

DISILLUSIONMENT AND HOPE: Recent Work on the Political Economy of Peru

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- PERU UNDER GARCIA: AN OPPORTUNITY LOST.* By John Crabtree. (Pittsburgh, Pa.: University of Pittsburgh Press, 1992. Pp. 236. \$49.95 cloth.)
- PERU'S APRA: PARTIES, POLITICS, AND THE ELUSIVE QUEST FOR DEMOCRACY.* By Carol Graham. (Boulder, Colo.: Lynne Rienner, 1992. Pp. 267. \$37.50 cloth.)
- THE PERUVIAN PUZZLE.* By Felipe Ortiz de Zevallos. (New York: Priority, 1989. Pp. 85. \$8.95 paper.)
- SHINING PATH OF PERU.* Edited by David Scott Palmer. (New York: St. Martin's, 1992. Pp. 271. \$45.00 cloth.)
- ECONOMIC MANAGEMENT AND ECONOMIC DEVELOPMENT IN PERU AND COLOMBIA.* By Rosemary Thorp. (Pittsburgh, Pa.: University of Pittsburgh Press, 1991. Pp. 238. \$44.95 cloth, \$19.95 paper.)

Disillusionment

At the end of the 1960s, novelist Mario Vargas Llosa asked the question, "¿En qué momento se había jodido el Perú?" (When was Peru screwed?) Ironically, similar sentiments had been expressed a hundred years before when fellow countryman Manuel Gonzales Prada observed, "el Perú es organismo enfermo: donde se aplica el dedo brota pus" (Peru is a sick body: wherever one presses a finger, pus comes out).¹ Both comments convey the sense of national failure and painful disgrace shared by many Peruvians. This attitude reflects the combination of apathy, self-destructiveness, disappointment, and nostalgia that permeates the social conscience of Peruvians. Yet paradoxically, both Vargas Llosa and Gonzales Prada shared the utopian dream of redeeming Peru's destiny if appropriate structural changes could be introduced. There was still hope.

Gonzales Prada, writing in the late nineteenth century, thought it essential that Peru and the Americas develop their own identities by redefining the role of the state and public education. In a work published for the first time in 1894, he concluded that since the country had gained

1. Mario Vargas Llosa, *Conversación en la catedral* (Barcelona: Seix Barral, 1969), 13; and Manuel Gonzales Prada, *Páginas libres* (Lima: Editorial PTCM, 1946), 163.

independence from Spain, the Peruvian dominant class made up of land-owners, aristocratic intellectuals, and the military had been unable to lead the nation along a sustained path of development that would make the country more independent of foreign interests. Gonzales Prada also claimed that public policy was corrupt and racially discriminatory. Nearly a century later, Vargas Llosa was arguing that Peruvian society needed institutional modernizing and more freedom to strengthen democracy. *Libertad*, the organization he founded in 1987 (which was formalized in July 1988) represented the upper-middle-class reaction to populism and statism and a defense of liberalism and free-market forces.

It is fascinating to trace this long-standing Peruvian sense of disillusionment and fatalism throughout the works of the five books under review here, albeit in different degrees of intensity. John Crabtree, perhaps the most disappointed of the analysts, is convinced that President Alan García lost the opportunity to “push ahead with more fundamental reforms” in the late 1980s (p. 211). Carol Graham shares the view that García enjoyed massive popularity and support at the outset, before “the shift from an inclusive and cooperative approach to a winner-take-all, ‘us versus them’ approach proved fatal to democratic consensus” (p. 214). Rosemary Thorp confesses dismay at Peru’s poor short-term economic management, political violence, and lack of institutional channeling of new popular organizations (pp. xv–xvi). Meanwhile, Felipe Ortiz de Zevallos concludes, “Nothing will stop the decline [of Peruvian society as a whole] but a significant and sustained improvement in Peru’s economic performance, and that seems unlikely unless the government agrees to confront and attack some of the critical problems facing it . . .” (p. 42). Using a more empirical approach, David Scott Palmer suggests that Sendero Luminoso is basically a one-man show. Now that leader Abimael Guzmán has been captured and imprisoned for life,² the movement should eventually collapse. Palmer also contends that Sendero was successful not because of the brilliance of its strategy but because of the fragility of the government. Under President Alberto Fujimori’s authoritarian and repressive military strategies, Sendero should be slowly defeated.

