

# PERU: PROSPECTS FOR POLITICAL STABILITY

by

*William E. Odom*  
*Director of National Security Studies*

with assistance from

*S. John Tsigronis*  
*Research Fellow*

**HI-4171**  
**February 1992**

Prepared pursuant to Agency for International Development Cooperative Agreement  
PDC-0092-A-00-1036-00. The views expressed here are those of the authors at  
the time of issue, but not necessarily those of the Agency for International  
Development. Permission to quote or reproduce any part -- except for  
Government purposes -- must be obtained from the Hudson Institute.

1015 18th Street, N.W. • Suite 200 • Washington, D.C. 20036 • 202-223-7770 • FAX 202-223-8537

## Hudson Institute

Herman Kahn Center • P.O. Box 26-919 • Indianapolis, Indiana 46226 • 317-545-1000 • FAX: 317-545-9639

## TABLE OF CONTENTS

|  |    |
|--|----|
| Introduction .....   | i  |
| Part I. Overview .....   | 1  |
| Chapter 1. Peru: Historical Legacies.....                            | 1  |
| The Incas Become Spanish Colonials .....                             | 1  |
| Ambivalence and Independence.....                                    | 5  |
| Modern Peru .....  | 8  |
| Revolutionary Peru.....  | 11 |
| The Dynamics of Peruvian Politics in<br>Historical Perspective ..... | 22 |
| Part II. The Pre-Conditions for Democracy.....                       | 31 |
| Chapter 2. Economic Conditions .....                                 | 33 |
| Macro Economic Performance .....                                     | 34 |
| Structure of the Economy .....                                       | 35 |
| Distribution of Income .....   | 36 |
| The Public Sector -- Statism, Taxation, and<br>Economic Growth.....  | 37 |
| "The Other Path" .....   | 47 |
| Economy and Democracy in Peru .....                                  | 48 |
| Chapter 3. Social and Political Conditions.....                      | 53 |
| The Earlier Record of Peru's Institutional<br>Development .....      | 57 |
| Before the Military Revolution.....                                  | 61 |
| During and After the Military Revolution .....                       | 67 |
| Urbanization and Mobilization.....                                   | 77 |
| The Government .....   | 82 |

|  |            |
|--|------------|
| <b>Chapter 4. External Influences.....</b>         | <b>91</b>  |
| Spanish Colonialism.....                           | 91         |
| Wars and Foreign Military Influence.....           | 94         |
| Foreign Business.....                              | 97         |
| International Communism.....                       | 103        |
| Other External Influences.....                     | 105        |
| Summary .....                                      | 106        |
| <br>   |            |
| <b>Chapter 5. Cultural Influences .....</b>        | <b>109</b> |
| <br>   |            |
| <b>Chapter 6. Conclusions.....</b>                 | <b>123</b> |
| Economic.....                                      | 124        |
| Social and Political.....                          | 125        |
| External.....                                      | 128        |
| Cultural.....                                      | 129        |
| Conclusion....                                     | 130        |
| <br>   |            |
| <b>Part III. Strategies.. .....</b>                | <b>133</b> |
| <br>   |            |
| <b>Chapter 7. The Insurgents' Strategies .....</b> | <b>133</b> |
| The Ideological Context for the Insurgents'        |            |
| Strategies.....                                    | 133        |
| The Sendero Luminoso .....                         | 140        |
| Ideology .....                                     | 141        |
| Organization .....                                 | 142        |
| Strategy.....                                      | 143        |
| Resources.....                                     | 144        |
| Strategic and Tactical Choices.....                | 145        |
| The MRTA .....                                     | 147        |
| <br>   |            |
| <b>Chapter 8. The Government's Strategies.....</b> | <b>149</b> |
| Internal War and Political Development.....        | 149        |
| Political Development Goals and Strategic          |            |
| Priorities.....                                    | 152        |
| Peru's State Building Experience .....             | 156        |

|   |            |
|---|------------|
| <b>The Record in Attaining Political Development</b>        |            |
| Goals .....   | 168        |
| Thoughts on Priority of Development Goals.....              | 187        |
| <b>The Military Component of the Regime's</b>               |            |
| Strategy .....  | 190        |
| Postscript on the Regime's Strategy.....                    | 199        |
| <br>  |            |
| <b>Part IV. Policy Implications .....</b>                   | <b>213</b> |
| <br>  |            |
| <b>Chapter 9. U.S. Strategy: Choices and Problems .....</b> | <b>213</b> |
| <br>  |            |
| The Political Component.....                                | 215        |
| The Economic Component.....                                 | 219        |
| The Military Component .....                                | 221        |
| Final Thoughts.....   | 224        |
| <br>  |            |
| <b>Bibliography.. .....</b>                                 | <b>227</b> |

## INTRODUCTION

Peru faces a critical juncture in its history. It is deeply mired in an internal war. Its economy, once terribly weak, shows signs of dramatic improvement, but remains burdened by a large foreign debt. Its civil service remains weak, and tension is escalating between the executive and legislative branches. Yet it retains a democratically elected government. Can Peru possibly survive these challenges? Or will it fall victim either to the insurgents or to a military dictatorship and have all recent progress reversed?

These might be purely academic questions were the United States not showing a growing interest in Peru's fate and a modest commitment of resources to assist President Fujimori's administration in dealing with its myriad problems. An incipient patron-client relationship could be in the making, both in dealing with the expansion of coca leaf acreage sponsored by Colombian cocaine producers, and in coping with the Sendero Luminoso insurgent movement.

Where this new relationship will eventually go is unclear, but it has much in common with other patron-client relationships that the United States has maintained with other governments beset with internal wars. The list includes Greece in 1948, the Philippines in the 1950s, and South Vietnam in the 1960s. More recently, El Salvador, Honduras, and to a much lesser degree, Guatemala and the Philippines have had U.S. support in their internal wars.

The Director of National Security Studies at the Hudson Institute has written a book, On Internal War: American and Soviet Approaches to Third World Clients

and Insurgencies, which develops an analytical framework for assessing such client states that suffer from internal wars. It treats these conflicts primarily as struggles over political stability. The incumbent government wins if it can maintain political stability by extending state control over most of society, thereby reducing the insurgency to a manageable "law and order" problem as opposed to a war. The insurgents win not just by overthrowing the incumbent regime; they also must establish a new political stability.

This approach to analysis of internal wars shifts the primary emphasis from the military component to the political and economic components. It also favors making the incumbent regime democratic, or maintaining democracy if one already exists. Because violent struggles over who rules are inextricably tied to building a reasonably strong and responsive state, and because the United States cannot long support the building of dictatorships without losing public support among the American public, democratization of the client regime has to be a goal of the war. Moreover, stable and mature democracies have proven resistant to internal wars. Thus the bias for democracy has both normative and objective factors in its favor.

The analytic framework in On Internal War is applied to three case studies -- El Salvador, Guatemala, and the Philippines. It begins with a brief primer on the political history of the case study country. Next, the country is assessed for democratic preconditions -- economic, social and political institutions, cultural factors, and external influences -- to determine whether they are conducive to democracy. Assessment of these four preconditions provides an extensive diagnosis of the country's problems and capabilities, its weaknesses and its strengths. In light of the diagnosis, the government's strategy both for political development and for pursuing the internal war is analyzed and juxtaposed against the insurgents' strategy.

This allows a rough "net assessment" of who is winning and who is losing in the struggle to assert alternative forms of political stability.

A country study following this approach can, of course, be considered complete at this point, but the analysis invariably suggests how the regime might best modify its strategy to increase the prospects of winning. And it also provides insights into the actual impact of U.S. policy toward the client state -- where it is positive and helpful, where it is counterproductive and hurtful.

The U.S. Agency for International Development has entered into a cooperative agreement with the Hudson Institute to do additional case studies based on the approach developed in On Internal War. The aim is to test further and improve the methodology. Peru was chosen as the first such additional case. Not only was it USAID's preference, but of several possible countries, it best fit the Hudson approach because of the incipient U.S. involvement. The approach, of course, can be applied to any country beset by instability and actual or potential internal war, but Peru was both facing an advanced insurgency and seeking U.S. assistance.

This study of Peru adheres to the approach applied in On Internal War, and therefore, a review of the framework elaborated in that volume is helpful for understanding our analysis of Peru. To make it stand alone, however, we have spelled out, where appropriate, the rationale for taking selected concepts from political development theory to the analysis of this case. The Peru study is also developed in considerably greater detail than the country studies in On Internal War.

Studying Peru has provided one significant point for new emphasis in the Hudson methodology. While On Internal War recognizes the importance of a strong state administrative capacity in stabilizing democracy, it does not emphasize it as much as it should have. Moreover, it does not deal adequately with the question of whether or not a state must become strong before democracy is created, as was the case in most West European democracies. Peru's example, however, thrusts that question to the fore. Democracy is not new in Peru. It has been tried repeatedly for more than a century, but it has never developed solid roots adequate to resist occasional relapses to dictatorship. This cyclical pattern, if it is to be explained by this study, seems to lie in Peru's failure to develop a state administration that penetrated most of Peruvian society, bringing the entire population and its many social groupings within the state's rule-making and tax extraction system. Whether such "state building" can be accomplished by a democratic regime in Peru remains an open question.

In all other aspects, the case of Peru appears to validate the Hudson approach. Not surprisingly, because of its Spanish colonial experience, Peru shares much in common with El Salvador, Guatemala, and the Philippines. The problems associated with a landless peasantry and a statist economy are much the same. The adverse impact of foreign economic assistance, foreign credits in Peru's case, was predictable. The weakening effect on democratic development of a limited diffusion of wealth and property was predictable. The same was true for a number of lesser points.

Naturally some fairly strong implications for U.S. policy toward Peru emerge from the analysis, but they are not the primary purpose of the study. Because USAID has asked us to spell out those implications, we have done so at the end.

The prescriptions, however, are left at a general level for two reasons. First, Hudson has not examined in detail the present U.S. programs -- political, economic, and military -- designed for Peru. Those programs may or may not already anticipate our prescriptions. Second, getting below generalizations to the specific details of a recommended U.S. strategy requires a better knowledge of the intent and aims of senior U.S. policy makers than we have at Hudson.

In light of these several limitations, therefore, the section of the study on implications for U.S. strategy is a tentative prescription, one not based on a critique of present policies, but, rather, one that seems most logical in light of the findings of the study itself. If the study is to have any significance for U.S. strategy, it is not primarily in the prescriptions. Rather it is in providing policy staffs a better understanding of "cause and effect" in Peru's political dynamics and the probable "effects" various U.S. programs may "cause" there. Those staffs will have to work out prescriptions in far more detail than those offered in the final section, and, depending on policy goals, our prescriptions may have little or no relevance. We do believe, however, that U.S. policy staffs cannot escape the reality of most of the cause and effect relations we have identified in Peru's political development.

## **PART I. OVERVIEW**

### **CHAPTER 1. PERU: HISTORICAL LEGACIES**

Understanding the politics of any country requires some appreciation of its history, the legacies that remain a part of its "cluster of the immediate," either through acute conscious memory or through unconscious but continuing habits, traditions, outlooks, values, and social structure. This might be called "political culture," but it is more. Some legacies are cultural. Others are objective -- realities that continue to constrain and shape political behavior.

What follows here, therefore, is not a political history in full.<sup>1</sup> Rather it is a short survey of Peru's political development, from the Spanish colonial period to the present in which we emphasize legacies that remain significant today. We hope to leave the reader with a general image of Peru's political experience and how it bears on Peru's contemporary political life.

#### **The Incas Become Spanish Colonials**

The Spanish explorer, Pizarro, initiated Spanish rule in Peru in 1532 by a remarkable feat of arms and bluff when his small band of soldiers overwhelmed a local force of 30,000. To establish that rule firmly, however, required several

---

<sup>1</sup> Two excellent sources that provide a fuller picture of Peru's political history are Rosemary Thorp and Geoffrey Bertram, Peru 1890-1977: Growth & Policy in an Open Economy (London: MacMillan Press, 1979) and Cynthia McClintock and Abraham Lowenthal, The Peruvian Experiment Reconsidered (Princeton: Princeton University Press, 1983).

decades. By the end of 1581, Francisco Toledo y Figueroa had transformed Peru into an orderly component of the Spanish empire.<sup>2</sup>

The pattern of Spanish colonial rule through the empire involved a small Spanish elite wielding power and instilling Spanish cultural, language, and religious authority. Significant Spanish migrations did not follow, as was the English practice in the British Empire. A largely male Spanish elite mixed with the indigenous population, creating a "mestizo" population that gained second place above native Indians in the hierarchy of social strata. The Indian population, of course, composed the majority of the society. As time passed, most other South American colonies received large European immigrations, but Peru did not. A few blacks were brought to the coastal region before 1800, and in the course of the 19th century, a few Chinese laborers were imported to build railroads. In the 20th century, a small Japanese immigration occurred. This social structure, predominantly Indian and mestizo, remains much the same today. Thus, Peru is distinguished from most other Latin American states, except perhaps Bolivia, by its large Indian and Indian derivative population. It also makes the historical image of the great Incan empire more than a secondary factor in contemporary Peruvian political culture.

The Catholic church was an essential pillar in the Spanish colonial structure, and accordingly, it exercised a strong influence on life in Peru. While a few Protestant evangelistic efforts have acquired some followings, and may even have been instrumental in supporting Alberto Fujimori in his victorious run-off election for President against Mario Vargas Llosa in 1990, their size remains trivial even

---

<sup>2</sup> For a more detailed description of the Spanish conquest and colonization of Peru see William H. Prescott, The Conquest of Peru (New York: Doubleday, 1964).

today. They do, however, show signs of rapid growth. The Catholic church has not always enjoyed the status it sought with the state, but it has remained, until very recently, a bastion of support for the state, both in the colonial period and afterwards.

The purpose of Spanish colonies was to make money for the Spanish crown. They were business ventures. Peru initially proved productive in yielding gold, and it became the location of one of the two great viceroys in the new world, Mexico being the site of the other. A feudal structure for agriculture slowly developed to exploit the Indian population for forms of wealth other than gold. The coastal region proved most amenable to this pattern, and while much of the sierra, or high country, was included, it was not nearly as productive. The tropical forests in the east of the country remained isolated, left to local Indian social and economic structures.

After the entrenchment of the Spanish system in the latter part of the 16th century, the history of Peru is remarkably uneventful until the 19th century and its escape from Spanish rule. The interim was marked by occasional Indian uprisings, struggles among Spanish colonial rulers, and other such political strife, but nothing significantly altered the pattern of Peruvian development. Rather it was a long period in which the veneer of Spanish influence and deeply rooted Incan heritage slowly amalgamated, each leaving its selective imprint.

The Peruvian pattern, for all its commonalities with other Spanish colonies, retained critical distinctions. The indigenous Incas had ruled most of the western part of South America for more than a century. They were in decline when the Spanish arrived, and therefore easy to conquer. Yet more of the indigenous culture

survived than in most other colonies. Two factors seem mainly responsible. First, the lack of large subsequent immigrations left the Indian populace very much in the majority. Peru's mixed populace, or mestizo stratum, is far more Indian in content than Spanish or other foreign ethnicity.

Second, Peru's topography, varying from the coastal region into the high sierra and the tropical rain forests in the East, restricted the mobility both for social and for economic activity. The Spanish rulers were a very small appendage on a relatively large local population living in regions of greatly varying accessibility. The topography made it easy to keep large parts of the Indian society quiescent politically because it isolated them; but it also made it difficult for the colonial rulers to penetrate some of the more remote regions. Accordingly, many of the Spanish viceroys ruled almost exclusively from the capital and left local administration to the feudal elites engaged in agriculture and mining.

This legacy of a socially bifurcated society remains central in Peruvian life today. As long as the Indian population was socially immobile, it was politically easy to manage. As it has become mobile, drifting to the urban areas, it has created a mass of new and difficult problems. That happened slowly at first, but in modern times, particularly in the late 20th century, movement has surged dramatically, swelling the cities and towns with newcomers.

A related legacy is the large residual Indian cultural heritage. Modern Peruvian intellectuals and political leaders find self-definition and identity neither easy nor a matter of consensus. The Spanish veneer is indelible, but the Indian core is resilient and strong, inclining Peru's intellectuals to see Peru as distinct from its European origins to a larger degree than in most other Latin American countries.

The Incan legacy is also visible in the Catholic church, specifically in rituals and holy days. No less affected have been modern secular political ideologies -- liberalism, democracy, and more recently, Marxism. Most Peruvians take none of them whole; they have traditionally selected, mixed, and altered such concepts and ideas to accommodate Peru's special heritage.

### **Ambivalence and Independence**

Unlike most other Spanish colonies, Peru did not at first fight for its independence. Not until 1821, when the Argentine general, San Martin, landed his troops in Peru did it break with Spain. San Martin, however, allowed the royalist forces to retreat from Lima, and he had to solicit assistance from the Venezuelan, Simon Bolivar, to track them down and defeat them fully. Only in late 1823 did the combined forces, the United Army of Liberation, manage to engage and destroy the royalist army near Ayacucho. Liberated by non-Peruvians, the local elites did not unanimously welcome their new status. Nor did the Peruvians produce a war hero in the struggle for independence since foreign generals had led the fight. Thus Peru was left without strong and well-known leaders to consolidate the new state's authority. Able to play some of the Peruvian feuding leaders off against each other, Spain was not forced to recognize Peru's sovereignty until 1869. The road to independence was long, bloody, and followed with ambivalence.

The first decades of the newly independent state were stormy, not only because of the struggles over who would rule, but also because Peru's neighbors -- Chile, Colombia, and Bolivia -- had claims on its territories. A modicum of tranquility eventually was achieved when Ramon Castilla, the "popular caudillo," came to power in 1845 and dominated Peru for almost two decades. An effective ruler, he went far toward putting Peru's finances in good order, improving church-

state relations, winning international recognition for Peru as a state, and introducing a number of enlightened social policies. He favored constitutional government, and was able to realize it to some degree. He was followed, however, by a series of short-term presidents, culminating with Colonel Mariano Ignacio Prado, who proclaimed himself dictator in face of hostilities with Spain in 1864.

Prado was followed in 1868 by Juan Balta, who instituted an impressive program of railroad and communications construction at the end of the 1860s. Assassinated in 1872, Balta was succeeded by Manuel Prado, the first elected civilian president. Taking over a virtually bankrupt country, he weakened the military and made other fiscal cuts to restore the government's financial position.

Unfortunately, the reductions in the Peruvian military came just before the War of the Pacific (1873-83), which started between Chile and Bolivia, soon involved Peru, and brought Peru's humiliation and loss of large territories in the south. Although some of the territories have been regained (in 1929, with U.S. assistance), the War of the Pacific still remains a factor in international affairs in South America, a keenly remembered crisis for Peru and also Bolivia, which lost all access to the Pacific littoral in the settlements. The war had two more lasting effects. First, it discredited the old military "caudillos" and permitted a series of civilian presidents, marking the beginning of the modern Peruvian political system. Second, it prompted change in economic and social policies because Chile imposed heavy indemnities on Peru at a time when it was already in trouble with foreign creditors, giving it no alternative but to adapt to austerity. General Andres Avelina Caceres, a guerrilla hero during the resistance to Chile, became president and turned the country inward to reconstruction. For the remainder of the century,

considerable healthy social, cultural, and intellectual growth occurred, laying the ground work for Peru's modern era.

It was, however, growth and development largely within the narrow oligarchic circles at the apex of Peruvian society, not a broad social development. It involved much introspection, a search for answers to why Peru had lost the war, how society should be reconstructed, and greater attention to the bifurcation between the privileged oligarchy and the wider mestizo and Indian society. Peru remained a deeply divided society, one part of it privileged, well educated, tied to the modern states of Europe and North America, the other part lingering decades if not centuries behind, in deep poverty, illiterate, more culturally at home with the Incan past than the modern world.

No less important as a legacy was the heavy fiscal dependence of the public sector budget on exports and profits from government business consignments. The guano trade kept the government well financed in the middle of the century, but when it declined, Peru defaulted on its foreign debt. Rather than turning inward to extract resources, building an effective administration for taxation and local government, the regime looked outward for its income. The Grace Contract of 1890, for example, granted control of Peru's railroad system and other industrial assets to British holders of Peruvian government bonds on which the regime defaulted in the 1870s. Subsequent to the contract, British capital was invested in Peru to develop further the country's industrial infrastructure, thereby causing British assets to appreciate.<sup>3</sup> This pattern would not only be repeated; it would become the central problem for Peruvian political and economic development.

---

<sup>3</sup> Thorp and Bertram, Peru: 1890-1977, pp. 23-24.

## Modern Peru

The introspection and search for new political solutions, begun in narrow intellectual circles in the late 19th century, spread to wider social and political circles in the first half of the 20th century. With the exception of the "oncenio," or eleven-year dictatorship of Augusto B. Leguia (1919-1930), Peru enjoyed a peaceful and reasonably orderly series of civilian governments. They put emphasis on improving Peru's military capability -- a French military mission was brought in during the 1890s -- and they struggled with the old intractable problems of coping with the economy and the foreign debt. To all appearances, Peru was achieving encouraging success, albeit modest, in building a modern stable state.

Broadening intellectual and political ferment, however, interrupted the series of moderate presidencies. Leguia came to power through an election but soon resorted to dictatorship to deny electoral success to the emerging leftist forces of the American Popular Revolutionary Alliance (APRA), led by the intellectual and politician, Haya de la Torre. Leguia was a businessman, a strong leader who concerned himself with improving public administration, expanding foreign business activity, and improving Peru's credit worthiness. Thus he was well disposed to U.S. companies and foreign bankers; integrating Peruvian society was at best a secondary concern in his order of priorities. In contrast, the APRA was anti-imperialist, anti-capitalist, and especially anti-American. Integrating Peruvian society was high in its hierarchy of goals. Leguia made progress with his economic programs until the world economic depression undercut the Peruvian export markets. Forced to resign, he was arrested and died in jail a year or so later.

What began as a promising process of political modernization soon yielded a political paralysis that could only be broken by the democratic process. At root, no

broad consensus was achieved on fundamental issues. The crisis that brought about the "oncenio" reflected a polarization in Peruvian politics about the proper road to development, one that still characterizes the country today. Both roads to development were statist approaches -- one based on leftist ideologies and domestic social integration, the other dependent on foreign capital and less concern with the bifurcation of the society.

For most of the next two decades, until General Odria's dictatorship, or "ochenio," in 1948-56, Peru had a series of presidents who generally tried to straddle the fence by reducing repression and pursuing moderate social reform, but at no risk to the landed oligarchy and the business community. While they were more tolerant of the political left than Leguia, they could not successfully co-opt Haya de la Torre's APRA. The military stood in the way. The APRA sought power through the electoral process, but it believed it had been cheated in the 1931 elections, and it therefore launched an insurrection in 1932 in its stronghold city, Trujillo. The insurrection leaders executed some sixty officers and government officials, an act that infuriated the army, and after putting the insurrection down, the army rounded up hundreds, thousands by some accounts, of suspected participants and shot them summarily in retaliation.

This episode was fateful for Peruvian politics. Not only did it create great distrust of the APRA within the military; it made the APRA leadership realize it would not be allowed to win a presidential election. Intermittently from 1932 to 1956, the party and its cadres were outlawed and persecuted. Although the party remained active in Peruvian politics, President Sanchez Cerro jailed or exiled many APRA leaders, including Haya de la Torre, who went to Mexico. Thus, the APRA

faced the next several decades considerably handicapped, but it continued to participate in Peruvian politics.

The pattern of failure at accommodation continued. The next two presidents, Oscar Raimundo Benavides and Manuel Prado, kept the APRA out of government but tended toward enlightened social legislation. Jose Luis Bustamante, elected in 1945, made a strong effort at reconciliation with the APRA, taking three APRA members into his cabinet. By 1948, however, he had fallen out with APRA and dismissed them, but the military's distrust of APRA had already been sufficiently aroused to cause it to act. General Manuel Odria stepped in to begin his "ochenio," or eight-year dictatorship. By 1956 he decided to allow an election, believing he could rig it for his chosen successor. In the event he failed. The APRA threw its support to Manuel Prado in exchange for his pledge to grant the party legal status and helped him defeat Odria's candidate. Prado thus returned to the presidency for a second term.

In the 1962 election, a near tie occurred between Haya de la Torre and Fernando Belaunde Terry. Moreover, General Odria, having decided to run himself, was only a few points behind them. This outcome required the congress, as a constitutional responsibility, to choose among the three candidates. Haya de la Torre turned to scheming with Odria because he saw no other chance against the military's opposition. By throwing support to Odria, Haya de la Torre hoped to buy post-election concessions from Odria, who had no qualms about deals with the APRA. Such cynical cooperation between these political enemies was bound to provoke public distaste, but for the military it was too much to take, even if Odria was an old comrade in arms. They stepped in with a junta shortly before the

congress was to vote and took power for one year. Good to their word, the military junta held a presidential election in 1963.

That one-year rule, offered a preview of the course that Peruvian military politics would take. Army leaders became concerned about the potential for insurgency in the country, and they saw the root causes in the social and economic conditions of the Indians, landless peasants, and workers. They also blamed much of the problem on foreign business behavior in Peru. In the short period of junta rule, fairly dramatic land reform and social programs were planned, but they could not be launched before the election in 1963 when the junta surrendered power.

The next five years marked a return to the older pattern of keeping the left out of government while trying to deal with mounting domestic social problems. The new president, Fernando Belaunde Terry, leader of the AP (Accion Popular), sharing some of the military's social and economic concerns, articulated his own vision of Peru's future. It should turn inward, open up the country's interior, bring the Indians into full membership in the society, implement land reform, and develop the economy with less foreign dependence. APRA, however, posturing for the upcoming 1969 elections and resenting its stolen victory in 1962, held a strong position in the congress, and in cooperation with General Odria's UNO (Union Nacional Odriista) party, was able to block most of Belaunde's program.

### **Revolutionary Peru**

The APRA's continuing struggle to win power through the electoral process and Haya de la Torre's legislative tactics, cooperating with arch rivals, disillusioned many on the radical left in Peru. Genuine revolutionaries could hardly feel at home in the APRA now that it had turned more and more to moderate electoral and

legislative scheming. Thus a gap on the extreme left had opened, one even the communists were too moderate to fill. Accordingly, two insurgent groups, the National Liberation Army (ELN) and the Movement of the Revolutionary Left (MIR), sprang up in the early 1960s. MIR actually grew out of an earlier APRA splinter group that formed in 1959, the APRA Rebelde. Inspired by Castro, Che Guevarra, and Regis Debray, they decided to try the new foco insurgency strategy for putting Peru on a revolutionary path.<sup>4</sup>

Although ELN and the MIR shared much common ideology and programmatic rhetoric, they did not cooperate. Each fought its own war. Neither was able to win peasant support in face of the aggressive army campaign against them. They also failed to appeal to the urban middle class youth who were puzzled by the insurgents' competitive ideologies. Finally, the insurgents, with their aggressive political agitation of a passive Sierra population, easily stood out as targets for government counter-insurgency operations. By the end of 1965, the army had destroyed them both.

The Peruvian military certainly gained no respect for the APRA during its counterinsurgency efforts, but it did increasingly sympathize with the oppressed strata of Peruvian society the APRA had so long claimed to represent. In so doing, it reached many of the same conclusions about the causes of Peru's problems. Capitalism and foreign business were big culprits. No less guilty were the oligarchs and Peruvian businessmen and industrialists who cooperated with these foreigners.

---

<sup>4</sup> For an excellent introduction to the ideologies and strategies of Peru's revolutionary left in the 1960s, see Richard Gott, Guerrilla Movements in Latin America (London: Thomas Nelson and Sons, 1970), pp. 231-93.

**The United States, of course, was looked upon as the major supporter of policies that cost Peru so dearly.**

**The military's war college, the Center for Higher Military Studies (CAEM), founded in 1950 and modeled on U.S. war colleges, became an ideological center for thinking about Peru's security problems as more than military. They were domestic, social, and economic problems as well. The war against the ELN and MIR had for the first time exposed the military to the vast insurgency potential in the country which was rooted in the abject poverty conditions in the Andes. The answer, in their view, was not simply military means and policies. It had to include some dramatic social programs promising to deal with the basic causes of social unrest.**

**By 1968, the APRA no longer looked radically leftist to the military. It had become too moderate, too corrupted by party politics. Initially supportive of Beluande's policies for an internal campaign of social and economic reform, the military became impatient with the paralysis between the president and the APRA-UNO block in the congress. The scandal arising from Beluande's settlement with the International Petroleum Company, in which he was accused of secretly selling out to foreign business interests, provided the military the excuse to take power in 1968.**

**The new Revolutionary Government of the Armed Forces, headed by Velasco Alvarado, a Spanish-speaking Indian, marks a significant break in Peruvian politics. Unlike all other Latin American militaries, the Peruvian military had ceased to be a supporter of the landed oligarchy and the business elites. It had drifted left. The APRA had drifted right -- at least the leadership had -- if not its**

rank and file. The old style dictatorships of Leguia and Odria had been rightist in economic policy and public administration, but like all previous regimes, they sought economic growth through exports and ties with foreign capital.

The reformist inclinations of the military were already apparent during the 1962 junta. By 1968, the military had developed a more elaborate program. Like some of the more liberal civilian presidents in the 20th century, the generals wanted progressive social legislation, particularly programs aimed at making the Indians an integral part of the society. But unlike them, the generals were determined not to depend on foreign capital and businessmen. The military program had as its core elements the following six objectives:

1. Destruction of the power of the landed oligarchs.
2. Destruction of the political parties.
3. Breaking the economic dependency on foreign capital and markets.
4. A much larger role for the state in the economic, political, social, and cultural activities.
5. A limited popular participation under military control.
6. An anti-U.S., non-aligned foreign policy.

The ideological foundations of the military revolution were highly eclectic, sometimes contradictory, and vague. The regime does not deserve its reputation as a leftist or Marxist inspired affair. To be sure, leftist intellectuals had some influence at the CAEM on the political thinking of the officer corps. But the growing social consciousness among the senior officers also owed something to what they had seen in the United States as students at U.S. military schools. While they did not acquire an affection for their "gringo" hosts, they recognized American

society's well-being and better standards of justice. At the same time, they apparently failed to appreciate the economic and legal foundations of American democracy. For all its leftist rhetoric, the military had always feared the left in Peru, especially the well-organized APRA. The military revolution's major rationale appears to have been to remove the social injustices that Peru's leftists exploited for support, thus weakening the left and providing an institutional transformation that could resist both capitalism and communism.

Corporatism in the European, or Iberian, sense of the word is perhaps the best description of the military's image for the new society.<sup>5</sup> Army officials went far in designing corporatist patterns for various sectors of society and forcing them into these new structures. Franco's Spain and Salazar's Portugal come to mind at once in viewing them. Moreover, corporatism as a political concept had earlier adherents in Peru. In the pre-World War II decades when capitalism and democracy were failing in much of the advanced industrial world, corporatism and fascism were seen by some as the only alternative to communism. The middle ground of liberalism was collapsing. Accordingly, during the Spanish Civil War, Franco's movement enjoyed considerable sympathy in Peru.<sup>6</sup> Corporatism and fascism, of course, are not

---

<sup>5</sup> See Alfred Stepan, State and Society: Peru in Comparative Perspective (Princeton, NJ: Princeton University Press, 1978). Stepan offers not only a textured analysis of the Peruvian military's corporatist ideology, but he also traces the intellectual history of corporatism in Europe and develops its twentieth century variants, especially in Latin America. Modifying the concept of modern corporatism, or "organic-statism," he defined two versions, one "inclusionary," the other "exclusionary." Peru's military government attempted in Stepan's analysis, to install the "inclusionary" version.

<sup>6</sup> See Thomas E. Skidmore and Peter H. Smith, Modern Latin America (New York: Oxford University Press, 1984), p. 210, on corporatism and fascism as political ideas in Peru in the interwar period.

entirely compatible ideologies, and as Franco remained more a corporatist than a fascist, so too did the Peruvian military emphasize corporatism. As Alfred Stepan has noted, Peruvian corporatism was of the "inclusionary" version, more like Salazar's Portugal than Franco's Spain, which Stepan classifies "exclusionary."<sup>7</sup>

The new regime moved swiftly to break the big coastal landowners, splitting up their properties and creating peasant cooperatives. The sierra region came next. Nationalization of industry and business was pursued with equal vigor, although some private property and business was allowed and given a clear legal basis. The new corporate structures, of course, undercut the political parties and essentially removed them from politics. Although the military regime intended to destroy the political parties, it stopped short of that and merely squeezed them out of the governing process. In social and cultural affairs, the Incan heritage was emphasized, and distinctions between Indians, mestizos, and whites were officially eliminated. In foreign policy, the new regime broke its dependence on U.S. military assistance and turned to the Soviet Union for weapons and technical assistance. Peru's bold actions soon brought it prestige within the Non-Aligned Movement.

By 1975, the revolution had run its course. Hardly a success, it nonetheless had changed a great deal in the country. It destroyed the power of the commercial agrarian oligarchs, but in taking away their property, it had transferred the land to state control. By the late 1970s, the consequences for the economy were disastrous, and the gross domestic product experienced a serious decline from the "boom" years earlier in the decade. At the same time, dependency on foreign credits was not broken; rather Peru found itself deeply in debt with a heavy debt service burden.

---

<sup>7</sup> Stepan, *Op. cit.*, pp. 112, 126.

Furthermore, easy petrodollar credits in the mid 1970s proved too great a temptation to the generals, who increased military expenditures.

The Catholic church supported the military, as did the Indians and the peasants at first. The APRA was outraged, accusing the regime of stealing its revolutionary programs. At the same time, it and other leftists accused the military of selling out to foreign capital. Inexorably the rigid military-run government bureaucracy became an impediment to further revolutionary progress.

In 1975, General Morales Bermudez had considerable support within the military when he removed the then seriously ill Velasco and took power. While Bermudez insisted that the revolution would continue, in fact he began to slow it down, moderating most of the regime's policies and dismantling the SINAMOS, the corporatist system of political and social control which was intended to undermine APRA's appeal but was eventually eliminated because of popular opposition.<sup>8</sup> A number of concessions and compensations were made to foreign business to try to regain its confidence and to solicit support for overcoming Peru's economic crisis. Bermudez acceded to IMF guidance for solving the growing debt problem, but the medicine proved as bad as the disease, although the debt service ratio did improve.

From the era of dramatic changes during the first half of the decade, the 1975-80 period of the military's rule, or "Phase II," was definitely a retreat, but the revolution had already made an indelible impact on Peru. While not comparable to

---

<sup>8</sup> "SINAMOS," is the Spanish acronym for the National System for Support of Social Mobilization (Sistema Nacional de Apoyo a la Movilizacion Social).

the 1915 revolution in Mexico or Castro's revolution in Cuba, the Peruvian Revolutionary Government of the Armed Forces may turn out to have exceeded the comparable impact of the Sandinista regime in Nicaragua.

In 1980, the military government bowed out, and Belaunde was elected president for a second time. The International Monetary Fund (IMF) and the World Bank made more credits available to the Peruvian government, but Belaunde devoted less attention to dealing with the core economic problems than to his old vision of opening up the interior with roads and public works. By 1985, the debt service ratio was back to 4.7 percent of exports of goods and services, where it had been in 1977. Belaunde's fetish for public works had merely made things worse.

At the same time, a new insurgency, the Sendero Luminoso, which traces its ideological beginnings to the early 1960s as a branch of Peru's Maoist party, was becoming a serious problem. Unlike the foco insurgencies of the early 1960s, the Sendero Luminoso, the creation of a former professor, Abimael Guzman, alias Comrade Gonzalo, drew heavily on Maoist strategy. Following eclectically the teachings of Marx, Lenin, and Mao, Guzman made himself the "fourth" such teacher of revolution, basing his movement on the peasantry, eschewing open affiliation with any outside assistance after a period of cooperation with the Chinese communists. His training in China during the Cultural Revolution left a strong impact on his approach to revolution and insurgency, especially in organization and tactics. While he reportedly admired the Cultural Revolution, he apparently found it insufficiently radical!<sup>9</sup> Guzman fought bitterly against fellow revolutionaries who favored the

---

<sup>9</sup> Peter F. Klaren, "Peru's New Captain Steers a Foundering Ship of State," Newsday, October 10, 1990, p. 55.

Cuban approach, and he treated pro-Moscow communists as great an enemy as Peru's bourgeoisie.<sup>10</sup> For the Senderistas, members of the Sendero Luminoso movement, Gorbachev is a traitor, Cuba is still in the hands of bourgeois landowners, and the Khmer Rouge, while displaying proper revolutionary fervor, lacks a proper party to guide them.<sup>11</sup>

The Sendero Luminoso commenced its armed activities in May 1980, to coincide with the Peruvian government's transition to democracy under the newly elected Belaunde Administration. By the early 1980s, the government was resorting to brutal repressive tactics against the insurgents. Thirteen provinces were put under direct military rule, and the number of "disappeared" rose to about 3,000 by 1984. Another 3,000 suspects had been executed. By September 1991, the total number of deaths attributable to the insurgency over the past eleven years was estimated at nearly 24,000.<sup>12</sup>

In contrast to the radical Sendero Luminoso movement, Haya de la Torre, before he died, had moved the APRA considerably toward a moderate position on the Peruvian spectrum of politics. The Velasco military regime had destroyed APRA's major enemies on the right and had spent its own energies on programs as radical as any the APRA envisioned. Throughout the Belaunde Administration, the

---

<sup>10</sup> See Gustavo Gorriti, "The War of the Philosopher-King," The New Republic, June 18, 1990, pp. 18-20.

