THE REGIONAL IMPLICATIONS OF PUBLIC INVESTMENT IN PERU, 1968–1983*

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The past fifteen years in Peru have seen dramatic changes in the role of the public sector in the accumulation and distribution of capital.[1] Increasing structural pressures on the economy, combined with growing disillusionment over the distributional results of the prevailing economic liberalism, set the stage for a nationalist military coup in 1968. With the advent of General Juan Velasco Alvarado and his Gobierno Revolucionario de las Fuerzas Armadas, the public sector shifted from its previous ancillary position of facilitating private investment to emerge as the prime generator of economic growth.

The development goals set by the Velasco regime represented an abrupt departure from Peru's laissez-faire past. Ownership reforms centered on the achievement of national economic autonomy by way of an integrated productive structure, according to sector and region, that would promote self-sustaining growth and a greater degree of efficiency in the use of human and natural resources. As the public sector became the principal agent in this move toward national sovereignty, the orientation and scale of public spending changed drastically. Under this reformist thrust, the public investment program became a major tool for counteracting and redirecting private investment patterns so as to ameliorate the intensified disparities in income and wealth. The decentralization of resources away from the highly industrialized coast into the economically marginalized regions, a point of contention throughout Peruvian history, reemerged as a prominent theme under the military government.

Since 1968 Peru has witnessed three distinct phases of government, each characterized by a markedly different conception of its role in managing the economy: the nonorthodox first phase of the military government under Velasco (1968–75), the more orthodox second mili-

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tary phase under Morales Bermúdez (1975–80), and the solidly orthodox current civilian government under Belaúnde (since 1980). These fluctuations between orthodox and nonorthodox attempts at managing the economy are strongly reflected in public investment figures that have recently become available for the time period under consideration.[2] Although Velasco's successes and failures at government intervention in the economy are by now well documented, a long-term perspective on what happened during the twelve years of military rule and the subsequent changes that have occurred under the civilian regime is still lacking. In particular, limited analysis has been undertaken of the continuing impact of government reforms in the regional setting or the extent to which the public sector—in its weak or strong entrepreneurial role—has brought the country any closer to its goals of regional integration.[3]

This article will analyze the ongoing impacts of public investment on regional disparities. The first three sections will include an analysis of expected and actual public investment trends, given the respective development ideologies, during the three government time periods under study. This analysis was based on geographic concentration, sectoral distribution of capital outlays, various traits of the main public works projects, and an examination of general trends in the level of public investment as a percentage of total gross fixed investment between 1968 and 1983. In the final section, conclusions will be drawn as to the ability of the central government within the varying ideological camps to act effectively as an agent of regional economic integration. The three government phases are compared, contrasted, and summarized in the light of those public investment trends that either broke with or reinforced the geographically centralized and functionally dualistic structure of the Peruvian economy.[4]

THE FIRST MILITARY PHASE: 1968–1975

In 1968 the military regime instituted a number of distributional reforms that have since become familiar nonorthodox policy measures for those Latin American countries seeking to restructure their economies. These policies included agrarian reform, industrial worker participation, and the expropriation of some foreign firms in the major export sectors. Autonomous economic development with respect to foreign investment was the goal, and it was expressed in terms of gaining national control over locally generated profits, gaining access to appropriate technology, producing capital goods that are complementary to the country's resource endowment, and reducing the Peruvian economy's dependence on world markets (see Thorp and Bertram 1978; Angell and

Thorp 1980). The decentralization of resources into heretofore underdeveloped regions became a priority, not just because of the social goal of sharing with the geographically and economically marginalized masses the fruits of national economic development, but also because the inclusion of these areas' resources into the more developed parts of the economy would be necessary to achieve national economic autonomy. Moreover, the geopolitical implications of decentralization were of major interest to the military in terms of bolstering external and internal national security (Mercado Jarrín 1974).

Given the propensity of the export-led economic structure to perpetuate vast inequalities, which may be both regional (Wilson 1975) and social (Thorp and Bertram 1978), as well as the espoused priorities of the Velasco government to reverse this process (Mercado Jarrín 1974), we expected public investment trends from 1968 on to reflect some tendency to rearrange the productive structure. On the regional level, we expected public investment to be channeled so as to reduce the extreme polarization of wealth between the coast and the interior, which in Peru is nearly synonymous with transferring resources from the export-led modern sector to the backward traditional sector.

Thorp and Bertram argue that Velasco's main choices were either to drastically realign the export-led economy inherited from Belaúnde with massive investment shifts into the traditional sector or to focus on reactivating the weakened modern sector (1978, 305). They suggest that only the former strategy could have realized the expressed goals of political and social justice. As the following analysis of investment priorities during this period reveals, however, it was the latter strategy that guided public sector investment. In retrospect, the only real divergence from the prior orthodox export-led model involved the expansion of government ownership in the productive sector. We will now look at what implications this approach held for regional development.

During this first military phase, the public sector share of gross fixed investment (GFI) went from 29.5 percent in 1968 to 48.7 percent in 1975. As table 1 reveals, 1974 was a peak year, with the public sector share of GFI surpassing the private sector for the first and only time. It is important to note from the outset that this dramatic increase went beyond the intentional shift in government planning policy. Placing tighter controls on foreign direct investment in the extractive sectors did not conform to the expectations of the Velasco government in leading to a resurgence of national investment. A number of nationalization and worker profit-sharing measures added to an uncertain investment climate, one that discouraged foreign (especially U.S.) and national investors. Given the continued lack of dynamism in the private sector and ready access to international medium- and long-term financing, by

TABLE 1 *Public Investment Trends as a Percentage of Gross Fixed Investment, 1968–1983 (based on 1970* soles*)*