Why have Peruvians been disillusioned? And what are the country’s possibilities for attaining steady economic growth and development by peaceful means? Although the books under review focus on Peru’s recent history, all of them provide crucial clues to the reasons underlying the latent frustration. Three basic hypotheses emerge from these five works. First, a nation cannot prosper in a meaningful way if it does not solve the problem of inequity. Second, the lack of strong institutions to reinforce mutual cooperation between the state and the private sector

2. Abimael Guzmán, also known as “Presidente Gonzalo,” was captured by the Peruvian police in September 1992.

precludes stable economic growth and the sociopolitical benefits that could derive from such cooperation. Third, fragile political institutions (in the form of political parties) cannot meet imperative social and economic demands being made by the majority of the population.

Hypothesis One: The Problem of Peruvian Inequity

With more than half of the Peruvian population living in poverty (and a quarter in indigence), Peru's income distribution is skewed to the extreme.³ Fernando Fajnzylber has substantiated the hypothesis that equity "is directly conducive to growth through the promotion of a consumption pattern in keeping with a higher rate and a more efficient form of investment, and indirectly conducive to the creation of a social environment that is compatible with an effort to 'build the future,' inasmuch as such an effort requires that both elite groups and the system have a rightful claim to legitimacy so that society as a whole will be willing to take the types of actions and decisions that will lead to growth."⁴ According to this view, the conditions for enlarging the domestic market and assimilating technological progress simply do not exist in Peru, where most citizens struggle for survival amid all kinds of violence.⁵ Crabtree and Graham both stress convincingly that Alan García's fall resulted in part from the overwhelming social demands that could not be met, despite his charismatic populist rhetoric and innovative income programs and price policies (such as the Programa de Apoyo al Ingreso Temporal, the Programa de Apoyo Directo, and "zero-interest" programs for rural areas).

Crabtree contends that political development in Peru has been characterized historically by the absence of political consensus, which was precluded by social differentiation and extremes of wealth and pov-

3. For examples, see Carlos Amat y León and Héctor León, *Distribución del ingreso familiar en el Perú* (Lima: Centro de Investigaciones de la Universidad del Pacífico, 1981); Amat y León and León, *Niveles de vida y grupos sociales en el Perú* (Lima: Centro de Investigaciones de la Universidad del Pacífico, 1983); and Economic Commission for Latin America and the Caribbean (ECLAC), *Statistical Yearbook for Latin America and the Caribbean, 1993* (Santiago: ECLAC, 1994), 45.

4. Fernando Fajnzylber, *Unavoidable Industrial Restructuring in Latin America* (Durham, N.C.: Duke University Press, 1990), 177.

5. See Margarita Giesecke, Carmen Checa, and Alberto Giesecke, *Violencia estructural en el Perú: Historias de vida* (Lima: Asociación Peruana de Estudios e Investigación para la Paz, 1990); Felipe MacGregor, Marcial Rubio, and Rudecindo Vega, *Violencia estructural en el Perú: Marco teórico* (Lima: Asociación Peruana de Estudios e Investigación para la Paz, 1990); Juan Ossio, *Violencia estructural en el Perú: Antropología* (Lima: Asociación Peruana de Estudios e Investigación para la Paz, 1990); Gonzalo Portocarrero, *Violencia estructural en el Perú: Sociología* (Lima: Asociación Peruana de Estudios e Investigación para la Paz, 1990); César Rodríguez, Teresa Bolaños, and Teresa Ciudad, *Violencia estructural en el Perú: Psicoanálisis* (Lima: Asociación Peruana de Estudios e Investigación para la Paz, 1990); and Máximo Vega-Centeno, *Violencia estructural en el Perú: Economía* (Lima: Asociación Peruana de Estudios e Investigación para la Paz, 1990).