<sup>11</sup> Tina Rosenberg, "Guerrilla Tourism," The New Republic June 18, 1990, p. 25.

<sup>12</sup> A special senate commission of the Peruvian Legislature reported that political violence in Peru has claimed 23, 916 lives since May 1980, when the Sendero Luminoso began its activities. See Latin American Weekly Report, WR-91-40, 17 October 1991, p. 12.

first democratically elected regime since military rule, neoliberal policies failed to attract broad based political support. Thus, the way was at last open for APRA's electoral victory in 1985.

Alan Garcia Perez, at the age of 36, became president in 1985, taking his first full-time job as an adult. Garcia quickly fell into trouble with the international financial institutions by stating in his inaugural address that Peru would pay its debt service only at the rate of ten percent of its export earnings. This shook the creditors, who naturally tightened up their policies of trying to help Peru out of its difficulty. In fact, Peru ended up paying at about the same rate as the Belaunde regime in the early 1980s, but Garcia's unpredictable and abrasive style made difficulties for Peru with the international financial community throughout his tenure. At home, his advisors were split on the proper economic policy -- one arguing for an orthodox solution, the other calling for a set of populist measures much like Allende had introduced in Chile.

Garcia attempted a compromise approach that brought anti-market measures at home, and for the first two years of his administration, witnessed growth at unprecedented rates. Reducing taxes and increasing salaries for a ballooning civil service did not yield the demand pull from the economy he anticipated, however, and foreign credits were used to make up the gap. More important, Garcia had legislation passed to nationalize the banks, scaring the business community, which had supported him in the elections, and disturbing foreign investors. In the event, he never fully nationalized the banks, but he paid the political price in banking and business circles. To make matters worse, aprista party cadres proved notoriously incompetent as administrators as they thrust themselves into government service. Some did not get the patronage they expected

and contributed to the feeling among the rank and file that Garcia was insufficiently revolutionary, that he had not really delivered politically for his supporters. Not surprisingly, given Garcia's economic policies, Peru soon experienced hyperinflation with rates reaching 2,775% in 1989, 7,650% in 1990.<sup>13</sup> Strikes, threats of a military coup, shuffles of ministers in the government, and growing political violence made Peru appear increasingly on the brink of chaos and civil war.

The Garcia legacy is complex, not least because of his erratic personality, which proved a great liability in policy-making. Several innovative social programs, such as aid to the urban poor, enjoyed initial success but their economic results were more disruptive than helpful, particularly given Garcia's tendency to use such programs for political patronage. By the end of his tenure, Peru was in trouble on every front including the domestic economy, foreign debt, the business community, the military, the ranks of APRA, and the Sendero Luminoso insurgency.

On the insurgency front, Garcia made no progress. In fact, the Sendero Luminoso showed increasing strength and an ability to provoke the military and police into more ruthless and lawless actions against the citizenry at large. To make matters worse, another guerrilla group, the MRTA (Tupac Amaru Revolutionary Movement) with Cuban backing, re-emerged in 1987 in the northeast part of the country, their first operation outside an urban area.<sup>14</sup>

---

<sup>13</sup> Latin American Regional Reports Andean Group, 7 March 1991, p. 4.

<sup>14</sup> Sandra Woy-Hazelton, "Peru," in Richard F. Staar, ed., 1987 Yearbook on International Communist Affairs (Stanford, CA: Stanford University Press, 1987): 139-40.

Drug trafficking grew dramatically in the 1980s, providing yet another intractable problem for the government. The large income from cocaine production was bound to bring the traffickers into some kind of relationship with the insurgents, especially since they and the Sendero Luminoso were operating in the remote rural areas where coca leaf is grown. The degree of financial support provided to the insurgents and the extent of cooperation is not fully understood, but the coincidence of these two lawless activities promises to complicate the government's ability to rule all the more.

Peru has entered the 1990s with problems and disruptive developments that dwarf all of its previous crises. One can justly wonder if it can avoid a major convulsion.

### **The Dynamics of Peruvian Politics in Historical Perspective**

With this cursory review of Peru's political history, let us reflect on the continuities and changes that stand out. They form the context in which the new Fujimori regime must operate.

First, Peru's economy has always been inextricably linked with exports. In the Spanish colonial period, there was never an attempt to create a self-sustaining domestic economy. The colony was looked upon as a source from which to extract wealth -- at first gold, then other products when the gold was exhausted.

This pattern did not change in the post-colonial period except in its modalities. Four years after its independence, Peru was financially bankrupt. The international markets declined as Peru was becoming a battlefield and had borrowed heavily to support the war effort. Thus, in 1825, it had to default to its

creditors. In the middle decades of the 19th century, as the country got on its political feet, Peru's government derived its major income from the guano trade. Using this abundant source of income, the government cancelled the peasant head tax and made no serious effort to develop a steady and reliable structure of finances based on the domestic economy. Profits from the guano trade, which did not go to support the growing public sector, went to foreign businesses operating in Peru. Thus, Peru remained a source for foreign extraction of wealth. The extractive role had merely shifted from Spain to the international business community, and Peruvian economic elites continued to play their old facilitating role of the colonial period.

The earnings from guano were supplemented with foreign loans to finance large public sector projects -- railroads and highways in particular. When the economies in Europe fell into crisis in the 1870s, Peru's export markets dwindled, and its source of foreign credits dried up because it could not repay its loans. Again in 1876, Peru defaulted on those loans, completing the first of three such cycles in its history as a sovereign state.

As oil, mineral, and agricultural products began to find an international market in the late 19th and early 20th century, Peru once again was able to earn considerable income. The same pattern of public fiscal policy, however, reappeared -- a weak domestic tax base, increasing foreign debts to finance public sector ventures, and finally a collapse of world markets in 1929 which made the foreign debt impossible to carry. In 1931, Peru was once again in default.

As the world came out of the depression, Peru was able to attract foreign capital once again, but found itself in trouble after World War II. The newly

founded IMF came to the rescue, allowing Peru to continue its old pattern of depending on foreign business and raw material exports, and devoting no effective attention to its internal economic and administrative backwardness. Throughout the 1950s, '60s, and '70s, Peru was periodically in trouble but able to entice the IMF, the World Bank, and commercial banks to help it postpone the day of reckoning. The burgeoning of petro-dollar reserves in the 1970s, of course, made credit easy at a time when Peru's domestic economic policies had caused a decline in its GDP. Thus it was able to live on foreign credits, postponing once again the inevitable showdown. Finally, in 1984, the banks closed the door on Peru. When President Garcia came to power the next year, he did nothing to improve the situation. Indeed, his domestic economic program and his erratic strategy for dealing with Peru's creditors made things worse. Today, Peru is at the end of the third of these cycles in borrowing, ineffective use of credits, and eventual default.

The structural continuities should be obvious. Peruvian society and its economy remain highly bifurcated. A small elite commands most of the wealth and engages in exports for its primary markets. The bulk of the country and its population remain apart, living at the subsistence level, politically disenfranchised though able to vote, socially and culturally deprived, and with little prospect of engaging in economic activities that will eventually allow them to escape their traditional predicament.

Some significant changes have also occurred. Since the early part of the 20th century, various intellectuals and political leaders have become critically concerned about the domestic social and economic realities in Peru. They have been angered by the old continuities described above. And they have tried to develop strategies for breaking them.

At the risk of excessive simplification, it appears that two general strategies emerged for breaking out of the old cycle. The APRA and other leftist groups sought to break the dependency on exports and achieve a new social integration that is all inclusive. They have taken their ideological cues from Marxism but without accepting a wholly Marxist-Leninist solution. Foreign business -- "imperialism" -- is the culprit. The oligarchy and the business elites are in the pay of the imperialists. This view of the problem requires them to hold a very hostile attitude toward international commerce and banking.

At the same time, this ideological baggage, modified by a strong desire to find national dignity and self-definition in Peru's Spanish and Incan cultural heritage, encourages anti-market, highly statist, economic development policies. While both the foreign and domestic policies deriving from such a political outlook have an understandable moral appeal, they exacerbate both domestic economic conditions and foreign fiscal dependency. Their strategy identifies the right problem but offers the wrong solution.

The alternative strategy is not so clearly articulated, perhaps because it has not sought such a radical break with the old continuities. Even the most repressive right-wing regimes have shown concern for moderating the plight of the peasantry and bringing the Indian population into the society as a whole, integrating it socially and politically. The moderate presidents in the 20th century have actually paid more than lip service to these aspirations.

Where they differ with the left is in the kind of relations they seek with the international economy. Exports are the only way they see to earn significant capital.

Moreover, they have taxed foreign trade heavily and used the income to support the public sector. They also appear to have differed with the left on how public sector spending can best benefit Peru. Public works -- railroads and roads, big projects -- are preferred over welfare, public health, and other social programs targeted on the poorer strata of society.

Both the leftist strategy and the rightist strategy have been highly statist in economic policy. Neither has seriously attempted to create a large private economic sector that could develop a significant domestic consumer market. Beyond the wealthy strata, the consumer market has been occasionally pumped up by transfer payments, wage increases, and other state spending to put wealth in consumer hands. The source of such fiscal resources, of course, has been both export taxes and foreign credits. The cumulative consequence of this economic philosophy has been to reinforce the economic and political bifurcation of the society, preventing its integration and its domestic market development.

So much for the "new political thinking" in 20th century Peru; what about new political action? Neither the right nor the left has been able to achieve basic change. Rather they have reinforced the old continuities. Both of the dictators, Leguia and Odria, cultivated the export market and made no serious effort at a social revolution. The moderate presidents provided some social reform but remained heavily dependent on the international markets, the oligarchy, and the business community.

The military has been the exception. Its corporatist social and economic programs effectively broke the agricultural oligarchy, and its counterinsurgency destroyed two Marxist insurgent movements by the end of 1965. Velasco broke

some of the social barriers against the Indians. He redistributed considerable land but into collective, not private hands.

For all its success, the military revolution exacerbated the external dependency problem, and it failed to change the structure of the domestic economy. It merely changed much of the ownership from the oligarchy to the state, perhaps making the development of a domestic market all the more difficult.

It also altered the political spectrum. The military revolution was at least as radical as any the APRA would have imposed. When Garcia brought the APRA to power, it did not dare go as far as the military had in 1965 when it nationalized or redistributed property. Until the banking controversy in 1987, for example, Garcia was very careful not to alienate sources of domestic capital. The military revolution has effectively put the APRA in the political center; although without a clear party ideology because APRA is internally fragmented by factions of the left, center, and right. On the right, Vargas Llosa articulated a wholly new line, emphasizing the creation of a large and thriving private sector. Left of the APRA, Barrantes' United Left party is Marxist and has offered nothing much new and a lot of the old things that the APRA used to offer. Although Barrantes tried rather innovative social policies while he served as mayor of Lima, more state control of the economy for the purpose of greater social justice seemed to be the message he carried on behalf of the left. Meanwhile, the Sendero Luminoso has captured much of the radical left, and it shows signs of becoming a serious contender for power.

The greatest practical change is to be found in three developments. The first is the destruction of many of the more conservative forces in society by the military revolution and a breaking down of social barriers. The second is a discrediting of a

statist economic strategy, first by the military regime and more recently by Garcia. The third is the urban population explosion that has occurred since World War II. The Sendero insurgency, terrorizing many peasants into seeking safety in the cities, exacerbated this problem during the 1980s. Urban residents now comprise over seventy percent of the total population.

Are there any new prospects, any hopeful openings created by these changes, both practical ones and shifts in political ideologies? As we look back at each new start in Peru, we see that the leadership, after overcoming a default on foreign debts and finding a new spurt of economic prosperity, has pursued half-right and half-wrong policies. It has time and again sought to break its foreign economic dependency, or at least reduce it considerably. And it has tried to "conquer Peru internally." All of this makes good sense. Where it has gone wrong is in its statist approach to domestic economic development. Coupled with this error, it has never tried to build an effective system of direct taxation and sustain it with the accompanying institutions of effective local government. Rather it has resorted to export taxes, indirect taxes, state business, and finally and disastrously, foreign credits which the economy can never repay.

A new government might find it easier today to correct this domestic economic error and taxation strategy. The old barriers to such a new policy are much lower. Still, the several Marxist parties and groups within the United Left have not learned the proper economic lessons, and they retain the power to obstruct in the legislature. This similarly can be said for the parties of the right, which want to maintain their privileged access to the state and its close relationship with many business firms. At the same time the Sendero Luminoso and the drug traffickers make it a supreme challenge to build up the kind of local government required for

**an effective system of taxation. Even if this new obstacle, the insurgency, did not exist, the continuities of political culture induced by the colonial period and the highly bifurcated society would still make success problematic.**

## **PART II. THE PRE-CONDITIONS FOR DEMOCRACY**

With this brief historical overview as an introduction to the dynamics of political development in Peru, we must look at them in more detail, especially as they unfolded in the recent past, in order to make judgments about Peru's prospects for retaining its democracy and giving it deep and stable roots.

About a decade ago, when Huntington was trying to answer the question, "Will more countries become democratic?" he set forth four categories of preconditions that have been present to a considerable degree in countries that have already moved to democracy.<sup>1</sup> They are: a) economic; b) social; c) external; and d) cultural. By taking these categories as a basis for re-examining Peru's history and the contemporary legacy of that history, we should be able to assess the future prospects for democracy in Peru. Furthermore, the analysis should also identify structural, social, and economic realities that are most critical to change if democracy's chances are to be improved. It should not only tell us whether democracy has a future in Peru, but also yield some clear ideas about what must be done to improve its prospects.

In other words, evaluating the state of the preconditions for democracy in Peru is equivalent to making a diagnosis of Peru's political health. Effective cures depend on accurate diagnoses. In the following sections, therefore, we are looking not only for causes of political diseases but also for insights into effective cures.

---

<sup>1</sup> See Samuel P. Huntington, "Will More Countries Become Democratic?" Political Science Quarterly 99 (Summer 1984): 193-218.

## CHAPTER 2. ECONOMIC CONDITIONS

The relationship between economics and democracy has been a much debated issue among both political development theorists and those concerned with theories of democracy. Lipset long ago observed the high correlation between economic growth and democracy.<sup>1</sup> Lindblom has analyzed the relationship between market economics and liberal democracy, noting that there are no examples of liberal democracies without market economies.<sup>2</sup> And Dahl has concluded that we do not know enough to formulate a sound theory about the relationship.<sup>3</sup> More recently, Fukuyama has argued that the end of the Cold War and the demonstrated inability of statist and command socialist economies to sustain economic growth make it clear that liberal democracy and market economies are the best solution that can be devised for government and politics.<sup>4</sup> Huntington, of course, in identifying economic growth as one of the four preconditions for modern democracy, concludes that whatever the debate over the nature of the relationship, economic growth does make a difference for democracy.<sup>5</sup> In case studies of El Salvador, Guatemala, and the Philippines, I have concluded that in statist

---

<sup>1</sup> Seymour Martin Lipset, Political Man (Garden City, NY: Doubleday, 1960).

<sup>2</sup> Charles E. Lindblom, Politics and Markets (New York: Basic Books, 1977).

<sup>3</sup> Robert A. Dahl, Polyarchy (New Haven: Yale University Press, 1961).

<sup>4</sup> Francis Fukuyama, "The End of History?" The National Interest 16 (Summer 1989): 3-18.

<sup>5</sup> S.P. Huntington, "Will More Countries Become Democratic?" Political Science Quarterly 99 (Summer 1984): 193-218.

economies which also contain large landless peasantries, the distribution of wealth is such that democratic competition is sorely limited, making continued progress toward democracy problematic even after an electoral system is established.<sup>6</sup>

There does seem to be a strong causal linkage between stable democracy and market economies. Not only is economic growth important to deal with popular demand for improved living standards, the diffusion of wealth in private hands also seems to be critical for effective political competition. Lacking even moderate incomes and means for providing resources to political groups, parties, and leaders who could represent them, the bulk of Peru's population tends to be effectively excluded from the policy-making process except at election time. They may be able to vote, but they have no means to remain involved in the legislative process and to constrain the executive institutions in policy implementation. In Peru, therefore, democracy remains weak and tenuous.

### **Macroeconomic Performance**

We need not provide a detailed analysis of the Peruvian economy today to realize that economic decline is highly unfavorable to Peru's democracy. The real GDP declined 0.2 percent in 1981-85. After a couple of years of increase, it again began to decline, dropping another 8.7 in 1988 and 12.5 percent in 1989 (against 1987 as the base year).<sup>7</sup> Hyperinflation in the last years of Garcia's rule merely reflects the chaos and disorder in the economy. By 1989, the combined public sector

---

<sup>6</sup> See Wm. E. Odom, On Internal War (Durham, NC: Duke University Press, 1992), p. 189.

<sup>7</sup> These data are from IMF internal documents, dated 17 April 1990.

and foreign debt had reached over 100 percent of GDP.<sup>8</sup> Real wages since 1990 were roughly one-third of what they were in the late 1970s and early 1980s. This has resulted in part from a severe decline in discretionary income as traditional subsidies on many consumer goods, most notably gasoline, have been lifted to allow realistic market prices.

There is a great deal more to the democracy-economy relation in Peru than overall performance indices reveal. At times in the past, they have been very positive without causing the roots of democracy to deepen in Peru. We must, therefore, look at structure, income distribution, public sector spending, taxation, and a number of other things to make a sound judgment about the economy's significance for democracy in Peru.

### **Structure of the Economy**

The Peruvian economy has a fairly large manufacturing sector, accounting for between 20 and 25 percent of the GDP since 1985. Mining, of course, is also a significant sector, averaging in the same period just over 10 percent. Construction falls into the 5-6 percent range. Agriculture has varied between 11 and 14 percent, averaging about 13 percent. The commercial sector and other smaller activities compose a very large part -- 39-40 percent.<sup>9</sup> As this breakdown shows, Peru's economy is hardly dominated by the agrarian sector; in fact, it is relatively small. The bulk of the economy is urban based. Mining and oil production, of course, are

---

<sup>8</sup> Ibid.

<sup>9</sup> Ibid., pp. v, 1-15.

not wholly urban activities, so much of the labor force employed in this sector lives closer to the countryside.

### **Distribution of Income**

The per capita income in 1989 was \$681, a low figure for the region, but the distribution of income gives an even more dismal picture. The top 10 percent of the population receive 45 percent of total GDP while the bottom 50 percent earn only 15 percent. Moreover, the lowest 10 percent of households receive only one percent of GDP, and their per capita income is about 14 percent of the \$681 national average. The bottom 30 percent of households have a per capita income of only 22 percent of the national average. Allowing for consumption by these households of products that they make themselves, the real consumption per capita still only amounts to about one fifth and one third respectively of the national average for the bottom 10 percent and 30 percent of households.<sup>10</sup>

The last two years, 1990-91, have witnessed the continuation of decline in economic growth, and the skewed distribution of income has undoubtedly become even worse.

These data are all the more disturbing when it is remembered that a very small percentage of the population actually owns land and can resort to subsistence agriculture for a living. The size of the landless peasantry has always been large. The land reform program under General Velasco's military government, rather than increasing the number of land holders, actually decreased it by implementing a cooperative farming approach, not only in the large commercial farms in the costa region but also in the sierra highlands. The impact on commercial farming has been quite negative, turning Peru from a sugar exporter to a net importer.

---

<sup>10</sup> Ibid.

Population pressures at work in Peru also help skew income distribution away from the poor. The population has been growing by 2.6 percent annually since 1979, and this growth trend began soon after World War II. Of the 21.8 million Peruvians in 1989, 40 percent were under 15 years of age. A slight decline in infant mortality has also made these youth cohorts larger. As the population has grown, per capita income has declined, and it is estimated to have dropped by one fourth since 1980.<sup>11</sup> It promises to continue to decline in the immediate future.

### **The Public Sector -- Statism, Taxation, and Economic Growth**

Historically, Peru has been the recipient of large foreign capital inflows. Why has that capital not induced sustained economic growth? A number of economic explanations can be offered, especially Peru's dependency on the international commodity markets and the swings in international commodity prices. Still, considerable domestic capital formation during boom periods in principle should have accumulated in the non-export sector, prompting economic development that is somewhat isolated from the international markets. To some degree that has occurred, but the effectiveness of that investment has been low, and much of the available capital has literally been squandered. The explanation for this outcome is to be found in the role of the public sector in the economy.

State-owned enterprises account for about 20 percent of the GDP. This is a large percentage in its own right, and its significance is even greater because of the

---

<sup>11</sup> Ibid., p. 19.

way it distorts the Peruvian private sector.<sup>12</sup> Public sector enterprise affects wages and prices dramatically, and they in turn cause inefficient use of capital by the private sector. When the policy of "import substitution industrialization" is added, providing protectionism for both public and private sector investment, little remains that could be called a truly market economy. It certainly cannot create valid "scarcity prices" reflecting either domestic or foreign scarcity relationships. Yet efficient capital investment decisions are dependent to a considerable degree on knowing the relative scarcities of goods and services.

The statist character of the economy in Peru is not new, but it has increased rapidly since the military government took power in 1968. Public sector expenditures rose from 22 percent of GDP in 1970 to 51 percent in 1985. In 1968, the state owned less than 30 business firms; by 1985 the number was more than 200. In the last fifteen years, "real gross fixed capital formation grew almost three times as fast in the public sector as it did in the private sector... causing Peru's incremental capital/output ratio to rise precipitously."<sup>13</sup>

The proclivity for a statist approach to economic development, of course, has old roots in Peru. The old oligarchs and large landowners have long maintained that pattern. In principle, industrialization should have weakened them and created a new political class. Why has it not? Again, the explanation takes us back to the availability of large foreign credits. They have been delivered primarily to the Peruvian state, and thus the state has been the major decision-maker in how they

---

<sup>12</sup> See Felipe Ortiz de Zevallos, The Peruvian Puzzle (New York: Priority Press Publications, 1989), p. 37.

<sup>13</sup> Ibid. , pp. 36-37.

are used. Ortiz de Zevallos estimates that the billions of dollars of foreign credits over the 1970s and 1980s have been spent in ways that did little to induce economic growth. He calculates that all foreign capital went in about equal parts to: a) consumption and social services; b) defense expenditures; c) infrastructure; and d) productive projects. Only one in every four of those dollars, therefore, was invested in projects that promised a return that might repay the debt. Moreover, the infrastructure spending has been on projects that "were the worst kind ... during a period of severe adjustment in energy prices."<sup>14</sup>

As the public sector has expanded, the means to pay for it have not. In the haydays of easy foreign credits, especially in the 1970s, state borrowing from abroad could be used to cover the public sector debt. That, of course, only transferred the problem to the foreign debt account. After President Garcia essentially defaulted on most of the foreign debt service and the international financial institutions cut off further loans, the shortfall began to show up as public sector debt. Garcia made matters worse by expanding public sector employment, adding about 400,000 people to the government payroll. At the same time, he reduced taxes, allowing them to fall to only 3.0 percent of the GDP by 1990.<sup>15</sup> The consequences are evident in the data on state revenues and expenditures in Chart 1.

**CHART 1**

**Government Revenues as a Percentage of GDP**

|         | <u>1985</u> | <u>1986</u> | <u>1987</u> | <u>1988</u> | <u>1989</u> |
|---------|-------------|-------------|-------------|-------------|-------------|
| Totals: | 15.0        | 12.4        | 8.9         | 9.1         | 5.4         |

<sup>14</sup> Ibid., p. 45.

<sup>15</sup> FBIS-LAT-91-150, 5 August 1991, p. 42. Minister of Economy Carlos Bolona reported these figures in an interview with La Republica, July 23, 1991.

### **Government Expenditures as a Percentage of GDP**

|                | <u>1985</u> | <u>1986</u> | <u>1987</u> | <u>1988</u> | <u>1989</u> |
|----------------|-------------|-------------|-------------|-------------|-------------|
| <b>Totals:</b> | 18.2        | 16.9        | 15.5        | 14.4        | 10.8        |

Note: Data from IMF Memo, SM/90/62, April 17, 1990, pp. 24, 27

Taxation clearly has not kept up with public sector spending. Tax exemptions and evasions have traditionally been notoriously large, but the problem has been exacerbated by hyperinflation which keeps the tax rates dramatically behind in their real value. Thus the difference between revenues and expenditures in Chart 1 gives a better impression than the reality since 1988.

The structure of taxes is also important for understanding the state's predicament. Chart 2 offers a breakdown by category of state revenues.

#### **CHART 2**

| <b>State Revenues by Category</b> |  | <u>1985</u> | <u>1986</u> | <u>1987</u> | <u>1988</u> | <u>1989</u> |
|-----------------------------------|--|-------------|-------------|-------------|-------------|-------------|
| <b>Total Revenues</b>             |  | 100%        | 100%        | 100%        | 100%        | 100%        |
| <b>Income Tax</b>                 |  | 14.1        | 22.3        | 19.9        | 21.9        | 19.5        |
| <b>Property Tax</b>               |  | 2.9         | 4.8         | 4.2         | 5.6         | 4.5         |
| <b>Tax on goods and Services</b>  |  | 56.3        | 48.7        | 54.9        | 52.7        | 65.6        |
| <b>Import Tax</b>                 |  | 19.8        | 19.3        | 21.2        | 13.6        | 16.5        |
| <b>Export Tax</b>                 |  | 2.0         | 1.4         | 0.4         | 5.4         | 1.7         |

|                 |      |      |      |      |       |
|-----------------|------|------|------|------|-------|
| Tax Credits     | -7.5 | -6.5 | -7.3 | -6.4 | -11.5 |
| Non-tax Revenue | 12.3 | 10.0 | 6.7  | 7.3  | 3.9   |

Note: Data from IMF Memo SM/90/62, April 17, 1990, p. 24.

Indirect taxes on goods and services have consistently accounted for half or more of the total state income. Import taxes also bulk large. The low level of export tax probably reflects the contemporary weakness of Peru's export sector in the international markets. Direct tax in the form of income and property taxes have only amounted to about a fourth of the total, a sure sign of the weak capacity to tax in general. Direct taxation requires a much more intrusive state administration. Weak governments find it easier to fall back on indirect taxes and tariffs on imports and exports.

The structure of state expenditures is also important for understanding whether they are facilitating economic growth and responding to the requirements of a healthy democracy. The large expenditure items, in addition to wages for public sector workers, include most obviously the military, interest on foreign and domestic debt, and capital items. Chart 3 offers a breakdown. Transfers rose as a portion of the expenditures during Garcia's administration, and the military budget dropped significantly. Goods and services remained fairly constant. These trends reflect Garcia's welfare shifts at the expense of the military and some capital investment. The increase in wages also reflects Garcia's policies for pumping up consumer demand and putting large numbers of his supporters on the public payroll. Clearly the structure of expenditures has not been conducive to private enterprise and economic growth. Rather it shows a growing public sector load of non-productive expenditures.

**Chart 3**

**State Expenditures by Category**

|                             | <b>1985</b> | <b>1986</b> | <b>1987</b> | <b>1988</b> | <b>1989</b> |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|
| <b>Total Expenditures</b>   | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> | <b>100%</b> |
| <b>Current Expenditures</b> | <b>85.3</b> | <b>82.0</b> | <b>86.5</b> | <b>90.2</b> | <b>86.2</b> |
| <b>Wage/Salaries</b>        | <b>21.8</b> | <b>24.1</b> | <b>27.3</b> | <b>23.1</b> | <b>23.8</b> |
| <b>Goods and Services</b>   | <b>5.5</b>  | <b>6.7</b>  | <b>6.6</b>  | <b>6.5</b>  | <b>6.9</b>  |
| <b>Military Outlays</b>     | <b>19.0</b> | <b>17.3</b> | <b>18.7</b> | <b>13.3</b> | <b>13.1</b> |
| <b>Transfers</b>            | <b>9.5</b>  | <b>13.8</b> | <b>16.1</b> | <b>14.5</b> | <b>16.2</b> |
| <b>Interest</b>             | <b>29.6</b> | <b>20.2</b> | <b>17.8</b> | <b>33.0</b> | <b>27.7</b> |
| <b>Capital Expenditures</b> | <b>14.7</b> | <b>18.0</b> | <b>3.5</b>  | <b>9.8</b>  | <b>13.8</b> |

Note: Data from IMF Memo SM/90/62, 17 April 1990, p. 27

Three observations, among the many that these data could prompt, are most important for this analysis. First, the low level of direct taxation reflects a weak state extractive capacity. That has traditionally been true in Peru, as it was noted in the introductory survey of Peru's history. The state has preferred to finance the public sector by taxing export and import earnings and by owing state concessions to foreign business rather than by penetrating the domestic society and economy and extracting its major revenues from direct taxation. Second, the only two ways out of the present economic crisis are for the state to develop its taxing capacity to a degree that permits it to finance the public sector primarily from the domestic economy, or for the state to cut public sector spending. As long as abundant foreign credits are not available, the government does not have the old option of using them in lieu of taxes for public sector financing. Third, the heavy burden of wages for public sector employees needs to be sharply reduced.

The combination of statism and a weak tax extraction system have made it virtually impossible for Peru to enjoy economic growth other than from periodic boom periods in the international commodities markets. What is earned in those periods, moreover, has failed to stimulate the kind of capital investment in non-export sectors that could sustain growth during bust periods in the international markets.

This situation, so sharply apparent in Peru's economy today, is not new. Its roots are old, and in a way, it could be said that the oligarchic monopoly of pre-industrial Peru has simply been perpetuated in new institutions as Peru has industrialized. The causes, however, are not only found in old economic structures and statist patterns. They include the way in which transnational capital has come into Peru and how it has been used. Felipe Ortiz de Zevallos lucidly describes a repetitive pattern in Peru's state finances and foreign borrowing.<sup>16</sup> Three times earlier in its history it has defaulted on its foreign debts -- 1825, 1876, and 1931. President Garcia's actions mark yet a fourth and the latest. The conditions leading to these defaults have been essentially the same in every case. The state financed its expenditures largely from foreign credits and business concessions, failed to develop an effective domestic tax base and collection capacity, and disallowed the free market a significant role in allocating the foreign capital for investment. The results of such policies are easy to understand. Statism in the economy coupled with heavy dependency on foreign capital for public sector expenditures has insured the mal-allocation of capital while creating the temporary illusion of well-being and economic growth. Ortiz de Zevallos, however, does not emphasize the role of

---

<sup>16</sup> Ortiz de Zevallos, *Op. cit.*, pp. 1-18.

taxation as a part of this cycle. His description of it, nonetheless, makes it easy for us to see that role, the adverse consequences of the preference for avoiding significant direct taxation and the preference for dependency on import and export taxes.

A number of Peruvians do seem to show a growing awareness of the cyclical trap in which the Peruvian economy has remained. Unfortunately their diagnoses for escaping it differ fundamentally. One view recommends a radical reduction in the statist nature of the economy. The other seeks to expand the role of the state, either greatly limiting the private sector or eliminating it entirely.

Mario Vargas Llosa, in his presidential campaign, promised to expand the private sector and to reduce dramatically the role of the state in the economy. He and his followers believe a considerable potential for economic growth is now bottled up by the regulations and laws that make entering the economy as an entrepreneur virtually impossible without vast political influence in the upper circles of government.

The most articulate spokesman for this view is Hernando de Soto, who has examined in considerable detail the emergence of the so-called "informal" economy in Peru, beginning early in this century and burgeoning in numbers of people engaged in it in the last decade as the urban population has swollen.<sup>17</sup> The informal economy, of course, lies largely outside the state tax base. This failure to admit the informal sector into the larger formal economy has denied the state a significant source of revenue. De Soto gives the impression that economic growth

---

<sup>17</sup> Hernando de Soto, The Other Path (New York: Harper and Row, 1989).

could be increased rather dramatically simply by removing the vast structure of laws, regulations, and administrative obstacles that limit the informal sector.

Undoubtedly there is truth to his assessment, especially in the older and more developed parts of the informal sector. Given the massive migration to the cities in the last decade or so -- about 72 percent of the entire population now resides in urban areas -- much of the informal sector may not be able to contribute as much to the national income as he seems to believe. This is not to discount his policy recommendations. They are not only cogent but desperately need to be implemented. It seems doubtful, however, that they alone would solve the domestic economic crisis confronting Peru today. Much underemployment in the informal sector would likely remain underemployment for a considerable time even if the informal sector were wholly formalized.

There seems to have been less attention given to the agrarian sector. Peru's economy, of course, had in the past a large agricultural sector. The commercial farms in the costa region have traditionally contributed significantly to export markets, at times enjoying impressive productivity. Since the land reform program of the military government, however, their output has declined, particularly because cooperative ownership has lowered labor productivity. Cooperative workers do not feel responsible, and therefore they slack on cooperative farming while devoting more time to their private subsistence endeavors. Other factors have also adversely affected production. General Velasco's military government actually invested in projects to improve agricultural production, but they were ill-chosen, excessively expensive, and contributed virtually nothing to growth.<sup>18</sup>

---

<sup>18</sup> Ortiz de Zevallos, *Op. cit.*, p. 45, gives the example of an irrigation project for desert land at a cost per hectare four times higher than the price of land in Iowa!

Agriculture today accounts for about 13 percent of the GDP.<sup>19</sup> This is hardly impressive when we remember that nearly 30 percent of the population is employed in agriculture. It experienced growth in the first couple of years of President Garcia's administration but began to decline thereafter. Not only did his policies contribute to the decline, but the insurgency in the countryside has also caused production to drop. It would appear, therefore, that privatization of the agrarian sector is no less urgent than in the urban economy.

The alternative view of how to break Peru's cyclical trap, unlike denationalization, has been tried, and the results have been disastrous. Two Peruvian governments in recent history have made a strong attempt to break the linkage between foreign capital and domestic economic growth. Velasco initially scorned foreign business and proclaimed his intention to develop Peru's domestic economy so that foreign dependency on foreign capital and foreign markets would be far less critical. After a few years, he was back at the credit windows of international banks trying to entice new foreign capital into Peru. The massive bank reserves of petrodollars in the early and mid-1970s made it easy for him to succeed. Velasco's domestic programs, however, were aimed not at reducing the state's role in the economy but rather at expanding it. Thus his goal of greater economic autonomy was impossible to achieve. His policies virtually insured that it could not be reached.

President Alan Garcia essentially followed the same strategy. Effectively defaulting on Peru's foreign debt, he followed a policy of trying to stimulate

---

<sup>19</sup> IMF, *Op. cit.*, p. 5.

domestic demand which would put the large idle capacity of Peru's industry back to work. At the same time, he expanded public sector wages and spending. Curiously, the centrally planned economies of East Europe followed a similar policy of trying to use their large inefficient state enterprises to stimulate economic growth. The difference is that they had to begin borrowing heavily abroad. They did not already have a heavy foreign debt and debt service burden. The international banks obliged, and much the same result occurred. Since overthrowing their communist regimes, these states are trying to privatize their economies with all the concomitant social and unemployment consequences.

### **"The Other Path"**

The betting in the 1990 presidential election, of course, was on Vargas Llosa. His victory would have meant the first genuine trial of a program aimed to destatize the Peruvian economy. Fujimori was less clear about his intentions, but as has been the case earlier in Peru's history, winning candidates have not hesitated to steal the programs and policies of their opponent, as Velasco, for example, was accused of adopting the APRA's program.

The Fujimori administration in its first year appears to have recognized the nature of Peru's fundamental problems. Privatization and increased taxation are its professed goals. Indeed, Fujimori has been accused of taking over Vargas Llosa's program. Moreover, he is also making some attempts to heed de Soto's analysis and advice about the informal sector, and he has attempted to levy a sales tax on informal street vendors. Bolona, the Minister of Economy, is critically concerned with reducing the public sector deficit. He predicts revenues from taxes amounting to 8 or 9 percent of the GDP this year and reaching 14 percent by 1994 or 1995,

eventually rising to 18 percent.<sup>20</sup> Even this rate of increasing taxation, however, can do little more than slow the rate at which the deficit is growing.

These are clearly commendable policies. The question is whether they have come too late and whether they can be carried out. Given the weak character of the Peruvian state administration, the power of the business elites to evade new taxes and prevent the removal of subsidies and protectionist tariffs, and the power of labor unions to demand and get wage increases, executing such policies will prove difficult, perhaps impossible. At the same time, the government must cope with two insurgent groups dedicated to making Fujimori's programs an abject failure. That requires continued large expenditures for the military and police, and it means losses to the economy from violence and military operations.

### Economy and Democracy in Peru

Among the several paths countries have taken to democracy, Huntington identifies one as the "dialectical" route. An electoral system with reasonably free competition is established, but after a time the system reverts to dictatorship. Dictatorship does not last long, and elected government is tried again. The cycle repeats itself. As examples he cites Turkey, Argentina, Nigeria, and Peru. Indeed, that has been the pattern in Peru since its independence from Spain. Huntington does not offer an explanation for the dialectical pattern, but the relationship between economics and democracy may suggest one for Peru's case.