	1968 (%)	1969 (%)	1970 (%)	1971 (%)	1972 (%)	1973 (%)	1974 (%)
Public investment							
Central government	19.2	20.8	19.7	18.5	20.3	18.5	21.9
Public enterprises	6.2	6.9	13.1	13.9	13.2	20.6	23.9
Others	4.0	6.3	3.7	5.9	5.5	4.4	6.5
Total	29.4	34.0	36.5	38.3	39.0	43.5	52.3
Private investment	70.5	65.9	63.6	61.7	61.1	56.4	47.7
Total gross fixed investment	99.9	99.9	100.1	100.0	100.1	99.9	100.0
Real absolute investments (millions of 1970 *soles*)	25873	26655	29896	32874	35142	37042	48457

Sources: For 1977–83, Banco Central de Reserva, unpublished table. For 1968–76, Portocarrero 1982 (t. 1, p. 436), using figures from the Instituto Nacional de Planificación, "Diagnóstico de la inversión pública 1968–1977," mimeo, Lima, 1979; and Banco Central de Reserva, *Memorias*, various years. Also Instituto Nacional de Estadística, *Cuentas Nacionales, 1950–1979* (updated edition), Lima.

Note: Deviations from 100.0% are due to rounding.
[a]Projected by the Banco Central de Reserva.

1975 public sector ownership had virtually replaced foreign and domestic capital in mining, oil, fishing, electricity, most of the banking system, and the entire marketing of exports.[5]

The spatial location and sectoral distribution of public investments during this first military phase indicate to what extent the government succeeded in utilizing this newly established ownership role as a force for geographic decentralization.[6] From 1968 to 1975, four coastal departments captured 55 percent of total public investment, with the entire coast absorbing three times more than the combined amount invested in the remaining regions (see table 2). On the coast, the major cities in the top four departments received most of the funding. The average level of per capita investment in those top four departments between 1968 and 1975 was roughly twelve times higher than the average per capita investment in the four poorest *sierra* departments.

The sectoral allocation of public investment (see table 3) reflects the government's inability to discard the export-led modern sector development strategy in favor of the development of the traditional sector. The bias toward reviving the sagging modern industrial sector during this first military phase stands out with the investment of over 50 percent of public funds into the productive sector. Within the produc-

1975 (%)	1976 (%)	1977 (%)	1978 (%)	1979 (%)	1980 (%)	1981 (%)	1982 (%)	1983[a] (%)
15.1	15.8	19.0	20.1	23.0	22.7	22.7	17.8	12.5
31.6	31.6	24.7	21.8	17.9	19.4	18.1	28.2	29.7
2.0	2.1	1.4	1.1	1.9	2.9	2.7	2.1	1.3
48.7	49.5	45.1	43.0	42.8	45.0	43.5	48.1	43.5
51.3	50.4	54.9	57.0	57.2	55.0	56.6	51.9	56.5
100.0	99.9	100.0	100.0	100.0	100.0	100.1	100.0	100.0
58254	53942	43480	37726	43261	54741	63083	63627	57233

tive sector, the major export earners—oil, mining, and large-scale agriculture—emerged as investment priorities at this time. Industry, a prime development target under Velasco, absorbed 15 percent of public investments made between 1968 and 1975.[7] The correspondingly low investment in other sectors, particularly social infrastructure, underlines the unavoidable conflict between distributional goals and the pressing need to generate foreign exchange to feed industrial expansion.

While the coast-sierra dichotomy is not meant to be a geographic mapping of the dichotomy between the modern and traditional sectors, it is true that most of the modern sector agriculture and industry is located on the coast while the most traditional agriculture is conducted in the sierra. In this sense, the Velasco government's concentration of productive investment in the coast areas, to the almost total exclusion of the sierra (see table 4), reflects the old orthodox strategy of waiting for the traditional sector to be absorbed by a strengthened modern sector. The wave of industrial reforms sponsored by the Velasco government was expected to quicken the absorption, with populist appeal carrying the traditional sector in the interim.

Reforms in the industrial sector took the shape of several nation-

TABLE 2 Percentage Estimates of Public Investment by Region in Peru, 1968–1982 (based on 1973 constant soles*)*

Regions	*1968–75 (%)*	*1976–79 (%)*	*1968–80 (%)*	*1981–82 (%)*
Coast				
Moquegua	2.4	0.6	1.6	0.5
Tacna	0.5	0.5	0.5	0.8
Tumbes	0.2	0.6	0.4	0.4
Piura	9.2	7.9	8.4	6.9
Lambayeque	3.7	2.2	3.3	4.9
La Libertad	1.6	5.8	3.3	2.4
Ancash	18.3	5.6	11.9	2.9
Lima-Callao	18.2	17.8	18.7[a]	19.5
Ica	1.1	2.0	1.5	2.7
Arequipa	9.7	13.1	11.6	12.2
Subtotal	64.9	56.1	61.2	53.2
Sierra				
Cajamarca	0.9	0.9	0.9	3.3
Pasco	0.2	0.3	0.3	1.8
Junín	0.9	1.5	1.3	4.9
Huancavelica	2.6	4.7	3.6	8.6
Ayacucho	0.8	0.3	0.6	1.0
Apurimac	0.4	0.2	0.3	0.5
Cuzco	2.0	1.7	2.2	6.5
Puno	0.9	1.4	1.3	1.9
Subtotal	8.7	11.0	10.5	28.5
Jungle				
Huánuco	1.1	1.8	1.4	1.9
Madre de Dios	0.1	0.3	0.2	0.5
Loreto	5.7	12.1	8.3	5.4
Amazonas	0.5	0.3	0.4	0.5
San Martín	2.4	1.4	1.9	2.2
Ucayali				1.8
Subtotal	9.8	15.9	12.2	12.3
Multidepartmental	16.6	17.1	16.1	5.9
Total	100.0	100.1	100.0	99.9

Sources: For 1968–80, Rizo Patrón (1982), using Instituto Nacional de Planificación data processed by the computer center of the Ministry of Economics, Finance and Commerce (OFIN). For 1981, *Programa de inversión pública 1981: departamentos y sectores* (Lima: Presidential Ministerial Council, Regional Affairs Office, Coordinator of Corporations, 1983).