erty. Although the political system has been challenged repeatedly by popular political mobilization, political parties have been unable to articulate this pressure and the state has failed to respond to distribution demands. Graham brilliantly demonstrates that the failure of APRA (Alianza Popular Revolucionaria Americana)—the only institutionalized, genuinely popular party in Peru's history—to advance its reformist agenda arose out of its sectarian, often contradictory, and highly personalized nature. Graham is nevertheless aware that any other party would have faced a similarly difficult tenure in the Peruvian economic and social context of the 1980s, given the extraordinary challenges facing a stratified and highly unequal society.

Thorp argues that the export-led growth enjoyed prior to the 1960s brought about geographical segmentation and the consolidation of previously coexisting modern and rural sectors. But income distribution worsened. Thorp oddly attributes this worsening, without further economic explanation, to the fact that expansion of export crops led to little inflation because "the poor did not demand more food" (p. 57). Does she mean that more inequality is price-stabilizing because of the absence of demand-pull inflation? A statement of this kind certainly requires a more elaborated theory of inflation to support it. In contrasting the poverty in Colombia with that in Peru in the 1960s, Thorp finds that although the national pictures were similar, rural discontent and political mobilization were increasing in Peru.

On the issue of equity, this reviewer was surprised by the absence of a more theoretical or interpretive essay in the collection of essays edited by Palmer, *Shining Path of Peru*. Such an essay could have linked the issues regarding equity (or lack of it) to geographical and cultural diversity and tied distribution aspects of Peru's recent development to peasant rebellion and the emergence of a radicalized project under the Sendero banner. An interpretive essay could also have explained the movement's emergence and consolidation in terms of recent socioeconomic processes, such as the failed agrarian reform of President Fernando Belaúnde Terry in the early 1960s, the 1969 agrarian reform of President Juan Velasco Alvarado, and the growing crisis in the Peruvian course of economic growth since 1975.⁶ Palmer is undoubtedly correct that Sendero originated in the philosophical underpinnings of Maoist intellectuals, particularly Abimael Guzmán, but ideologies must be contextualized in realities, and Ayacucho is surely one of the least developed and most impoverished departments in Peru.

The collection edited by Palmer is highly informative and fulfills

6. A fine examination of short- and long-term economic crises in Peru can be found in Bruno Seminario and César Bouillón, *Ciclos y tendencias en el Perú*, Documento de Trabajo (Lima: Centro de Investigaciones de la Universidad del Pacífico, 1992).

its purpose of viewing Sendero from diverse “windows” in an attempt to deduce from empirical evidence a set of findings that can be used to understand the movement’s logic and make realistic predictions about what will happen next (p. ix). In the first six essays of *Shining Path of Peru*, Michael Smith, Carlos Degregori, Ton de Wit, Vera Gianotten, Billie Jean Isbell, Ronald Berg, and José Gonzales examine the origins, doctrine, and “modus operandi” of Sendero Luminoso. Smith advances seven succinct propositions to explain the persistence of Sendero activity and shows how the movement has adapted functionally to the complex Andean environment. Degregori admits that Ayacucho is the poorest department of all but suggests that “the ‘Andean Maoism’ of the Shining Path is a hybrid, woven from Maoist authoritarianism and the most authoritarian aspects of Peruvian political tradition” found in the rural sierra (p. 44). He thus subordinates economic factors like equity and a skewed income distribution to an anthropological emphasis on tradition and mores to explain Sendero’s appeal. De Wit and Gianotten stress the bipolar urban-traditional nature of Peruvian society in which Lima the capital dominates the subordinated rural areas. In their view, Sendero is merely the manifestation of a disarticulated country whose government is completely unable to respond appropriately to social demands. Isbell elaborates the idea of Indian intracommunity conflict over rights to land use in Chuschi in order to differentiate between tactical and strategic alliances between Indian communities and Sendero Luminoso. When Senderistas helped with boundary disputes in Chuschi, the community initially supported them and accepted the Senderista educational and moral campaigns that were introduced into the community. But when Senderistas attempted to reorganize the community according to their own radical ideological precepts in a more strategic manner, Indian farmers resisted and local support eroded.