The state has always been weak in Peru. Large sectors of society have remained beyond its administrative penetration, and elite groups have never fully

---

<sup>20</sup> FBIS-LAT-91-150, 5 August 1991, pp. 42-43.

surrendered their own power to the state. They use the state for their own advantages, but they have also retained adequate power to limit state control over their resources, particularly limits on taxation and major wealth and property transfers. The Velasco military government was, to a considerable degree, an exception in this regard. It did break the landed oligarchs in the costa region and forced many of those in the sierra simply to give up farming their latifundia. Their loss of property, however, did not mean that it was transferred to individual smallholders. Rather it was taken over by the state and organized as cooperatives and communes. The same was true in industry. Nationalization proceeded apace, and some of the business elites lost power, but a diffusion of private property was prevented. Quite the contrary, state ownership expanded. No successor government before Fujimori's administration seriously tried to reverse this concentration of state ownership. Garcia's government actually tried to increase it after promising no further nationalization.

While a number of other factors are clearly important in the Peruvian experience with "dialectical" democracy, the economy seems to be a critical one. It works against stable democracy for two reasons. First, sustained economic growth is not possible for the statist system. Second, the statist system disallows the diffusion of control over property and resources that are essential for effective political competition. The economic ideology of the two regimes that have most recently tried to break Peru from its debilitating entanglement with international capital and export markets has not only precluded removal of the source of the problem for democracy. It has made things worse, bringing Peru's economy to the crisis with which it is now struggling.

Given the fairly large industrial and commercial sectors of the economy and the large urban population, one would anticipate an "urban breakthrough" path to democracy in Peru, Huntington's other pattern for moving to democracy. Why did that not happen? The obvious answer is that an adequate diffusion of private control over property did not occur in the process of urbanization and industrialization to permit sustained democratic competition. At the same time, the great concentration of economic power in state hands insured the inefficient use of capital for investment. Periodic economic crises, springing from the exhaustion of capital in unprofitable investments, have provoked political crises. The Marxist parties of the left, primarily the APRA, have appeared about to win a presidential election. The military has stepped in to prevent their taking power. Before Velasco's military rule, no military dictator was able to break the political autonomy of the business and rural oligarchs. They suffered the military dictatorships for a time and then ganged up against them to bring them to an end.

The prospects for stable democracy in these economic conditions are not good. Economic growth is impossible in the short run although some moderate recovery from the recent precipitous declines may be achieved. While all groups but the insurgents have a large stake in the success of Fujimori's policies, they all must make large sacrifices for them to be successful. In the summer of 1991, virtually all groups were beginning to express strong opposition to some or all of the policies, especially new tax policies. The cholera epidemic and the pressing social welfare demands on the regime make pursuit of austerity economic policies all the more difficult. Although some of Peru's political leaders seemed to have at last come to recognize the true source of the problem for both the political system and the economy, they find themselves in office when conditions are perhaps worse than they have ever been for implementing a solution.

The paradox for international financial institutions and foreign states willing to render economic assistance is not primarily the large foreign debt and arrears in debt service. Were those problems wiped away by the stroke of a pen, the temptation to bail out Peru's economy with new loans would be great. If that were done before a basic transformation of the structure of ownership (vastly expanded privatization) is achieved and before the state builds an effective administrative capacity to extract taxes from all citizens, both wealthy circles and peasants in the remote countryside, Peru would inevitably drift back onto its old path of financing the public sector from foreign credits and investing a small portion of them ineffectively. At the same time, Peru's economic crisis appears so severe that without fairly large amounts of economic assistance, one has to doubt that the present highly imperfect democracy can survive.

In short, the economic precondition for democracy in Peru did not appear to exist as late as 1990. The Fujimori administration is now boldly constructing a new economic framework for Peru (see Chapters 8 and 9) that may fundamentally alter its prospects for a stable and enduring democracy. We say "may," however, because it remains uncertain whether the political institutions and personnel, necessary to implement and sustain the specific economic programs beyond Fujimori's term in office, are developing, if they exist at all.

### CHAPTER 3. SOCIAL AND POLITICAL CONDITIONS

Modern stable democracies are characterized by dense networks of institutions and organizations which both permit wide-based popular participation and keep that participation orderly and effective in influencing policy-making. While not all such structures are "political" in their primary purposes, most of them to some degree "articulate" major interests of their members. Many such small organizations are often combined at the national level under federations or umbrella organizations which are closer to the central policy-making process and better able to influence it. These larger structures tend to "aggregate" the many articulated interests of member sub-groups.

Most of today's mature democracies created strong state civil administration before they became democratic. They penetrated virtually all social circles both for extracting resources and for maintaining law and order. As they became democratic in policy-making, they already possessed the administrative capacity to carry out policy decisions. A strong state, therefore, is as critical to a stable democracy as broad participation.

Political parties seek to win office through elections, and to do so, they must have broad popular support. Techniques used by parties for gaining support vary widely. Some are merely small groups of elites who popularize their program through the media but lack a permanent network of local organizations. They acquire resources through fund raising from groups they purport to represent. At the other extreme are "cadre" parties which make membership a highly formal matter, develop networks of full time party workers at local and intermediate levels, and collect dues from members as a major source of income.

The relationship between social groups and political parties forms a critical element in a democratic system. The parties link groups that support them to the government and the policy process. They acquire resources and voters through social groups, and they order the issues, determining the priority of issues that will occupy policy-making attention by the government. Opposition parties, as long as they have membership in the legislature, can affect the ordering of issues although they do not control the executive or legislature. Social groups represented by opposition parties, therefore, are not wholly left out when they fail to win majorities and control the key positions in the government. Fringe parties which cannot win seats in the legislature, of course, are the exception, but the large majority of groups are able to find some access through political parties to affect policies.

The mechanics of democratic systems vary considerably because of the different ways they conduct voting, representation and law-making procedures. Some appear to be more stable by excluding fringe parties which cannot win over a minimum percentage of the vote, by having single-member districts instead of proportional representation, and by other features. For our purposes here, we shall not bother with such refinements. Rather we must focus on the system's capacity to modulate, order, and control participation so that its legitimacy is maintained through reasonably responsive policy-making.

Verba and Almond long ago showed that mature democracies do not have full participation.<sup>1</sup> As much as a third of the population is politically quiescent,

---

<sup>1</sup> Sidney Verba and Gabriel Almond, Civic Culture (Princeton, NJ: Princeton University Press, 1963).

making virtually no demand on the policy process. Another third is occasionally active, participating intermittently. Intense participation is left to the remaining third or less. This highly active population is not stable. Its composition changes with issues and problems in the society as some groups realize their goals and become less active while others become more intense and increase their efforts to solve their own problems through policy-making.

The main point is that an effective democracy is not achieved by the "civics book" image of 100% participation most of the time. No political system can handle all groups' interests simultaneously. When the level of active participation rises above about one third of the voters, the system's policy-making capacity is likely to be exceeded. Frustration and discontent is bound to rise.

We are, of course, talking about systems that have highly developed social and political institutions through which citizens can participate. And the citizens must have the wealth to finance those institutions and be willing to do so. Diffusion of wealth in democratic societies makes social and political organizations compete for resources by satisfying members. Intense minorities with large resources are normally more successful than less intense majorities, especially if the majorities offer few resources -- money and manpower -- to groups which represent them.

Effective democracy, it should be clear, is far more than periodic elections in which opposition parties are free to compete. And it is more than majorities making policy. When society is amorphous, without social structure provided by many private institutions and organizations, it is ill-prepared for democracy. It is also ill-prepared when that institutional structure is designed not to reflect society's preferences but rather to constrain and mobilize the population for state purposes.

To a considerable degree, even private volunteer societies and political parties mobilize and constrain membership, the more so the less dependent they are on members for resources. This constraining function makes politics manageable. It makes different groups wait in line for their time in the policy process, and it sorts out the intensity of interests by resource contributions.

Stable democracies do not suddenly appear. They develop. The social and institutional infrastructure requires time to be created. Moreover, the pattern of development inevitably reflects the distribution of wealth and resources in the society. As Mancur Olson has argued, the wealthy and better educated have better organizational skills, and therefore, political groups tend to emerge first among small circles of elites.<sup>2</sup> Inchoate democratic development begins with oligarchy and a limited participatory franchise. Over time, if the franchise widens, and if constitutional rules are internalized as limits on politics, democracy develops.

The trouble comes in the mobilization of new social strata and their demand for participation. Stability and continued democratization under the pressures of social mobilization require the expansion and maturation of new participatory institutions -- professional groups, social and cultural groups, trade unions, and agrarian groups. If such infrastructure fails to develop or fails to keep pace with demand for participation, the stability of the system can be threatened. The same is true for development of the state's capacity to implement policies, to overcome recurrent corruption, and to maintain law and order.

---

<sup>2</sup> Mancur Olson, The Rise and Decline of Nations, (New Haven: Yale University Press, 1983), pp. 17-35.

### **The Earlier Record of Peru's Institutional Development**

As we consider the case of Peru, we must keep this concept of democratic development in mind to guide us in assessing the social and institutional capacities of the system. Peru's first century of independence is not exceptional in many regards. Most of the society was rural, engaged in agriculture, and politically quiescent. It was encased in the system of land tenure and peasant obligations to the landowner who acted not only as an employer but also as the local executive and judicial authority. Much of the Indian population was left to its own community organization and government. Participatory politics was limited to a small elite in the coastal region and in the major cities, particularly Lima.

In the early 20th century, as oil, mining, commercial agriculture, and some industry caused growing mobilization of the Indian and mestizo strata into the labor force, social and economic hardships precipitated greater demand for access to policy-making. Concerned intellectuals offered their leadership to these new interests. The APRA became the institutional vehicle for their articulation.

Two factors seem to have prevented a successful and stable democratic development process in Peru. First, the political institutions in which the narrow circles of elites began the process were never clearly disentangled from the state. Second, a clear settlement of the question of constitutional rules was not reached. The military periodically ruled at the expense of the electoral process. The Civil Party, formed in 1872, was created to oppose military rule. A few smaller parties based on the commercial elites also were formed. All of this was promising, but it failed to create liberal democracy after the military was forced out.

It failed in no small part because commerce and industry were inextricably tied to the state. Heavily dependent on exports, which the state controlled and heavily taxed, business circles were at the mercy of the state bureaucracy. A strong and independent private sector did not emerge with its own resources. Thus, "liberalism" in the 19th century version so characteristic of Britain and the United States, could not thrive.

A concomitant pattern of institutional development exacerbated this blockage of expanding political pluralism. Peru failed to build an effective state apparatus. Only two sectors received concerted attention. The War of the Pacific focused attention on the military, and it made reasonable progress by regional standards. Administrative control over foreign trade and export-import taxation also received attention. Other central functions and local governments were rejected. Thus, the state's capacity to extract and allocate resources within the whole society seriously lagged. Direct taxation is government's most intrusive action, and to tax effectively, it must build strong administrative structures from the center downward to the citizen.<sup>3</sup>

In the colonial period, taxation did reach aggressively to the local level in the form of a head tax on all male Indians. In the 1850s, however, it was abolished as part of President Castilla's financial and social reforms. Flourishing guano trade provided abundant income to the state. Able to supply his coffers from direct involvement in business and from export taxes, Castilla felt no need to strengthen direct taxation of the populace throughout the entire country. This pattern of

---

<sup>3</sup> See Kiren Aziz Chaudhry, "The Price of Wealth: Business and State in Labor Remittances and Oil Economies," International Organization 43 (Winter 1989): 101-46.

depending on export taxes and government participation has remained firmly embedded in Peru, and it has had two devastating consequences for political development.

First, it put the state's major sources of revenue at the mercy of international commodity markets that are notoriously unstable. Second, and far more consequential, it gave the government no compelling drive to build institutions of civil administration that could extract direct taxes. The geography of the country, of course, contributed to the neglect of civil administration in many parts of the country, but that might have been overcome had the state found itself more dependent on local resource extraction for revenues.

These two factors, then, skewed Peruvian development away from liberal democracy. The entanglement of the business sector with the government prevented a growing private sector where liberal political parties and social organizations might have grown up with the independent resources to compete in a democratic policy process. At the same time, civil administration for resource extraction through taxation could be neglected. That neglect left most of Peruvian society cut off from government except as employees of state enterprises, foreign-owned enterprises, and large landowners -- some feudal, some commercial.

The electoral system did survive, however, notwithstanding periods of military rule, and political parties quite naturally found a place in it. The first truly modern parties grew up in the 1920s -- all leftist, all deeply at odds with the political system itself. The Social Party of Peru and the Peruvian Communist Party were Marxist and with limited followings. The APRA proved far more successful, Marxist

in its leanings but not orthodox, by outdistancing all others in building first a regional and later a nation-wide apparatus.

The constituency of the Peruvian left, of course, was the oppressed rural and working classes, but the leadership came from the universities. The structure of the economy, the weakness of the civil administration, and the absence of an expanding set of liberal parties with mass support insured not a gradual expansion of participation in the political system but rather its polarization and the exclusion of the recently mobilized and frustrated lower classes.

Some leaders on the political right accurately perceived that polarization had to be overcome. From 1933 to more recent times, with the exception of Odria's eight year dictatorship, they have to some degree tried to bridge the enormous gap with social legislation and concessions to the APRA. Trapped by dependencies on the export economy and export taxes, and lacking a strong civil administration, they made no progress. At the same time, the APRA moved toward the center and made deals with rightist politicians. This moderation, however, did not bring a fundamental change in APRA political and economic ideology. That became painfully clear during President Garcia's rule. The APRA proved as statist as any of the old right wing parties.

What has kept Peru from falling into civil war in light of this severe polarization? The military. It has entered politics to prevent the APRA from winning elections, and it has stepped in when civilian rightists have brought the economy and the public order to the brink of collapse.

If we examine the social and political institutions and their capacity to handle social mobilization and demand political participation, we have to consider two periods in order to grasp the present situation. First, the pre-1968 period witnessed considerable institutionalization -- in the business sectors, in the labor sector, in the agrarian sectors, and in social and cultural areas. On the face of it, institutionalization before 1968 looked quite promising for democracy. Second, the 1968-80 period of a revolutionary military government saw the de-institutionalization of much of Peruvian society and an attempt to replace it with "corporatism," not unlike the structure in Franco's Spain. It was not "totalitarian" mobilization as in the Soviet-type systems where the masses are co-opted into party-dominated institutions, but rather a loose collection of top-down created and guided institutions along economic and social lines.

### **Before the Military Revolution**

Before 1968, the economic elites had well-developed interest groups. Two agricultural organizations reflected the separation between the coastal commercial farmers and the landowners in the sierra. The former were represented by the National Agrarian Society, the strongest group, and the latter had their Sheep Growers' Association of Peru. Both were highly conservative, dedicated to protecting their members' privileged economic position, and therefore, resisted land reform.

The business elites had three prominent organizations, the Chamber of Commerce, the National Industrial Society, and the Association of Peruvian Businessmen. These groups embraced the small upper class of industrialists. Other groups also existed along more specialized economic sector lines.

Somewhat above and apart from these formal associations existed three social clubs in Lima, the National Club, the Union Club, and the Jockey Club. Bringing together the upper crust of society, they became the locus of much informal working out of policy. These closed cliques naturally created a great deal of resentment among the less privileged and even among some of the privileged, particularly the military which did not enjoy adequate social status to participate. These groups, representing the economic and social elite, really did not need political parties as intermediaries to make their influence felt in the policy process. They were the policy process.

Other strata were not without a modicum of institutionalization in interest groups. The Confederation of Peruvian Peasants (CCP), for example, formed in the late 1950s to represent peasant communities, rural collective structures that had long existed among the Indians and poorer mestizos. The CCP not only pushed for land reform but also led a series of land invasions, simply taking control of it.

In the 1960s, when the Catholic church began to reverse its former undivided support for the old order and show concern for the poor, the progressive sectors of the clergy founded the National Office of Social Information (ONIS). It was quite young when the military revolutionary government took power in 1968, and its major work was in support of the regime through organizing labor and squatters. The leftward inclination among some of the clergy, however, dates back to the late 1950s when they helped establish the Christian Democratic Party.

The universities played a role in creating social organizations by spawning radical leaders for the leftist political parties. Initially they supplied the APRA with cadres, but by the 1960s, as the APRA drifted to the center, more and more students

supported the various communist parties – some pro-Soviet, some pro-Chinese. And, of course, it was Professor Abimael Guzman of Huamanga University who would launch the Sendero Luminoso in 1970.

The labor movement was largely created by APRA leadership. In 1944, the Confederation of Peruvian Workers (CTP) became its only national level organization, and it remained closely affiliated with APRA. Strongest in the north where it enjoyed a large membership of textile workers and rural wage earners, it was the most moderate of the unions. After the military takeover in 1968, several other national unions emerged, far more radical in political inclination.

Modern political parties, as mentioned earlier, started on the left with the APRA and the communist party (PCP). They vied for mass support, but the ideological rigidity and organizational fragmentation of the PCP made it no match for the more pragmatic APRA. In the 1970s, a host of new leftist parties with small followings began to appear.

Parties on the right developed not as well-disciplined organizations with a nation-wide structure and a permanent apparatus. Rather they were created to promote the candidacy of a particular leader. The National Odriista Union (UNO) was founded in 1948 to promote Manuel Odria. The Peruvian Democratic Movement was formed in 1956 to promote Manuel Prado. As both men faded from the political scene in the 1970s, so did these parties, although they remain extant today with small insignificant followings. Accion Popular (AP) was founded in 1956 to support Belaunde. Twice winning a presidential election, it is exceptional in Peruvian politics, and it has close to one million members today. The Christian Democratic Party is also exceptional in not being founded to support a single

candidate. It arose as the result of progressive Catholic clergymen seeking to promote social justice and moderate economic policies. It soon fragmented, yielding the Popular Christian Party. Both exist today with small followings, although the PPC is much more prominent.

While the military is not properly a political party, it was a major political actor, and its social character, therefore, is important to note at this point. With border disputes on the north and the south, Peru could not afford to neglect its military. The Pacific War began precisely when Peru was making that mistake. Thereafter, the military enjoyed a privileged place as it struggled to modernize in step with its neighboring adversary armies. Socially the military was never accorded the highest status. Its ranks provided one of the few routes to upper mobility for mestizos and Spanish-speaking Indians. While its politics traditionally were rightist, protecting the oligarchy and the industrial and commercial elites, its recruitment policies for officers slowly introduced more and more leftist sympathy. Many officers came from military families, a fact that separated them from both the social elites and the masses. The upwardly mobile mestizo and Indian officers brought the changing political attitudes to the upper ranks. At the same time, the military has always stood apart, not wholly beholden to civil authority, a corporate structure within the society, the final arbiter in times of political crisis.

The picture emerging from this brief survey of interest groups and political parties is considerably different from our picture of the political development of the world's mature democracies. The social groups on the right did form as Olson's theory suggests, among the better educated and capable elites. They did not seek influence primarily through electoral politics, however, but rather were so

entrenched with the political incumbents that they had no need for modern political parties, only personalistic followings that masqueraded as parties at election time.

On the left, modern political parties emerged before significant social institutions acting as interest groups appeared. The APRA led the way in creating such interest groups among the lower socio-economic status. The PCP and its factions struggled less to participate in the political system than in seeking ways to overthrow it. The APRA, of course, was born with the same inclination, but its more pragmatic ideology allowed it to try to enter the system. It might well have moved to the center more rapidly had not the unfortunate insurrection occurred in 1931, making it an implacable enemy of the military. Its charismatic leader, Haya de la Torre, labored with this handicap throughout his long political career, and it was left to the young Garcia to harvest the fruit of his work in the presidential election of 1985.

As the APRA succeeded in creating interest groups, in providing a modicum of institutionalization for the awakening lower classes, the larger political system resisted their participation. It could get away with such behavior as long as the rate and quantity of social mobilization was low. As Huntington has pointed out, increasing mobilization is the common problem in developing countries, and if their economies provide opportunity, such mobilization is manageable. Where it is not -- and it is not in most cases -- the resulting social frustration leads to growing demand for participation in the political process. If new institutions arise with adequate capacity to accommodate the new demand, it can be channeled into constructive

participation and an expanded political franchise. Where institutionalization is inadequate, political stability is thrown into question.<sup>4</sup>

To grasp an idea of the dramatic mobilization in Peruvian society, we must note that only about one fourth of the population lived in cities in the 1940s. By 1980 it was two thirds. By the early 1990s, it was around 70%. The Peruvian economy has been wholly unable to provide economic opportunity for this new urban populace.

One might expect that such a dramatic shift in population from villages to cities would have already overwhelmed Peru and thrown it into civil war. And given the little progress in modern social organization, one might conclude that Peruvians lack organizational skills. Both conclusions would be mistaken. Even in the countryside, the peasants are quite skilled at social organization, at cooperative endeavors, although most peasants show a strong propensity to want private control over a large part of their economic activity. As they have moved to the cities, invading unoccupied land and building squatter settlements -- "young towns," as they are called -- they have quickly organized to provide communal needs. Carol Graham's close study of the PAIT program during the APRA government in the late 1980s reveals a remarkable set of informal cooperative efforts to provide housing, communal kitchens, and neighborhood organizations to care for children, health, and so on.<sup>5</sup> Peruvians clearly are capable of social organization for modern

---

<sup>4</sup> Samuel P. Huntington, Political Order in Changing Societies, (New Haven: Yale University Press, 1968), pp. 8-92.

<sup>5</sup> Carol Graham, "The APRA Government and the Urban Poor: The PAIT Programme in Lima's Pueblos Jovenes," Journal of Latin American Studies 23 (February 1991): 91-130.

urban and political life. In fact, the political system has survived in part because they are so able to improvise adequately to survive.

### **During and After the Military Revolution**

General Velasco's Revolutionary Government of the Armed Forces made one of its highest priority goals the fundamental restructuring of social and political institutions in Peru. Rather than seeing the evolution of new political institutions as desirable, it saw political parties and interest groups -- left and right -- as one of Peru's major problems. It set out, therefore, not to modernize politics but to destroy it.

It promptly disbanded or severely repressed most of the interest groups on the right -- the National Agrarian Society, the Sheep Growers' Association of Peru, the Chamber of Commerce, the National Industrial Society, the Association of Peruvian Businessmen, and the Lima social clubs. It quickly disbanded the congress. With no political parties, that institution became superfluous. A junta of the three military service chiefs and the new military president replaced the old presidency and a small presidential advisory committee (COAP) was added as a powerful secretariat for the president. Thus, executive and legislative power was combined at the very top. The executive structure of ministries was retained for implementation of the revolutionary programs.

The junta's disdain for private property and capitalism was expressed in two major economic thrusts. The first was extensive nationalization of commerce and business. The private sector was not wholly destroyed, but it was limited to small scale activities. The new business of government was more big business. Always statist, the Peruvian economic system was made all the more so.

The second economic thrust was land reform. The regime moved swiftly to take over the commercial plantations in the costa. Most were turned into cooperatives owned by the rural farm workers on them. While land reform was not as extensive in the sierra, the penchant for peasant cooperatives was followed there as well. "By 1980 land redistribution involved nearly 40 percent of the country's agricultural land and affected about one-quarter of the rural families -- mostly those that had an adequate income before 1969."<sup>6</sup> The distinguishing feature of the land reform program was cooperative ownership, not privatization.<sup>7</sup>

The military government also attempted to weaken, if not wholly destroy, organized labor. The strategy was co-optation. The Peruvian Revolutionary Workers Central (CTRP), founded by the government in 1972, competed with CTP and several communist-controlled unions, but not very successfully. The major impact of this strategy was to create much larger union membership and the emergence of several new unions, led by groups more radical than the APRA.

In the agrarian sector, the old CCP, representing peasant communities, was outlawed but managed to retain a clandestine existence. The government-sponsored National Agrarian Confederation (CNA) attempted to bring together all agricultural groups. Again, the result was to make the old agricultural organizations more radical.

---

<sup>6</sup> Richard F. Nyrop, ed., Peru: A Country Study, (Washington, D.C.: Government Printing Office, 1981), p. 135.

<sup>7</sup> See John P. Powelson and Richard Stock, The Peasant Betrayed: Agriculture and Land Reform in the Third World, (Washington, D.C.: CATO Institute, 1990), pp. 269-92.

The military government's aim for all of this organizational reform was the creation of a "corporatist" society. Corporatism, of course, is an idea rooted in feudal Europe. Social institutions developed along class and occupational lines. The military, the clergy, the guilds of craftsman, commercial groups, the universities, and any other occupational groups formed corporate structures with their own internal governance. They became social, economic, and political institutions structuring and controlling society. The individual could realize his own livelihood and identity only as a member of one of the corporate structures. At the top, the leaders of the corporate structures formed an oligarchy with the state.

Franco's Spain, of course, is the most conspicuous example of a modern-day state that approached the corporatist model. It was highly dictatorial; yet power was shared within the upper corporate and state circles. The economy was tightly controlled by the state; yet private property had a limited place. As complexities of modernization in Spain increased, of course, the system increasingly became an obstruction. It could not accommodate a modern industrial development beyond a limited degree.

The Peruvian military revolutionaries, therefore, were trying to force Peruvian society and economy into the this old institutional form. Modern political and economic institutions -- the parliament, political parties and interest groups, the media, and private business, industry, and commercial agriculture -- were to be replaced by a new set of institutions built on corporate lines.

The device for both building and integrating these new structures was the National System for Support of Social Mobilization (SINAMOS). SINAMOS tried

to create some of the new social organizations under its sponsorship and to become the umbrella for all of them. Thus, it was intended to become the macro institution aggregating all social and political participation in all sectors of society.

The campaign for corporate structuring met great resistance. SINAMOS imposed a new bureaucracy on the process of acquiring land titles or obtaining social services, for example, but it did not deliver results. The program, therefore, was soon rejected outright by the urban poor. The leading cadres in SINAMOS, of course, were army officers, and they did not hesitate to respond with force. The period of military rule, therefore was marked with repeated instances of violence and by limited success for SINAMOS.

The military regime's enemies were both on the left and right of the political spectrum. The land reform program destroyed the landed oligarchs in the costa, but they were not the only target. The APRA had strong roots in the agrarian worker population there as well, and the early move on land reform in that region was probably prompted by a desire to destroy the APRA as much as it was to disenfranchise the landowners. The various small communist splinter parties became more active in the labor movement as they opposed the regime. Perhaps the most consequential for the future, the Sendero Luminoso was born in this period.

The legacy of the revolution for political institutionalization in Peru is doubly negative. On the one hand it undercut political parties and other modern democratic developments. On the other hand, it increased the statist character of institutions, particularly economic institutions. The result was not only economic disaster but also increased polarization of politics, especially radicalization of the

left. On the right, no modern political party with a country-wide apparatus was possible.

The desired corporate institutionalization failed while grass roots institutions survived but were excluded from the system. New institutionalization did not stop. It merely became more radical in its struggle to survive. The revolution left a major legacy -- acute bifurcation between those included in the system, a smaller number, and those excluded, a larger number turning to radical leaders and organizations for participation.

The post-revolutionary governmental structure was laid down in the 1979 constitution. By and large it followed the 1933 constitution, but it gives the presidency somewhat greater powers, attempts to strengthen the judiciary, and provides for greater local government authority through elections and tax authority.

Social and political institutions have also returned to the pre-revolutionary pattern but with some critical changes. Political parties now number well over a score, perhaps more than thirty. On the right they remain personalistic, dependent on a strong individual identity and coherence, lacking regional structure and organization. The Accion Popular stands apart on the right for its large membership, almost one million, but the others are small, 120,000 in the case of the Popular Christian Party (PPC), much less than 100,000 in the others. President Fujimori's party, CAMBIO 90, is brand new, a contrivance for the 1990 elections. Whether it will enjoy a large membership and develop an effective apparatus is most doubtful.

On the left, the United Left (IU) is an umbrella party for a host of a small Marxist parties. While it might cohere for an election, it is hardly able to present a coherent political program acceptable to all its member factions. "Left Nationalists" and "Left Socialists" stand apart from the United Left just as do some small Trotskyite and socialist groups. For example, Alfonso Barrantes, founder of the United Left, left the party in 1990 to establish the Socialist Accord (ASI) with more moderate elements of the United Left. Both the IU and ASI contested the 1990 elections.

As in the past, the APRA remains the single party with a modern institutional structure. Able to win the presidency in 1985, its miserable performance with the economy has left it an unhappy legacy, but as an institution it remains strong. As Carol Graham has pointed out, the experience in power has shown the APRA to be uncompromising, unable to integrate state and society, and ambivalent on basic constitutional issues. For electoral purposes it has opened its doors to the right, and it has acted moderately, becoming a centrist party, but it has failed to make similar adaptations in its ideology and programs.<sup>8</sup>

Graham's point about ideology is highly significant. The Peruvian left grew up from Marxist roots. Had the APRA evolved as the West European social democrats, experiencing a series of ideological revisions, finally rejecting outright the revolutionary component of Marxism and coming to terms with market economics, it possibly could have played a bridging role across the ideological and programmatic polarization in Peru. But it has not. At the same time, radical

---

<sup>8</sup> Carol Graham, "Peru's APRA Party in Power: Impossible Revolution, Relinquished Reform," Journal of InterAmerican Studies and World Affairs 32 (Fall 1990): 75-115.

variants of Marxism hold most of the rest of the left, extending to the insurgent groups, the Sendero Luminoso and the MRTA.

On the right, the ideological tradition has been a pragmatic mix of statism and capitalism with statism predominating. A new variant has emerged on the right, articulated by Hernando de Soto<sup>9</sup> and carried in the political arena by Mario Vargas Llosa and his Libertad party. The proponents of this view see statism as the central problem. Their program is to reduce the state's role in the economy and make it easier for a genuine private economic sector to emerge. In the 1990 presidential election, many observers expected Vargas Llosa to win. Both rightist and leftist statism seemed sufficiently discredited in past three decades to make a new start possible. To all appearances, Alberto Fujimori has adopted much of this new outlook. Whether he can rally (as some polls now indicate) and sustain a broad-based political constituency is the open question.

At present, standing aloof from the political arena, is the military still suffering from the wounds of the failed revolution and its leftist corporatist ideology, one sharing much with the Marxists. While the military's institutional structure remains fairly firm, the attitudes of the draftee soldiers remain an unknown variable. In the stress of an internal war, they could, potentially, weaken the military. In the present political situation, neither leftist nor rightist ideologies may guide it as much as concern for the survival of the state. The military, while taking much of the left's ideology, has always treated the left as a political enemy. The

---

<sup>9</sup> Hernando de Soto, The Other Path: The Invisible Revolution in the Third World, (New York: Harper and Row, 1989).

growing insurgency and the old mistrust of the APRA would seem to pit the military in a crisis with defense of the state, not with any political faction, party, or ideology.

The Catholic church, of course, is also an important political institution. While denied a formal status within the state structure, the church is mentioned in the 1979 constitution as an important part of Peruvian society and history, giving it a de facto, if not de jure status as the state religion. This institution, however, also has sharp ideological divisions. Liberation theology was founded in Peru and continues to find a receptive, though less radical audience for social reform. In contrast, strong conservative trends still remain in the church.

Since the 1950s, the Catholic church has stepped back from its unreserved support of the regime and has paid great attention to social reform. This change, of course, was in step with the Catholic church throughout Latin America. Its actions went beyond preaching. In the late 1950s, as noted earlier, it supported the founding of a Christian democratic party, the PDC. Not very successful, it split, yielding the Popular Christian Party (PPC), and both parties remain active, if small, today. And it also created the National Office of Social Information (ONIS) to work among urban squatters and laborers.

The military revolution split the church internally. Some of the clergy supported the military regime and its corporatist philosophy. The ONIS in particular tried to play a role in helping corporatize the society. Conservative clergymen did not go along. The consequence has been a weakening of the church as an institution. It was already weak at the local level, long suffering a dearth of rural clergy where parishes averaged 12,000 communicants in the 1970s. As the urban population surged, Lima's parishes averaged 16,000. At the intermediate

levels of the church's hierarchy, many positions remain unfilled or lower in rank than would be the case if Peruvian law did not forbid foreigners from holding episcopal seats.

The Catholic church today clearly remains an important institution for Peru's political development, but its capacity to play a strong role is limited. Fragmentation in its clerical ranks and a shortage of clergy places limits on what it can do in moderating the radicalization of Peruvian politics.

As we drop below the national level institutions and political parties, we find the business and professional organizations with very limited bases in the society. The labor unions that have emerged from the military revolution have proliferated in number, are larger in membership, and largely in the hands of radical political leaders. The Democratic Syndicalist Front includes the old CGTP (led by pro-Soviet communists), the CNT (close to the Popular Christian Party), and the CTP (APRA's affiliate). The old peasant confederation, the CCP, which became clandestine to survive under the military government belongs to the MOTC, which is Sendero Luminoso's supporting union. The CITE (Union of Public Sector Workers) has 600,000 members. The mine workers' FNTMMS claims about 70,000 members. The agrarian sector has the CUNA (United National Agrarian Council) as an umbrella for 36 farmers and peasant organizations, again including the radical CCP.<sup>10</sup>

---

<sup>10</sup> "Peru: Introductory Survey," in The European Yearbook, 1989: A World Survey, Vol. 2, pt. 2, pp. 2054-72.

Some of these unions have access to parties and thus to the policy process in the Congress, but for the most part, the leftist leadership in trade unions appears more interested in changing the system than in supporting it. The APRA and the PPC offer such participatory access, but the communists and Trotskyites do not. The large public sector employees union is not radical, but its interest is not in expanding the private sector and de-statizing the economy.

Dropping to the local level in a review of institutions, we find many of the cooperative agrarian communities still extant, and some of the cooperative commercial farms continuing. Most of the peasant communities are held together by collective landownership. While they work well in some instances, they do not in others, and the peasantry shows a strong propensity for private holdings.<sup>11</sup> Thus the residual institutions in the countryside created by the military government's land reform program have hardly provided the kind of institutionalization that accommodates growing demands for political participation.

Geography must also be remembered in connection with rural institutions. The costa is very different from the sierra. Large farms--some of them quite successful as cooperatives retaining the previous approaches to production--and a wage-earning rural labor force distinguish the costa. Thus it is more integrated into the political system than the rural populace in the sierra where the density of population is sparse, where the structure of agriculture is quite different and less profitable, and where the topography contributes to social and political isolation. The selva region is even more isolated, has a separate Indian ethnic population from the sierra, and remains largely outside the political system in a participatory sense.

---

<sup>11</sup> Nyrop, *Op. cit.*, pp. 99, 134-35; Powelson and Stock, *Op. cit.*, pp. 269-92.

The several public sector schemes in the 20th century to build communications linking the costa, the various parts of the sierra, and the selva, have failed to reduce the geographic factor in Peru's social fragmentation.

### **Urbanization and Mobilization**

The truly big change for Peru's society since World War II has been the steady movement of the poor rural strata to the cities. Between 1940 and 1972, the urban population, defined as those living in towns of more than 10,000, jumped from 35% to 60%.<sup>12</sup> In the intervening two decades the percent has continued to climb, rising above 70%. Lima, the favorite destination for such migration, now has more than a third of the country's total population. Cities in the costa also attract this migration. More recently, not only economic factors stimulate it; the Sendero Luminoso insurgency is causing peasants to seek personal security through emigration from the countryside.

Political development theorists have placed great attention on urbanization and population movement. That mobility tends to break down traditional institutions and require the creation of new ones. Huntington, of course, has made this process a central factor in his analysis of political development and political order. If economic opportunities are sufficient to meet this migration to the cities, it need not create unmanageable problems. If they are not, social frustrations rise and stir the migrants to seek to influence government policies. Again, such demand is manageable if adequate participatory institutions are available.<sup>13</sup>

---

<sup>12</sup> Ibid., p. 101.

<sup>13</sup> Huntington, Op. cit.

The degree of social mobility in Peru would stagger most political systems. Looking at it in Huntington's paradigm, and in light of Peru's economic performance over the past couple of decades, we would expect the political system to be under great stress, unable to accommodate the participatory demand, drifting rapidly to major instabilities. Moreover, given the picture we have of political parties, professional groups, urban and rural labor unions, and all other social institutions that might absorb and stabilize the participatory pressures, we ought to wonder that the system has not yet collapsed.

Several factors seem to explain why it has not. First, labor unions and political parties, as well as the church and perhaps a few other institutions, have survived the military revolution, increasing their membership in several instances. These institutions themselves are hardly integrated into the political system in most instances. Many of them are seen by the military and civil elites as a threat to the system. The door, therefore, tends to be closed to them. Nonetheless, the extent of institutionalization is significant. Peru's society, especially the urban sector, is hardly amorphous. It has structure, albeit a structure fragmented by the distinction between the "formal" and "informal" economic and administrative sectors.

A second factor is the economy. While the export markets and the government's squandering of foreign credits have put Peru in an economic crisis with the international economy, the underlying economy has not been radically affected.<sup>14</sup> It has not grown, and that has created frustration. Much of the domestic

---

<sup>14</sup> Felipe Ortiz de Zevallos, The Peruvian Puzzle, (New York: Priority Publications, 1989), p. 45.

economy, although denied potential growth from productive investment of foreign capital, is simply not related to the industrial and commercial export sectors. The sense of relative deprivation for the lower socio-economic strata, therefore, is -- perhaps with the exception of the past three years -- less than the swings in the export economy would suggest. This is not to overlook the cumulative sense of relative deprivation. Rather it is to explain why the situation has not exhibited unmanageable frustration and political instability on a much larger scale.