Note: Departments have been grouped according to regional location, with average public investments assigned per department.

[a]A higher level of investments in Metropolitan Lima for 1980 renders the 1968–80 average investment level slightly higher than those averages for 1968–75 and 1976–79.

TABLE 3 Percentages of Public Investment within Sectors in Peru, 1968–1982 (based on 1973 constant soles*)*

Sectors	*1968–75 (%)*	*1976–79 (%)*	*1968–80 (%)*	*1981–82 (%)*
Productive				
Agriculture	14.2	16.6	15.3	9.5
Industry	14.8	7.1	11.3	1.6
Tourism	.1	.9	.5	1.0
Fishing	1.7	2.2	1.9	.9
Mining	5.7	14.1	9.5	10.7
Oil	15.5	18.6	16.9	6.8
Subtotal	52.0	59.5	55.4	30.5
Economic infrastructure				
Transportation	21.7	12.7	17.6	17.8
Communications	2.0	3.4	2.6	3.7
Electricity	10.0	12.6	11.2	24.8
Subtotal	33.7	28.7	31.4	46.3
Social infrastructure				
Education	4.7	2.3	3.6	2.7
Health	1.7	3.0	2.3	4.8
Housing	7.9	6.6	7.3	8.3
Subtotal	14.3	11.9	13.2	15.8
Other sectors				7.4
Total	100.0	100.1	100.0	100.0

Sources: Same as for table 2 except that breakdowns within major sectors for 1968–75 and 1976–79 were available only from original INP tabulations rather than from the Rizo Patrón tables (1982).

alization and labor measures, such as profit-sharing and employment protection. Deepening the import substitution process at the level of intermediate inputs, reducing foreign dependence, and promoting small industry were major components of Velasco's plan for Peru to achieve economic self-sufficiency. Tax exonerations and reinvestment incentives were established to spur priority industries (Wilson 1975, 231–32). Industrial decentralization was approached through promulgating two major laws between 1970 and 1971, which offered incentives to both established and prospective regional investors and provided financial support for the regional banks. The industrial reform legislation also contained restrictions on the shares of national industry to be held by foreign capital as well as stipulations to promote national research and technological expertise.

TABLE 4 *Regional and Sectoral Patterns of Public Investment in Peru, 1968–1982 (based on 1973 constant* soles*)*

Sector or Region	*1968–75 (%)*	*1976–79 (%)*	*1968–80 (%)*	*1981–82 (%)*
Productive sector				
Coast	71.3	65.0	68.0	50.5
Sierra	1.5	4.8	3.0	34.8
Jungle	8.0	15.7	11.3	14.0
Multidepartmental	19.2	14.5	17.6	.6
Percentage of total	52.0	59.5	55.4	30.5
Economic infrastructure				
Coast	46.4	35.3	41.9	51.4
Sierra	18.4	23.2	20.3	27.5
Jungle	16.5	18.3	17.1	11.4
Multidepartmental	18.6	23.2	20.7	9.7
Percentage of total	33.7	28.7	31.4	46.3
Social infrastructure				
Coast	82.5	64.1	75.9	62.2
Sierra	13.0	14.9	13.3	20.0
Jungle	4.1	9.8	5.8	10.6
Multidepartmental	.4	11.2	5.0	7.2
Percentage of total	14.3	11.9	13.2	15.7
Other sectors				7.5
Total	100.0	100.1	100.0	100.0

Sources: See table 2.

Note: Regions are defined according to those departments grouped in table 2.

Although these reforms held promise for promoting autonomous industrial growth, the results were mediocre. In analyzing the degree of technological dependence, imported inputs, sectoral composition, and ability to absorb labor, Wilson (1975) concluded that Peruvian industrial structure had actually changed very little by the mid-1970s. At the base of the "new" model was the continuing need for foreign investment, both in the internal market to compensate for weak national investment and in export sectors to create foreign exchange for acquiring imported inputs and capital goods. Production continued to be large-scale and highly concentrated in terms of market control, and it never broke out of the narrow consumer goods cycle into the manufacturing of capital and intermediate goods or a more diverse market. In the end, with its generous tax credits and investment priorities, the government was supporting the development of the same capital-intensive assembly industries with imported technologies, patents, and brands. Relocation incentives offered to those industries, which were considered first priority for a decentralized industrialization strategy, were not sufficient to reverse market trends, although they did attract some investment away from metropolitan Lima to other coastal urban centers.[8]

Agrarian policy during the first military phase was geared toward equalizing the skewed property ownership structure that existed between the large modern coastal plantations and the traditional sierra farms, most of which were smaller than five hectares. Expropriation proceeds from the coastal agro-industrial complexes were to be used to revive the stagnating internal agriculture market and to contribute to the industrialization process. On paper the Velasco government committed itself to promoting cooperative production and protecting those private small- and medium-scale farmers who comprised about 50 percent of the economically active population.

In practice, however, over half of the public investment captured by agriculture during the Velasco period went into just four large coastal irrigation projects (see table 5).[9] Characterized by long gestation periods and offering little prospect for the development of the depressed peasant agricultural sector in the highlands, these large coastal projects were far from the small or medium-sized programs that would have been consistent with a regional development policy focused on traditional agriculture.