Berg’s contribution (one of the best in *Shining Path of Peru*) explains the reasons why the rural population supported Sendero in the department of Andahuaylas. Landless, poor farmers were alienated by the dominant hacienda system and the state-enforced cooperatives introduced under the 1969 agrarian reform. These farmers resented the exclusionary administration of newly formed cooperatives because they functioned in the same exploitative manner as the haciendas. Sendero aided the progressive destruction of the cooperatives, an outcome that also vindicated the interests of poor farmers. For rural inhabitants overwhelmed by institutional chaos, Sendero filled the void with its strongly authoritarian presence. The two essays by José Gonzales and Michael Smith’s second contribution focus on how support for Sendero depends on local conditions, as in the Upper Huallaga Valley (where coca is harvested extensively) and in an important urban industrial park in Lima, Ate-Vitarte. For Gonzales, the Upper Huallaga Valley is doubly relevant to Sendero: it

is a financial source of funding for the Sendero political and military apparatus, and the valley could also become a major base of peasant support. Smith indicates that in Ate-Vitarte, the Senderista strategy was to accelerate political confrontation between workers and employers and between workers and the state, a campaign that led to the assassination of leftist activists and leaders.

The contributions by Gustavo Gorriti, Gabriela Tarazona-Sevillano, and Tom Marks to *Shining Path of Peru* explain the ideology and cult of personality of Abimael Guzmán, the evolution of his party, and Senderista use of terror. Sandra and William Hazleton argue that the armed Left has been least successful in organizations where the established electoral Left is strong, as in labor-union and neighborhood organizations.

The closing essays by Cynthia McClintock and Palmer provide important pragmatic generalizations about what the Sendero is and is not. Drawing on the relevant literature on theories of revolution, McClintock concludes that the Maoist interpretation of the Chinese situation in the 1950s is not applicable to Peru in the 1980s because Peru is neither semi-feudal nor semi-colonial. Thus by “virtually every indicator, Peru does not resemble prerevolutionary China” (p. 232). McClintock rejects the lineal parallelism traced by Guzmán between Maoist China and Peru, and she dismisses the possibility of a Sendero victory if Fujimori’s government can end the economic crisis and its negative impact on the poor. Palmer concludes by listing twenty-one factual statements that can be made about the Peruvian situation. The most important findings are that the Sendero Luminoso is the creation of one person, an intellectual movement arising from a rural perspective that is destructive and dogmatic and perpetrates terror to gain social control. Palmer brings up racism only briefly as inducing inappropriate responses by government authorities to the Sendero operation. In retrospect, it is puzzling that *Shining Path of Peru* did not include a chapter on race, class, and gender relations as they pertain to the emergence and development of Sendero.

Hypothesis Two: The Lack of Cooperation between the State and the Private Sector

The argument about the lack of cooperation between the state and the private sector in Peruvian designing of economic policies is made best in Thorp’s *Economic Management and Economic Development in Peru and Colombia*. A long-lasting coalition was forged in Colombia between government representatives and the Federación Nacional de Cafeteros to stabilize an economic situation prone to exploiting Colombia’s most profitable legal crop. In contrast, the Peruvian state has been troubled by an often explosive relationship between the state and the private sector.