A third factor is found in Peruvian capacities for family and communal organization and cooperation. As squatters have moved into the cities and taken city land, they have not created the social chaos one would anticipate. Precisely where all the organizational skill comes from is not so clear, but squatting is not a wholly spontaneous affair. It seems to be planned to a degree, tolerated if not sponsored by government officials. Within the ranks of the squatters, a certain leadership structure manages the initial settlement.<sup>15</sup> Soon thereafter, mothers' groups, communal kitchens, and a host of community voluntary organizations arise to deal with many of the settlement's problems -- water, sewage, child care, and so on.

Fairly rigid state controls on most economic activity makes it virtually impossible for business entrepreneurs of the most petty sort -- cab drivers, street vendors, craftsmen, et al. -- to gain a license or other official approval. They lack the political pull with officials or the money to bribe them. They are not deterred,

---

<sup>15</sup> See Carol Graham, "The APRA Government and the Urban Poor: The PAIT Programme in Lima's Pueblos Jovenes," *Journal of Latin American Studies* 23 (February 1991): 91-130.

however, and accordingly, an "informal" commercial sector has sprung up based on the settlements in the "young towns." People go into business without state approval. This "informal sector" reportedly employs up to 60% of Peru's work force.<sup>16</sup>

These skills for institution-building among the urban poor and recent immigrants from the countryside should, in principle, be a positive factor for political development.<sup>17</sup> Currently, however, communal organizations in "young towns" are focused on basic needs programs such as food and health care. It is not clear if they are interested yet in broader political goals and the development of new political parties. The small communal institutions simply need to find larger aggregating institutions to sponsor them, encourage them, defend their interests, and in turn receive community political and financial support. Most moderate and right-wing political parties and interest groups will not assume this role, but they have been active from time to time to win electoral support from this sector of society. Nor do the trade unions readily grasp the task. They are concerned with the already employed, not the recent immigrant peasant who is looking for a job. The older parts of the informal sector are represented by unions in some cases, but new immigrants are largely left out.

---

<sup>16</sup> *Ibid.*, p. 3.

<sup>17</sup> de Soto, *Op. cit.*, provides a fairly comprehensive analysis of this "informal" institutionalization and the remarkable capacity of these excluded urban immigrants to manage their own affairs, especially in keeping records of land and building possession, registering transfers, providing public services, and even providing an informal system of courts and judicial process.

During the Garcia presidency, APRA attempted perhaps its most comprehensive program. PAIT, its acronym, was in essence an economic welfare program. Its bureaucracy, staffed primarily with APRA members, became deeply involved among the poorest of these new urban dwellers, seeking to setup communal kitchens, community infrastructure, health programs, and the like. Rather than implementing these projects through local government, PAIT developed its own parallel structure. Not surprisingly, its efforts were frequently not coordinated with local government projects. In some cases PAIT worked through the local voluntary organizations, e.g. "Mothers' Clubs," and in other cases it tended to displace them with its own organizations. Political patronage spread in PAIT activities as well. After a time, PAIT began to look very much like the outside imposition of organization tried by SINAMOS under the military regime.<sup>18</sup>

PAIT started as a major part of Garcia's domestic economic program. Funnelling money into the hands of the poor, it was intended to create consumer demand for the larger economy and also to aggregate the populace of the "young towns" into an institutional relation with the state. By 1988, clearly a failure, it was dissolving. Proposals were made to transfer the program to municipalities, but these never materialized. A few PAIT jobs remained in 1989, although they were too few to have any impact.

The example of PAIT is instructive for our assessment of effective political institutionalization in several ways. First, its failure demonstrated the inability of Peru's single modern political party with a nation-wide structure to accommodate effectively the demands of the urban squatters. If the APRA could not do that, the

---

<sup>18</sup> Carol Graham, *Op. cit.*, pp. 7-9.

prospect for other parties is not bright. Second, it was not a private sector effort at political institution building; rather it was statist, an attempt to coopt much of the urban poor into new state institutions. Third, it tended to disrupt some of the spontaneous local institution building in the "informal sector." Perhaps the most positive aspect of PAIT's effort was in expanding access to the formal economic sector for this excluded stratum of urban society.

Given such institutions in Peru, where can the frustrated turn? Those workers in the formal sector can join trade unions and professional organizations. The majority of these, however, are in the hands of radical leaders who do not accept the present constitutional arrangements. Furthermore, unions at present constitute a much smaller percentage of the work force than they had from the late 1950s through early 1980s, partially as a result of the economic collapse against which unions could not shield their members. The legacy of statism in the economy and the society would certainly act as a formidable constraint if they seriously attempted to compete with the leftist parties and groups. At the same time, the moderate and rightist groups and parties are failing to provide alternative institutionalization.

### **The Government**

The Peruvian state structure is a curious mix of features from European and American state systems. At the top, it incorporates the principle of separation of powers. The judiciary is independent. The president controls the executive branch. The bicameral congress is the legislature. Thus, it looks much like the United States government. On closer scrutiny, however, large differences appear. The armed forces, while subordinated to the president as their commander-in-chief, enjoy an informal place of much greater importance than the ministries. A council of

ministers is headed by a prime minister with no statutory duties. (Here we have an oddity apparently taken from parliamentary systems and grafted onto a presidential system.) Perhaps more significant, the 1979 constitution specifies what the military government called economic pluralism, authorizing state enterprises, cooperatives, and private property. In other words, the constitution empowers their executive branch to engage in business for profit.

The judiciary has traditionally been weak, underpaid and understaffed. The 1979 constitution requires two percent of the annual state budget to go to the judiciary, a step taken to remedy this weakness, but the results have not been dramatic. Peru's judiciary today remains weak, lacking first-rate personnel, and open to bribery and manipulation.

The local system of government shares features of the French centralized system -- regional departments subdivided into provinces with prefectures at each level to coordinate the activities of all central agencies with local offices and activities. Traditionally, departmental and local prefects and other officials have been appointed by the central government. In 1963 and 1966, however, President Belaunde held local elections for these posts. The military government suspended the practice, but it has been written into the 1979 constitution. Departments now have popularly elected assemblies which in turn elect department councils. Provinces and districts elect municipal councils. The constitution describes these institutions as autonomous and grants them powers to raise and spend taxes locally.

The structure of the state appears adequate for sustaining democracy. The separation of powers leaves the president quite strong compared with the U.S. president, but the judiciary and the congress have considerable authority to

constrain the chief executive. Local government is responsible to the electorate, and it can extract and reallocate resources through taxation and local programs.

The formal structure, therefore, does not appear to present a problem for political development. The possible exception is in the state's right to engage in business and the general legal acceptance of a very large role for government participation in the economy. This right simply reflects a very long tradition of the great overlap between the state and economic enterprise. The truly disturbing problem comes into view when we look at the civil administration and consider its weak capacity to implement policies -- namely taxation, law and order, social services, transportation, and the like. The Peruvian state simply does not penetrate very deeply into many sectors of society. In some areas it does not try very hard, e.g., rural areas and the informal sector of the cities. In others, particularly the upper business and social circles, it is itself penetrated and controlled more than it successfully regulates.

When we look at the quality of the low and middle level officials of the Peruvian civil service, we find it is disappointing. Why is it low? The state has never been forced to extract the means for public sector activities from the populace through taxation. The impetus for effective administration has, therefore, never been strong. Where it has been strong is among the commercial and industrial elites dealing with export markets. In those narrow circles, educational levels are high and individuals are pragmatic and flexible in learning how to cope with foreign business. Quite early they proved willing to abandon values and cultural patterns inherited from Spanish colonial rule.

Little wonder that modern political institutions have not grown up to connect the rightist political parties with most of the electorate! These parties know that they do not have to go to the local levels for resources. They can get them from foreign creditors and through export activities. The leftist parties bring ideologies not favoring a larger private sector which the state is forced to tax directly but rather another version of statism, more extensive state control of the economy. Even the military reformers became afflicted with an eclectic brand of socialism. And while in power, they followed precisely the old pattern of depending heavily on foreign credits and foreign business to finance the public sector budget. When Garcia brought the APRA to power, his economic policy and public sector finance were only variants of the same old practices. Rather than turn to building an effective system of administration and local government constrained by the resources that could be extracted locally, he followed an inflationary monetary and wage policy coupled with faulting on the foreign debt.

Curiously and ominously, the only political organization in Peru that has truly turned inward to build a political capacity to extract resources is the Sendero Luminoso. Until its recent ties to the narcotics traffickers, it has largely operated on resources it could extract locally. Unlike its competitor insurgency group, the MRTA, which prefers a foco insurgency strategy, the Sendero Luminoso has followed the Maoist strategy of first building local political institutions and tax systems, then turning to open warfare against the state.

When one looks at the long experience Peru has had with an electoral system and when the fairly extensive network of social institutions are considered, one can only be perplexed that liberal democracy has not taken deeper root. True enough, Indian labor has been miserably treated, and the surges of social mobilization to the

**cities have not been accommodated, but even among those strata, impressive organizational skills are apparent. At the same time, massive foreign capital has been available. Peru has not been without opportunities.**

**Two factors contribute significantly to Peru's failure to sustain a mature and stable democracy. First, the state's domination of the modern sector of the economy has prevented the development of a large and independent private sector. Second, the state has not been forced to develop the political capacity to extract resources in an orderly way through direct taxation of all sectors of society. Had a private sector been allowed to emerge, and had the state stood apart, regulating and taxing it, two things should have followed. First, the market would have had a bigger role in determining capital investments. That should have induced more domestic growth to balance dependency on exports. Second, as long as the political system allowed elections, making the government responsive to the electorate for taxation and the size and use of public sector funds, institutional linkages between the society at large and political parties should have developed. They would have been necessary to influence public policy-making.**

**That has yet to happen. Most of society has little wealth to defend in the policy process, and the government has not made effective efforts to extract it. The privileged social strata gain their wealth through and in league with the state. The state has not stood aside as the referee for competition in a market economy, playing a regulatory role and acting as a reallocator of wealth for social purposes. It has been the major player in the economic game. Because the economic game has been so strongly tied to the export markets, the state has been able to ignore much of society while it devotes its attention to self-interested monopoly entrepreneurship.**

Seen in this light, one should not be surprised by the dramatic bifurcation in Peruvian society between those who have access to the state and its economic monopoly and the rest of society. This structural condition suggests another insight into the workings of Peruvian politics. For all the rhetorical differences in ideology between the left and the right, they do not seem to mark as much polarization as first appears. Both in ideology and in practice all sides share one thing in common: the dominant role of the state in the economy. The only exception is the recent emergence of some new political thinking by de Soto, Vargas Llosa, and, apparently, Fujimori. But they represent a small sector of Peruvian political elites. All the others, left, right, and the military, see the state as the company store and the only legitimate store. To prosper, one must get into power in the state.

If this is indeed the Peruvian political reality, then some of the strange political alliances of the past are understandable. Haya de la Torre and the APRA, for all their Marxist rhetoric, were quite ready to make deals with old dictator, Odria. Getting access to the state seems to be more important than one's ideological commitments for transforming the state. How else does one explain the APRA's drift to the right for electoral purposes without, as Carol Graham has noted, adapting its ideological baggage as well? The ideological baggage is functional in appealing to voters as resources to swap in the right-left political bargains for access to the state's economic resources. Obviously this line of analysis can be carried too far, but it is sufficiently compelling to explain the APRA's behavior.

What of the rest of the left? The radical left does appear to be different. Fragments of it have abandoned the system entirely and turned to insurgency. Winning a few votes and seats in the Chamber of Deputies does not bring power to

make the state responsive. The voters for the left have few resources to provide the leftist parties, and the state is not seriously taxing them in any case. It extracts resources from them through their places of employment, directly from their labor. No middle ground seems to remain. Either one tries to participate in the statist economic system, or one tries to organize a revolution. The logic of Peru's political left, therefore, is to join the right, make deals with the right, or to join the insurgency.

This line of analysis suggests a type of research that might well validate it or disprove it. Families and small social groups among the privileged, to survive in such a system, should rationally try to have some of their members in most of the political parties that have a real chance to win the presidency. Whoever wins, those families and cliques retain the essential access to participate in the statist economy. If they get caught out by a change of leadership, then they must buy their way into the system by bribery. The formal economy allows the selling of access by incumbent elected officials and high level civil servants. It is an essential mechanism for the maintenance of the statist system. To gather adequate data for testing this proposition, of course, one would have to have intimate access to elite circles, left and right, or trace the family trees of members of several congresses.

The implications of our analysis for change of Peruvian social and political institutions are fairly strong and important. A program of trying to build more adequate institutions -- both in the state sector and in private social and political circles -- would be to treat the symptoms, not the disease. Such endeavor will come to naught as long as the state remains so centrally involved in business and as long as it can fund the public sector from export taxes and foreign credits. Breaking the formal economic sector and forcing the state out of business are critical first steps.

**At the same time, the state must be forced to base its budget largely on direct taxes. Only then will it have the adequate incentive to try to govern, not just in Lima but throughout the country as well as in the "young towns." The Peruvian government does not need lessons in tax reform, civil service education, and public sector project administration. It needs to have no alternative but to turn to direct taxation to survive.**

## **CHAPTER 4. EXTERNAL INFLUENCES**

Four major sources of external influence on Peru's political development stand out. By no means an exhaustive list, it does include those that have been formative to some degree, a very large degree in a few cases. In chronological order of their emergence, they are: 1) the Spanish colonial heritage; 2) wars on its borders and territories; 3) international business and industry; and 4) international communism in several variants. Narcotics cartels might be added as a fifth one, but their influence on a significant scale is fairly recent, and their impact is only beginning to be assessable. A review of each of the four major external influences should provide a better sense of its nature, scope, and persistence.

### **Spanish Colonialism**

By far the oldest and probably the most significant external influence on Peru was Spanish colonial rule. Spanish military adventurers were from the aristocratic stratum of Spain's class structure and feudal order. Some clergy accompanied or followed them, but otherwise, the Spanish migrations excluded all the other classes in Spain. The military and the clergy were the pillars of the colonial administration, and their conservative values defined the state and its functions in Peru as well as throughout the Spanish empire. Taken out of its European multi-class context and imposed on indigenous Indian populations, this fragment of Spanish society acquired its own unique dynamic.

Much of Europe witnessed dramatic political change in the 16th-18th centuries. The growing commercial and urban classes first challenged the feudal order in Britain, then in France. Napoleon brought the bourgeois revolution to Mediterranean and Central Europe. In turn, that opened the door to independence

for South American Spanish colonies, but their political culture and social values were aristocratic. Thus the new regimes, notwithstanding liberal and republican rhetoric in most cases, retained the political values of Spain's feudal aristocracy.

The contrast with the United States is highly instructive. The British colonies in North America were settled not by Britain's aristocracy but by its growing class of commoners, merchants, and free farmers. They brought the nascent liberal political values of 16th and 17th century Britain to the New World. Private property and a limited role for the state were the fundamentals of their new republic after the American revolution. Both aristocratic privilege and the centralized modern European state were institutions they scorned. Constitutionalism, greatly diffused ownership of property, and suspicion of central authority created a favorable environment for modern political parties and democratic politics.<sup>1</sup>

In Latin America the conditions were not at all favorable for a similar development.<sup>2</sup> The ruling white elites treated the indigenous Indians and mestizos worse than their European aristocratic counterparts treated European peasants. Class lines in South America were reinforced by racial lines. No significant new urban middle class of merchants and tradesmen existed in sufficient strength to challenge the old elites. Latin American militaries soon lost their aristocratic basis because the size of the Spanish immigration was small. In the post-colonial period,

---

<sup>1</sup> See Louis Hartz, The Liberal Tradition in America (New York: Harcourt, Brace, and World, 1964), for a fuller development of this thesis.

<sup>2</sup> See Louis Hartz, ed., The Founding of New Societies (New York: Harcourt, Brace, and World, 1955), for a comparative treatment of Latin America, North America, and Australia in this regard.

these militaries tended to be recruited from declassé elements, and their purpose was to defend the state and the privileges of the old landed elites. Thus, the upwardly mobile military leaders were co-opted into the old social and economic order.

Peru was not an exception to this pattern although the size of the white immigrant population was smaller than several in other Latin American colonies. The state retained a central role, and as commercial activities grew and urban centers expanded, they did so within the traditions of statism and state grants of rights and privileges in commerce and industry. Moreover, the strong social biases against the indigenous population worked to limit expansion of the political franchise as political parties were formed for electoral competition.

By the late 19th century, Peru was able to maintain a series of popularly elected civilian presidents, but the state's grip on economic privileges remained firm. Thus, the emergence of a large private economic sector was precluded. That, in turn, limited the development of modern political parties and a liberal political system.

The most important aspect of the Spanish colonial heritage for modern Peru is clearly the anti-liberal tradition of the state. Other factors have contributed to its survival, but its origins are found in a set of political and social values firmly implanted under Spanish rule. The tradition of the aristocracy and the medieval church was liberalism's major opposition in Europe. Not surprisingly, it has played the same political role in Peru, although it has had to yield to some degree in the post-colonial period under the impact of economic relations with the international markets.

### **Wars and Foreign Military Influence**

In the first decades of its existence Peru was involved in numerous conflicts with Colombia, Bolivia, and Chile, but two later wars defined Peru's modern boundaries. The first, the War of the Pacific, brought foreign military occupation to Peru. Chile reacted to an alliance between Bolivia and Peru by declaring war in 1880. Territorial disputes were the primary cause. Its settlement by the Ancon Treaty of 1883 left Bolivia with no outlet to the Pacific and cost Peru considerable territory in the south. Chilean forces actually occupied Lima for two years, and the memory of that traumatic experience remains vivid in Peru today.<sup>3</sup>

The War of the Pacific caught Peru in a wretched state of military preparedness. Determined not to be so militarily weak again, the Peruvian military turned to France for assistance in modernizing its forces, a process that continued through the end of the 19th century. French influence went beyond military affairs and affected Peruvian views of the state and civil administration. The overall impact of the War of the Pacific was twofold. It left Peru with deep insecurities about its southern borders, and it produced the first serious efforts in military modernization.

In 1941, Peru went to war once again, this time in the north over Amazon territorial disputes with Ecuador. The outcome was entirely different. Peru's army quickly prevailed, and the Rio Protocol in 1942 granted considerable territorial gains to Peru.

---

<sup>3</sup> Richard F. Nyrop, ed., Peru: A Country Study (Washington, D.C.: U.S. Government Printing Office, 1981), p. 25.

During World War II and after, Peru, like most other Latin American countries, turned from Europe to the United States for military assistance. For about twenty-five years, the U.S. military assistance mission got on well with the Peruvian military. Peru sent many officers to be trained in the United States and adopted much from the U.S. military schooling system. The Peruvian Center for Military Higher Studies (CAEM), which played a key role in politicizing the Peruvian officer corps for a social and economic revolution, was initially a product of U.S. influence. In the 1960s, however, difficulties arose over the purchase of U.S. jet fighters. Peru's military became deeply irritated with the dilatory U.S. approval process and turned to France, Britain, Italy, and West Germany for weaponry. These suppliers, however, did not prove a satisfactory alternative.

As the Peruvian military moved leftward on the political spectrum in the 1960s, and as it searched for new sources of modern weapons, it became amenable to an opening with the Soviet military. The Soviet Union was more than eager to sell modern weapons for hard currency, and by the early 1970s, a large Soviet military mission was ensconced in Lima. Throughout the 1970s, the Soviet military mission enjoyed a strong position with the Peruvian military, supplying weapons and providing technical assistance. By the early 1980s, however, some of the senior Peruvian military were disturbed by their heavy dependence on the Soviet military.<sup>4</sup> Breaking the tie, however, was not so simple. The United States was not ready to provide the large grants and credits required to make the change without serious degradation of the Peru's military capabilities. Thus, the Soviet military mission

---

<sup>4</sup> The author learned in conversations with senior Peruvian officers in 1983 at the Conference of American Armies in Venezuela.

remains in Peru, and the technical dependency continues, although at reduced levels.

The political dimension of the Soviet military influence in Peru is difficult to judge. It was never as great as Moscow would have preferred; yet it was not trivial. Getting access to Third World military elites and slowly entrenching Soviet advisors around the leadership has been the most successful Soviet tactic for acquiring Third World clients. Angola, Ethiopia, South Yemen, Afghanistan, and Grenada come to mind. This "military coup" approach to revolution never succeeded in Peru, although leftist political attitudes and anti-U.S. sentiment among Peruvian officers provided fertile ground for Soviet meddling. Moreover, the Soviet connection emerged coincidentally with the military revolutionary regime. It appeared to be a ready-made opportunity for the Soviet tactic.

The full explanation for the Soviet failure is far beyond this study, but one explanatory factor stands out. The Peruvian military had long feared the Marxist left, particularly the APRA, which had early ties to the Soviet COMINTERN. Military sentiments for social reform certainly encouraged borrowing ideas from the left, but they also produced their own image of a new society -- a uniquely Peruvian version of corporatism. The Soviet military's anti-Americanism undoubtedly appealed in Peruvian military circles, as did Soviet weapons, but unvarnished Soviet Marxism-Leninism did not. Senior officers in particular retained a latent preference for the connection with the United States. Many had attended U.S. military schools, had become familiar with the U.S. political system, and had developed envy and respect for American society. Thus, the Peruvian senior military maintained an inoculation against becoming an out and out client of the Soviet military. Many junior Peruvian officers, by contrast, have been trained in the Soviet Union, and we

know little about their political attitudes. Some have probably been recruited as Soviet agents. As time has passed, however, and as Moscow's revolutionary fervor has receded, the position of the Soviet military in Peru has become anything but revolutionary. Whether this source of external influence will leave any lasting impact, therefore, is an open question. If one had to guess, one would probably judge it to be inconsequential for Peru's political development.

In sum, wars have made Peru nervous about its territorial security vis-a-vis its neighbors, especially Chile, and they have inspired Peru to seek foreign military technical assistance ranging from French to American to Soviet. And each of these professional connections has brought social and political influences, but never strong enough to displace wholly the indigenous military culture. Only the French military influence in the late 19th century and U.S. military influence after World War II have exposed Peruvian military elites to democratic political values. How consequential have they been? The postwar military connection to the United States appears to have made an indelible, if not determinant, impression of the political values of the older Peruvian officers. They have seen and come to admire the U.S. political and economic system, but they have not learned what is required to imitate it in Peru.

### **Foreign Business**

It might be argued that foreign business and capital have had more influence on Peru than any other source since Spanish colonialism. In some regards this is true. Peru's 19th century expansion of its extractive industries and commercial agriculture would not have been possible without large foreign capital and management. Oil, mining, and commercial agriculture in the 20th century have sustained the pattern.

Peru's heavy dependence on an export economy has left its indelible imprint. The elite stratum of Peruvian society welcomed the foreign economic dominance, pragmatically adapted to it, and profited handsomely. The lowest strata provided cheap labor, learned to see it as an exploitive affair, and did not profit at all. Not surprisingly, Marxism has long appealed to many Peruvian intellectuals. It seemed to explain the impact of foreign capital and modern industry on Peruvian society. At the same time, domestic economic growth failed to provide adequate upper mobility to create a strong middle class with liberal democracy values and a counter to the Marxist explanation. Yet the Marxist paradigm has its limits in accounting for Peru's experience. The capitalists were foreign, and the indigenous elites retained much from their feudal heritage. Moreover, awakening Peruvian nationalism added another troubling element for the Marxist paradigm.

Marxist theorists, to be sure, have revised the paradigm in a variety of creative ways. One of these, "dependency theory," a dressed up version of Hobson's and Lenin's theory of imperialism, would seem to find its validation in Peru's entanglement with foreign capital.<sup>5</sup> Peru's resources have repeatedly been put in foreign private hands. President Castilla consigned the profitable guano production to foreign businessmen in the mid-19th century, and Peru's economy has been highly dependent on exports and foreign capital ever since. If ever a Third World state was beholden to foreign bankers and industrialists, Peru appears to be a leading example.

---

<sup>5</sup> Peter B. Evans, "Foreign Capital and the Third World State," Understanding Political Development, Myron Weiner and S.P. Huntington, eds. (Boston: Little, Brown, 1987), pp. 319-52.

The popular image of foreign capital exploitation in Peru grossly distorts the reality, not necessarily the social and economic effects, but rather the understanding of causation. As the economist Mancur Olson has observed, foreign capital can only give the recipients choices they otherwise would not have. Foreign creditors can swap capital for concessions, but they cannot impose them. International capital has certainly been a partner in the Peruvian experience, but it is hardly primary cause of the results. We must look elsewhere for the causes.

Evans, commenting on the validity of "dependency theory," offers a revised assessment of the impact that transnational capital has on recipient states' autonomy. He argues that it strengthens the state apparatus no matter how capital comes in. The state may receive capital directly and invest it rather than loan it, or it may act as the intermediary between foreign capital and the local private sector, or it may stand aside and merely establish the rules for transnational capital to follow in dealing directly with the local private sector. In all three patterns, the state increases its power because it requires more administrative capability to manage any of the three patterns of the inflow of funds. And the state remains in charge, no matter which pattern it adopts. Such a view, of course, is quite at odds with "dependency theory" and the popular image of how foreign business has exploited Peru. It suggests, on the contrary, that foreign capital has contributed to the strengthening of Peru's state power, not its weakening.

Peru has traditionally approximated the first of these three patterns of capital inflows. It has not only been the major recipient but also the major user of foreign capital. Why has this been so, and what are the implications? It has been so because the Peruvian state has traditionally dominated the economy, either by

direct business activity, or by consignment and extensive business regulation. No significant private sector has emerged, except in commercial agriculture, to accept foreign capital directly. The implications are twofold and profound.

First, traditional Peruvian statism has been continually reinforced in the modern era as the state acts as the primary business sector. Public sector spending has always bulked large in the Peruvian GDP, and foreign capital has been a repeated source of funding, often much larger than domestic taxation, particularly direct taxation.

The second implication is a weakening of local government administration. Because it has not had to finance the public sector mainly from direct taxation, the Peruvian state has been able to ignore the weakness and backwardness of its local civil administration. This key point needs amplification.

As modern national states grew up in Europe, their power was primarily a function of their capacity to extract resources by taxation. The story of modern state-building in Britain, France, and Prussia is one of struggle over resource extraction. To tax, governments had to govern effectively at the local level, and to govern, they had to tax. As Kiren Azziz Chaudhry has argued, taxation is the government's most intrusive function, and where the capacity to tax is strong, most accompanying civil administrative functions -- police, courts, postal service, road maintenance, etc. -- are also strong. Chaudhry finds this European historical pattern equally applicable to late-developing Third World states in her case studies of Yemen and Saudi Arabia.<sup>6</sup> The capacity to tax is directly related to the political

---

<sup>6</sup> Kiren Azziz Chaudhry, "The Price of Wealth: Business and State in Labor Remittances and Oil Economies," International Organization 43 (Winter 1989): 101-46.

capacity to deal with competing interests in making public policy. Lewis Snider, defining "political capacity" as mainly the capability to extract resources and reallocate them for policy purposes, found that among Third World debtor states, political capacity is the best indicator of a state's ability to repay its loans, much better than its inherent economic potential.<sup>7</sup> Snider notes that not all forms of taxation reflect a strong "political capacity." Direct taxation requires more political capacity than any other; indirect taxation is the next most demanding; export and import taxes are the least demanding.

Since its independence, the Peruvian state has always been able to avoid significant dependence on direct and indirect taxes. As noted earlier, one of President Castilla's more significant acts in the mid-19th century, when guano began to yield great profits to the state, was to cancel the Indian Tribute, a direct head tax on male Indians. Taxes on exports has traditionally been Peru's major form of revenue. Direct taxation has been minimal. To make matters worse, most foreign business has had to deal directly with the state, not the local Peruvian business sector. Accordingly, a large part of state revenue has come from state enterprises. The result has been a non-competitive investment environment in Peru, coupled with very large public sector spending. Little wonder that a domestic private sector has not emerged from the large foreign credits coming into Peru over many decades. The economic system is hardly capitalist. It is statist, and the allocation of capital has not been driven by the domestic market. That Peru periodically has to default on its foreign debt should occasion no surprise at all; that foreign bankers and international financial institutions continue to make credits available should occasion considerable surprise.

---

<sup>7</sup> Lewis W. Snider, "The Political Performance of Third World Governments and the Debt Crisis," American Political Science Review 84 (December 1990): 1263-80.

The major influence of foreign capital has not been to impinge on Peru's independence; rather it has been to allow the state to avoid developing an adequate political capacity to govern, i.e., to extract resources to support the public sector and to provide public services essential to a growing private economic sector. Foreign capital has not forced this behavior on Peru. Peru's political elites, whether rightist or leftist in political ideology, have chosen to behave in this way. Both the military revolutionary government and the APRA government -- dedicated to making Peru domestically more self-sufficient and freer of international export markets -- quickly adopted the practice of rightist governments and financed more and more of the public sector from foreign credits.

Among contemporary external influences, easy foreign credits have perhaps been the most devastating for Peru's political system and economy. They allow the elites to reinforce the old tradition of statism. Statism, in turn, prevents effective private sector economic development, the very thing Peruvian governments since the beginning of the 20th century proclaimed they desired. The statist economy and the political, military, and economic elites who thrive on it, are more interdependent with international markets than with Peru's domestic economy, particularly its large "informal" sector. They appear merely to reside in Peru while they squander foreign credits and whatever commodities can be extracted from Peru. They tax little, govern little, and provide few or no services to the larger society.

The perverse external influence of foreign capital, wholly contrary to "dependency theory" and popular images of foreign businessmen exploiting Peru's economy and ruling the country through its hirelings, is that leaders of Peru have

bled foreign creditors, squandered the capital, and failed to develop more than a marginal political capacity to govern Peru.

### **International Communism**

Marxism, as an organized political movement, came to Peruvian intellectual and leftist political circles in the 1920s. The APRA affiliated with the COMINTERN for a time before it broke in the late 1920s. Thereafter, some of the splinter communist groups retained their ties to Moscow while others maintained Trotskyist affiliations. Foreign resources to support these political parties were miniscule. After World War II more foreign resources were available, but fissures within international communism, reflected in Peru's Marxist circles, kept them from concentrated use.

The Sino-Soviet struggle within the international communist movement clearly has had the major impact on Peru's communists. The Sendero Luminoso takes its strategy from Beijing; at least it did during Mao's lifetime. Now its leader, Guzman, insists that he has created his own original teachings on a level with Marx, Lenin, and Mao. Meanwhile, pro-Moscow communists have parroted the Soviet line so faithfully that their policy positions are at times comical. Cuban communists have peddled their foco insurgency strategy to some of the communist factions, but the results have been disastrous when it was tried in practice.

Notwithstanding its fairly large leftist political following in Peru, Marxism has fared poorly. The reasons are many, but at least three stand out. First, the Marxist historical interpretation is difficult to adapt to Peru's unique circumstances and Incan heritage. Too many things are left unexplained, such as the Incan heritage, the absence of a strong bourgeoisie, and racism.

Second, communists, all their disclaimers aside, are the ultimate statist in economic and social policy. In Peru, almost all of the elites right and left are also statist. The state is the only political game in the country. No other real option exists. Inherently, therefore, the political right and left share much in common in their practical political philosophies. As the APRA has drifted to a moderate position, one sufficiently acceptable to its old enemy, the military, to be allowed to win the presidency in 1985, it has not retreated one whit from its statist philosophy. The military revolutionary government was ultra statist. Business circles have always been statist.

Who is not statist in Peru? Curiously, many of the voters the APRA and other leftists pretend to represent, especially urban squatters who make their living in the "informal" economic sector. Organizations and associations of the so-called "informals" have alternately supported the Marxist groups and right-wing political parties, depending on who allowed them more leeway in their private, informal sector economic activities. They also seem to vote in protest (in contrast to votes of confidence) against those who fail to provide them state services like water and sewage facilities. Peasants in rural collectives or cooperative agriculture show a similar dislike for communalism and a strong preference for private ownership of most economic means.

As an external influence, ironically, international communism has been anything but revolutionary in Peru. Peruvian leftists have drawn on it selectively, and their preference for an overwhelming role for the state seems to be the most attractive feature they find in communist ideology. The oppressed strata, urban and rural, appear little attracted to Marxism, except for tactical purposes, and strongly

disposed to private property and free market economics. The state, in their view, has long stood in the way of these things. Little wonder that Guzman's Sendero Luminoso movement has had to devise its own unique version of Marxism, recruit by terror, and depend heavily on youth not yet old enough to think through the vagaries of Marxian analysis of the Peruvian situation. It would have virtually no support if it had to depend on thoughtful intellectual or political appeal.

### **Other External Influences**

In the late 20th century with mass communications, international social and intellectual phenomena move swiftly across national borders to infect virtually every state and society in the world. Diversity and variations in these more recent kinds of external influences on Peru are beyond our means to catalogue and interpret.

One exception may exist for Peru: narcotics trafficking. Coca leaf production has expanded significantly in remote regions of the country. Cocaine production is not yet well developed, but coca leaf production is bringing large profits into the country. The regime's capacity to stop it or control it is extremely limited. Narcotics trade could remain a marginal factor in Peru's political development, but it could also become a major source of fiscal support for the Sendero Luminoso insurgents. At this point, we can only note it. It is too early to know with confidence what the full impact of coca leaf production means for Peru.

## **Summary**

The most significant and lasting external influence on Peru has been the tradition of statism implanted during the Spanish colonial period. International capital was not allowed to create a strong private economic sector in Peru; instead, the resources of foreign business were compelled by Peruvian leaders to reinforce statism in the modern era. Not surprisingly, no middle class of merchants and industrialists with liberal political values has grown up to constrain state power and to demand that government provide effective public services at the local level. To the extent such a social class exists in Peru, it has adopted the statist viewpoint out of necessity.

The first truly modern political party in Peru, the APRA, was Marxist in its political ideology, not liberal. Thus the modern political alternative to the old political order was a new type of statism, Marxist socialism, and yet another external influence that has contributed to the old problem of statism blocking liberal economic and political development.

Some external influences have encouraged liberal political development in Peru. In the last decades of the 19th century, French influence contributed to the decline of the old "caudillo" type of presidency in Peru and emphasized a new liberal civil order. Probably the next most significant external influence on Peruvian elite political attitudes came from the U.S. military assistance program which brought many Peruvian officers to U.S. military schools where they were exposed to American society and politics. The impact on the Peruvian generals in the 1970s seems to have been a significant factor in limiting their willingness to accept Soviet influence.

On balance, external influences have failed to plant liberal democracy in Peru. Ironically, the Peruvian state itself, by dominating the economy, has been the key obstruction. Given Peru's repeated and abundant access to foreign capital, it is surprising that no domestic private economic sector and concomitant liberal middle class has emerged. A bizarre coincidence of Spanish colonial tradition, statist economic policy, and Marxist influence among the intellectuals has conspired against liberal democracy and a genuine market economy in Peru. Certainly external factors do not explain everything, but looked at in isolation, they cannot be said to have increased the prospects of liberal democracy.

## CHAPTER 5. CULTURAL INFLUENCES

Students of political development theory have long recognized that the cultural context of a political system plays a significant role in its propensity for becoming a stable democracy. Early efforts to understand the concept and give it an empirical basis focused on political attitudes toward government.<sup>1</sup> Lipset noticed over three decades ago that religion correlates significantly with democracy. For Protestantism the correlation is positive and fairly high. Catholicism at that time had a slightly negative relationship with democracy.<sup>2</sup> Huntington, two decades later, noted the same correlation and added that Islam and Confucianism are strongly resistant to democracy while Buddhism, like Protestantism, is more amenable to it. He went further to offer a hypothesis about the causal connection. Where a religion's loftiest goals and ideals are made highly operative in daily decision-making, compromise is difficult if the decision involves these ideals. They frequently are relevant in politics. Compromise, of course, is critical to democracy. Where a religion's ideals are seen as distant goals, more strongly related to a distant and perfect time, believers are better able to compromise them in daily decisions in its ideals. Buddhism is far more amenable to daily compromise, and therefore it does not seem to impede democratic politics. Confucianism's problem for

---

<sup>1</sup> Sidney Verba, Political Development and Political Culture (Princeton, NJ: Princeton University Press, 1965), a volume of Social Science Research Council's series on modernization and political development in the 1960s, was a major attempt to apply the concept of "political culture" to different polities and to identify its operational components.

<sup>2</sup> Seymour Martin Lipset, Political Man (Garden City, NY: Doubleday, 1960).

democracy is somewhat different. Its emphasis on hierarchy and order tend to clash with democratic notions of equality and disorderly policy-making.<sup>3</sup>

Religion, to be sure, is not the only factor in the elusive concept of political culture. It involves the entire set of subjective and ethical feelings and values that citizens have about their state and politics. Those feelings may be very supportive; they may be indifferent; and they may be negative. They may stimulate more or less demand for participation; they may be more or less supportive of democracy; and they may inspire a greater or lesser willingness to make personal sacrifices for the public good.

The role of political culture seems to be a deep and not very malleable factor in a political system, not something that varies easily with changing political circumstances. Dahl calls it an independent variable in political development, citing the highly analogous state of affairs in Argentina and New Zealand at the time of the Great Depression of the early 1930s. Argentina abandoned democracy under the stress of economic privation; New Zealand did not. The only way Dahl could see to explain the remarkably different political outcomes was to attribute them to political culture.<sup>4</sup>

Mapping the many dimensions of a political culture requires a mix of survey research and social-cultural history. Surveys aimed at discovering the outlines of political culture in a number of European and North American states have been

---

<sup>3</sup> Samuel P. Huntington, "Will More Countries Become Democratic?" Political Science Quarterly 99 (Summer, 1984): 193-218.