The government's policy of intensely concentrating agricultural investment in modern agriculture drained governmental support away from traditional smaller-scale farming. Thus when the widespread impact of Velasco's agrarian reform is analyzed in terms of the allocation of resources between modern and traditional agriculture, the findings of Figueroa (1973), Webb (1975), Wilson (1975), and others indicate a deepening of the dualistic economic structure in favor of the modern sector. The coastal cooperatives redistributed resources primarily within the export-oriented modern agricultural enclave away from landowners and in favor of the workers. This pattern of intrasectoral redistribution between workers and landowners within the modern coastal agriculture sector, as opposed to an intersectoral transfer of resources from the modern to the traditional agriculture sector concentrated in the highlands, served to weaken the traditional agriculture regions even further. The decapitalization of traditional agriculture was exacerbated by pricing policies that favored urban consumers over rural producers (see DeJanvry 1981).

Reforms in the oil and mining sectors were geared toward increasing production for export and enlarging the government's share

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TABLE 5 Percentage of Public Investment in Special Projects, 1968–1982: Regional and Sectoral Tendencies (based on 1973 constant soles*)*

Region or Sector	*1968–71 (%)*	*1972–75 (%)*	*1976–80 (%)*	*1981–82 (%)*	*1982 (%)*
Coastal irrigation	6.4	12.5	11.8	6.7	5.3
Selva colonization	4.3	1.8	3.0	4.5	5.2
Jungle oil (Loreto)	0.9	4.3	7.0	2.1	1.4
Coastal mining		4.0[a]		1.1	1.4
Sierra mining		3.0[a]		7.5	6.8
Sierra electric		3.2[a]		10.6	12.5
Total special projects		30.9[a]		32.5	32.6

Sources: Figures for 1968–80 on irrigation, colonization, and oil projects were compiled from data from the Oficina Informática del Ministerio de Economía y Finanzas (OFIN). For 1968–80 figures on mining and electric projects, see Rizo Patrón (1982).

[a]Average for 1968–80.

of value added at the expense of foreign capital's share. The national petroleum company (Petroperú) began implementing exploration and production contracts with foreign companies in which the government-maintained ownership rights and profits were distributed to investors according to a set formula. Investment incentives were reduced, and preference was given to those foreign and national investors who were willing to accept government participation.

In its efforts to develop the country's natural resource potential and at the same time guarantee an acceptable profit margin for investors, the government undertook a number of large public investment projects. Special oil projects in the jungle department of Loreto accounted for close to half of the public sector petroleum investments in the early 1970s (see table 5). Economies of scale and technical inflexibilities in these sectors left less leeway for small and medium-sized projects that would have been plausible within the agricultural sector.[10]

The special oil projects pushed per capita public investment in the jungle region higher than that in any other region during the latter years of the Velasco government (1971–75). Nevertheless, this geographic deconcentration of investment held few long-lasting benefits for local development. Large-scale projects in oil—as in mining—are typically regional enclaves: they generate relatively few economic links with the region in which they are located.[11] Production inputs are generally brought from outside the region, and outputs (oil or minerals) are usually processed (except for very preliminary refining) and sold outside the region. Moreover, little of the profits generated by extractive enclaves are reinvested locally. Even the effect on local employment may not be extremely positive because the enclaves may attract both unskilled migrants and skilled workers from outside the region. In Loreto, over 50 percent of public investment was related to several oil projects typifying enclaves (Wilson 1975).

In line with the Velasco government's determination to intervene directly in the productive sector, investments in economic infrastructure received low priority during the first phase. The allocation of 22 percent of public investments for transportation is partly a carryover from the large road construction program initiated under the first Belaúnde administration (1963–68). Transportation investments were geared toward linking the developed, export-oriented regional enclaves with the coast and toward the expansion of opportunities for domestic agricultural consumption so as to reduce the outlay of foreign exchange for basic foodstuffs.

Public investments in electricity, which accounted for 10 percent of the total, were concentrated in the Mantaro hydroelectric plant in the sierra department of Huancavelica and in a renovation program undertaken by the government-owned electric utility, Electroperú. While the Mantaro project gave Huancavelica the highest level of public investment in the sierra, this electrical installation primarily served the coast. The investment shift away from economic infrastructure, especially electrification programs, was made at the expense of regional electrical infrastructure. Sectoral policy was particularly disjointed in this respect because industrial decentralization requires adequate regional electrical infrastructure.

The meager 14 percent of public investment designated for social infrastructure (see table 3) reflects the overriding emphasis on direct public support of the productive sectors. Despite policy statements about incorporating the marginalized masses, health and education were almost entirely neglected, with housing construction consuming over half of public expenditures in the social sector. Moreover, 83 percent of these investments were concentrated on the coast (see table 4). Per capita public investment in housing and health was four times higher in Lima than in the rest of the country (Rizo Patrón 1982).

By 1975 public enterprises had come to represent 32 percent of public investment. The phase from 1968 to 1975 saw a sevenfold increase in the volume of public enterprise activity (FitzGerald 1979, 195). By 1975 public enterprises had clearly overtaken the central government as the major investor of public funds (see table 1), but in a manner no less centralized. In line with the sectoral concentration of resources, public investments were clustered in a few public enterprises that had been formed in the major sectors. The intense concentration of capital investment either on the coast or serving the coast, added to the evolution of a highly centralized government as the main agent of investment, highlights the difficulty of simultaneously capitalizing and geographically decentralizing.

