peruvian revolution" (Pásara). The Velasco government's search for new models of political participation and self-management were an important experience in this respect. Important changes also occurred in the balance of social forces during the Velasco regime, and one must ask what has been learned politically in Peru in terms of organization, consciousness, and mobilization (Letts). More specifically, Peru's recent past may offer lessons not only for an examination of its own future but also for the comparative analysis of other developing countries. Some conference participants argued that the Peruvian case may be particularly important in evaluating the limited effectiveness of a political strategy based on class integration and conciliation (Cotler), especially in determining whether or not a similar attempt is possible elsewhere. But other participants cautioned that on the basis of the Peruvian experience one should not conclude that similar reformist regimes cannot achieve economic efficiency and must fail (Sheahan).

Peru's own immediate political future remains uncertain. To some extent the "Peruvian revolution" is still very much in progress (Letts). But whether future political hegemony will come from the Left or the Right is still to be determined; the problems faced by Peru are of sufficient magnitude that their long-range consequences and future alternatives are unclear (Stepan). Some participants argued that the most significant democratic advance Peru could presently make would be an end to military

rule (Letts). Others noted that the future political possibilities for the military and the industrial sector are limited. More generally, Peru's future must be evaluated in terms of ideological currents prevalent in Peru in the 1960s, as well as in terms of the evolution of Latin America as a whole (Cotler).

Peru's economic future also remains unclear. In terms of the specific policies Peru might pursue, some conference participants suggested that over the next ten years or so attention should be given to mining exports (Fitzgerald). The possibility of declaring a debt moratorium in order to reduce the burden of foreign debt repayment obligations appears unlikely without the backing of Mexico and Brazil (Stallings). In discussing various possible future economic scenarios, some participants argued that a model of export-led industrial growth could be successfully adopted only in the context of "state capitalism" (Kurth). In a small country such as Peru, state action--not action by multinational corporations--is necessary to bring the country into the international economy. However, the political base needed to pursue such a strategy may now be inexistent (Kurth).

In the course of the conference discussions various participants indicated a number of themes which were insufficiently considered or might merit further attention. For example, the role of the Catholic Church in Peru was not discussed, either in terms of the importance of the ideological evolution it underwent in the 1950s and 1960s or in terms of its relation to similar changes occurring in the middle classes and the army (but not the armed forces in general) (Cotler). Additional attention to popular sectors' response to the military's reforms and the impact which this reaction had on the evolution of the reform process itself would also be useful (Bourque, Warren). This would include a closer examination of the relationship between the military's strategy for political participation and the various specific reform measures. The issue of the role of managers (as well as the available pool of managerial skill in Peru and structural features which limited its efficient use) is also one possible area for future research (Whitehead). More generally, a closer integration of political and economic analyses is necessary in future research (McClintock). Future research should also evaluate the relative merits of the "step-by-step, incremental" and "revolutionary" approaches to reform implementation (Knight). Finally, the interaction of the "Peruvian reality" and national and international actors' changing perceptions of Peru during the Velasco period should be the subject of further consideration (Lowenthal). The impact of Peruvian participation in the Andean Group on the domestic reform process might also be included in this regard.

Among the issues which surfaced in the course of various participants' comments but which received little detailed attention at the conference were the cause of and circumstances surrounding Velasco's overthrow. Some attributed Velasco's downfall to the 1974 seizure of the Lima newspapers--which might be termed the turning point in his government and the beginning of serious political deterioration. The move against the newspapers was the critical step beyond Velasco's available base of political support; it was the first link in the chain of events which proved to be his undoing (Letts). Velasco's position had also been weakened by his failure or

inability to alter the traditional training structure of the armed forces (Pease). However, others argued that Velasco's downfall was a consequence of the deteriorating economic situation in 1974-1975 (Cleaves, Stallings, Guasti). Similarly, the current attempt to return to civilian rule might also be explained in terms of the economic constraints faced by Peru (Thorp).



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