<sup>4</sup> Conversation with Robert Dahl, 27 June 1991.

done, and their results have supported most of the efforts in the 1950s and 1960s to make "political culture" an operational concept.<sup>5</sup> To our knowledge, no such survey research has been done in Peru for these purposes. Does that mean we can say nothing about political culture? Not at all. It simply means that we must depend on more general information about the social and cultural history of Peru for discovering the most prominent contours of the political culture. Admittedly, such analysis remains somewhat speculative, but should allow a reasonably sound judgment about the compatibility of culture and democracy in Peru.

The foundation of Peru's political culture must derive largely from the Incan and Spanish colonial heritage. Neither had the slightest democratic propensities. The Incas ruled an empire with a religion-based legitimacy expressed to the society in symbols and rituals. The Spanish colonizers brought the political values of European feudalism, with its strong emphasis on aristocracy as the legitimate ruling class and the duty of lower classes to accept their inferior status as the natural and permanent order of things. As a key feature of feudalism, of course, Catholicism also came to Peru, and it remains the predominant religion, enjoying official status under the Spanish and retaining a highly privileged status throughout the period of independence. Although not the official religion of Peru today, it does enjoy acknowledgement in the constitution as an important part of the society's cultural heritage. No other religion is so recognized. A few other sects, particularly protestant, have acquired small followings in Peru but not in numbers to be significant for the political culture.

---

<sup>5</sup> Gabriel Almond and Sidney Verba, The Civic Culture (Boston: Little, Brown, 1965), is the most illustrious example. Based on survey data from Mexico, Germany, Italy, Great Britain, and the United States, it offers a comparative framework for assessing the nature of a particular political culture and its propensity to support democratic government.

The Incan religion, of course, was formally eradicated by the Spanish, but many of its rituals, superstitions, and social norms appear to have survived at local levels within the Peruvian Catholic church. Precisely what influence on political culture can be attributed to this Incan heritage is impossible to determine with confidence. The Catholic component is far more important, and for most of Peru's history, the Catholic church was a strong supporter of the ruling order, be it electoral or dictatorial.

The Medellin Conference of Catholic Bishops, following the spirit of Vatican II, dramatically altered the Catholic church's political outlook in Latin America in the 1960s. That conference marks the church's turn away from being a pillar of political conservatism to greater concern with social and economic justice for the neglected lower classes in the region. For the old secular elites, it meant the loss of a bastion of political support, and it is perhaps the most significant political shift in Latin America since World War II.

Peru was first to feel the impact of the new church policy during the Revolutionary Government of the Armed Forces, 1968-80. The Peruvian military enjoyed the Catholic clergy's support of its goals of social equity and national integration. Here was a government attacking much of the old privileged oligarchy and championing broader social needs, precisely what the new church policy sought.

In its overall effect, the Catholic shift to the political left seems to have encouraged democracy broadly in Latin America. It certainly has coincided with the many attempts in Central and South America to break the pattern of dictatorship and install elected regimes. The clergy's political philosophy, however, has been

more infected with Marxism than with the philosophers of modern liberal democracy. The cause is easy to find. Much of the poverty in Latin America is easy to blame on capitalism, especially foreign capitalists, not just the local oligarchs who cooperate with foreign business. The church's historical stance in opposition to capitalism gives the clergy a disposition toward leftist, anti-capitalist, and secular philosophies. So-called "liberation theology" is the product of that disposition, and it first emerged in Peru.

Pope John Paul has struck hard against liberation theology in Latin America in the late 1980s, and his recent encyclical embracing market economics is a major step in this regard. To the extent it is internalized and widely accepted in the Latin American clergy, it is likely to move the church to the political center.

Internalization, however, takes time, and we should expect a lag in its impact on Peruvian political culture. While the religious factor in Peruvian political culture, therefore, is tending in a favorable direction, it carries a long history of being both anti-democratic and anti-capitalist. Moreover, the Peruvian clergy itself has been deeply divided over changing church policy and the proper political role for the church in Peru. The conservative faction within the clergy has never yielded fully to the more liberal and sometimes radical factions. Lack of consensus among the clergy has prevented the church from playing as strong a role as it might otherwise have played, either as a radical force or as a moderate force behind the Christian Democratic Party formed in the late 1950s with the clergy's support. It has never amounted to more than a splinter group, and as noted earlier, it soon split into two parties, both quite weak. The shortage of priests and bishops has also made the church weaker than it might have been for sustaining its impact on the society's political values. Finally, the growth of protestant evangelical sects is giving the Catholic church competition it has not previously faced. From the viewpoint of

underpinning democracy, this is desirable in principle, but in practicality it seems to be distracting the Catholic clergy's attention away from key social and political issues and towards opposition to the evangelicals.<sup>6</sup>

An equally important factor in Peru's political culture has to be racism. Whatever the complex origins of racism in general and for Peru in particular, the phenomenon has been reinforced by the oppressed position of the Indians, the social, economic, and judicial discrimination against them. The preconceptions of European white superiority over Indians coincided with the socio-economic advantages of the Spanish colonial rulers. Maintaining those advantages for 300 years certainly did nothing to undercut white beliefs that Indians are lazy, shiftless, and little different from animals. At the same time, Spanish immigration was never large enough to displace the Indians as a major source of manpower. Nor did the small black, Chinese, and Japanese immigrations provide a large enough manpower pool to push out the Indians as agricultural and mining labor.

Moreover, Indians and mestizos have enjoyed some upward mobility, albeit in limited numbers. Both President Sanchez Cerro (1931-33) and Juan Velasco (head of the military government, 1968-75) were Spanish-speaking men of largely Indian blood. Periodically, even in the colonial period, the regime was concerned about exploitation of the Indians. In the 20th century, much more was done in the name of their emancipation, but their integration into the society has progressed slowly. Furthermore, both geographic isolation and economic conditions have

---

<sup>6</sup> The growth of the evangelicals and Catholic clergy's obsession with preventing it was reported to the author by officials in Lima, January 1992. See S. P. Huntington, The Third Wave (Norman, OK: Oklahoma University Press, 1991), for the relationship between evangelical movements and democratic development especially in South Korea.

remained strong obstacles to integration even when public policy has made it a goal. The Indian population itself is fragmented between the two major groups, Quechua and Aymara. A smaller group of Indians, only about 250,000 in number and extremely isolated, lives in the east in the tropical rain forest.

The mestizo, or person of mixed Indian and Spanish blood, occupies a middle status distinguished by his full adoption of the white Spanish culture and language. They have sustained the trickle of social mobility within the society. They represent an extension of Spanish political culture into the non-white populace, but inherently they bring Indian influence to the middle and upper strata of Peruvian society.

The latter influence on the political culture is visibly manifest in Peru's self-image, one that makes it quite different from other South American societies. The Spanish element is relatively weaker and the Incan imperial past vies with it as a basis for Peruvian distinction and pride. At the same time, it inherently gives Peruvians an inferiority feeling. After all, the Incans were defeated and essentially turned into slaves, hardly a record to inspire modern national self-confidence.

How does all this add up for Peru's propensity for making democracy work? The idea of a constitutional political system -- elections to decide who rules, a separate legislative branch to make laws, and courts of law independent in principle -- is not new in Peru. It has been around for a century and a half even if it has remained only very imperfectly realized and then only periodically. The revolutionary military government in 1968 did not wholly revoke the constitution but fell back on the 1931 version's emergency powers.

Among the narrow upper socio-economic strata, therefore, democracy is not a new idea. It is fairly old. Its legacy of efficacy, however, is poor. While royalists did not manage to remain an effective factor after the mid-19th century, feudal land tenure and control over Indian peasants did persist, and the oligarchs exercising that form of rural government were not disenfranchised until the military regime's land reform program in 1968-75. Thus, an anti-democratic local administration survived until fairly recently. Moreover, the cooperative and collective systems imposed in its place were not designed to introduce democratic values. Their rationale was corporatism.

The elite socio-economic stratum in the major cities and in the costa region mixed readily with foreign business. It became educated and did not take a traditional Spanish aristocratic view of commercial activity. On the contrary, it thrived on commercial agricultural and extractive industries. Its failure to make democracy work seems to lie in its relationship with the state. Rather than developing a clear line between commerce and industry in the hands of private ownership and the state in the hands of civil servants headed by elected officials, the line was blurred. Business and the state were inextricably intertwined. Only through influence in government could business prosper. This unholy alliance produced a statist economy rather than a reasonably free competitive market system. Foreign business had to gain access through the statist system. The patterns from the "guano period" apparently became deeply rooted, making government consignment and monopolies the rule. Thus, foreign business influence did not strengthen the democratic tendencies among the indigenous bourgeoisie.

In periods when the political system was competitive, permitting political opposition groups, the first major opposition ideology drew heavily on Marxism and

the influence of the political left in Europe. Thus, the opposition leaders on the left were not disposed to accept constitutionalism and liberal democracy with its emphasis on private property and a market economy. Their experience with market economics in Peru was highly biased by the practices of foreign business and banks collaborating with native statist business elites.

Had Peru's domestic economy developed a much greater indigenous market, greater domestic productive capacity and less dependence on exports, Peruvian intellectuals and opposition political leaders might well have followed another course of political thought and action. But the economy did not expand domestically in a way that integrated more of the populace and permitted greater economic mobility for the lower strata. Marxism, therefore, seemed to offer a better explanation of some of the problems. At the same time, Incan cultural legacies, Catholicism, and Spanish colonialism all contributed to a political culture ill-disposed toward liberal democracy and market economies.

The unique mix of political cultures -- indigenous Incan, Spanish colonial, and Marxism -- would appear to account not only for the strong influence of the APRA and the several Marxist groups on the left, but also for the political philosophy of the Peruvian military that developed in the 1960s.

Geography should not be overlooked as a major determinant in Peruvian political culture. The compartmentalization of the country created by the mountains made it extremely difficult to integrate the society. The lack of easy communications and transportation was neither conducive to effective local government nor to economic exchange among regions. Peruvian leaders clearly understood this handicap, and several of them made major efforts through public

works to build east-west roads that would open up the remote regions. They failed, and the problem remains acute today. Geography, therefore, facilitated rapid economic and social modernization in the costa region, retarded it in most of the sierra, and prevented it in the selva. At the same time, the long north-south distances further fragment the society.

In the past three decades, Peru's political culture has undoubtedly experienced change. The revolutionary government of the military and the insurgencies have caused dramatic relocations of population, pushing well over half of the total population into urban areas. Patterns of village life have been seriously disrupted. Masses of urban poor have gathered closer to the upper socio-economic strata. Precisely how these developments are altering the political culture is impossible to know, but the impact cannot be small.

In sum, while the Peruvian political culture cannot be judged to be highly conducive to democracy, it also cannot be said to be wholly alien to it. In the short run, four sets of attitudes would seem to be most critical. First, the statist economic attitudes of the business and industrial elites are an obstacle. Second, the Catholic church's changing attitude toward the old oligarchic state is positive except where it has gone to the extreme left and adopted "liberation theology." This is not to say that all liberation theologians are radical leftists. Some actively encourage democracy at the grass roots level. If the Papacy succeeds in its efforts to stop this leftward drift and turn the Latin American clergy to support liberal democracy, the church can make an enormous difference in favor of democratic political development.

democracy. Were it the only leftist opposition, it might eventually follow a path analogous to Social Democracy in postwar Western Europe. But it is not. The Sendero Luminoso and the MRTA have moved radically to the left, rejecting the present political system entirely.

Fourth, the new and promising development is found in the small circle formerly around Vargas Llosa and the political philosophy now espoused by Fujimori and deSoto, "the third way." Diffusion of power through private property and prosperity through genuinely competitive market economics is their message. They form a fourth set of elites with a wholly new set of political values that point toward a liberal democratic development in Peru.

These four sets of elite attitudes -- the old statist ideology of business circles, the Catholic clergy's changing views of its own role and the legitimacy of capitalism, the insurgent leaders unyielding radicalism, and the nascent turn to market economics in some rightist circles -- bring clashing political cultures to contemporary Peru. The United Left -- the group of Marxist parties that stand between APRA and the insurgents, is essentially out of the game as an independent force. APRA and the military revolutionary government have discredited much of its ideology, and its ideological sponsor, the Soviet Union, is hardly an inspiration for the Peruvian oppressed masses. Peru's moderate Marxist left can join the insurgents, as the MRTA has done, or it can compromise its ideology and move to the center. Otherwise it is bankrupt. The rural poor and the urban poor, of course, bring their own mix of Indian and mestizo political values as the various factions within the elite bid for their support. The way is open for the Catholic church to make common cause with the new right and its free market philosophy. And the statist business circles, if they perceive clearly their best long-term interests, should

do the same. All three are opposed, however, by an unyielding radical left that will not bend to argument or demonstrated economic performance. Only victory by one side in the internal war will remove the gap between them.

A new variable, difficult to judge in its impact on Peru, is the international discrediting of Marxism-Leninism and the success of market economies. This kind of external political climate is new for Peru. It clearly has impressed President Fujimori, and it has caused the Pope to try to impose a more moderate direction of the radically inclined Latin American clergy. The Sendero leader, Guzman, however, remains wholly unimpressed, not only by the Soviet failure but also by the collapse of Mao's Cultural Revolution in China. And the MRTA's return to insurgency operations reflects the primacy of Cuban over Soviet influence with some of Peru's communists.

Peru, therefore, faces the future with a deeply fragmented political culture. If liberal democracy is to succeed, its proponents must do two things. They must win a civil war, and they must create economic growth. If they achieve these things, they should be able to inspire a democratic political culture in the masses of mestizos and Indians, especially those who have moved to urban areas where they are more accessible for social and political integration into the political system. In the best event, remote parts of the country and the inhabitants there are likely to remain outside the mainstream of a new political culture in Peru.

This optimistic outcome also requires a consolidation of Peruvian elites on the right, including the military. It is not likely to happen unless the intellectuals review critically Peru's history and make clear the abject failure of statism, not just to narrow elitist circles but on a broad popular scale. And it also will require a new

**political party organization that consolidates the right behind a new outlook so that it can guide policy effectively.**

## CHAPTER 6. CONCLUSIONS

The foregoing analysis is a diagnosis of the factors in Peru that bear on the future of democracy there. All four -- economic, social, external, and cultural -- not only correlate with the success and failure of democracy elsewhere in the world, but they also play strong causal roles. That has been emphasized in the analysis of each. Looking across all four, how do they add up? What is the overall picture of Peru's prospects?

In a formal sense Peru is indeed a democracy today. Political competition is allowed, and the press is reasonably free. Periodic elections are held to choose the president and the members of the congress. Most of the population is permitted to vote. The constitution provides for an independent judiciary and the separation of executive and legislative functions. The military is formally subordinated to the president.

In a practical sense Peru can also be called a democracy. Its tradition of elections based on constitutional rules dates back to the middle of the 19th century. Among Latin American countries, it does not have the worst record for cultivating democratic government. To be sure, military dictators have ruled periodically, putting democracy temporarily into eclipse. Military governments have ruled a total of twenty-eight years in the 20th century, but civilian presidents, popularly elected, have ruled during the other sixty-three years. Peru certainly has not created a mature and stable democracy, but it cannot be dismissed as just another dictatorial regime which occasionally experiments with democracy.

Why, then, do we ask the question about Peru's future prospects as a democracy? Even a cursory look at the pre-conditions for democracy in Peru raises disturbing questions about the future. Moreover, the country is now well into its second decade of internal war against the Sendero Luminoso insurgent movement. There are, therefore, compelling reasons to worry about the demise of highly imperfect democracy in Peru.<sup>1</sup>

**Economic.** Little about the Peruvian economy is conducive to stable democratic development. The declining GDP and per capita income in the last decade, particularly during Garcia's rule, have created terribly inauspicious economic conditions. Moreover, the distribution of income is so highly skewed that most of the population is left with wholly inadequate resources to participate effectively in the political system except at election time.

The causes of the present economic crisis are deeply systemic. The highly statist nature of the industrial sector of the economy, the adverse conditions for the informal urban sector, and the widespread cooperative approach to farming in the agrarian sector block efficient use of capital and labor. Over the past two decades, large foreign credits have been available, but the administration of the economy has been such that their allocation and use have not been productive. The result has been a large foreign debt and debt service which further depress the economy.

---

<sup>1</sup> One argument that has been made suggests that the existence of the Sendero Luminoso actually contributes to the development of democratic attitudes. See Cynthia McClintock, "The Prospects for Democratic Consolidation in a 'Least Likely' Case: Peru," Comparative Politics 21 (January 1989): 127-48.

Public sector spending has neither delivered adequate social services nor infrastructure that facilitates growth in the non-export sectors. At the same time, public sector revenues have declined even as a percentage of GDP, reflecting a weak state capacity to extract resources. In both functions, extracting and reallocating domestic resources, the state's performance has worked against economic growth.

The new government of President Fujimori shows signs of recognizing that basic structural changes, primarily the privatization of most of the state economic sector, industrial and agrarian, are imperative for rescuing Peru from a veritable free fall into economic depression. And it also shows an awareness that the tax structure must be radically changed and supported with a stronger administrative capacity to collect taxes. While these new policies are encouraging, there is good reason to wonder whether an adequate base of political support can be maintained to carry through such sweeping reforms. If they can be accomplished in the next few years, then Peru's democratic prospects will improve. If they cannot, then the outlook for democracy is poor.

**Social and political.** Peru is rich with social and political institutions. At the same time, they are incapable of accommodating the demand for social mobility and political participation. A remarkable social and political articulation has occurred in the "informal" sector in urban areas, but these institutions have only marginal influence on the political process. They can bargain with candidates during presidential election campaigns, but after the election, they are effectively shut out until the next election. The practice of law-making by decree in the executive branch precludes interest group involvement in the legislative process most of the time. Having one's representatives elected to the congress, therefore, does not

provide significant leverage on legislation. It can, however, help block the president's programs, a frequent practice by the opposition political parties.

Applying Huntington's three equations for economic mobility, social mobilization, and demand for political participation to Peru, we can see that all three ratios are disturbing.<sup>2</sup>

$$\text{A. } \frac{\text{Social Mobilization}}{\text{Economic Development}} = \text{Social Frustration}$$

$$\text{B. } \frac{\text{Social Frustration}}{\text{Mobility Opportunities}} = \text{Political Participation}$$

$$\text{C. } \frac{\text{Political Participation}}{\text{Political Institutionalization}} = \text{Political Instability}$$

Lack of economic opportunity increases social frustration. That in turn raises the demand for political participation, causing the third ratio, demand for participation over the institutional capacity to accommodate the demand, to be quite high. That ratio, of course, reflects the political system's propensity for instability -- the higher the ratio, the greater the instability.

Social behavior in Peru confirms what that ratio suggests about political stability. The Sendero Luminoso organization provides an alternative route to

---

<sup>2</sup> Samuel P. Huntington, Political Order in Changing Societies (New Haven: Yale University Press, 1968), p. 55.

participation, a different set of institutions. The MRTA insurgent organization is also back in the insurgency business and able to recruit. Informal institutions in urban areas, of course, channel much of the new participatory demand, but they lack responsive political party representation linking them to the larger political process other than during presidential elections.

The insurgents, not surprisingly, have turned to the rural areas for recruitment. The network of social and political institutions in the urban "informal" sector creates competition for them by offering a modicum of effective participation. Over time, however, unless political parties can prove more effective in representing the interests of the "informals," the insurgents are likely to make progress in recruiting in urban areas.

Sadly, neither the rightist nor leftist political parties show much capacity to produce results for the informals. They need a major reduction in laws that impede their entry into the formal economic sector. Yet parties of both the left and right are less concerned about reducing the role of the state in the economy and more concerned with capturing the state for their own interests -- economic and ideological. Only Vargas Llosa's party has been committed to roll back the state's obstacles to integrating the informals into the legal economy. The APRA, admittedly, professes that goal, but while in power, it did little to reduce the state's role in the economy and actually increased it in some regards. Fujimori has adopted much of the Vargas Llosa program, giving it a chance at a time when the economy and strength of the state are probably too weak to implement it.<sup>3</sup>

---

<sup>3</sup> During field research in Lima, Peru, (October 6-10, 1991) several of those interviewed agreed that Fujimori is more able to implement the "unpopular" Vargas Llosa economic strategy than Vargas Llosa himself could have. Fujimori's effectiveness here is attributed

In sum, major changes in social and political institutions are required to improve the prospects for political stability through adequate political participation. The highly bifurcated system has been at an impasse in building effective institutions for most of the 20th century. It has yielded only one modern political party, the APRA, and its ideology is not conducive to democracy. The single positive note is the organizational efficacy of the urban migrants in the informal sector. Exploiting that capacity for institutionalization, however, would require a dramatic reduction in the role of the state in most areas and an improvement in the administrative capacity of the state for local administration and public services.

**External.** Most of the external influences on Peru's political system have not been congenial to democracy. Transnational capital has had to enter Peru through the state; thus it has not helped create a prosperous middle class in a truly private economic sector. Had the state permitted this development, not only would economic progress have been better, but a diffusion of wealth conducive to liberal democracy would have occurred.

The only other external carrier of liberal democratic values and ideas to Peru has been U.S. military assistance. Clearly, the impact has been modest, but it has been perceptible in the attitudes of the senior military as they became uncomfortable about the political consequences of being so entangled with the Soviet military.

---

to his large margin of victory and to the fact that he is not a member of the traditional elite, but rather a member of a distinct Japanese minority with proven successes.

The Spanish colonial influence, of course, was highly anti-liberal. Its bequeathal of statism to Peru remains the single most serious obstacle to stable liberal democracy and economic progress. Marxism has had its largest influence in intellectual political circles on the Peruvian left. Ironically, rather than prompt revolution, it has reinforced the perverse tradition of statism among the leftist political elites, only giving it a new ideological banner for its justification.

Territorial insecurities and humiliating defeat by Chile in the War of the Pacific in the 1880s created the need of a strong military. As the military grew, its political role also increased. Because it has always depended on foreign assistance, the military has remained a conduit for various foreign influences. While its concern with social equity has made it unique among Latin American militaries, this concern cannot be attributed wholly to external influences. Because the military is a route for upward social mobility, its senior ranks have long included mestizos and Indians, officers of declassé backgrounds. Their social origins are probably more important causes of the special political attitudes among the senior military than any external influence.

In sum, Peru had not been the beneficiary of strongly democratic external influences. Even those potential carriers of liberal democracy have been perverted or seriously limited in their impact.

**Cultural.** Neither the Incan heritage nor Spanish Catholicism has provided a cultural context favorable to democracy. Nonetheless, some positive cultural dynamics are visible. First, the Catholic church since the 1960s has equivocated in its old role as a pillar of the Spanish colonial and aristocratic tradition. Some of the Peruvian clergy have made social reform a higher priority than loyalty to the state;

conservative clerics who reject this shift, however, retain influence in the church in Peru. As a result, the church's efforts to launch a Christian Democratic political party have not been notably successful. On the whole, however, church policy has become more conducive to democracy, and the Vatican's recent encyclical on private enterprise and market economics could make it more so.

A second positive dynamic is apparent both in the rural areas and in the urban "informal" settlements. Peasants, Indian and mestizo, show a strong preference for private ownership of land and a willingness to take their chances in a market economy. To be sure, the system of land tenure has impeded this cultural proclivity. In the "informal" settlements, the new urban migrants show no lack of capacity to organize to provide social and community services. There seems to be nothing in the Peruvian culture that make people ill-disposed to organize for social and political action, the very life blood of a stable liberal democracy. Here Peru seems to have a large untapped reserve of support for democratic development.

**Conclusion.** Reviewing the pre-conditions for democracy in Peru, one is left with a deeply ambivalent impression. Some key democratic institutions have a long tradition -- elections, a constitution, and political parties (albeit not modern in character in all cases but the APRA). The massive migration to urban areas since World War II would have thrown many countries into crisis and possibly revolution or civil war. Yet the organizational initiative and entrepreneurial capacity of this population have provided sufficient stability to avoid such catastrophes to date. These aspects of Peruvian society are encouraging for liberal democracy.

At the same time, the entrenched character of statism, with its thicket of counterproductive laws and regulations, stands as an enormous obstruction to stable political development. It not only sustains a highly bifurcated society; it discourages effective public administration and local government. Depending heavily on income from state enterprises and tax revenues from the export economy and international business, the state has been able to indulge in large public sector spending without developing a strong political capacity to tax directly and extract resources internally. Not depending heavily on direct taxation, the state has had no strong incentive to build an effective system of local government and civil administration. Thus it is at the same time a strong state and a weak state, strong in its capacity to constrain economic development and effective political participation, weak in its political capacity to govern and administer the country.

The weakness of the state goes far to explain the periodic military intervention in politics. For the first half of the century, the military felt compelled to guard the state against leftist politicians and Marxism. In the 1960s, it began to see other dangers coming from social inequities and insurgency on the one hand and from foreign businessmen on the other. While the military has intervened to save the state from both sets of dangers, it has never attempted to rescue it from the truly serious danger -- statism in the economy which begets profligate public sector spending coupled with poor public administration and services.

As we turn to an analysis of the regime's strategies for achieving development goals and coping with insurgencies, it is critically important to keep in mind that our analysis had identified the Peruvian state as its own worst enemy. The statist tradition has helped create most of the other challenges facing it today.

**Neither Peru's economic mess nor the Sendero Luminoso insurgency is the central challenge. Statism is.**

## **PART III. STRATEGIES**

### **CHAPTER 7. THE INSURGENTS' STRATEGIES**

In previous sections of this study much about the origins and evolution of radicalism and revolutionary political movements has already been elucidated. Rather than retrace them in more detail, it is more helpful for understanding the contemporary aims and strategies of the Sendero Luminoso and the MRTA to select the major developments that create the insurgency context today. Then our focus can be sharpened on the present-day situation.

#### **The Ideological Context for the Insurgents' Strategies**

The roots of revolutionary strategy and tactics in Peru today share much in common with those in other less developed states. Marxism has been their ideological seed, although mutations and hybrids have occurred as a result of varying circumstances throughout the less developed world. Revolutionary ideas alone, however, do not make revolutions. Organization and resources are required. Here Leninism has been added to Marxism. Its spread initially was the major purpose of the COMINTERN, and although the COMINTERN proved essentially feckless as the instrument of Soviet foreign policy it was meant to be, it did create a large number of small communist parties in the developing world, supporting them with funding and training in clandestine political techniques. The Leninist principles of construction of the parties were by and large followed at Moscow's insistence. Over the years, including the decades after the COMINTERN was disbanded, most of those parties experienced purges, factional splits, splintering, etc., but Moscow usually managed to keep its grip on one of the factions, making it the formal member of the Soviet-led international communist movement.

Throughout Latin America, all of the Marxist parties can trace their origins back to this early COMINTERN organizing effort. After World War II, of course, the age of "polycentricism" arrived as Tito, then Mao, challenged Moscow's leadership. Moreover, some splinter factions took Trotsky's banner after he was exiled by Stalin. This breakdown of a single source of guidance for revolutionary strategy and tactics began somewhat earlier, but the 1950s and 1960s witnessed the fragmentation of international communism. With more than one ruling communist party, there were alternative sources of funding and organization support from abroad. The thicket of ideology disputes and fine points of differences among the growing number of revolutionary theorists is not worth our time. A few major distinctions among them, however, are important.

Mao's decision to go his own way in the late 1920s and base a revolutionary movement on the peasantry, not the working class, had monumental significance. The COMINTERN line dictated that communists cooperate with the national bourgeoisie in wars of "national liberation" directed against the European colonial powers. Afterwards, as a working class grew in each of the new post-colonial states, the communists could slowly shift their base of support to that class and oppose the bourgeois governments.

Marx himself, of course, saw no socialist revolutionary where industrialization had not yet occurred. Lenin made the case for a socialist revolution in Russia based on a two-class alliance, workers and peasants, and he viewed the alliance as temporary. Landless peasants could be induced, like industrial workers, to revolt, but once the peasant got hold of land, owning property, they would become reactionary, "petty bourgeoisie." A purely peasant-based

revolution, therefore, made no sense. It would be downright dangerous for communists.

Moscow's strategy for Latin American communist parties has always been based on cooperating with bourgeois governments insofar as they are "anti-imperialist," that is, "anti-American," because American business was considered to exercise de facto colonial power in much of Latin America. At the same time, these parties were encouraged to seek the support of the inchoate working classes in the cities. Revolutionary seizure of power was not on the agenda. Front tactics and alliances with "progressive" (i.e., anti-American) groups were the formula dictated. Such electoral tactics, however, might allow communists to come to power in a coalition with more moderate parties. Using their alleged advantages in organizational skills and clandestine techniques, they might succeed in capturing the government from within. Clearly Moscow had such hopes in the case of the Allende government in Chile.

A variation of this "coup d'etat" approach to revolution involved using the military as the penetration and takeover route. In the late 1960s and throughout the 1970s, Soviet journals discussed the revolutionary potential of Third World militaries.<sup>1</sup> Ethiopia, Angola, South Yemen, and Afghanistan were encouraging cases for this line of tactics. No doubt, the Peruvian military in the late 1960s looked like a good prospect for this variation of a "coup d'etat."

---

<sup>1</sup> See Mark Katz, The Third World in Soviet Military Thought (Baltimore, MD: The Johns Hopkins University Press, 1982).

Curiously, the record of Marxist-led revolutions includes no examples of working class dominated successes. Even the peasant class has not been the primary means for taking power. They have all been made by armies. The Russian Army in World War I had mobilized millions of peasants. As it collapsed in 1917, the Bolsheviks began turning them into revolutionaries, and after the October coup, they required another three years of civil war with the new Red Army to consolidate their grip. In East Europe, the conquering Red Army put the local communists in a position to take power and secured them as they did. Only in Yugoslavia was it different. Tito had built his own army from the peasantry and taken the power in civil war. The Soviet military also installed a communist regime in North Korea.

The next two Marxist revolutions, in China and North Vietnam, were made by armies, albeit peasant armies. Castro soon followed the same course in Cuba. In the mid-1970s, South Vietnam, Cambodia, and Laos experienced the same kind of revolution. In these peasant-based, army-made revolutions, two quite different strategies were developed: the Maoist strategy and the Cuban foco strategy.

Variants of each have been articulated, but only the broad outlines of each are important here. Mao did not seek a quick path to power. He consciously chose the "long struggle" in which building a political organization in the villages and countryside took first priority. He was able to rule large areas uncontested for many years as he slowly developed a revolutionary regime in parts of the countryside. Able to rule parts of the countryside, he was able to tax them, and this became his major base of resources. He did not have to depend on foreign support until the final phases when areas he controlled in the north of China, contiguous to the Soviet Union, made it possible. "Political development" and "state-building" were key to Mao's strategy. Military action was subordinated to this goal and designed to assist

in achieving it until the very final stage of the revolution. He simply built a new state within China, slowly ruling more and more territory until the old state had to flee. Ho Chi Minh, long a COMINTERN agent himself, borrowed heavily from the Maoist approach. Although conditions in Yugoslavia were somewhat different, Tito's strategy shares much in common with the Maoist approach. Tito finished the revolution with an apparatus in place to rule the country.

Castro followed a significantly different approach, known as the foco strategy. Using bases in the mountains, he made military action the main focus from the beginning, attacking the government, shaking public confidence in it, and bringing it down in a relatively short period. After the revolution he had no political system in place. He and his guerrilla companions continued to rely on much of the former state apparatus for most of the 1960s, and the genuine transformation to a Soviet-type political and economic system occurred only in the 1970s.

Apparently Castro differed with Moscow quite sharply on communist strategy for Latin America. Che Gueverra attempted to inspire a number of foco insurgencies in South America, but they all failed. Heavily dependent on Moscow for aid, Castro could only go so far in pressing Moscow to adopt his policy for the region. Nonetheless, Latin American communist cadres were trained in Cuba in fairly large numbers, and they were taught the foco approach and returned home to apply it. The MIR and the ELN in Peru in the early 1960s, wholly separate insurgent movements, both were inspired by the foco strategy. By 1965, however, both had succumbed to defeat.

The foco strategy received a new boost in 1979 when the Sandinistas successfully applied it in Nicaragua. The revolutionary front in El Salvador, FSLN,

was soon imposed on five guerrilla factions there, and the foco strategy attempted in the early 1980s. The URNG in Guatemala took the same path. While the foco approach has enjoyed no more successes, it still has its followers in Latin America. Peru's MRTA, sponsored and aided by Cuba, is still a proponent.

The Maoist strategy, notwithstanding Beijing's considerable efforts to gain a following among Latin American communists, had found virtually no adherents. The single exception has been Abimael Guzman, Sendero Luminoso's founder and leader.

In Peru today, therefore, the legacy of all these revolutionary approaches is present. Pro-Soviet communists have continued the class alliance tactics, seeking to win power through elections. Much of this sentiment persists with the factions of the IU and ASI. The changes in the Soviet Union under Gorbachev, of course, have left the old Moscow line sounding preposterous, even among leftists, but the adherents are still there. Trotskyite factions also exist with a small base in the trade union circles. The pro-Cuban influence is present, sufficiently strong to field the small MRTA insurgent movement. The pro-Chinese communist party formed from a split with the Peruvian Communist Party in 1964, and Guzman was among its initial leadership. A close examination of the political left in Peru would probably yield several other factions with idiosyncratic versions of Marxism-Leninism and schemes for creating a revolution.

It should not be forgotten that the APRA, too, had its ideological origins in Marxism-Leninism. Admittedly, its political strategy has moderated enormously, and its founder, Haya de la Torre, led the transformation with his own ideological interpretations of Marxism, adapting it to what he believed were the peculiar

circumstances in Peru. The United Left is, to all appearances, moderate in its version of Marxism-Leninism, and it competes for political power within the present system, just as the APRA has done more successfully.

The point of reviewing this context is to underscore that Marxism-Leninism enjoys a fairly wide influence in Peru, both among moderate and center politicians as well as among clandestine and insurgent groups. The importance of such influence became apparent during Garcia's rule. He moderated his election rhetoric, committed the party to policies even acceptable to private business circles. Once in power, however, it became apparent that the rank and file of APRA had in no sense moderated their own ideological posture to fit Garcia's election line.

The question raised by this look at the center and right wing of the Marxists in Peru is whether they have become analogous to West European Social Democrats, now supporters of liberal democracy and market economics, and have relegated orthodox Marxism to what Trotsky called "the dustbin of history." Perhaps some of them have, but there is good reason to doubt it. First, Peru does not have a thriving liberal democracy and market economy. Public sector spending is not nearly enough to implement the kind of social programs Social Democrats have developed in Europe. Second, the sharp social and economic bifurcation of the society creates an emotional climate that encourages the revolutionary version of Marxism. Third, even among the Aprista rank and file, revolutionary sentiment still enjoys a place. Fourth, when Garcia was elected, many on the Peruvian left thought that his Marxist credentials were adequate to moderate the Sendero Luminoso's militant actions. Garcia believed he could negotiate with the Senderistas. Genuine Social Democrats might have been more skeptical.

Why does it make any difference? As the internal war continues, and if the government falters, will the political left come to its rescue? Or will its revolutionary instincts turn it to the Sendero Luminoso? In a crisis, how will Peru's more moderate Marxists behave? Probably not uniformly, but from their past, their ideological proclivities, and the deep distrust many have of the right, one would expect most of them to abandon the present political system and make the best deal possible with the insurgents. The Sendero Luminoso, of course, has closed its doors to them entirely, scorning them as much the class enemy as the bourgeoisie. Guzman could, of course, at some point, change this stance, if only as a tactic.

### **The Sendero Luminoso**

Public knowledge of Guzman's organization and strategy is severely limited, and the available evidence has been used repeatedly to provide a sketchy outline of his own intellectual development, his fascination with Maoism, his firsthand look at the Cultural Revolution during a visit to China, and later his decision to become an innovative theorist in his right, "the fourth sword," as he likes to be known, the first three being Marx, Engels, and Lenin. What is myth and what is truth about Guzman personally is difficult to know, but it is clear that creating a revolutionary leadership image of mythical proportions is something he has worked hard to achieve.

After the pro-Chinese and pro-Soviet wings of the Peruvian Communist split in 1964, the pro-Chinese party again split in 1967, and in 1970, Guzman and his followers at the University of Huamanga in the notoriously impoverished province of Ayacucho were purged from the party entirely for "occultism."<sup>2</sup> The charge was

---

<sup>2</sup> Gordon H. McCormick, The Shining Path and the Future of Peru (RAND, R-3781-DOS/OSD, March 1990), p. 4.

not without merit. Guzman reacted by creating his own tightly knit circle of cadres at the University of Huamanga and spending the decade of the 1970s quietly instilling in it an occult quality. Another version argues that Guzman voluntarily left in frustration with the Maoist party's reluctance to launch an insurrection.

**Ideology.** The particularistic character of his ideology is reflected in the name of his organization's first journal, By the Shining Path of Comrade Jose Carlos Mariategui. Mariategui was one of Peru's first communists. He tried to nativize Marx for Peru. Maoism, of course, is the other major influence on Guzman's thought. In spite of his claims to originality in theory, there is little available evidence to prove it. Political imagery is another matter. Anchoring his ideological image in Mariategui gives him a claim to Incan native roots. The Maoist connection emphasizes the long peasant-based struggle. And his "occultist" style signals his organizational ethic.