The military government opted to give priority to industrial growth over distributional and decentralizing objectives (McClintock and Lowenthal 1983). Other policies that could have provided the financial base for a regional program, such as tax reform, were not included (FitzGerald 1979; Sheahan 1980). The rapid extension of the public sector with unbalanced spending patterns in the productive sector, combined with the traditional Peruvian policy of subsidizing urban consumers at the expense of the rural sector, aggravated the disparities between regions and sectors.[12]

THE SECOND PHASE OF THE MILITARY GOVERNMENT, 1975–1980

The combination of an ambitious investment program and favorable world market conditions allowed for the expansion of the Peruvian public sector to a peak of more than 50 percent of GFI by 1974. With the OPEC crisis in 1973 and Peru's loss of easy international bank credit in 1977, the country gradually had less room to maneuver in the world markets of finance and commodities. Attempts to fortify the productive sector that earned foreign exchange were not paying off by the mid-1970s, and prospects for the mobilization of mass support around the government's program were greatly diminished by the relative losses in income felt most strongly in the popular sectors. The rapid deterioration in the balance of payments by 1975, with the public sector deficit rising to 10 percent of GNP, triggered the cyclical crisis familiar to Peru and other export-based economies as well as another coup. When Morales Bermúdez assumed power in 1975 and Peru moved into the adjustment phase on its burgeoning external debt, redistribution and popular participation fell out as themes in the policy litany. During this second military phase, the government began to shift from a reformist stance back to the role of facilitator of private capital. Ownership reforms were gradually dismantled, and the private sector was given renewed confidence as the motor for economic growth.

As military investment policy turned away from a direct role in the productive structure and toward the more orthodox role of providing infrastructural support for private investment, contradictions persisted between the stated investment policy and realized investment patterns. Table 3 reveals expected reductions in the allocation of public investment to social infrastructure. But instead of showing a significant gain in economic infrastructure investment, as would be expected, the table indicates a sharp rise in the proportion of public investment going to the productive sector (from 52 percent to 60 percent of total public investment).

Within the productive sector, almost 50 percent of public investments were concentrated in agriculture, mining, and oil. A high percentage of sunk costs in certain large projects, as well as the strength of special interest lobbies, made it difficult for the government to pare down or stop its investment in those projects, even though hindsight has shown that the cancellation of certain advanced projects, such as the Majes irrigation project, would have been more cost effective (Portocarrero 1982). The renewed orthodoxy showed up most strongly in manufacturing, where public investment was cut in half, market-distorting tax incentives were curbed, and a broad range of subsidies on domestically produced goods were eliminated. The 7 percent of public investments remaining in the industrial sector were complemented by subsidies for nontraditional exports, which became the crux of the industrialization strategy during the second phase.[13] Despite the free-market rhetoric, the earlier restructuring of the productive apparatus demanded continued public sector involvement to support the sagging primary export sector and to direct the industrialization process.

The public investment figures during the second phase also contradict the austerity measures being implemented under the IMF stabilization program. The 1977 IMF terms were geared specifically toward cutting back on the public sector debt. These included, for example, a halt to current and capital transfers from the central government to the public enterprises and a 20-percent slash in public expenditures (FitzGerald 1979, 230). Table 1 shows a gradual shift in expenditure control with the central government regaining predominance by 1979. A 35 percent reduction of real public investment was also accomplished between 1975 and 1978, although these cutbacks were not sustained past 1978. Some large cuts were made within the public enterprises operating in the oil and mining sectors. The government oil company, Petroperú, suffered slashes in exploration and development, and funds were frozen on a number of planned mining projects (Portocarrero 1982). Reduction of the public deficit from 11 percent of GDP in 1977 to less than 1 percent by the end of 1978 was due almost entirely to two lucrative years for oil and copper prices. But resistance to defense cuts within the military, combined with opposition within the public sector itself, prevented full implementation of the IMF goals.

In terms of spatial location, table 2 shows a 10 percent drop in the concentration of coastal investment, with 3 percent and 6 percent increases in the sierra and jungle regions, respectively. This decrease did not register in metropolitan Lima, which maintained its 18 percent hold on public investment. The sectoral concentration of investments in mining and oil accounts for this apparent decentralization away from the coast. The opening of two new mines in the sierra and support funds for the jungle-based trans-Andean pipeline comprise most of this investment shift into the regions.

Public investment in the agricultural sector, which continued to lag in both the export branch and in production for domestic consumption, clearly favored the coastal agro-industrial complex. Close to 80 percent of the amount invested in agriculture went into coastal irrigation, which is largely a continuation of the massive projects begun during the first military phase or earlier. Thus the expansion of arable land to support the main export crops (coffee, sugar, and cotton), along with the promotion of nontraditional agricultural exports, took complete precedence over investment to support the domestic consumption branch.[14]

This tendency toward confining investments to those sectors that offer the best prospects for foreign exchange earnings, but little in the way of regional development, carried into the investment profile on economic and social infrastructure as well. Second-phase investments in economic infrastructure were directed toward those more developed zones of mineral and oil extraction. Public investment in transportation dropped to 13 percent of the total, with transportation expenditures being limited to those regions already enjoying a comparative advantage and relatively sophisticated infrastructure (Portocarrero 1982, 441). In line with the government policy of compensating for the contraction in electrical installation during the first phase, public investments in electricity increased from 10 percent to 13 percent. Two major sierra hydroelectric projects, Carhuaquero and Charcani, began construction, along with renovation of the Mantaro plant, all three projects being geared toward serving the expansion needs of the coastal industrial base. This increase in hydroelectric investments also contributed to the apparent dispersion of expenditures away from the coast.

Public investment reductions in social infrastructure conform most strongly to the policy tenets of the IMF stabilization program. Investment in education was cut in half, and housing was reduced by 16 percent. Only health investment rose—to a still small 3 percent of total public investment. Social infrastructure investment under the government during the second phase was decentralized away from the coast somewhat (see table 4). Nevertheless, public housing investment, which primarily benefits the urban middle class (Wilson 1975), still consumed most of the social infrastructure investment.

In the face of the deleterious effects of the second-phase austerity program on regional economies, a new regional coalition emerged composed of urban middle-class merchants, small and medium-sized manufacturers, organized labor, and the greatly expanded population of urban poor (Salinas, Garzón, and Wise 1983, chap. 4). This coalition of local elites and parts of the popular sector showed its strength in the nationwide strike of 1977, thus forcing the government to adopt some decentralizing measures. Under the impetus of the Punta del Este accords and the Alliance for Progress in the early 1960s, regional political mechanisms had been institutionalized in the form of various departmental developmental corporations (Organismos Regionales de Desarrollo, or ORDES). During the Morales Bermúdez regime, these mechanisms became the renewed locus of decentralist policy and populist appeal. With the constitutional assembly elections in 1978 and national elections in 1980, the regional political apparatus was further recognized.[15] Nevertheless, this recognition has not been translated into a significantly more equitable distribution of national resources under the current civilian government.

THE CURRENT CIVILIAN GOVERNMENT

With the return of civilian government under Belaúnde came a curious mix of populist ideology and neoliberal economic policy, both of which have met serious roadblocks. On the one hand, reprivatization of the public enterprises has been a cornerstone of the civilian program.[16] But the government has not been able to reduce the huge level of public sector participation that it inherited, despite over two years of orthodox monetarist management geared specifically toward eliminating large chunks of the public sector. In fact, public investment accounted for nearly as large a proportion of total investment in 1982 as it did in 1975, when state intervention in the economy was at a peak (see table 1). One interpretation holds that even the orthodox free-market model in Peru demands strong state intervention to support the development of the extractive sectors and give the appearance of some rapprochement with the popular sectors in the face of regressive impacts brought about by neoliberal economic policies.

The government has neither been able to shrink the public sector nor to utilize the existing government apparatus in a manner conducive to its expressed populist goals. The need to constantly make ends meet by means of short-term borrowing results in low priority status being given to any serious consideration of decentralizing or redistributing. According to spatial location and sectoral distribution, public investment patterns since 1980 conform most closely to the neoliberal elements of the Acción Popular program, as opposed to the grass-roots populist side of the government party. For example, while the government had originally intended to allocate 40 percent of public investments to the productive sector, 35 percent to economic infrastructure, and 25 percent to the social sector (Branch 1982), the actual 1981–82 investment averages show 31 percent going to the productive sector, 46

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percent going to economic infrastructure, and only 16 percent of public funds being spent on social infrastructure (see table 3). These results indicate that current objectives to reroute public funds into investments in economic infrastructure in order to support private enterprise in the productive sector have taken precedence over social objectives.

Geographically, a significant decentralization of public investment appears to have occurred since the military years. Table 2 shows a post-1980 shift of public investments from the coast to the sierra. The coast now captures twice the amount invested in the sierra, in contrast to three times the average amount invested under military rule. An examination of the departmental transfers occurring between the coast and the sierra reveals an intensification of investments in the three sierra departments of Cuzco, Junín, and Huancavelica. Cuts were made in some of the wealthier coastal departments, such as Piura and Ancash, although Lima and Arequipa actually experienced slight increases. An analysis of the spatial-sectoral distribution of investment, however, shows that coast-sierra resource transfers continue to reflect a concentration of sierra investments in large-scale hydroelectric projects and mineral extraction.[17]

In the productive sector, mining and agriculture constitute the present public investment priorities. Industry has suffered a radical drop in the past two years, capturing less than 2 percent of public investments on the average, as opposed to 15 percent during the first military phase (see table 3). The public investment profile in oil also reflects a significant drop in direct government participation in development and exploration, with current public investments in oil averaging approximately 7 percent, as opposed to an average of 17 percent under the military government (see table 3). Similarly, public investment in large-scale oil projects in the jungle was running at about 1.5 percent of total public investment in 1982, compared with an average of 7 percent between 1976 and 1980.[18]

The concentration of nearly 11 percent of public investment in mining since 1980 reflects a continuing dependence on this sector as the principal generator of foreign exchange. Present public investment in mining varies only slightly from the past, underlining the government's inability to withdraw from this sector in a manner consistent with the prevailing neoliberal ideology. Government withdrawal from this sector is necessarily more gradual, if not impossible, under an export-led development model because the development of other parts of the economy hinges upon the amount of foreign exchange and public revenues being generated from mineral production.

Agricultural investment has dropped significantly from 15 percent to an average of 10 percent of public investments since 1980. Moreover, approximately 50 percent of public agricultural investments are still going into large coastal irrigation projects. Elsewhere, the government has turned toward the colonization of new agricultural land in the jungle. Table 5 shows the sharp rise in public investment in jungle colonization from the military government to the current government. Traditional agriculture in the sierra, which continues to suffer from declining productivity and competing imports (Gonzales 1982; Alvarez 1980), has become an even lower investment priority.

The jungle colonization projects include promising examples of integrated regional development (for example, Alto Huallaga–Bajo Mayo and Pichis Palcazu). Nevertheless, one public official involved pointed out that most of their resources are devoted to attending to the immediate needs created by the spontaneous migration from the sierra highlands to the jungle, such as quelling the social strife caused by conflicts over land title, rather than laying the basis for the long-term development of the jungle region.[19] Others have pointed out that the lack of environmental controls will permit soil depletion, making the long-term development of the area impossible (Dourojeanni 1980). Some researchers have concluded that while motives for jungle colonization may have included producing food for domestic consumption, providing a noncoastal outlet for sierra migration, and eradicating coca production, the main motive has been to facilitate exploration and extraction of petroleum and wood for export (Grupo de Investigaciones Económicas 1982).