When the imagery is stripped away, in the evidence available what is discovered is basically Maoism. The tenets that the struggle will be long, and the revolution will move from the country to the cities, are classic Maoism. As Dietz points out, there is an important variation: Guzman rejects Mao's willingness to form a broad rural front including the petty bourgeois peasants.<sup>3</sup> To date, Guzman has been wholly uncompromising on this point, and that is probably a function of his organizational design.

---

<sup>3</sup> Henry Dietz, "Revolutionary Organization in the Countryside: Peru," in Revolution and Change in the Third World, eds. Barry M. Schultz and Robert O. Slater (Boulder, CO: Lynne Rienner Publishers, 1990), p. 123.

**Organization.** While not much is known about the Sendero Luminoso structure, accounts of the 1970s report that Guzman tightly bound his close followers, mostly young students, to extreme standards of secrecy and loyalty. Students at Huamanga University are probably not all that well trained intellectually. The curriculum is heavily tilted toward learning practical skills. Thus, the quality and breath of reading and thinking of Guzman's recruits were probably not very great. Young and impressionable students from underprivileged backgrounds are vulnerable to doctrinaire formulas, and without prodding to think critically about them, they normally do not. This speculative hypothesis is offered because it may explain why Guzman's recruiting has continued to be among the very young and unsophisticated rural youth. They would be inherently easier to indoctrinate than older and more educated people who might bring critical reflections into Sendero circles.

The clandestine and tightly-knit cell structure of the Sendero is its strength. Were it to attempt more inclusive front tactics too early, the organizational coherence might well suffer. Outsiders, not bound by the rigid ideology and organizational discipline, are not what Guzman needs. Responsive organizational capacity is far more important. That is where it appears he has put the emphasis. It should not be surprising that he scorns all other Marxist groups. Any association between them and his followers would pose a danger to the process he has long struggled to bring to fruition. There is nothing particularly inscrutable about it.

Sendero Luminoso's organizational hierarchy has been partially uncovered by the Peruvian counterintelligence service.<sup>4</sup> It identifies the following five levels from bottom to top:

- Sympathizers who provide food and money and act as messengers.
- Activists who hang posters, paint slogans, and spread propaganda.
- Militants who participate in violent actions and make up the "militias" that form the Popular Revolutionary Army.
- Cuadros who are commanders of regions and zones.
- Cupolas who are the top-level organizers, including Guzman and the central committee.

The cell structure and compartmentalization to prevent police penetration is standard old Leninist organizational technique. Control is highly centralized, creating considerable rigidity and enormous dependency on Guzman's personal leadership. This is both a strength and a potential weakness.

How big is the organization? No reliable data is available on this disputed issue. Some observers place the numbers at modest levels. McCormick puts it at over 10,000. In the larger perspective of the total population of about 20 million, this is a small figure, but the responsive and reliable character of the organization makes 10,000 a very impressive size.

**Strategy.** The strategy this organization implements is broken into five stages in which the following actions and goals are accomplished:<sup>5</sup>

---

<sup>4</sup> Ibid., p. 128.

<sup>5</sup> Ibid., p. 125.

1. **Agitation and armed propaganda to convert backward areas into bases for future development and activities. This stage was carried out in 1980 and through the end of 1981.**
2. **Attacks on the state with sabotage and some regular guerrilla actions. This stage occupied all of 1982.**
3. **More generalized guerrilla warfare involving occasional direct confrontations with the Peruvian army.**
4. **A complex set of substages are included – conquering a permanent support base, setting up a chain of people’s committees, strengthening the militias, expanding guerrilla activities to more areas to disperse the government’s forces countering them, and toward the end of this stage, larger scale guerrilla force movements and open warfare. This stage, still in progress, began about 1985, and it is not complete.**
5. **Civil war begins to lay siege to the cities and brings the collapse of the state.**

**Reflecting on the period of Garcia’s presidency in light of these stages, it is clear that the Sendero Luminoso used the tactic of spreading guerrilla actions to disperse the military’s counterinsurgency effort, and with good effect. In the Upper Huallaga region it seems to have established a permanent support base coupled with protection of the production of cocoa leaf, paste, and base.**

**Resources.** The move into the Upper Huallaga also has greatly improved the Sendero’s tax base. McCormick cites estimates of \$20-30 million annually collected from the narcotics industry. Previously, Sendero resource extraction was through “donations” and other means such as robberies. How much these activities produce

is unknown, but the taxation system in the Upper Huallaga appears highly routinized by now.

The Sendero Luminoso's Maoist strategy, of course, includes resource self-sufficiency, and there is no good evidence that external sources were available in the early stages. Now, however, evidence of such support is appearing.<sup>6</sup>

**Strategic and tactical choices.** Guzman has adhered fairly closely to his five stages, but in stage four, the complexities raise certain dilemmas and choices. Because the MRTA took to the field in 1984, and because it makes its major effort in the cities, the Sendero Luminoso had to decide whether or not to modify its rural-based strategy and compete in the urban areas. Apparently it has done so. Opinion differs over the extent of the Sendero presence in the cities, but it is visible in Lima. As the rural population has streamed into Lima in the 1980s, cells of senderistas have probably moved in with them.

If indeed the Sendero Luminoso is making progress in building its infrastructure in the urban areas, it is very bad news for the government. The large urban population, if it can be kept reasonably free of the Sendero Luminoso, is a government advantage in population control. If it cannot keep the senderistas out, then the advantage falls to the side of the insurgents.

---

<sup>6</sup> See, for example, "The Declaration of the Revolutionary Internationalist Movement," published in the United States by the Revolutionary Communist Party, USA (np.nd). Also, "Interview with Chairman Gonzalo," published by the Central Committee of the Communist Party of Peru, translated into English by the Red Banner Publishing House, 1989.

At some point, Guzman may have to reconsider his refusal to include a broader spectrum of supporters, especially what he now considers the "petty bourgeoisie" among the rural population and in the cities. He has shown no inclination to do so, but if he does, that too will be a very bad sign for the government. It will probably reflect his confidence that his organization is large enough and sufficiently disciplined to control less reliable allies rather than be diluted by their inclusion.

McCormick reports evidence of senderista penetration of the military enlisted ranks. To say the least, that will quickly undermine the military itself. The military has been the single reasonably coherent and stable state agency. It truly is the last barrier in a crisis for the regime. If the Sendero Luminoso is able to make significant progress in penetrating the military's ranks, the outlook for the future of the government is virtually hopeless. More and reliable information about this trend is critical for making a judgment about the correlation of forces in the internal war.

Notwithstanding these highly negative trends -- senderista headway in the urban areas and in the military, Guzman is still enmeshed in stage four of his overall strategy. Evidence to make a sound judgment on his precise position is simply not available. Were it at hand, it could yield more threatening trends for the government, or it could uncover a degree of Sendero bluff. In either event, the insurgency is making impressive progress merely to be in stage four.

## **The MRTA**

MRTA, of course, pursues a variation of the foco strategy. It is probably not a serious threat to the government in the near term by itself. It does show progress in the urban areas, and according to McCornick, it has penetrated the military, although not as successfully as the Sendero Luminoso.

The MRTA has to be taken seriously for two reasons. The generally pessimistic climate in the population about the government's prospects make even its small effort significant. As long as the "informal" sector of the urban areas are left outside the state's full social control, it can prosper in the cities. Second, at some point, it might be coopted by the Sendero Luminoso. That would require a major change in Guzman's strategy, but as noted above, such a change should be anticipated.

## CHAPTER 8. THE GOVERNMENT'S STRATEGIES

### Internal War and Political Development

Today, the Peruvian government is deeply engaged in an internal war. Its roots can be traced to early decades of this century and the arrival of Marxist-Leninist ideology in intellectual and left-wing political circles. Already in the late 19th century, some of Peru's elites were showing growing concern for the fragmented character of Peruvian society and the deep social inequities between the masses of Indians and mestizos on the one hand and the small white ruling and business circles on the other. The APRA developed as a political party dedicated to achieve greater economic and political equity in Peru. Its founder and leader, el jefe maximo, Haya de la Torre, was inspired by Ataturk's regime in Turkey, Lenin's revolution in Russia, and the Party of the Institutional Revolution (PRI) in Mexico City, where he had been exiled by Peruvian dictator Augusto Leguia.<sup>1</sup> The APRA was sufficiently influenced by Marxism of the Leninist variety to affiliate for a time in the 1920s with Lenin's Communist International (COMINTERN).

The COMINTERN was founded by Lenin not only to supersede the old Second International of Social Democratic parties in Europe but also to help implement his strategy of attacking the European bastion of capitalism through its "weakest link," its colonial extremities. The COMINTERN apparatus founded communist parties world-wide, basing them on Lenin's concept of a proper revolutionary party with a clandestine apparatus and resource base. While little is known about the amounts of fiscal support Moscow provided directly to such new

---

<sup>1</sup> Carlos Alberto Astiz, Pressure Groups and Power Elites in Peruvian Politics (Ithaca, NY: Cornell University Press, 1969), p. 95.

communist parties, it is well known that such support existed and was used to discipline the leaders of these parties, forcing them to adhere rigidly to the COMINTERN "general line."

The APRA developed its own domestic apparatus and sources of income, primarily from members' dues. Perhaps it enjoyed modest COMINTERN financing, but Haya de la Torre was hardly a man to yield all matters of ideology and political tactics to Moscow. The Soviets had to find other Peruvians to sustain a pro-Moscow client party in Peru.

The revolutionary character of Marxist-Leninist ideology has never entirely been eliminated from APRA political thinking. In 1931, as we have mentioned, APRA actually staged a brief insurrection which branded it in the eyes of the Peruvian military and the right-wing as an implacable enemy of the state. Although the APRA and de la Torre slowly abandoned revolution for electoral politics and compromise, the revolutionary alternative did not disappear from the minds of all of its members. Moreover, other more orthodox Marxist parties emerged on the left, small ones, but adequate to keep alive the revolutionary alternative as the preferred route to power. The seeds of a future internal war had germinated in Peru by the 1930s.

The insurgent troops of the Marxists, however, did not take to the field of armed combat until the early 1960s. Castro had won power in Cuba, and Che Gueverra was peddling the Cuban foco strategy for guerrilla warfare in South America. Two Peruvian insurgent groups launched campaigns that the Peruvian military soon destroyed. The government's success, however was short-lived. The Sendero Luminoso emerged quietly in the early 1970s. In 1980, it launched the first

of its five-stage war with the regime, and by 1990, it was trying to move to the fourth stage.<sup>2</sup> More recently, as we have noted, the Cuban-backed MRTA has returned to insurgent operations.

Thus today, Peru is confronted with a full-fledged internal war. The aim of the belligerents in such conflicts to seize or to hold state power, and victory can be defined as achieving political stability through state power, either by holding it successfully, or by seizing it and consolidating it successfully.

This definition of victory is important because it forces us to recognize that an internal war is not simply about armed struggle. It is ultimately about who rules. The insurgents are dedicated to the forceful overthrow of the regime in power and the consolidation of their own unchallenged rule. All successful Marxist-Leninist revolutions have depended on not just taking power but also consolidating it once they have it. Lenin could make only marginal progress in creating the apparatus for consolidating power before the October coup. Mao developed his own strategy, putting much more emphasis on consolidating political authority and control during the revolutionary struggle. He did not take power in a single stroke as Lenin did. He took parts of the country at a time and built a local government to rule them. By the end of the revolutionary struggle, Mao's army already administered large parts of the country.

---

<sup>2</sup> Henry Dietz, "Revolutionary Organization in the Countryside: Peru," in Revolution and Political Change in the Third World, eds. Barry M. Schultz and Robert O. Slater (Boulder, CO: Lynne Rienner Publishers, 1990), p. 127. See also Cynthia McClintock, "The Prospects for Democratic Consolidation in a 'Least Likely' Case: Peru," Comparative Politics 21 (January 1989): 127-48.

The regime in Peru cannot separate the two functions, winning the armed struggle and then turning to the task of governing. It must succeed at both simultaneously. Its strategy for internal war, therefore, must include its entire strategy for political development. The military strategy can only be a component within that larger political development strategy. Regimes which try to deal with the two tasks in temporal sequence are very likely to lose the war. In our analysis of the Peruvian government's strategy, therefore, we shall dwell first and most extensively on its pursuit of political development and its political capacity as a state. The military counterinsurgent component will be left as the concluding point.

### **Political Development Goals and Strategic Priorities**

Huntington has identified five goals of political development: economic growth, social equity, political stability, democracy, and political autonomy.<sup>3</sup> As he emphasizes, these goals are almost always in conflict at any one time. In Third World states undergoing radical change in social structure, migration, and political mobilization, the possibilities for goal conflicts are as numerous as the permutations of the five goals. Some regimes make no pretense of pursuing them all. Some are dead set against democracy. Some are unconcerned with social equity. Almost all, however, want economic growth, and all want political stability and political autonomy. As they succeed at economic growth, they are likely to increase the demand for wider popular political participation, a challenge to political stability. As they enjoy success in some economic growth sectors, they are likely to increase

---

<sup>3</sup> See his essay, "The Goals of Development," in Understanding Political Development, Myron Weiner and Samuel P. Huntington, eds. (Boston: Little, Brown, and Company, 1987), pp. 3-32.

social inequities. If they turn to outside sources for economic and military assistance, they may feel they are surrendering political autonomy.

Either explicitly or implicitly, regimes committed to one or more of these development goals must prioritize them. That prioritization implies a political development strategy. It may not be a successful or wise one, but it is a strategy. A regime may engage in an economic development program and enjoy considerable success which engenders social change and mobilization that threatens political stability, something it took for granted or did not anticipate becoming a much larger problem. One way to cope is to resort to repression, most commonly through military rule. That strategy, of course, sacrifices democratic development. It can interfere with economic development. In a sense, resort to military rule and repression is a strategy for stopping political development as a whole. "Praetorian" regimes, as those which do not attempt to achieve political stability, are essentially trying to stop the larger political development process. They deny wider participation through force, and that action tends to stifle other development processes as well.

Praetorian regimes invite internal war. They create social and political frustration that revolutionary leaders can exploit to oppose the regime, not just politically but also militarily. When a regime, embattled by insurgents, turns to the United States for support, it inevitably will be encouraged to make the democracy goal fairly high priority in its strategy. Short periods of support from the United States may not make this imperative, but over time, the U.S. Congress and public opinion has historically forced the Executive Branch to place this requirement on the client state.

As we examine Peru's political development strategy, we will give democracy special attention for several reasons. First, most Peruvian leaders across the political spectrum profess the maintenance of democracy to be their goal. Second, as the United States makes deeper commitments to assist Peru, the Congress and the media are likely to press for democracy as a primary aim. Third, stable democracy has proven the most capable form of government in managing continuing political development in most cases, once it has become firmly rooted. Fourth, the Marxist-Leninist development model has been largely discredited, although perhaps not in extremist circles in Peru, certainly not among the insurgent leaders. Finally, the praetorian model is at best a temporary solution, brittle, and therefore prone to a short life. Other variants of authoritarianism have appeared -- Taiwan, South Korea, Chile, et al. -- but eventually those forms have yielded to wider participation and inchoate democracy.

The mention of these latter examples raises an important point about development strategies. Economic development can be achieved under some types of authoritarian governments. For several decades, it appeared that the Marxist-Leninist system could achieve unending economic growth while maintaining the most repressive political system the world has seen. Over time, however, it has become clear that the Soviet command economic model soon reaches limits on what it can achieve. Central planning yields increasingly ineffective investment decisions, wasting resources in so-called "extensive growth" until the limits of the resources are reached. Stagnation increases, and growth declines.

Authoritarian systems which maintain private property and permit a fairly free market economy to exist have succeeded at economic growth. But not all have been successful. Thus, a mere coupling of dictatorship and market economy is not

enough. The wisdom of the regime's macro-economic policy is undoubtedly a key factor, as is the technical-cultural level of the society.

Authoritarian systems may also couple economic growth with the popular feeling that the degree of social equity is adequate or at least tolerable. In the Soviet Union and China, equality in deprivation achieved that feeling for several decades. As long as everyone was impoverished, the sense of relative deprivation was small. Public welfare and support programs are provided in states like Taiwan and South Korea to eliminate the lower levels of poverty. Yet the amount of spending on such programs is not allowed to weaken investment for economic growth. Land reform, as it was carried out in Taiwan, South Korea, and Japan (under U.S. military rule), contributed to a sense of greater social equity.

It is important to note the diversity in successful strategies for dealing with the inherent conflicts among political development goals. The only thing all leaders commonly share in their prioritization is a strong preference for political stability, but even then some regimes are more willing to put stability at risk than others. Clearly no single strategy has universal applicability, and while the number of permutations for prioritizing them is finite, the shadings in emphasis, timing in shifts, and variations in political, economic, and cultural conditions make the actual number of strategies virtually unlimited. In practical policy-making, however, leaders and their staffs cannot design and compare an infinite number of alternatives. They can only deal with a few major choices. Once they select, however, they may exercise considerable change in timing, emphasis, and correction. This analysis of Peru will adhere to the general level, focusing on the major choices in priority and sequence over the past few decades, identifying the big and

unambiguous errors, choices that had no real prospects of success no matter how subtly and shrewdly they were implemented.

### **Peru's State Building Experience**

Successful pursuit of any development strategy requires a strong state, not just to achieve political stability, but also to extract and reallocate resources for all the other goals. Peru's political development, therefore, is bound to be constrained by the character of its state. Peru has a developed state apparatus. Yet it is a weak state in its capacity for domestic social control and resource extraction. To understand its contemporary predicament, it is useful to review its historical origins in a comparative perspective. Not only does a comparative viewpoint help focus on critical factors, but it also suggests alternatives not so apparent from Peru's experience.

Joel Migdal has developed an elaborate explanation for the many weak Third World states today, one that is particularly applicable to Peru.<sup>4</sup> To make use of it, it is necessary to digress for a moment and explicate its key arguments. His thesis rests on the following sequence:

1. The colonial system in the 18th and 19th centuries had a traumatic impact on Third World states. Colonial administrators developed systems of rule depending on local social structures and "strongmen." In some cases, the strongmen already had enclaves of social control. In others, colonial administrators created new local leaders to assist in control by making resources available to them in return

---

<sup>4</sup> Joel S. Migdal, Strong Societies and Weak States, (Princeton, NJ: Princeton University Press, 1988.)

for support. While destroying the pre-colonial political and administrative system, colonialism seldom created new strong systems of central control. Rather weblike linkages in a melange of social clusters and groups held the colonial administrations together.

2. The expansion of European trade into the Third World throughout the 19th century had an equally dislocating impact on Third World societies, upsetting local strategies for survival. Major mechanisms for creating this crisis were: a) radical changes in land tenure; b) taxation; and c) new transportation; particularly railroads. To control wealth, the colonial systems dispossessed local peasants and communities of their land. The new owners altered production toward export markets. Taxes were increased and changed from "kind" to "cash," forcing the peasant farmers into the commercial markets. The squeeze forced most of them to abandon their holdings to larger landowners. Railroads and highways opened new areas to the export markets.

3. The effect of these developments -- changed land tenure, heavy taxes, and new transportation under colonial administration -- utterly destroyed the foundations of the old societies. At the same time, it replaced the old order with networks of new local strongmen and groups controlling various parts of the societies, all held together by colonial administration. Central rules and laws were seldom made to prevail in all parts of a society. Various social enclaves kept their own or developed new norms under the strongmen who could fend off the central authority. The resulting degree of social and rule-making fragmentation was enormous. At the same time, some native elites became educated and able to articulate anti-colonialist sentiment, and therefore, they were excluded from participation in the system of social controls and thus had no strong political base.

4. In the post-colonial period, many of the newly educated elites were left to rule with the new state. Yet they were also left with the melange of colonial control structures, local strongmen, cliques, tribes, and the like. Very few of them have been able to overcome the fragmentation and create strong states in the destructive aftermath of the colonial period.

This generalized picture of the pattern of development fits Peru's history with remarkable accuracy. The Spanish arrived, took the land, began extractive commerce, and ruled over the traumatized Incas through feudal landowners. The old Inca system of roads, however, fell into disrepair, contributing to geographical fragmentation no post-colonial government has ever successfully overcome. The costa region was turned into large commercial farming enterprises, and the owners were left with wide latitude in local control. Control over much of the sierra was tenuous at best, and the Amazon was virtually ignored.

Extractive industries for minerals and oil led to railroad and pipeline transportation into a few enclaves. Peru's experience with taxation is somewhat different in the post-colonial 19th century. Guano exports financed the larger part of the state fiscal requirements, thus, the Indian head tax could be dropped. As the guano markets dried up, new export sectors were developed, largely by foreign capital and businessmen. Export taxes, therefore, continued to serve as the main source of public revenue, a condition that created little incentive to increase the new state's extractive capacity vis-a-vis the domestic society.

Migdal develops his thesis further in explaining how the new post-colonial leaders have tended to deal with the problem of overcoming the state's weakness. A

strong state, in his definition, is able to exert strong social control, to penetrate the society, establish standard rules, extract resources, and allocate them for state purposes. The indicators of greater social control, in his scheme are:

- compliance -- strength to enforce it;
- participation -- repeated voluntary use of state-run or state-authorized institutions;
- legitimization -- acceptance, even approbation, of the state's rules of the game and social controls as right and just.

Beginning with a fragmented society, a melange of social structures with different norms and rules, each led by local strongmen, state leaders can hardly move rapidly to assert high levels of compliance, participation, and legitimization. They must build centralizing institutions and bureaucracies. And they must eventually mobilize all of society within these new structures.

Here Migdal identifies the critical dilemma facing the new states' leaders. It is imperative to build new institutions that can offer effective survival strategies for individuals in society and that can defeat the local strongmen; yet these new institutions create new centers of power that can threaten the leaders. "The paradox arises in that to mobilize popular support against agencies, agencies are needed in the first place to gain access to support."<sup>5</sup>

Migdal next investigates the strategies leaders have used to deal with this dilemma. First, there is a "free market" model -- leaders seek channels that allow no single small set of agencies to monopolize the overall amount of popular support.

---

<sup>5</sup> Ibid., p. 207.

Second, there is the "centrifugal-centripetal" model -- since top bureaucrats develop their own centers of power, the leader must find centripetal forces to counter them. A "populist" appeal over the heads of agency chiefs is an option, but that tends to weaken the effectiveness of the agencies the leader needs for a strong state. Thus, the paradox again appears. Finally, there is the "risk" model -- leaders can plunge ahead, building a few strong institutions and run the risk of being overthrown by one of them. Risk can be reduced by using one agency to check another, as Nasser used the ASU to check the military in Egypt.

Up against such formidable obstacles, Third World leaders more often, in Migdal's analysis, resort to the "politics of survival" and fail to create strong states. The sure sign of a weak state where the leader is merely trying to survive is a common pattern of leadership tactics:

- the big shuffle, in which elites are circulated, purged occasionally, creating turmoil and administrative inefficiencies;
- nonmerit appointments, that is, disregard for competence and appointment of loyalists and kinsmen, at the expense of administrative effectiveness in the key agencies;
- dirty tricks such as imprisonments, deportations, disappearances, and the like to remove opposition, actions hardly conducive to building strong and effective state institutions.

Looking back at 19th century Peru, local strongmen battled one another for the first two decades of the post-colonial periods. Finally, in mid-century, President Ramon Castilla appeared with exceptional skills that allowed him to strengthen the state to some degree, but he made no real progress in penetrating more than the top strata of the society with new rational social controls and state administration.

Castilla was most successful in putting the state finances in better order, and in so doing, he depended heavily on foreign businessmen to export guano. To understand the importance of Peru's early and large involvement in international markets we must introduce a second thesis on the strength of Third World states, one which Peter Evans explains as the impact of transnational capital on local state administration.<sup>6</sup> His research is based on post-World War II experience, but his findings are highly consistent with Peru's 19th century experience. Some scholars, especially "dependency" theorists, have insisted that transnational capital, especially extractive industrial ventures, weakens Third World states and makes them dependent on foreign business firms. Looking at the empirical evidence from a fairly large number of cases, Evans finds quite the contrary to be true. Transnational business penetration tends to cause the local state to expand its apparatus to monitor and control foreign firms. At the same time, local states in most cases extract considerable tax from these firms. The overall result is the expansion and strengthening of the state bureaucracy.

This effect on the state does not, however, increase its "capacity," that is, its domestic control over society, nor does it improve administrative capacity in local government and public services. It has other side effects. It encourages the state to become more engaged in the economy, more interventionist, including the creation of state-run firms. Its impact on the local bourgeoisie is not to strengthen the private sector but to make it more dependent on the state, to make it cooperate with the state. Especially when the state has access to foreign credits, it can command a

---

<sup>6</sup> Peter B. Evans, "Transnational Linkages and the Economic role of the State: An Analysis of Developing and Industrialized Nations in the Post-World War II Period," in Bringing the State Back In, eds. Peter B. Evans, Dietrich Rueschemeyer, and Theda Skocpol (Princeton, NJ: Princeton University Press, 1988), pp. 192-226.

central place in banking, asserting a strong hand over the local private sector access to capital and the purposes of investment. In some cases, the impact of foreign capital has facilitated the government's fully "statist" control of the economy, leaving virtually no private sector.

The phenomena Evans has observed on a wide basis in the Third World since World War II are clearly evident in Peru as early as the mid-19th century. The statist pattern took root, and its relation with transnational capital has gone through a number of phases since. Most of them reinforce the early statist patterns of expansion vis-a-vis transnational capital and the local private sector. No appreciable improvement is made in the state's "capacity" to control society, to achieve compliance, participation, and legitimization. On the contrary, foreign capital and extractive industries made it easy for the Peruvian state to avoid serious efforts to achieve that capacity.

Returning to Migdal's analysis as applied to Peru, following Castilla, no leader was able to increase the state's capacity significantly. Colonel Prado's military dictatorship (1864-68) was a case of the failure of the "politics of survival" by civilian leadership, as military intervention always is, but he could not control other "strongmen" in Peru, and conservative forces soon overthrew him. The Peruvian state was too weak vis-a-vis society even to sustain a dictator.

The War of the Pacific (1880-83) prompted a period of genuine progress in state-building in Peru and put an end to the practice of open use of force to capture the presidency and the beginning of adherence to rules for elections, but the circle of enfranchised participants remained a small circle of elites -- large landowners, commercial interests, and the military. Migdal observes that external threats such as

wars can allow a leader to follow the "risk" strategy, building one or two strong bureaucratic centers without bringing their own demise. War efforts forced more cooperation in existing state control while restraining competition. European states were frequently able to become stronger in periods of war and inter-state conflicts. The lack of such threats caused by the fairly stable bipolar confrontation in the postwar period has meant that most Third World leaders in the past four decades have not had strong external military threats to facilitate state building. Israel, Taiwan, and South Korea are exceptions, and they have strong states. The War of the Pacific seems to have provided such an opportunity for Peru somewhat earlier, but it was of short duration and limited impact.

Peru's civilian presidents for the rest of the 19th century and right up to the present, however, spent most of their policy-making energy not on penetrating the society with central controls but rather in statist economic endeavors, large public sector spending on railroads and communications systems, inefficient irrigation systems, and state-run industries. As a result, "the society as a melange of social organizations" with "multiple sets of rule-makers" headed by local "strongmen" -- to use Migdal's descriptions -- remained strong vis-a-vis a relatively weak Peruvian state. It has to depend on the "weblike" linkages through informal and heterogeneous social structures to govern. The top-level institutions, the executive offices and ministries, the congress, and the courts, might give the appearance of a modern and strong state, but the underlying reality has remained quite different. Here we find what Migdal calls the "triangle of accommodation." The implementors, or bureaucrats in the state, are caught between the local pressures against the state, other rule-making centers, and peer pressures on the one hand and the formal policy demands for implementation on the other hand. The middle and lower level civil servants more often accommodate society than they penetrate it

and exert the state's control. The urban squatters and "informal" business entrepreneurs offer examples. Corruption of the judicial system is another. Bribery required for formal registry of economic activities and property are yet others. Furthermore, because it can finance the public sector largely from export taxes, foreign credits, and state enterprises, the state has not been forced to develop the "political capacity" to extract resources locally for public sector reallocation.

Some ideas of the Peruvian state's limited political capacity can be gained by using W. Arthur Lewis's approach for cross-national comparison of states' capacity. He estimates that adequate public sector spending on administration, education, health, welfare, public works and public lending corporations should be about 20 percent of GDP. When military spending (averaging about 6 percent of GDP in the Third World) and foreign debt service (averaging another 6 percent of GDP) are added, total public spending is more than 30 percent of GDP. Peru's public sector spending, however, is down more than 20 percent of 1979 prices. At roughly 10 percent of GDP, it is not near the adequate level for an effective state to pursue development goals.

Peru's state looks even worse when its extraction capacity is considered. Only about 5 percent of state revenues derive from direct taxes and indirect taxes drawn from the majority of the population. Kugler and Domke have devised a formula for assessing "relative political capacity" (RPC):

$$\text{RPC} = \frac{\text{Actual Extraction}}{\text{Expected Extraction}}$$

Organski and Kugler offer a "tax effort" formula:<sup>7</sup>

$$\text{Tax Effort} = \frac{\text{Real Tax Ratio}}{\text{Tax Capacity}}$$

Either formula suggests that the Peruvian state has very limited political capacity. Only in its capacity for economic intervention and control over transnational capital has the Peruvian state steadily expanded.

At the same time, external threats from Chile and Ecuador have stimulated the strengthening and modernizing of the military, creating a single state structure with considerable control over resources and capacity to dispense them. Little wonder that Peru has been under military rule three times in the 20th century. This power center within the Peruvian state is matched by no other single agency. It has been checked only by coalitions among conservative business and industrial circles, and that kind of coalition has broken down from time to time.

Even the most capable politician would have trouble playing the "politics of survival" in such a state, and most of them have not survived for long. They have resorted to all of Migdal's list of survival tactics -- the big shuffle, nonmerit appointments, and dirty tricks.

Reflecting on the earlier section of this study that described the social and political institutions as they have developed in Peru, it is now apparent that the "personalistic" political parties of the right have been essentially strongman enclaves

---

<sup>7</sup> See Migdal, Op.cit., pp. 279-81, for a discussion of these two formulas and their utility for cross-national comparisons.

among the elite strata of society. The trade unions are another group of strongman enclaves. The APRA and the left-wing parties, far from contributing to strengthening the state system and adding new social access and control, have carved out control over new fragments of society to challenge the state's legitimacy with ideologies of revolution and radical reform. The "young towns" and the "informal" economic sector are essentially rule-making centers outside the state rule-making system. They maintain their own real estate property registries, and they manage the administration of property transfers, justice, and public service within their domains.

The great exception in Peru's pattern of statist economic control coupled with the "politics of survival" is the period of the Revolutionary Government of the Armed Forces. General Velasco, its head, made a major attempt to penetrate the society, to break the "strongmen," to create participatory institutions that were all inclusive, to make the rules the same of the whole society, and to provide a promising economic "survival strategy." While previous leaders had talked about making the social and economic integration of Peru first priority over international economic activities, Velasco is the only one to attempt it seriously. Yet he soon succumbed to the appeal of easy foreign credits and transnational business.

Velasco's corporatist strategy makes sense in some regards for dealing with the challenge of creating a strong state that penetrates the whole of society. Its merits were in its attack on the power bases of the "strongmen" and enclaves of semi-autonomous power - the APRA, the commercial agricultural oligarchs, the social clubs in Lima, and all the political parties. It also had the merit of trying to integrate the informal economic sector and the urban squatter population into the formal social and political sector. As well, it sought to achieve the same integration

in the rural areas through land reform and local collective structures under state control.

Its major weakness was its economic component. Although Velasco achieved a few years of growth, they did not result from a self-sustaining dynamic within the domestic economy. The land reform program of creating collectives and cooperatives actually undercut productivity in the agrarian sector. The peasants did not want cooperatives.<sup>8</sup> They preferred more private control. The same was true in the informal economic sector in the urban areas. The "informals" did not want institutions imposed top down to regulate them. They wanted less government regulation and obstruction. The trade unions proved very stubborn, using Velasco's tactics of building new unions to increase the overall size of organized labor, organized to oppose the military regime.

In the commercial and industrial business sector, Velasco really did not offer a new program. His corporatist strategy for the economy was merely a more extreme form of the statism that Peru has practiced for over a century. That strategy, of course, led, as it had in the past, to financing large public sector spending with export taxes, foreign credits, and income from state enterprises. Perhaps worst of all, it diverted attention away from imposing an effective taxation system extending to the entire populace.

---

<sup>8</sup> See John P. Powelson and Richard Stock, "Chapter 14: Peru," in The Peasant Betrayed: Agriculture and Land Reform in the Third World, (CATO Institute: Washington, D.C., 1990), p. 289.

## **The Record in Attaining Political Development Goals**

Against this interpretation of the Peruvian state's development, let us turn to the implications for the five development goals.

First, political autonomy has been maintained since the War of the Pacific. Much domestic political sentiment has been expressed about the threat to Peru's autonomy coming from foreign capital, but we know from Evan's analysis that this threat is an illusion fed by the Marxist-Leninist theory of imperialism. It has also enjoyed credibility with the local business and industrial leaders and the military, and nationalization of foreign assets have resulted for the purpose of countering it. In fact, the immediate justification for the military takeover in 1968 was the belief that the Act of Talara was a "surrender of Peruvian national wealth to foreigners." Other than border disputes with its neighbors, there has been no serious challenge to Peru's political autonomy from without. The successful attainment of this development goal has been achieved and is not likely to be challenged seriously in the near future.

Political stability has consistently been a problem. Unable to build a strong state with concomitant "political capacity," the Peruvian government has teetered from time to time on the brink of instability. Today it is closer to the edge than any other time in the 20th century. The Sendero Luminoso challenge, unlike other insurgents pursuing the Cuban foco strategy, is actually building an alternative political system in parts of the country, following a variant of the Maoist strategy.

The prospects for the state's survival appear bleak indeed, but some fortuitous factors have emerged to give it a fair chance. The migration to urban areas has moved more than 70 percent of the population into cities. There the

masses are much more accessible to state institutions and social control, albeit more dependent on rural food supplies. Only about one fourth of the populace remains in the rural areas and highly vulnerable to the insurgents. Other states facing insurgencies today, such as Guatemala, El Salvador, and the Philippines, must deal with a much larger rural sector, penetrating it with state controls, if they are to win their internal wars.

Peru enjoys another advantage in this regard. The urban immigrants have built community social structures that provide a level of institutionalization uncommon among surges of urban populations in many other states. The so-called "informal" sector in Peruvian cities is not new. It has existed most of the 20th century. It has learned to organize for economic and political action. It has its local strongmen. Moreover, the Sendero Luminoso has enjoyed mixed success in recruiting the "young towns." The insurgents are, however, increasing their penetration into the "young towns," and with a declining government presence, one could expect that Sendero will be tolerated rather than resisted.

If the state leadership were truly determined to defeat the insurgents today, it would be seriously at work to bring the informal urban sector under state control. No aspect of seeking political stability would seem to be as urgent for the regime as this one. Yet there is little sign that a serious and promising effort is under way.

What would a serious effort involve? Following Hernando de Soto's prescriptions, it should begin with a major cancellation of laws and regulations that impede informal sector economic activity. Next, it should include a program to bring the informal registries of property and transfers into the formal administration. Tax reform surely must be included as the next step. Not only

should the tax burden be equitably distributed, but importantly, it must be shifted to include a much greater reliance on direct taxation of all levels of society. Finally, public sector spending has to be redirected to provide much improved public services -- health, education, police, water, utilities, sewage, and street maintenance.

Why would such an effort be so difficult? Two major obstacles confront it. First, a competent and incorruptible supply of civil servants is necessary but not readily available. Second, the statist approach to the economy would have to be rolled back in key areas where much resistance from vested interests would be met. The second obstacle is probably more daunting than the first. Initially, the civil service might co-opt people in the informal sector for managing property registries and for implementing public services. If they can perform these functions reasonably well against the state's resistance, they ought to be able to perform equally well if not better with the state's support. Moreover, tax extraction from the informal sector could finance the salaries of this new cadre of competent civil servants.

A parallel program for rural areas would be more difficult, but it must be attempted if political stability is to be maintained. Spelling out the details is beyond our means here, but two elements would seem imperative. First, breaking up cooperative agriculture to some degree and allocating through title and registry private ownership among members of the cooperatives in the sierra should appeal to this part of the rural populace. The same may be true for parts of the costa and the selva. Since most of the lands formally belong to the state as the result of the military revolutionary government's land reform program, the state could bear most of the cost of the transfer, avoiding leaving the peasant farmers in debt. Some

reallocations among landowners are also imperative because the military government's program did not improve the equity in land holdings significantly.

The second essential program is taxation. The state has to extend its resource extraction capability into the rural areas if it is to control the agrarian sector. At the same time, the resource extraction has to be returned in the form of improved state services.