Government spending on large economic infrastructure projects reflects the vestiges of Belaúnde's Alliance for Progress program during the early 1960s. The percentage of investment in electricity has more than doubled since the military period and presently accounts for over 50 percent of the investments in economic infrastructure (see table 3). Large sierra hydroelectric projects comprise almost half of these investments (see table 5). Yet among these, most of the investment is for projects that generate electricity predominantly for the coast (such as Mantaro and Carhuaquero). One project, Charcani, services primarily a mining development and secondarily the city of Arequipa. Only one project is designed primarily to serve a sierra city (the Machu Picchu hydroelectric plant, which serves Cuzco). Such projects are geared mainly toward meeting projected national demand for industrial energy in order to avoid having to import oil, and the government rationale for this skewed allocation of public investments includes few considerations of regional development.[20]

Transportation captures an average of 17 percent of the total investments during both the military government and the current civilian government. A shift in investment priorities has occurred since 1980, with Belaúnde reviving some of the earlier road projects that had been initiated under his previous government in the 1960s. According to the government policy of providing support infrastructure for the private sector, the road projects have been presented as a key element for stimulating economic activity in the regions. Their potential for encouraging regional development, particularly in the sierra, appears to be limited, however. One of the three major road projects currently underway, the Olmos-Corral Quemado, is a transversal road running east and west, closely paralleling the trans-Andean pipeline across the northern departments from the coast to the jungle and connecting with the Carretera Marginal, another of the three major road projects. The latter road runs north and south through the jungle on the eastern side of the Andes, linking up finally with the Carretera Central, the major existing outlet to the coast. Both of these new road projects offer important coastal outlets for the extraction of petroleum and lumber from the jungle region. But neither project serves much of the traditional agricultural sector in the sierra, which would benefit greatly from internal transportation links as well as a coastal outlet for agricultural products. Furthermore, the use of foreign contractors and imported inputs in the construction phase limits the local multiplier effects that could benefit parts of the sierra.[21] The third major road project, the Pucusana-Canete, is an improvement of sections of the Panamericana Sur highway that extends from Lima to Canete on the coast and is strictly coastal-serving.

Despite policy initiatives to funnel public funds into basic necessities, current investments in social infrastructure conform closely to the low average established during the military government. Realized public investment in the social sector under the current government has fallen short of programmed investment by about 40 percent. Moreover, more than 50 percent of social infrastructure investment is still concentrated in housing construction, leaving few resources for health, education, and other basic necessities felt most keenly in the traditional sectors.[22]

Acción Popular has emphasized administrative decentralization as a major goal and achievement of the civilian government. Yet the percentage of public investment undertaken by the regional or departmental development corporations declined in both 1981 and 1982, compared to the realized averages for the entire military period (see table 6).[23] Also the percent of public investment implemented by Cooperación Popular, the highly touted program to aid rural areas, villages, and urban slums using community participation, has never exceeded 1.5 percent of total public investment and was slated to drop even further in 1983. Municipal governments are getting only 1 percent of public investment, which is less than the amount allocated under the previous Belaúnde administration.[24]

In short, the concentration of public investment into those sec-

TABLE 6 Percentage of Public Investment Allocated per Government Entity

Government Entity	*1968–80 (%)*	*1981 (%)*	*1982 (%)*
Central government	44.7	52.2	37.0
Public enterprises	47.3	41.6	58.7
Others			
ORDEs and CORDEs			
Cooperación popular			
Public institutions	8.0	6.2	4.3
Total	100.0	100.0	100.0

Sources: See table 1.

tors that are either directly or indirectly linked with export activity and the miniscule amounts being allocated toward basic necessities and local regional endeavors serve to further polarize Peru's modern and traditional sectors.

CONCLUSION

During the three major political phases since 1968, the national government has not used the public investment program as a means for correcting the vast interregional disparities in the distribution of national income. The first military phase (1968–75) is the only period that claimed to make a major break with the capitalist model of accumulation. Yet the unavoidable contradiction between the Velasco government's regional decentralization goals and the priority goal of expanding the highly productive industrial sectors stands out when reviewing the public investment figures for this period. Although the second phase (1975–79) represented a transition back to liberalism, this trend was not strongly reflected in the corresponding public investment patterns. A drop in public investment in the industrial sector was more than offset by increases in the other productive sectors, particularly in mining and petroleum. In geographical terms, this investment pattern resulted in a continuing concentration of resources in Lima, with some decentralization away from the coast in the form of large expenditures for public works in sierra mining and jungle oil production.

The contradiction between export-led development strategies and decentralizing national resources, which prevailed even when public policy was ostensibly more sympathetic to distributional issues, has not been redressed under the current Belaúnde government. The return of electoral politics has had minimal impact on the ability of the economic periphery to gain access to national resources. Despite populist rhetoric, public investments remain centrally controlled and pri-

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marily support the sectors with high productivity. Investments in the social sectors, especially health and education, have been minimal.

The national government has altered its role significantly by cutting back heavily on production and involving itself instead in infrastructure support for the private sectors. Yet in spite of highly touted austerity programs, real public investment levels reached an all-time high in 1981 and 1982. Public enterprise investments, billed as a prime cutback target, closely approximate those peak levels of public enterprise expansion in 1974–75. Ironically, it appears that the national government must continue to play a strong role in the economy in order to assure the health of the "free market." Unfortunately, the implications of this role have not been propitious for equitable regional development.

NOTES

1. With reference to the role of the public sector in the Peruvian economy, see Stepan (1978), FitzGerald (1979), Cotler (1978), and Pease (1977).
2. A recent comprehensive effort undertaken by the Instituto Nacional de Planificación (INP) and the Ministerio de Economía y Finanzas (MEF) compiled public investment data for the entire twelve years of military government in Peru and revised them according to more accurate disbursement estimates. Consequently, it is now possible to draw some firm conclusions as to the continued role of the state in the accumulation and distribution of capital. Also, an unpublished analysis by Jorge Rizo Patrón (1982), in which these INP data were more thoroughly classified by sector and region, facilitated our work significantly. Recent data from the Peruvian prime minister's office made it possible to extend this analysis of public sector investment trends into the 1980–83 time period, which encompasses the current civilian government.
3. Wilson (1975), FitzGerald (1976, 1979), Thorp and Bertram (1978), Jameson (1979), Slater (1979), Couriel (1981), and Caravedo (1983) all have analyzed the Peruvian political economy during this time, either directly or indirectly addressing the regional impact of the public investment policy during the first phase.
4. See DeJanvry (1981) and Biderman (1983) for a larger analysis of functional dualism as a skewed distributional pattern occurring over time, among sectors, and between regions in underdeveloped economies.
5. Kuczynski (1981) addresses the reticence of private domestic investors and the subsequent relationship between state ownership and the external debt. He notes that the public sector's share of medium- and long-term external debt increased six times in nominal terms between 1968 and 1977 (198l, 11).
6. Portocarrero notes that the public investment program lagged during the early years because the necessary feasibility studies and financial packaging took much longer than expected, especially given the new administration's lack of experience in this area (1982, 435).
7. Discrepancies arise in the existing investment data involving more specific sectoral breakdowns. For example, Portocarrero's (1982) estimated figures on industrial investments for this time period are lower than those we have projected here, whereas FitzGerald's (1979) figures are roughly equivalent. Setting aside the notorious differences resulting from the use of varying methodologies by the major data gathering agencies (the Banco Central de Reserva, the Instituto Nacional de Planificación, Oficina Informática del Ministerio de Economía y Finanzas (OFIN), and the Instituto Nacional de Estatística), our percentages may be slightly higher due to the elimination of smaller public works projects (those below fifty thousand *soles*) in the Rizo Patrón data.

8. When comparing the outcomes of these incentives for priority and nonpriority firms, Jameson (1979) found that the variable cost of capital for decentralized priority firms was still 92 percent of the amount paid by priority firms in Lima. Yet those nonpriority firms locating outside of Lima were paying only 78 percent of the Lima costs. Furthermore, five Lima-based industries actually showed substantial increases in concentration between 1968 and 1971.
9. The Majes irrigation project, which was the most expensive of these projects, proved to be of questionable value. It was plagued with excessively high capital costs and eventually ran into poor soils.
10. The trans-Andean oil pipeline, the Cuajone copper mine, and several other mineral ventures represent some of the major public sector commitments made at this time. For a number of reasons, these investments failed to materialize in the manner initially envisioned. First, petroleum reserves and the projected production capacity were vastly overestimated. Second, the mining sector had slipped into a decade of stagnation prior to Velasco, due mainly to contract disputes with foreign investors and resulting labor strife. Finally, long start-up delays, along with instability in world oil and copper prices, also diminished the earning potential in these sectors.
11. See the Mexican example in Salinas (1983).
12. While some authors have attributed this failure to reduce the dualistic structure of the economy to the persistence of a dependent capitalist development pattern (Wilson 1975), to the continuation of the export-led approach (Thorp 1980), or to poor planning (Portocarrero 1982, 452), many have attributed the failure to excessive government intervention in the economy. This last explanation, however, is belied by the fact that the government—with its declared de-emphasis on direct government intervention in the economy—actually reinforced social and regional disparities as well.
13. Nontraditional exports and the limited prospects they hold for regional development are discussed in Salinas, Garzón, and Wise (1983), chap. 3.
14. See "Peru: A Survey," *Euromoney*, June 1980, p. 9.
15. See Salinas, Garzón, and Wise (1983) for a discussion of recent attempts to decentralize regionally the political and administrative apparati (chap. 4).
16. See Brian Branch (1982) for a recent account of civilian reform policy regarding the reprivatization of the public enterprise system.
17. The apparent redistribution of resources from the coast to the sierra after 1980 also points to an imperfection in the data. In reviewing over time the dispersion of departmental investments, table 2 shows that the current regime has succeeded in pinpointing more specifically the spatial location of multidepartmental investments.
18. Political motivation within the jungle region to gain some local control over petroleum revenues has been only partially successful. Pressure by the Frente de Defensa, a grass-roots coalition in the department of Loreto, resulted in the passage of a petroleum revenue-sharing law in 1976. The law did not reach a point of serious implementation until 1981, however. Even by that time, the increased share in petroleum revenues had been neutralized by a drop in the average amount of state investment allocated to the department of Loreto (see table 2). See the interview with José Barletti Pasquale of the Loreto Frente de Defensa, published in the *Diario La República*, 13 Feb. 1983.
19. Interview with a public official of a jungle colonization project, Lima, December 1982. See also various issues of *Sur* (published in Cuzco by the Centro Bartolemé de las Casas) for reports on the social strife accompanying spontaneous colonization that has required immediate state response.
20. The "pork barrel" effect of reinstituting national elections had a very small impact on the percentage of electric infrastructure investments going to small-scale local programs. According to data from the president's office on regional affairs, only 4.6 percent of electricity investments went to small-scale provincial and district electrification programs in 1982. Moreover, according to the director of an integrated rural development project in the Peruvian sierra, many of these projects were limited to producing electric power for household consumption rather than local industrial development. This official was interviewed 26 May 1983 in Lima.

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21. Recent issues of *International Construction Week* provide an idea of the extent to which Peru is seeking international bidders for highway construction and other major public works projects.
22. See Henry Dietz, "Mobilization, Austerity, and Voting: The Legacy of the Revolution for Lima's Poor," in Gorman (1982) for an account of the social and economic impacts of this austerity among Lima's slumdwellers.
23. Data discrepancies arise when analyzing direct public investment in regional development programs. For example, two distinct sets of investment figures exist within the Banco Central de Reserva (BCR) and the prime minister's office. The BCR figures are used in table 6 because they are consistent with the data that were available for the 1968–80 period.
24. See the national budget (Presupuesto Nacional) for 1982.

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