Extending social control to the urban migrants and the peasantry remaining in the countryside, of course, would present a major setback to the insurgents. It cannot be accomplished, however, without other institutional change to facilitate it. The regime must break its tradition of economic intervention. To do that, it must face down some very powerful "strongmen" and power centers. State enterprises must be privatized. Subsidies and special treatment to formal sector private business must be stopped. Protectionist practices favoring local manufacturing and other enterprises must be removed entirely, or at least selectively eliminated to create a domestic market in which realistic "scarcity prices" are created to guide investment.

In a word, the state has to withdraw from its role as a direct participant in economic enterprise and as the direct interface with most of the transnational businesses in Peru, leaving local private sector business to deal directly with them. The ideal new position for the state is as the regulator and referee between the two, avoiding acceptance of responsibility for most foreign credits. In banking of course, the state needs to keep adequate leverage to be able to influence economic development goals that are not shared by transnational capital.

**It is easy to state this goal. It is quite another thing to overcome the social forces that will resist it. Previous to the Fujimori administration, no other government has seriously attempted this approach to achieving a new basis for political stability. While Velasco and Garcia both promised to shift the state's emphasis to integrating Peruvian society, neither pursued the privatization strategy. On the contrary, they expanded the statist approach to economic development. That essentially doomed their political integration strategy to failure.**

**In the first year of Fujimori's presidency, his rhetoric and a number of his policy initiatives suggest that he indeed may be trying to reduce the state's role in the economy. He also seems committed to making the state bureaucracy more effective in extending state control and services. His prospects of success, however, are not as promising as his programs, and the reasons are fairly straightforward. Fujimori was a surprise candidate in the presidential election because he had no strong and identifiable base of support that could last past the election. He has apparently borrowed heavily from Vargas Llosa's program and its shaping by de Soto's analysis of the evils of statism in Peru. To carry through, Fujimori must overcome a circle of "strongmen" and power centers among the political and economic elites, not just on the right-wing where state protected business interests are threatened, but also on the left, where the APRA is posing strong opposition. The transformation Fujimori must carry through will inevitably involve large employment dislocations, particularly within the state bureaucracy but also in state-run enterprises. The trade unions and APRA can capitalize on the discontent of the unemployed during the transition to create great resistance. Already, the opposition in the congress is so strong that Fujimori is reduced to ruling primarily by decree, a sure sign of weakness. Moreover, as time passes, opposition groups are posing**

alternative economic plans. Thus, he must overcome such growing opposition to keep his own policies on track.

Does he have any potential bases of support? The military might well back him. That depends on several things. First, has the military soured sufficiently on leftist and corporatist ideas of how to run the state after Velasco's failure? Are the generals willing with equal perseverance to see through a program of privatization and movement toward a large domestic free market? Second, is the military inclined to intervene and take direct political responsibility? Or are the generals still sufficiently chastised by Velasco's failure to be disinclined to try once again? Apparently they are not yet disposed to intervene, even highly reluctant to do so. That leaves them only with the alternative of backing Fujimori. Third, can the military maintain its own internal coherence and discipline in the lower ranks? Can it keep out of its enlisted and junior officer ranks the political polarization extant in the larger society? It must if it is to back successfully the kind of transformation Fujimori apparently intends.

Surely some of the conservative business circles must also understand that all previous strategies have failed to bring political stability to Peru. Could not some of them come to realize that the defense of their parochial interests in the short run will lead to their destruction if Fujimori fails? Surely they do not want the APRA to win in 1995, and the Sendero might preempt that election entirely unless its campaign is checked.

Economic Development. Peru's pursuit of economic prosperity has proven elusive, seemingly in reach during periods of high demand export markets, desperately beyond its grasp when international commodity markets are weak.

Every government, regardless of its ideological perspective furthered the state's presence in the economy. The statist economic development strategy has repeatedly led to cycles of large public sector investment in projects of dubious economic profitability, state-run enterprises dominating local industry, protectionism for the local private sector, denial of entry into the formal private sector for a burgeoning class of small entrepreneurs, and large foreign borrowing, a cycle that has thrice culminated in default on foreign debts, inflation, economic depression, and social unrest. As Zevallos has noted, however, this picture of Peru's economic behavior largely reflects the export sector, government finances, and the heavily protected formal economic sector.<sup>9</sup> The remainder of the economy, peasant farming for subsistence and the urban informal sector, has performed more or less the same without such dramatic swings. The statist economic development strategy has walled out a large part of the economy, left it underdeveloped but at the same time less affected by export markets and profligate public sector spending. The massive migrations to cities, however, are making it more sensitive to the formal economy's performance.

At the end of the third such cycle today, Peru is struggling once again to entice international financial institutions to help it find a way out. This time, hyperinflation generated by Garcia's "heterodox" economic program of spurring demand, his clumsy handling of the foreign debt issue, and his nationalization of the banks have made the situation more difficult to overcome. Not only is the country beset by a growing insurgency, a drag on its economy, but the enormity of the squatter population in the cities creates new public sector demand for salaries for teachers, administrators, and other public service officials. An upswing in the export

---

<sup>9</sup> See Felipe Ortiz de Zevallos, The Peruvian Puzzle, (New York: Priority Press, 1989).

sector and a new injection of foreign credits are not likely to be sufficient this time to allow the state to amble back onto the old economic development path. Yet this seems to be the logic of the government's new course.

Fujimori's two immediate objectives have been economic stabilization and re-admission into the international financial community. He has gone far to accomplish the first of his objectives by dramatically reducing inflation to a rate of roughly 150 percent a year--a significant reduction from the 7,600 percent rate in 1990. This reduction has partially been achieved by better controls on the money supply, the effects of illegal drug dollars that distort the money supply notwithstanding.

His second and perhaps more important objective, re-admission into the international financial community with good-standing, continues to be pursued aggressively. After having met with economic development experts from the World Bank, International Monetary Fund, Japan, and the United States soon after his inauguration, Fujimori recognized that any hope for economic growth rests on Peru's ability to attract capital, skilled labor, and technology through international public and private investments. This infusion of resources would not be forthcoming, however, if Peru did not fundamentally alter its investment climate. His campaign promise to retain state ownership of the ten largest, money-losing enterprises--a promise made to attract the vote of a majority of the employees of those firms--had to be broken. Accordingly, Fujimori and his Minister of Economy and Finance, Carlos Bolona, developed an economic plan to do that and more.

The plan is composed of several initiatives: fiscal discipline to reduce inflation; tax reform to generate more central government revenue; the repayment

of debt to international financial institutions at refinanced rates; liberalization of trade policies to promote exports; more flexible labor markets; and a reduction of government intrusion in the economy. Each of these initiatives is backed by numerous measures that Fujimori has decreed to accelerated the pace of reform. Some include the reduction of import tariffs, removal of constraints on foreign investments, privatization of public enterprises, better management of social emergency programs, and the liberalization of both the foreign exchange market and interest rates.

The intent behind all these initiatives and their measures is to contain domestic price increases, foster competition, reduce price distortions from previous policies of subsidization, and better allocate resources. By economic standards, if successful, they will have stabilized and fundamentally re-adjusted the economy enough to invite direct foreign investment.

The first of the economic "Fujishocks," as they have come to be known, was felt on August 8, 1990, when gasoline prices rose 3,200 percent and most other commodities rose 500 percent. Seen as necessary measures to eliminate fuel subsidies and generate revenue to pay off multilateral lenders, they were rapidly implemented to take advantage of Fujimori's recent inauguration and anticipated short-lived political honeymoon. Any protracted lobbying with the legislature over less austere measures would have compromised his ultimate objectives. For the moment at least, small private businesses are finding it nearly impossible to compete with foreign imports, many of which enjoy some of the protections at home that Peru is seeking to eradicate. As a result, the business community's opposition to Fujimori's economic policies is mounting.

Fujimori's attention to servicing Peru's debt to international financial institutions comes at the expense of addressing Peru's debt service burden to private commercial banks. Some individuals like Guido Penano, Fujimori's first Minister of Industry and Trade, are calling for continued but reduced payments to multilateral banks and immediate negotiations to refinance Peru's debt to private commercial banks. Penano reasons that once repaid, the multilaterals will offer new loans, not to Peru but to the Soviet Union and eastern Europeans. Furthermore, if Fujimori wants to promote private business and reduce government's role in the economy, he should concentrate on developing private business interests. If commercial banks will renew loans to private businesses, then businesses are more likely to grow and provide the government with a larger source of tax revenues that could then be used for multilateral debt payments and the financing of an overhauled social emergency program.

Taking this new path, "the other path," of course, is precisely what is needed to enhance political stability in the long run. In the short run, however, taking that path is causing even greater economic hardships, not only in the lower socio-economic strata but also among the privileged elites. Many of the enclaves of "strongmen," that have remained outside of the state's control or have capture parts of the state apparatus will be penetrated.

In other words, the economic development goal and the political stability goal are inexorably interrelated. Neither can be achieved without progress in the other. This is true at a time when the traditionally weak state is perhaps weaker than it has been for a long time.

International financial institutions and governments with strong interest in Peru's plight are focused primarily on the state's fiscal circumstances. And they are recommending traditional solutions that would allow Peru to return to the credit windows of the world capital market. There may be wisdom in that approach from the viewpoint of the larger problems of the Third World debt and the precedents for other debtor states. At the same time it looks remarkably unwise with regard to Peru's domestic economic development strategy and political development. It could launch Peru on its fourth cycle to continued statism, offering little improvement in the state's political capacity, and eventually lead to another default. Only this time, the state's weak political capacity could bring its demise vis-a-vis the Sendero Luminoso.

Social Equity. This development goal has never ranked very high in the state's strategy except during Velasco's military revolution and during Garcia's presidency. Even in these exceptional cases, the rhetoric vastly exceeded the delivery of greater social equity. Both regimes pursued strategies of transferring wealth.

Velasco's land reform program came after timid land reform efforts in the early 1960s, spurred by peasant invasions of haciendas, simply taking the land. The heavy migrations to the cities began in the 1940s. As the numbers rose, the government implemented policies to keep down food prices. Later, with the import substitution industrialization development strategy of the late 1950s, the terms of trade turned sharply against agriculture. As Powelson and Stock describe the impact:

**"The twins of import substitution industrialization and agricultural stagnation contributed to the high rate of migration from village to city and from sierra to coast. ... The massive influx fed back on agriculture in two ways: the government tried to assure cheap food in the city to minimize urban unrest; and even urban politicians began to think the unthinkable: land reform."<sup>10</sup>**

Velasco's land reform program did indeed dispossess many large landowners, but it forced the peasants into two kinds of communal farming systems, leaving the land in the state's hands. Considerable informal privatization did occur, but it was inadequate to make a significant difference. The Velasco regime further exacerbated agricultural production by trying to replace the middlemen who bought farm products and sold them in the cities. A state apparatus was formed to replace them. It proved highly ineffective, making the peasants prefer the private middlemen. Velasco's land reform has not been formally revoked, and the mess it created still remains. The military revolutionary government's attempts to improve social equity in the urban squatter areas, signalled by renaming them the "young towns," was no more successful than the land reform effort. On the whole, then, no matter how well intended those mammoth programs to improve social equity, the results were nil.

Garcia's APRA government pursued a strategy of increasing wages and money in the hands of consumers. This was to have the effect of stimulating the domestic economy. After some initial improvement in real incomes, hyperinflation

---

<sup>10</sup> John P. Powelson and Richard Stock, The Peasant Betrayed, Op. cit., p. 271.

nullified the gains and turned them into massive reductions. This economic policy of increasing demand, of course, was aimed first at economic growth, secondarily at improving social equity. Given APRA's Marxist rhetoric, one would expect strong state intervention to extract resources and reallocate them on an equity basis. Moderation of this philosophy in the election campaign put limits on how far Garcia could go. He promised no nationalization of property in order to win support from the right wing. Nonetheless, some programs aimed specifically at improved social equity were launched.<sup>11</sup> Its bureaucracy quickly became mired in APRA patronage politics, and its efforts did not produce results better than the informal communal organizations that already existed.

The foreign debt service problem and Garcia's bizarre economic policies placed severe limits on what he was able to toward achieving significant improvements in social equity. Thus, he was not able to implement programs as radical as Velasco (who was accused of stealing much of the APRA's program).

Social equity was not wholly ignored by earlier governments. From time to time, the plight of the Indians received policy attention, and much lofty rhetoric about how to draw them into the larger society was forthcoming. Program action, however, was never very serious. Too many interests were strong enough to block significant wealth transfers. Moreover, the structure of the export economy and the economic development strategies never yielded a "trickle down" effect of note.

---

<sup>11</sup> Carol Graham has studied the PAIT, a program designed to help the "young towns." See her article, "The APRA Government and the Urban Poor: The PAIT Programme in Lima's Pueblos Jovenes," Journal of Latin American Studies, 23 (February 1991): 90-130.

Today, Peru is falling behind on its already poor record of improving social equity. The economic plight of the urban migrants, the chaos in agriculture, and disasters like the recent cholera plague are rapidly sharpening both the social inequities and the sense of relative deprivation.

Could the government do anything of significance to improve social equity in its present economic straits? Yes, it could formalize the private holdings and the break up of the communal systems. How could it pay for the wealth transfers? It could only do two things to manage this problem. First, it could issue bonds with long-term maturity dates as payment, putting off the problem. Owners might not like this solution, but the government could give them only that alternative to forceful dispossession. Second, if it chose, it could simply transfer the land with no payment. Moreover, since much of the land is formally owned by the state, it could make some transfers at its own expense.

A similar program of recognizing the de facto ownership of the urban squatters could make a contribution to the general sense of improved social equity. Moreover, such a program would at the same time contribute to the kind of administrative reforms needed to penetrate the "young towns" and bring them into the formal economy. That in turn should also yield a new source of taxes, to provide eventually the needed infrastructural services (water, sewage systems, electricity).

These policies would not solve the larger problems of social inequity, but they might well have a positive effect on the public perception of equity. What is perhaps more important, especially in the rural areas, creating a class of private peasant farmers would make recruiting more difficult for the Sendero Luminoso. Landed peasants have a record of strongly resisting socialist political programs.

Landless, impoverished peasants, on the contrary, have traditionally been easy for Marxist movements to recruit.

Democracy. As we have noted earlier, Peru has a democratic system in a formal sense. In reality, it meets many of the practical criteria to deserve the name, but it also restricts participation in the policy process between elections. The real policy making power is held by a circle of elites, not just the conservative business circles and the military. Left-wing parties in the congress, particularly their leaders, are part of the oligarchy of participatory elites. More often than not, they are reduced to blocking roles in developing legislation, and when they do so, the president can still legislate by decree.

Peru, therefore, is far short of having a stable and mature democratic system. It is unlikely to build one as long as it has such a weak state, one lacking political capacity to penetrate the many sub-groups and strongman enclaves that persist, many of them within the state's own apparatus. The military can intervene if it wishes. The APRA and the trade unions can destabilize the system if they really try. Accommodation between business elites and the bureaucracy can make their own rules quite at odds with the formal rules of the state. And finally, the two insurgent movements hold enclaves of their own completely outside the state system.

Perhaps the most serious obstacle to further democratic development is the statist economy. It prevents the diffusion of wealth through easy formal access to property titles and free market economic activities. Of the several paths to democracy discernable from records of democratic transformations, the "urban breakthrough" pattern depends on the development of an urban middle class of property owners and private businessmen. Democracy is the only way they can

participate effectively in the political system. As they become wealthier and thus have the resources to compete for power, they have been able to force a transformation to democracy. De Soto's analysis of the informal sector in Peru, and his comparisons with European mercantilist states suggests that just such a pattern of change is possible in Peru if the informal sector were allowed to prosper and encouraged by more effective laws and the elimination of the hundreds of obstructive laws that they must ignore today. His analysis would also seem to apply equally to the agrarian sector. Until a class of free farmers is allowed to develop in the countryside, the diffusion of wealth that would allow them to compete in a democratic political process cannot occur.

We come back to statism as the major problem. It keeps Peru's democracy highly limited in genuine participation. It not only throttles much of the domestic economic potential, it also drags the country into foreign indebtedness by poor use of foreign credits. How is statism to be overcome?

First and foremost, Peru must create a strong state. As Migdal points out, Israel was able to create a strong state, and within it a democracy was possible. Singapore, Taiwan, South Korea, and Chile are other examples of strong Third World states that became strong, entering the second, even the first world economy, and now show signs of creating democracies.

A strong state has preceded democratic development in almost all patterns to democracy. Dankwart Rustow's description of the "long linear sequence" in parts of Europe began with a reasonably clear definition of the state's borders. Who would rule was decided by force more often than not until the elites tired of violence and decided together to make rules for choosing the leadership. After a time, the rules

became internalized as a constitution. Within the new constitutional context, political competition was limited to a narrow circle at first, but with time, economic change and social change, it became more inclusive. Early in the process in England and France, centralizing monarchs built strong state administration. They did so to extract resources. They taxed, and to tax, they had to build penetrating bureaucracies. They could not turn to the IMF, the World Bank, and aid grants from rich industrial states. They were forced to derive resources internally or through foreign conquest.

In the post-World War II period, Huntington has identified three more paths to democracy. The "urban breakthrough" has already been described. It requires a strong state before it occurs to provide law and order, public services, and the context in which economic development is possible. The "dialectical" model includes cases like Turkey, Pakistan, Nigeria, and Argentina. Democracy is installed by a strong state leader, but after a time the military intervenes because the party in power refuses to relinquish power. After another interval, democracy is once again tried. In this pattern, a strong leader, as in the case of Ataturk, tries to build a strong state but only partially succeeds. Some parts of the society are never fully integrated into the new system of state controls. The weakness of the state seems to leave strongmen in a position either to capture the state and use it for their narrow constituency disproportionately, or in a position to undercut the democratic system in other ways.

The third path is through occupation by the U.S. military, as in the case of Germany, Italy, and Japan after World War II. The U.S. occupying forces provide an authoritarian regime under which economic development and democratic politics

are encouraged. New strong state administrations emerged, and pluralist political competition within constitutional rules took root.

Chile is an interesting case to compare because it shares some similarities, albeit not that many, in its origins and history. The Pinochet dictatorship forced a strong administration on Chile. At the same time, it conspicuously avoided a statist approach to the economy. The private sector was left for the most part to its own devices in domestic enterprise and in dealing with foreign capital. The state held strong control of macro economic policy, but it did not try to derive its revenues from state enterprise and international financial institutions. What might be called an "urban breakthrough" appears to have occurred.

If General Velasco had taken a course similar to Pinochet's, would his military government have led to an urban breakthrough in Peru? What if he had engaged in massive privatization of the state economic sector? If, instead of trying to impose corporatist structures on the "young towns," he had formalized their property holdings and rescinded the administrative obstacles to their entry into the formal private sector, would Peru's economic performance have been positive? What if he had shifted public sector financing to direct taxes and away from export taxes and use of foreign credits? His cadre of military officers provided the bureaucratic competence to force through such reforms, but they had been schooled in political views that held such policies as anathemas.

We raise these speculative questions because, if Fujimori stumbles and fails in his economic policies, which seems almost certain, the alternatives for Peru are really two. First, the Sendero Luminoso may win the internal war. Second, the military may be forced to intervene to prevent the first alternative. Is there a second

chance for a military revolution, this time dedicated to "the other path" in economic and social policy instead of corporatism?

Migdal offers a list of necessary and sufficient conditions for creating a strong state. The necessary conditions are those that cause serious dislocations and crises for the old society, breaking up its rigidities and structures. In the 20th century, he sees two sources of such traumatic dislocations. First, wars or revolutions as occurred in Russia, China, Vietnam, and Korea. Second, massive migrations have had that effect in Israel, Taiwan, and Cuba. Immigrations shook the social foundations in Palestine and Taiwan, and emigrations were as critical as revolution in Cuba.

The sufficient conditions to build a strong state, once the old order is destroyed, are three. First, historical timing is important because exogenous factors, e.g., military threats, push leaders to take the "risk" strategy and rapidly build a few strong new state institutions to assert social controls and extract resources to meet the external threats. Second, in order to create an independent bureaucracy that is not easily captured in local accommodations, there must be a social grouping of people independent of local bases of social control and skillful enough to execute the grand designs of state leaders. Finally, skillful leadership is essential with wisdom and competence at several levels to deal with the many challenges the state building process encounters.

Peru certainly has had bad luck in historical timing. This dislocation came early during Spanish colonial rule. The "necessary" condition occurred, but the long colonial period produced a highly fragmented society with multiple rule-making centers and strongmen enclaves.

The first "sufficient" condition, exogenous threats, was weak. The military threat from Chile prompted a period of "risk" strategy in the building of a military. The struggle was too brief, however, and the leaders did not have to penetrate the society fully to extract adequate resources to survive. Rather, Peru quickly lost the war and paid the price in territory. The modicum of new state building and military modernization came afterwards.

The second sufficient condition, a source of independent competent bureaucrats, has been lacking for the most part. The military has had more success in creating an officer corps independent of social enclaves than the civil ministries. That made possible Velasco's military revolution.

The third sufficient condition, skillful leadership, also appears to be lacking. Not that some Peruvian heads of state have not been skilled politicians. A few have stood out, but none has truly understood what building a strong state really involves. In particular, they have never fully appreciated the perverse effects of statism, or, if they have, they have not been up to the leadership challenge of overcoming it.

As one looks at Peru today, the prospects of meeting these sufficient conditions are not encouraging.

### **Thoughts on Priority of Development Goals**

Let us discount "political autonomy" because it has been achieved and does not present a serious challenge today. We need only consider priorities for the remaining four goals.

Without doubt, political stability is the most important. It is the precondition for progress toward the other three. It makes sense, therefore, for the state to make it the highest priority and the greatest effort. How the state goes about achieving political stability, however, makes a dramatic difference. If it resorts to "praetorianism," that is, stability imposed by repressive measures primarily and no attention to new institutionalization, then it invites failure. Signs that it could drift to praetorianism are evident. The increasing numbers of victims of death squads is such a sign, regardless of Sendero's urban tactics. Putting more and more of the country under martial law is another. Both things happened during the Garcia presidency and continue under Fujimori's.

The appropriate strategy is to extend state control to greater parts of the society and to break the strongman enclaves. Breaking the Sendero Luminoso enclave is not as urgent as breaking those enclaves that resist privatization of the economy, or as co-opting the informal sector both in the cities and in the rural areas. Shifting the major sources of public revenues from exports, state enterprises, and foreign credits to direct taxation is a parallel policy that must accompany the assault on social sectors that lie outside full state control. The intrusiveness of taxation requires parallel bureaucracies for public services and local control.

If the insurgents can merely be limited to remote rural areas or at least not allowed to make major expansions of control, that is probably sufficient to allow time to bring the large urban populace under stronger state control. The same time must also be used to whittle away the privileged relations to the statist economy enjoyed by the conservative oligarchy and business circles.

Economic growth deserves the next priority, but it requires a fundamental change in strategy. The state has spent its energies creating the social and legal environment that permits an orthodox private sector to fend for itself. Naturally the state must retain macro-economic policy-making power, but the major thrust must be away from statist intervention. The necessary adjustments that have been made have led to a broad economic recession, but these must be accepted if the old traps are ever to be escaped. Some of the experience in East Europe today is worth Peru's attention. Poland, Czechoslovakia, and Hungary are cases with parallels to Peru -- extremely statist economies, landless peasants engaged in communal farming, large corrupt state bureaucracies, and massive foreign debts.

While social equity should give way to economic growth where it appears to promise true growth, greater employment, and eventual "trickle down" of wealth, this goal cannot be wholly neglected. Land reform in the countryside and formal recognition of informal property holdings in the cities can improve social equity and also contribute to the economic growth and political stability goals.

Where in the scheme of priorities should democracy go? Perhaps it can retain a prominent place, but only if the democratic process can produce a consolidation of elite support for the strategies for state building for political stability and taking the state out of the economy. If the present system of democracy merely sustains the weak state and prevents the extension of social controls and extractive capacity, then that democracy will eventually fall prey to the insurgency. It will lose the internal war. This reality may well require that democracy be put in last place for a period of several years while the political stability, economic growth, and social equity goals are given higher priority in that order.

If democracy must be suspended, what replaces it is most critical. If it is displaced by praetorianism, progress toward all the political development goals will be effectively stopped. If it displaced by state building authoritarianism, the outlook is entirely different. The answer to this question, of course, lies with the military. It is the only institution, other than the insurgents, which could displace the democracy. No political party on the right has the capacity. It would be opposed by all the more radical leftist groups, and that would force it to call on the military. Moreover, the APRA's political ideology disposes it to follow a wholly inappropriate set of state building policies. Even if it could take and hold power, it would soon become a kind of left-wing praetorianism, or it would follow its revolutionary instincts and steal the Sendero Luminoso's program, or some variant of it.

This is not an optimistic prognosis, but the realities in Peru do not evoke optimism even in the best light. They are, however, not hopeless. In fact, some of the sad realities suggest opportunities. Statism in the economy should be easier to discredit after its massive failure under both the APRA and the military revolutionary regime. The urban informal sector appears imminently penetrable by the state with sensible policies. Even land reform in some areas would appear feasible by merely backing peasant inclinations and recognizing the holdings they have already taken illegally.

### **The Military Component of the Regime's Strategy**

One can cogently argue that the regime has no counterinsurgency strategy. When the Sendero Luminoso initiated hostilities in 1980, the regime did not take it seriously. After a spectacular jail break occurred in Ayacucho in 1982 and rural violence escalated, the military moved into action. By early 1983, a state of military

emergency had been declared in five provinces. Through ruthless actions the military was able to claim it had restored control of these provinces after a time, but the violence and bloodshed reached levels that attracted much foreign press attention and criticism.<sup>12</sup>

When Alan Garcia became president in 1985, he appointed a peace commission to negotiate with the Sendero Luminoso, and there was public expectation that the APRA's left-wing credentials might moderate the Sendero Luminoso's actions. On the contrary, the peace commission was a total failure and the insurgency continued unabated. In February 1986, Sendero inmates led uprisings in three prisons. The military was called in and more than 200 prisoners were killed.<sup>13</sup>

Garcia appears to have been at a loss as to how to proceed and effectively turned the insurgency problem over to the military. He did make a number of efforts to assist low income groups and improve access to education, but with little effect. The military, meanwhile, proved able early on to prevent the Sendero from establishing permanent bases in the rural areas, but it could not seriously damage its clandestine structure or limit its capacity to execute terrorist actions. Rural bases now exist. Occasional mass arrests in urban areas were carried out by the military, sometimes yielding evidence of Sendero presence. Neither the military nor the police have succeeded in preventing Sendero's continuing penetration of urban areas. A system of self-defense groups in rural areas continues to be supported, but they frequently devolve into struggles among local peasant factions rather than only

---

<sup>12</sup> Henry Dietz, p. 121.

<sup>13</sup> Ibid.

fighting the insurgents.<sup>14</sup> In 1989, Amnesty International claimed that an estimated 3,000 people had "disappeared" while in custody and another 3,000 had been executed by the military. The U.S. Senate's Human Rights Commission noted in 1990 that since in the previous decade, some 17,500 people had been killed in the internal struggle.<sup>15</sup> Sendero is equally, if not more, responsible for these disappearances and deaths, but each incident, regardless of perpetrator, weakens the military and police by portraying them as corrupt, ineffective, or brutal guarantors of government rule.

These events and figures yield a picture of a reactive, erratic regime response to the insurgency, which harms as many innocent as guilty, precisely what the insurgents desire. The military has been left to devise what strategy there is. General Clemente Noel launched a two-phase operation in 1983 when President Belaunde made him regional military commander.<sup>16</sup> The first involved sweeps into Sendero stronghold areas, and the second was a program of peasant civil defense groups. The first phase was marked by particularly brutal methods, and the second amounted to a controlled civil war. Noel's successor, General Adrian Huaman, tried to persuade Belaunde to match the military effort with developmental programs, pointing out loudly the hopelessness of repressive measures alone while leaving the root social causes of the insurgency unattended. Belaunde responded by removing him from his command.

---

<sup>14</sup> Ibid.

<sup>15</sup> Peru: Introductory Survey, p. 2055.

<sup>16</sup> Dietz, Op. cit., p. 131.

As Henry Dietz judged the situation in 1990, the Sendero Luminoso and the military had reached an impasse. The insurgency had failed to destabilize the whole society and probably never would, but the military alone would never be able to destroy the insurgency entirely.<sup>17</sup> Gordon McCormick made somewhat different judgments about the same time. He believes the Sendero Luminoso's infrastructure is larger than generally estimated. A major military campaign against it is likely to push enough of the population into the control of this infrastructure to bring the destruction of the government.<sup>18</sup>

Which of these analysts is closer to the truth is likely to be proven only by future events. Both of them, however, would probably agree that the great danger is in the temptation to make the military component of the counterinsurgency the major focus for achieving political stability. Military and police efforts against the insurgents need only contain the expansion of insurgent control while political and economic instrumentalities are marshalled to undermine them and reduce them to a "law and order" challenge rather than being, as they now are, belligerents in an internal war. Admittedly, McCormick sees the task of containment as daunting. Victory in internal wars is not the destruction of the insurgents alone. It is the achievement of political stability through a strong and inclusive state. The trend in the counterinsurgency strategy in Peru today is in the wrong direction -- toward a larger direct military effort. While direct military operations against the Sendero

---

<sup>17</sup> *Ibid.*, p. 121.

<sup>18</sup> Gordon H. McCormick, The Shining Path and the Future of Peru, RAND Corporation, R-3781-DOS/.OSD, March 1980, p. vii.

Luminoso cannot be wholly suspended, they need not be greatly increased. They need to be supplemented with far more effort on the external sources of support.

The Sendero Luminoso has long claimed to be self-sufficient with no foreign dependency for resources. This is clearly not true today if it ever was in the past. Their front activities and connections with international organizations which help cover their access to funding and which try to mobilize sympathies for them in the advanced industrial states should be made targets for exposure. That achieved, political strategies for weakening those bases of support can be devised. They can have both a domestic and an international objective. A lot of media attention on demonstrated evidence of foreign support should undercut their Peruvian nationalist credentials. The impact would certainly be greater on the urban, literate, and better off population than on the rural and urban poor, whom Sendero Luminoso recruits. Until the last couple of years, Sendero strategy has excluded any compromise with the petty bourgeoisie. Mao, of course, included the richer peasants in united fronts, especially late in his long struggle. Guzman may be reconsidering, according to Dietz's analysis, and McCormick's estimate of a much larger political network than is generally accepted, if accurate, suggests preparation for managing multi-class and multi-group alliances. Tarnishing the senderistas' credentials as Peruvian patriots, labelling them as dependent on foreigners' for resources, might make their creation of united fronts somewhat more difficult.

The second objective is much more critical. By exposing the external sources of support, the regime should succeed in reducing them as well. Foreign public opinion and governments should be mobilized to assist. Suppose, for example, international human rights groups decided to put their strong spotlight on Sendero Luminoso as reckless violators of those rights in Peru, another Khmer Rouge. If, at

the same time, foreign fronts helping supply the Sendero Luminoso were exposed and tied to senderista crimes, their appeals for support and their operations would be hampered. To mobilize the liberal, pacifist, and religious groups in North America and Europe against the Sendero Luminoso would be no small accomplishment. Equally important, and a pre-condition for it, is for Peru to get many foreign intelligence services to focus on foreign bases of support and make them public.

What of the narcotics trafficking connections enjoyed by the Sendero Luminoso? How are they to be attacked? In the first place, producing evidence of such cooperation and getting it widely disseminated by the international media could help bring world liberal and socially minded circles to focus on the negative aspects of the Sendero Luminoso rather than on the Peruvian military's violence. Reducing that violence, of course, is a necessary concomitant step. A stepped up military campaign aimed at reducing coca leaf production and related narcotics activities is precisely what the government does not need.

Fujimori presented his administration's anti-drug initiative in October 1990, as a component of a broader national development strategy that is based on three pillars: property rights through titling and registration, deregulation of bureaucratic oversight, and participatory democracy through local institutions. Recognizing that coca production is to a large extent an economic development problem because no economically attractive alternative crops currently exist, Fujimori is setting out to establish the conditions which will encourage substitutable crops to be grown for comparable profit. This requires that he dismantle the oligopolies that have overregulated legal agricultural production in Peru by controlling access to both domestic and international markets.

With the assistance of de Soto's Institute for Liberty and Democracy, Fujimori began a new system of land titling and registry in the Upper Huallaga Valley that allows peasant farmers to own, develop, or sell the land they have cultivated while enabling the government to track and tax land use and transactions. Although this system will surely create a new administrative bureaucracy, small farmers will be responsible for the use of their land and will likely organize local institutions that represent them while the government will be less involved in agrobusiness decisions. This, at least, is the theory.

The land in question is underdeveloped and infested with narco-traffickers and insurgents. There is little supporting infrastructure to assist independent farmers in the improvement of their land, its yield, and the transport of products to distant markets. What little infrastructure that does exist is either controlled, threatened, or destroyed by the insurgents. Neither the army nor the police have shown the capability to secure this infrastructure for private development. This severely cuts into any potential profits the farmers could earn and weakens their position on international markets. For example, rice grown in the selva and transported to Lima costs more than twice the amount of an equal quantity of rice shipped from Thailand to Lima simply because the transportation costs are so high along an unsecure and underdeveloped road system. Unless the police are able to exert and sustain government authority in coca growing regions, the prospects for Fujimori's Anti-Drug Initiative are not good.

As the possibilities for a counterinsurgency political campaign are developed along these lines, it becomes more apparent why direct military action should not be the main emphasis. On the contrary, it should be de-emphasized and shifted toward

containment, police actions to protect society, and enforcement of the legal system. Occasional direct military operations will still be necessary to keep the Sendero from succeeding in its fourth stage, especially the creation of secure zones and the expansion of the political network. The government does not require a resounding military defeat of the insurgents. It needs a stalemate in which it can hold its ground without committing atrocities and alienating more of the population.

These thoughts about an effective counterinsurgency military component are, to be sure, easier to articulate than to implement. Moreover, in light of the weakness of the Peruvian state bureaucracies, such prescriptions may sound like pure daydreaming. It is necessary, however, to grasp why alternative military tactics and counterinsurgent strategies are probably suicidal although eminently practical.

Suppose the Fujimori regime does drift into deeper trouble, the insurgents make greater gains, and the military intervenes. A military regime itself would be well-advised to consider the line of thinking suggested here in developing its own strategy. Because it would presumably bring a stronger executive capacity to the regime, it might be better able to implement a more effective strategy for political stability.

Assume for a moment that the capacity of the Sendero Luminoso is much weaker than commonly believed. In that case, a state-building strategy aimed at reducing the state's role in the economy and improving resource extraction capacity makes all the more sense. And that would require the kind of political and military components for a counterinsurgency campaign suggested here. At the same time, abundant new credits and foreign assistance would reduce the incentive for any Peruvian government to pursue such a political development strategy. Instead, that

kind of external assistance is more likely to push Peru back onto its old path of continued statism, weak political capacity, and eventually another crisis.

Assume the contrary, that the Sendero Luminoso indeed is capable of winning the internal war and that the military recognizes the imminent prospect of an insurgent victory. The military would most likely intervene, take power, step up traditional military operations, make mass arrests, and carry out thousands of "disappearances" and executions. Such violence would approximate the kind of results a Sendero Luminoso victory would bring. Given the weakness of the Peruvian state and the poor chances it has of implementing a promising political development strategy, this scenario has to be treated as highly probable.

If it occurs, either under military rule or under a Sendero Luminoso regime, Peru will be condemned to many years of domestic chaos, bloodshed, and poverty. It will emerge once again, after exhausting itself internally, with a weak state and a fragmented social structure.

Unless its present circle of political elites are sufficiently frightened by these prospects to reach a consensus and take "the other path," making the sacrifices essential to follow it, such a grim and traumatic future seems inexorable if Sendero is truly as capable as the pessimistic assessments make it appear. Perhaps the Sendero Luminoso is too weak to propel Peru onto this course today and the regime will muddle through with foreign assistance once more. That would only postpone the reckoning, leaving Peru in its old pattern of a bifurcated society, a weak state, and no real prospects of stable democratic development.

### **Postscript on the Regime's Strategy**

Based on a visit to Lima in late January 1992, during which the author of this report and his research assistant were able to speak to the American embassy country team and several Peruvian officials, some additional observations on the regime's strategy are possible.

Most of these discussions tended to confirm this study's analysis. Peruvian officials and private citizens were quick to agree on the major structural problems. Those who had read the analysis did not challenge its major findings, but they did suggest that it could be filled in with more detail. When we discussed the study, Peruvians either did not object or quickly agreed with the findings that the major problems facing the regime are:

- the weakness of the state apparatus;
- the lack of a source of reliable and skilled civil servants;
- the burden of the state-owned firms on the economy;
- the need to improve tax collection;
- the need to make the public sector dependent almost entirely on domestic tax revenues, not foreign credits;
- the need to recognize much of the "informal sector" through granting of formal titles to property and removing regulations that prevent easy entry into the market economy;
- Fujimori's lack of a political party as a base for sustaining his programs and his reforms past 1995.

The last point, Fujimori's lack of a political organization, seems to cut two ways. As noted earlier, the congress has forced him to resort to presidential decrees for many of his reform efforts, in a sense weakening him. A number of Peruvians suggested another interpretation. In the short run, his ability to force through reform seems to be enhanced, not greatly hindered, by his go-it-alone style. As a "non-white" leader, he has remarkable credibility with the non-white population, and he uses it to appeal to them over the heads of the opposition parties, congressional deputies, business elites, even union leaders. The mass media, not only television, but perhaps more important for the rural areas, radio, allow him to play the role of a great populist leader, appealing for support and patience over any opposition that has appeared. Not only has Fujimori been able to play on his popular base against opposition groups; he has also avoided becoming wed to any single set of advisors. He selects their proposals as he pleases without letting them become ensconced in the regime where they can build up their own cliques.

Fujimori's astute leadership skills, therefore, introduce a variable into Peruvian political development that no analytical scheme can wholly capture. Moreover, they are not directed just at keeping power. Fujimori appears to be following many of the points made in this study about what is necessary for a successful government strategy. For example:

-- The anti-inflation campaign has made dramatic progress, dropping it from 60% per month to about 3% per month. The Central Bank's success in controlling the money supply, of course, has driven up interest rates, making investment costly. At the same time, it has caused some return of Peruvian capital from abroad, attracted by the high interest rates, but this money could move out as

easily as it came in. Capital has been returning at the rate of about \$100 million per month, totalling \$1.2 billion by January 1992.

-- An impressive campaign to increase tax collection is in progress, and total state revenues from taxation have risen from about 3% of GDP when Fujimori came into office to 8% of GDP in 1991.

-- Impressive steps have been taken to reduce the number of the public sector employees. In some ministries, Economy and Finance for example, about 90% reduction has occurred. In 1990, the public sector workforce was 1.2 million strong, and this number comes from a total workforce of 6 million. The reduction target for 1992 is 100,000 from the non-enterprise sector and 200,00 from state enterprises. The large reductions in a few ministries, therefore, should be seen against the total number in order to realize how far Fujimori has yet to go.

-- Privileged business interests in some cases are losing their control over the market. The fishing monopoly, for example, has been closed down. We did not get adequate data to assess how far this policy has gone.

-- Public sector enterprises, according to the Minister of Finance and Economy, lost between \$3 and \$4 billion during the last year of Garcia's presidency; those losses were \$500 million in 1991. Fiscal austerity, it seems, is proving a useful lever in forcing de-statization.

-- The president appears bent on selling off most of the state-owned enterprises, a very good sign, but progress to date is trivial. According to officials of CONFIEP (a business and trade organization which favors expansion of the private

sector at the expense of the public sector), there are 240 so-called SOEs (state-owned enterprises). While the government has sold its holding in two of them and closed one, it still has 237 such enterprises in the state sector. The direction is highly encouraging, but the pace is slow.

-- Many new laws have been decreed to reduce business regulation, permitting easier entry into the formal economy. One of these concerns employment stability for labor, making it difficult for business to discharge employees even if market conditions and production methods make it advisable. Thus, Fujimori has not only attacked business privilege but also trade union privilege.

-- Tariffs have been reduced drastically.

-- Formal titling of land is said to be proceeding rapidly, but specific data were not given.

When comparing the list of recommendations this study would offer to the Peruvian government with Fujimori's efforts, he earns applause. In fact, it is surprising that he is attempting so much. Why has he been able to take this course as successfully as he has thus far?

First, as we noted about his leadership style, he has the advantage of being beholden to no one, and he is trusted by the very large non-white population. He understands these advantages and uses them.

Second, there seem to be no articulate political alternatives coming from opposition groups, either from the right or the left. Garcia's APRA, of course, was discredited, and neither it nor the United Left have been able to mount an appeal to the voters based on a different political and economic course. As members of the administration told us, the Peruvian leftists are in shock; they do not know what has happened to them. The rightists are equally without alternatives. Moreover, the business elites can hardly oppose Fujimori on principle; they can only complain of loss of monopolies and subsidies. The free-fall of the economy has also left them in shock, without recourse to foreign credits, and little option but to go along, hoping that foreign credits will soon be forthcoming.

Third, we suggested in this study that the trade unions could take advantage of Fujimori's austerity programs to create serious problems for him. They have tried but failed. The teachers' union, for example, did not force him to grant wage increases. He stood them down.

Fourth, when we asked about the entrenched and privileged commercial and industrial elites and what they were doing, the answer was two-fold. First, they are losing out economically in some cases. The mining industry, for example, is in desperate financial shape. Second, they are fighting to defend their old privileges, but they have not been able to block "Fuji-shock policies." As one Peruvian told us, they are not yet wholly defeated, and they will continue to oppose Fujimori's attacks on their privileges.

Fifth, the military has shown no inclination to reenter politics. This reluctance persists notwithstanding fairly austere income levels within the officer ranks. We learned that there are many field grade officers whose wives work as

laborers to make financial ends meet and other cases where officers work at business on the side, during weekends and evenings. Otherwise, they would be financially destitute.

Sixth, Fujimori has not had to face some of the predicted mass demonstrations against economic policies by the urban poor. The resilience of the informal organizations in the "young towns" has permitted the urban poor to get by.

All of these things add up to a fairly positive image of where Fujimori is taking Peru. If one takes the trends of the last year and extrapolates them, the outlook for the future is good. Caution, however, is in order. He may well succeed, but the hill he is climbing will become steeper before it levels off. Let us consider a few of the things that make this true.

First, Fujimori's measures for de-statization, his adoption of many of the features of de Soto's schemes, are still in their early stages. He has barely begun to privatize the state-owned enterprises. CONFIEP officials worry that he may move too fast and find no buyers for state firms. Perhaps they are closer to the forces of resistance and given them too much strength in their assessment, but their numbers unambiguously reveal that privatization of the state economic sector has just begun. If anything, privatization may be progressing too slowly.

Second, slimming down the public sector workforce has just begun. It is impressive in some ministries. Low wages, of course, make it easier because some state employees are quite willing to seek better wages elsewhere. Even the military is experiencing this trend, losing many young officers whom it prefers to keep.

Third, slimming down the public sector workforce must be matched by creating a new, skilled, and less corruptible civil service. No Peruvian officials with whom we spoke were very optimistic about success in this effort. On the contrary, they were uniformly worried about it. Several embassy officials noted that governmental presence is wholly lacking in most of the country, and when it expands, it is by the military moving into a region for counterinsurgency operations. When the military leaves, no government apparatus is left behind.

Fourth, related to the task of building a government presence, of course, as this study has pointed out, is the government's capacity to tax. Fujimori's taxation program, if it is to endure, will depend on establishing a government presence. This is just as true for the "young towns" in the urban sector as it is in the rural areas.

We were not able to determine the changing proportions of state revenues derived from direct, indirect, and export-import taxes, but unless the direct and indirect portions rise dramatically to become the largest part of state revenues, that will signal a lack of success in building a strong state. In judging the regime's progress over the coming year or so, this indicator will be important.

Fifth, and related to taxation, the regime could once again fall victim to misuse of foreign capital. Some IADB money is now becoming available, according to the Minister of Economy and Finance. A number of Peruvian private businessmen with whom we spoke are focused almost entirely on the problem of restoring foreign credit worthiness. In other words, the forces that put Peru on the old cycle of borrowing and then not investing efficiently are still alive and well. It was encouraging to learn that Fujimori is trying to change the structure of banking

so that this is less possible in the future. It bears watching closely as another important indicator of where the regime is headed.

Sixth, almost uniformly Peruvians expressed concern about the institutionalization of Fujimori's reforms. Since he has not political party, no group of dedicated cadres determined to see these reforms through, there is justifiable concern about the future. Several Peruvians expressed concern about the reversibility of the reforms.

In this regard, restoring sources of foreign finance too quickly could prove a disadvantage. The economic crash in Peru, if it goes far enough, might prove a blessing in disguise. If those businesses that enjoyed subsidies and protection all collapse, destroying the power base of the old oligarchy of industrial and commercial elites, they will not be in a position to push the regime back onto the path of financing both them and the public sector on foreign credits. The banking structure and the way credits come back into Peru will, therefore, be of key importance. As long as the state is the intermediary, guaranteeing loans, misuse of foreign capital is almost certain to abound.

The internal war, of course, is also a serious threat to Fujimori's success. We learned nothing definitive about the strength of the Sendero Luminoso, but we did learn that the MRTA is showing signs of better organization combined with indications that it might well decide to drop its insurgency effort and enter the legal political process.

A few observations on the regime's military counterinsurgency strategy are possible. First, the military has only recently begun to believe that the Sendero

Luminoso is a regime-threatening problem. The military has been focused more sharply on external threats from Ecuador and Chile. In the last few months, however, as Fujimori has decided to make counterinsurgency a high priority, the military has begun to refocus its attention in response.

The police, or the Ministry of Interior, is clearly of critical importance for counterinsurgency. One gets the impression from this ministry of sluggishness, rather than any sense of urgency. While it was not possible to observe directly, it seems doubtful that a serious and centralized intelligence effort against the Sendero has been organized. If so, it would be an extraordinary exception among Latin American military and police institutions. Moreover, the lethargy in police and military circles heretofore suggests that they do not have a clear picture of Sendero's strengths.

Our efforts to engage military and police officials in discussions of strategy against the Sendero Luminoso produced no serious dialogue. They could be playing their cards close to their chest, but it struck us as more likely that they really do not have any. The record of the military and police performance also encourages this inference. When units are sent into a region of the country to conduct operations, they are left to devise their own tactics. They remain for a year and are replaced by other units which start over, devising their own tactics.

A program of arming local communities with small arms after they have organized a village security and control system was sparked by local initiative in the northern part of the country. Recently, under pressure from Fujimori, it has been sponsored by the government in the south. American observers have the impression

that it is working better than expected because Sendero propaganda cries out against it. A positive tactic, it is hardly an overall counterinsurgency strategy.

The tentative conclusion must be, therefore, that counterinsurgency has been a sporadic and unsystematic affair under the present government just as it has in the past. Fujimori's new interest, however, seems to be shaking the military and the police a bit, causing them to begin to think about both strategy and tactics against the Sendero Luminoso. The military's fear that the local defense organizations would turn against the government has not been born out. Moreover, judging from some of the training programs the Ministry of Defense is requesting from Fort Leavenworth, the military is concerned about its human rights image.

Although these signs are encouraging, the president has some big obstacles to overcome. Perhaps the biggest is the legacy of deep mistrust between the military and the police. The police could provide a wealth of intelligence, but will it do so, and will it share with the military? Even if this problem can be overcome, collecting, analyzing, and distributing intelligence to places where it can be acted upon requires both a sophisticated organization and a secure communications network from the lowest to the highest echelons. These things will be difficult to build. Moreover, a strong intelligence system, once in place, will be an instrument of power over which political factions will struggle.

Making an assessment of the trends in the internal war against the Sendero was not greatly eased by what we learned in Lima. The missing piece is solid information about the Sendero. One Peruvian official estimated that the Sendero received about \$20 million from the drug trade last year and that the figure is going up. Embassy officials reported evidence of heavy and consistent Sendero taxation in

the countryside, not just of villagers but also of businesses, especially on their transportation in and out of rural areas. The extent of Sendero presence in the urban areas seems a matter of dispute. Some observers believe entire "young towns" are in the Sendero Luminoso's hands. Others insist that it has only a modest infrastructure in the urban areas. Private officials in the mining business report that their remote operations are largely at the mercy of the Sendero and that it dictates management assignments as well as insisting on material aid. Some Peruvian military officers dismissed the Sendero as no serious threat because it cannot run large unit operations -- companies and battalions. Embassy officials noted that the Sendero has virtually no indirect fire weapons -- mortars and large rockets, a sign that it is not ready for major confrontations with the military.

This confusing and mixed picture suggests that President Fujimori and the U.S. government desperately need a better intelligence picture of the insurgents and their capabilities. Perhaps they do have it in classified sources, but the behavior of the military and police and the mixed public impression cast doubt on that inference.

Knowing the truth would seem to be critical for policymaking by the regime and for American assessments of Fujimori's programmatic future. Many of his efforts, particularly granting property titles and implementing taxation, removing regulatory obstacles to informal enterprise, and taking advantage of local organizational initiatives should be hurting the insurgents in any event. In other words, the political and economic components of a counterinsurgency strategy are beginning to take shape. If the Sendero Luminoso is indeed as weak as some observers suggest, the military component is less urgent. If it is stronger than some

of the popular assessments, the police and military component needs focused and sustained attention.

In summary, Fujimori has launched a set of policies that make excellent sense. They would be hard to improve on in light of what our analysis has revealed about Peru's history of political development. He has most impressively disarmed or outsmarted most opposition groups, compensating to a surprising degree for his lack of a cadre of reliable and uncorrupt supporters.

At the same time, Fujimori's impressive beginning should not yet be taken as foregone success. Too many of his policies are merely beginning to be executed, and while the numerous sources of opposition have been unable to defeat these policies to date, it is much too early to count them out entirely.

Fundamental political change, as we have noted in describing various paths other states have taken to democracy, depends on choices made by elites. Democracy does not come mechanistically. Lacking any other way out -- foreign credits, a ready and willing military dictator, or a large foreign demand for commodities produced in Peru -- it seems that many of the political elites have decided that now is the time for a fundamental break in Peruvian political development. This is merely an impression, not one backed by significant evidence. If it is the case, Fujimori may well have greater success than the objective conditions would seem to justify. This subjective judgment was voiced by several Peruvians, and it may well be valid. One can, however, find evidence to the contrary. Some of the old elites apparently are anything but ready to accept displacement of a wholly new set of economic rules that take away their advantages. For the moment, however, they are unable to block Fujimori's enlightened policies.

**Do foreign influences matter greatly for how this process turns out? Yes, because they have been very much at the heart of Peru's previous difficulties. Fiscal hardship and crisis have helped create the conditions that made it possible for Fujimori to go as far as he has. Fiscal largess by foreign sources, depending on how it is provided, could easily strengthen forces that would throttle some of Fujimori's most critical policies. Limited assistance in the form of humanitarian aid, of course, is not a danger. Nor is technical training. Direct, non-market, fiscal aid, however, could have a devastating impact on Fujimori's infant policies.**

## **PART IV. POLICY IMPLICATIONS**

### **CHAPTER 9. U.S. STRATEGY: CHOICES AND PROBLEMS**

No U.S. strategy toward Peru can be elaborated until it is clear what U.S. objectives are. A number are possible. For example:

A. While favoring continued democratic government in Peru, the United States could limit severely the resources it is prepared to commit to this goal. In other words, beyond normal diplomacy, the United States could stand by and accept any outcome in the internal war. If the Sendero Luminoso wins, that, of course, would be highly undesirable, but it is difficult to see how the new regime could create significant threats to immediate U.S. interests. It could provide a base for supporting other such internal wars in Latin America, perhaps in Central America, but its resources for such endeavors would be limited, especially in light of changes in Soviet Third World policy. It would encourage Cuba to support Latin American insurgencies, and Cuban-Peruvian cooperation could prove a nuisance for U.S. policy interests in the region, but it would not pose an immediate and significant threat to U.S. national security. It would largely amount to a political setback for U.S. policy, and it would disturb the democratic governments in Latin America. It might well increase their willingness to cooperate against Cuba and Peru.

B. The U.S. goal in Peru could be limited to an anti-drug objective. In most respects this looks to be the U.S. policy goal because a campaign against coca leaf production appears to be the price demanded of the Peruvian government for U.S. assistance.

C. The U.S. goal could be to get the Peruvian economy back on its feet so that it can pay its international creditors.

D. The U.S. goal could be to help Peru win the internal war and to promote the maintenance and strengthening of a democratic government.

These latter three goals assume rather significant U.S. interests beyond national security. They imply that the U.S. aim for expanding democracy and economic well-being in the region extends well south of the Caribbean littoral to include South America, and that the United States is willing to commit significant resources in pursuit of those goals. It can be argued that the anti-drug goal does not imply the political and economic commitment except as far as necessary to achieve the anti-drug goal.

In principle, drawing the line this way is possible, but in practice it will not prove so simple. The deeper the United States becomes involved in an anti-drug program in Peru, the greater will become its moral obligation to achieve the political and economic goals. Congressional and public opinion are likely to focus as much on this responsibility as on the anti-drug goal. It is already clear that tension between these aims is growing in the Peruvian government. For it, economic recovery assumes the highest priority. At the same time, the seriousness of the insurgency makes its defeat a far higher Peruvian priority than coca leaf eradication. Moreover, economic recovery in the near-term is likely to be subordinated to securing new and large economic assistance, if not direct aid grants, then new and large commercial credits. President Fujimori's greatest progress has been in improving Peru's credit worthiness, only secondarily in building a state strong enough to support a stable democracy and self-sustaining growth.

Admittedly, his privatization efforts, if successful, could do much to improve the chances for self-sustaining economic growth, but his state-building efforts are inchoate, not sufficiently advanced to assess for their sustainability and prospects of success.

These realities -- the conflict in U.S. and Peruvian aims -- must be addressed explicitly and candidly before an effective U.S. strategy can be designed. If this study and analysis of Peru reveals anything, it shows that an effective anti-drug effort is most unlikely unless stable democracy is achieved and economic recovery takes hold. And neither of those goals is attainable unless the insurgency can be held in check, if not defeated. Thus a U.S. strategy, even if it aims only to eradicate coca leaf production, must also help Peru succeed at democracy and economic recovery. If, of course, the U.S. aim is much less ambitious, the strategy should be different in several regards. Because it seems that a decision to pursue the larger aims has been made, or is being made by default, let us consider a strategy for those goals.

As the patron dealing with a client engaged in an internal war, the starting point for U.S. strategy has to be based on the viewpoint of the Peruvian regime. How can it succeed in achieving these goals?

### **The Political Component**

Victory in an internal war is achieving political stability. Political stability may or may not be combined with democracy, but in either case, it requires a strong state, one that can penetrate all elements of society, provide law and order, extract taxes, and create economic conditions adequate to feed its population.

Peru's civil administration is terribly weak. Unless it can be strengthened, it could lose the war. Yet reliable, competent, and honest civil servants are in terribly short supply. Moreover, Fujimori does not possess a large number of the political cadres that can be placed in the key management positions to run the public sector administration. He has, however, secured the support of a thin layer of talented officials in top posts. Until the president develops a feasible and promising program to build more such cadres, there is little prospect of success. Some of Fujimori's strongest supporters worry about this, especially as they consider post-1995 and the possible reversal of his reforms by a successor president.

Let us assume that he can create a small responsive administrative cadre. Its first business should be to continue the incorporation of the informal sector of the urban areas. If this is achieved comprehensively, it should add the cadres that now run the administration of the informal sector to the government. In other words, the people who keep the informal property registries, who run the public services such as sanitation, public security, etc., could be made part of the formal civil service. The Fujimori regime, it appears, is actually taking some steps of this kind, but they are only beginning as of early 1992. The results of these steps -- admittedly large ones -- should include considerably expanded regime support. Many more people would have a stake in the regime, and if de Soto is correct, some improvement in the economy should follow.

Clearly, the urban part of the informal sector is the most urgent for bringing people within the control of the regime. The majority of the population is in urban areas, and government control of the population means the insurgents do not control it. At the same time, some rural areas are equally important to control, namely those that feed the urban areas. Parts of the selva and the costa are key.

Keeping agricultural produce flowing to the cities from these areas is critical. The political part of this task is providing formal and clear titles to the land. Much land is de facto in private farmers' hands, but clarity of title is lacking. Until that confusion is cleared up, the state administration does not really have much chance in expanding control in these rural areas. Again, the government appears to be making some progress in titling property.

Next, and simultaneously to the degree possible, local government has to be built, meaning the administrative capacity to govern and to tax. Tax extraction is the most intrusive form of government, and for it to become accepted, the taxpayers must see some benefit from public sector expenditures of their tax monies. That means that tax monies have to be spent effectively in light of local interests and needs. That is only feasible if some form of local participatory government is provided that has the say over at least a fairly significant part of the taxes collected. The primary purpose of local participatory government must be the reallocation of collected taxes. If funds are provided from foreign aid to pay for local services, they are most likely to prevent the growth of local participatory government. When funds are collected locally, the interest in participation is much stronger. Government tax policy in 1991-92 is encouraging, but it has not accomplished visible results in putting a government presence permanently back at the local level in rural areas.

At the central government level, the same thing has to be accomplished. Business and industrial oligarchs cannot be allowed to evade taxes. Nor can they be allowed to hide the legislative process by which the tax revenues are reallocated. They must be forced to legislate in an open process where all parties can participate and where voters can hold them to account. As long as the Peruvian state remains

the owner and operator of much of Peruvian industry and business, this kind of effective government cannot progress very far. Reducing the state's role in the economy by selling off government enterprises has to proceed rapidly. The state must get out of business and into governing. Again, government policies in these areas are in the right direction, but their implementation has only marginally progressed.

In most respects, Fujimori is attempting to achieve these goals, particularly getting out of business. What is missing is an equally determined program for getting into governing, providing law and order, reducing public sector costs, and showing that tax monies, when expended, are used for the public good and not those of a select minority. This program cannot be accomplished overnight. Although Fujimori would clearly like to accelerate its pace, he has little to show to date (February 1992).

What can the U.S. government do to promote this kind of political change? It can do very little beyond explaining the logic of such policies, something Fujimori hardly needs because he seems to grasp it fully. Modest technical assistance in titling land and property may help. Some civil service training may help. But neither kind of assistance will achieve results until the Peruvian political and economic elites are unequivocally committed to the larger strategy and the government has recruited sufficient cadres to give it some chance of success. In other words, there has to be far more demand from the Peruvian side and much less supplying and teaching from the U.S. side. Moreover, when it comes to the details of political and administrative tactics, the United States is hardly the best qualified to offer advice. The Peruvians must take the lead and decide where U.S. technical assistance is applicable. When the U.S. advisors step over that line, they are

engaging in "colonialism by ventriloquy," and the results are likely to be counterproductive.

Thus, the U.S. advisory role in the political component of the strategy should have two parts. First, at a macro level, it should be clear with the Peruvian government what the nature of the macro problem is: governing. Second, only when it is clear that the Peruvian regime is serious and showing some progress should technical assistance be provided. Fujimori certainly is serious, and he is making modest progress. Even so, technical assistance should remain modest and be directed to specific, feasible, and tangible programs. Dependence on U.S. assistance should be resisted and the local regime forced to take all the responsibility. Keeping the various parts of a U.S. country team advisory effort from stepping over this boundary will not be easy, and one of the best ways to enforce discipline is to give it very limited resources. Furthermore, any resources should be evaluated for their near-term results. Long-term promise is inadequate justification for all but a few U.S. technical assistance programs, mainly in education.

### **The Economic Component**

The tendency for the Peruvian government will be to strive to restore credit worthiness so that new and abundant credits can be obtained. No outcome could be more deleterious to the regime. That would put it back on its old path of financing the public sector from foreign credits that it can never repay. The most critical goal for the Peruvian economy is privatization, getting the state out of business. The private sector should be left to worry about credit worthiness. If a Peruvian businessman can convince a foreign lender to invest without the backing of the Peruvian state, that kind of credit makes sense. State-backed credits do not. They take the risk out of business, and they virtually insure a poor, or no return on

investment. Changes in the banking structure can help avoid future misuse of credits -- particularly closing some or letting others fail -- which have been controlled by single sectors of the economy.

Fujimori's government's aim of increasing tax revenues is proper and urgent. The bigger the private sector and the smaller the non-profitable state sector, the greater will be the potential tax base. Thus de-statization should help in the increasing of tax revenues. The key question is how those taxes will be spent.

If they are largely devoured by payments on the old foreign debt service, the regime is less likely to survive. Here is the primary role for foreign economic assistance. To the extent the U.S. government can force the forgiveness of those debts, so much the better. Whether the banks absorb the losses or foreign governments, including the United States, is another question. The primary point is that any economic assistance should go to debt relief, not to fiscal transfers to the Peruvian government. At the same time, new credits to the Peruvian government should be discouraged. Banks should be warned that they will not be bailed out when Peru defaults.

The only other kind of direct aid that might make sense is humanitarian assistance. Non-governmental agencies can (and currently do) carry much of that task. And to the extent feasible, humanitarian assistance should not go through the Peruvian government. That government has a long history of squandering any foreign aid it receives. It should not be given a chance to repeat its earlier mistakes. Public sector finance has to be based on local taxation. And the greater the percentage of taxes that are direct, not export and import taxes, the stronger the

regime will become. No government, particularly a parliamentary democracy, can resist spending money ineffectively if it is not raised from taxes.

The incorporation of the informal sector may help economic performance in Peru. De Soto insists that it will add a great deal. Perhaps, but modest expectation should be maintained, certainly in the short run. In the longer run, de Soto is undoubtedly correct, especially if a strong state emerges to provide adequate law, order and public services. Building a strong state will not happen overnight, however, and this is sufficient reason to keep expectations low about how much the informal sectors can add to the GNP if they are formalized.

### **The Military Component**

The major part of the counterinsurgency campaign should remain in the political and economic components. No greater blow can be dealt a rural-based insurgency than land reform, making landless peasants landed. All Marxist revolutionaries, beginning with Lenin, understood the counterrevolutionary character of a landed peasantry.

Unfortunately, land reform leading to clear private holdings in Peru should have been carried through much earlier, before the Sendero Luminoso was active in the countryside. The insurgents make land reform difficult, but they do not make it impossible everywhere. And if the process makes progress in providing clear titles in some places, that impact of peasant attitudes everywhere will not be good for the Sendero Luminoso. The insurgents will be seen as preventing the spread of genuine privatization of landholdings among the peasantry.

Clearly the selva and costa areas that are more critical in feeding the cities

deserve the highest priority. It may take security assistance from the Peruvian army to implement the granting of formal land titles. That should be a very high military priority.

As far as direct action against the insurgents, the most important is police control of the urban population. The military may have to back up the police at times, but the police role has to be kept as the primary mission. Here the legal process and human rights become important for winning public support.

Direct action by the military should be limited to preventing the expansion of areas controlled fully by the insurgents, not search and destroy missions into strongly held insurgent territories. The military is neither well trained for that mission nor large enough to carry the campaign everywhere. It must preserve its strength and remain able to secure the critical food growing regions. Several years will be needed to carry out the political and economic components of the strategy. If the military can simply hold the Sendero Luminoso in check while these political and economic tasks are carried through, it will have succeeded. The military has to avoid being enticed into larger operations and greater violence. It should make the insurgents come to it, weary them, and undercut their forces through attrition. The least productive action for the military is counter-narcotics operations in the coca leaf growing areas. The Fujimori regime seems to understand this point, but the U.S. government does not. In fact, the inchoate program of training and arming villages for self-defense suggests that the regime is tending toward a strategy of holding the Sendero Luminoso in check.

This brings us to U.S. military assistance. Equipping the Peruvian military for search and destroy missions in the more remote regions against the coca leaf growers and the insurgents there is most unwise, especially if that tempts the Peruvian army to put its main effort in the more remote regions. Perhaps some kinds of limited military materiel assistance can improve the Peruvian military capability, but such supply should not be used to induce it to engage in clearing Sendero strongholds. Rather it should be used for holding the Sendero in check, preventing its expansion into critical agricultural regions and for reducing the level of rural violence.

On the military front, our study has not drawn a clear conclusion about the real strength of the Sendero Luminoso or the MTRA. The insurgency may already be beyond containment. If that is true, then no U.S. strategy short of major troop deployments and direct engagement in combat can succeed. That, of course, would present the United States with a major policy dilemma. The strategy sketched out here is based on the assumption that insurgent strength in the urban areas is not great, although perhaps significant, and that Sendero has sufficient internal weaknesses and problems to prevent it moving to its last stage in the next two or three years. If these assumptions are wrong, then the Peruvian government's ability to rule may already be effectively lost. Any U.S. commitment of resources today will be wasted. Early recognition and withdrawal, in that event, would be politically much wiser.

## **Final Thoughts**

The most optimistic factor in the Peruvian equation is Fujimori's leadership. The outlines of this section of a U.S. strategy were drafted before the author visited Lima to get a better picture of precisely what Fujimori is doing. The broad outlines of his programs, surprisingly, proved remarkably similar to what is suggested here except in counterinsurgency. It is difficult to determine precisely what his strategy is for dealing with the insurgency, but he apparently has recently decided to give it much higher priority than previously.

Unfortunately, the Ministry of the Interior, which controls the police, is not a department with a reputation for effectiveness while it maintains a long record of corruption. The Ministry of Defense is reportedly much less corrupt, but its record of recognizing and dealing effectively with the insurgency is poor at best. Moreover, relations between the police and the military have been poor, if not hostile. Yet cooperation is imperative for an effective counterinsurgency campaign.

Equally disturbing is the lack of a clear picture of the Sendero Luminoso's capabilities. Not only is the picture of its organizational size and locations of strength vague; there seems to be no solid estimate of its resources from either internal or external sources. Knowledge of the MRTA may be a little better, but it can hardly be called adequate as it emerges from open sources.

Winning the internal war requires more than just developing a clear picture of the insurgency. It also requires a strategy that melds a political, an economic, and a military component into a mutually supporting set of programs. Fujimori has already developed the proper set of political and economic programs. The trick is to move rapidly on the military and police front and to understand how programs from all three components can be made reinforcing rather than self-defeating.

These strictures are no less true for U.S. strategy. At least three dangers seem to emerge from this analysis for U.S. strategy. First, the relationship between the Andean counterdrug strategy in general and the strategy toward Peru in particular holds potential contradictions. Emphasis on reducing coca production in Peru could undermine the more promising aspects of Fujimori's political and economic development strategy. Clarification of U.S. objectives, therefore, and how they relate to Peru's internal political development, is imperative. Forcing Peru to put first priority on eradication of coca production will not help Fujimori achieve basic political and economic reform, and it could wreck his reform efforts.

Second, the foggy picture of the insurgents' capabilities and sources of material and political support can easily lead to a major embarrassment for the United States if it greatly underestimates the Sendero Luminoso's potential, particularly in urban areas. A much sounder assessment of the insurgents' strengths and weaknesses is imperative for both Peruvian and U.S. strategy.

Third, there is a temptation to re-open the windows of international credit to Peru before much more quantitative progress is made in Fujimori's privatization programs and in building an effective tax extraction system. Peru's achievements over the past eighteen months are admirable and greater than even an optimist would have anticipated. Part of the explanation is to be found in the absence of significant foreign economic and other assistance. To the extent and U.S. aid is provided in the next year or so, it should not be aimed at alleviating Peru's crisis but rather utilized to promote fundamental changes. Peru's crisis has made some of these changes conceivable today; they were not a few years ago. Aid today could just as easily arrest the process of basic economic and political reform as facilitate it.

## BIBLIOGRAPHY

- Almond, Gabriel, and Verba, Sidney. The Civic Culture. Boston: Little, Brown, 1965.
- Astiz, Carlos Alberto. Pressure Groups and Power Elites in Peruvian Politics. Ithaca, NY: Cornell University Press, 1969.
- Central Committee of the Communist Party of Peru. Interview with Chairman Gonzalo. Translated into English by the Red Banner Publishing House, 1989.
- Chaudhry, Kiren Aziz. "The Price of Wealth: Business and State in Labor Remittances and Oil Economies." International Organization 43 (Winter 1989): 101-46.
- Dahl, Robert E. Polyarchy. New Haven: Yale University Press, 1961.
- de Soto, Hernando. The Other Path: The Invisible Revolution in the Third World. New York: Harper and Row, 1989.
- Dietz, Henry. "Revolutionary Organization in the Countryside: Peru." In Revolution and Political Change in the Third World, pp. 117-39. Edited by Barry M. Schultz and Robert O. Slater. Boulder, CO: Lynne Reinner Publishers, 1990.
- Evans, Peter B. "Transnational Linkages and the Economic role of the State: An Analysis of Developing and Industrialized Nations in the Post-World War II Period." Bringing the State Back In. Edited by Peter B. Evans, Dietrich Rueschemeyer, and Theda Skocpol. Princeton, NJ: Princeton University Press, 1988.
- Evans, Peter B. "Foreign Capital and the Third World State." Understanding Political Development. Edited by Myron Weiner and S. P. Huntington. Boston: Little, Browne, 1987.
- FBIS-LAT-91-150, 5 August 1991, pp. 42-43.

- Fukuyama, Francis. "The End of History?" The National Interest 16 (Summer 1989): 3-18.
- Fujimori, Alberto. The Fujimori Initiative: A Policy for the Control of Drugs and Alternative Development. Lima, Peru: Institute for Liberty and Democracy, 1990.
- Gorriti, Gustavo "The War of the Philosopher-King," The New Republic, June 18, 1990, pp. 15-22; 18-20.
- Gott, Richard. Guerrilla Movements in Latin America. London: Thomas Nelson and Sons, 1970.
- Graham, Carol. "The APRA Government and the Urban Poor: The PAIT Programme in Lima's *Pue:los Jovenes*." Journal of Latin American Studies 23 (February 1991): 91-130.
- Graham, Carol. "Peru's APRA Party in Power: Impossible Revolution, Relinquished Reform." Journal of InterAmerican Studies and World Affairs 32 (Fall 1990): 75-115.
- Hartz, Louis. The Liberal Tradition in America. New York: Harcourt, Brace and World, 1964.
- Hartz, Louis, ed. The Founding of New Societies. New York: Harcourt, Brace, and World, 1955.
- Huntington, Samuel P. "The Goals of Development." Understanding Political Development. Edited by Myron Weiner and Samuel P. Huntington. Boston: Little, Brown, and Company, 1987.
- Huntington, Samuel P. "Will More Countries Become Democratic?" Political Science Quarterly 99 (Summer 1984): 193-218.
- Huntington, Samuel P. Political Order in Changing Societies. New Haven: Yale University Press, 1968.
- Katz, Mark. The Third World in Soviet Military Thought. Baltimore, MD: The Johns Hopkins University Press, 1982.

Klaren, Peter F. "Peru's New Captain Steers a Foundering Ship of State," Newsday, October 10, 1990, p. 55.

Latin American Regional Reports Andean Group, 7 March 1991, p. 4.

Latin American Weekly Report, WR-91-40, 17 October 1991, p. 12.

Lindblom, Charles E. Politics and Markets. New York: Basic Books, 1977.

Lipset, Seymour Martin. Political Man. Garden City, NY: Doubleday, 1960.

McClintock, Cynthia. "The Prospects for Democratic Consolidation in a 'Least Likely' Case: Peru." Comparative Politics 21 (January 1989): 127-48.

McClintock, Cynthia, and Lowenthal, Abraham. The Peruvian Experiment Reconsidered. Princeton: Princeton University Press, 1983.

McCormick, Gordon H. The Shining Path and the Future of Peru. RAND, R-3781-DOS/OSD. March 1990.

Migdal, Joel S. Strong Societies and Weak States. Princeton, NJ: Princeton University Press, 1988.

Nyrop, Richard F., ed. Peru: A Country Study. Washington, D.C.: U.S. Government Printing Office, 1981.

Odom, Wm. E. On Internal War. Durham, NC: Duke University Press, 1992.

Olson, Mancur. The Rise and Decline of Nations. New Haven: Yale University Press, 1983.

Ortiz de Zevallos, Felipe. The Peruvian Puzzle. New York: Priority Press Publications, 1989.

Palmer, David Scott. "Rebellion in Rural Peru: The Origins and Evolution of Sendero Luminoso." Comparative Politics (January 1986): 127-46.

"Peru: Introductory Survey," The European Yearbook, 1989: A World Survey. Vol. 2, pt. 2, pp. 2054-72.

Powelson, John P., and Stock, Richard. The Peasant Betrayed: Agriculture and Land Reform in the Third World. Washington, D.C.: CATO Institute, 1990.

Prescott, William H. The Conquest of Peru. New York: Doubleday, 1964.

Remmer, Karen L. "The Political Impact of Economic Crisis in Latin American for the 1980s." American Political Science Review 85 (September 1991): 777-800.

Revolutionary Communist Party, USA. The Declaration of the Revolutionary Internationalist Movement. (np.nd).

Rosenberg, Tina. "Guerrilla Tourism." The New Republic, June 18, 1990, p. 25.

Rubio Correa, Marcial. "The Perception of the Subversive Threat in Peru." In The Military and Democracy: The Future of Civil-Military Relations in Latin America, pp. 107-22. Edited by Louis W. Goodman, Johanna S.R. Mendelson, and Juan Rial. Lexington, MA: Lexington Books, 1990.

Thorp, Rosemary, and Bertram, Geoffrey. Peru 1890-1977: Growth & Policy in an Open Economy. London: MacMillan Press, 1979.

Skidmore, Thomas E., and Smith, Peter H. Modern Latin America. New York: Oxford University Press, 1984.

Snider, Lewis W. "The Political Performance of Third World Governments and the Debt Crisis." American Political Science Review 84 (December 1990): 1263-80.

Stepan, Alfred. State and Society: Peru in Comparative Perspective. Princeton, NJ: Princeton University Press, 1978.

U.S. Agency for International Development. Office of the U.S. Ambassador to Peru. USAID/Peru's Country Development Strategy Statement (COSS) for the FY-92-96 Period.

Verba, Sidney. Political Development and Political Culture. Princeton, NJ: Princeton University Press, 1965.

Verba, Sidney, and Almond, Gabriel. Civic Culture. Princeton, NJ: Princeton University Press, 1963.

World Bank. Peru: Policies to Stop Hyperinflation and Initiate Economic Recovery. Washington, D.C.: The World Bank, 1989.

Woy-Hazelton, Sandra. "Peru." 1987 Yearbook on International Communist Affairs  
Edited by Richard F. Staar, Stanford, CA: Stanford University Press, 1987.