Peru’s economic history has been shaped by either populist or

liberal experiences that reflect the polarization of competing interests between exporters and domestic industrialists. Both sectors fought for control of the exchange rate by the usual means, keeping it either undervalued to enhance export revenues or overvalued to promote the entry of capital and intermediate goods while raising barriers to importation of finished goods. Friction between these two sectors was resolved in favor of the exporters during the periods preceding and following World War II and in the early 1960s. Unlike the export sector in Colombia, the Peruvian sector was diverse (revolving around agricultural exports, mining, and fisheries) and built largely around exports based on extractive activities. Peru was a latecomer to industrial development, which was initiated only in 1963 in President Belaúnde's first term and accelerated by General Velasco between 1968 and 1975. As a primary-export economy, the Peruvian state was traditionally controlled by domestic and foreign exporters and landowners who had no economic incentive to diversify investments in domestic industrial activities.

Thorp argues that the economic performance of Peru compares unfavorably with that of Colombia. Is this comparison useful? *Economic Management* does not offer an analytical framework that addresses the linkages between the economic and the political spheres in a way that might explain why Colombia and Peru were selected for comparison.

APRA leader Víctor Raúl Haya de la Torre, the one Peruvian who could have challenged the supremacy of the oligarchy and exporting groups, was never elected to the presidency. The nature of the state was finally transformed in 1968, when the "Revolución Peruana" of the nationalistic General Velasco attempted structural reforms to liquidate the holdings of the landed aristocracy and foreign capital controlling export businesses. In the mid-1970s, however, Peru's outward-oriented growth strategy came to a halt. Under Belaúnde, Acción Popular used the power of the state to liberalize international trade, while APRA used it under García to reactivate the economy. Belaúnde's liberalization in 1980–1985, favored by internationally based financial-interest groups, was strongly opposed by domestic industrialists. The state also came into conflict with the private sector from 1985 to 1990. After initially supporting the "heterodox stabilization program" that gave an enormous push to aggregate demand, the private sector resented the bank nationalization of 1987 as well as the García administration's subsequent macroeconomic mismanagement and descent into chaos.⁷

In sum, beginning with the "Revolución Peruana" and continuing into the current Fujimori administration, the Peruvian state apparatus has been employed to implement specific agendas from the top down:

7. See Eva Paus, "Adjustment and Development in Latin America: The Failure of Peruvian Heterodoxy," *World Development* 19, no. 5 (May 1991):411–34.

distributing wealth and enlargement of the role of the state under Velasco; increasing international competitiveness and free-market forces under Belaúnde; controlling inflation and resuming economic growth under García; and reforming institutions under Fujimori. One can only wonder about what kind of cooperation between state and the private sector could have been initiated in this highly conflictive society of fragmented interest groups.

Felipe Ortiz de Zevallos believes that the crisis Peru was facing by the end of the 1980s was brought about by internal mistakes in designing macroeconomic policies (p. 42). Seconding Graham's thesis regarding weak institutional structure in Peru, Ortiz de Zevallos explains in *The Peruvian Puzzle* that the lack of economic stability in Peru has resulted from keen competition for control of the state. This fight has been intense and sometimes violent.

Crabtree and Graham provide insights into the nature of political fragmentation and representation in Peru and its recent economic problems, particularly during the García administration. Crabtree's *Peru under García: An Opportunity Lost* offers an excellent examination of this administration. Drawing on input from various analysts, Crabtree finds that Alan García made five major mistakes. He had no medium- to long-term economic strategy, and he was disinclined to share power with other political forces. His counterinsurgency strategy rested on the belief that developing Peru's poorest departments would deter rebellion, but the programs designed to improve the well-being of poor peasants were never implemented. Finally, García did not introduce a tax reform, nor did he push ahead with programs for political, administrative, and economic decentralization. Some of those who contributed ideas to *Peru under García* were themselves structuralist thinkers who supported a heterodox stabilization program. Did they influence Crabtree's belief that Alan García was "the man who could help steer his country towards a better future with greater prosperity, less social inequality, and more balanced regional development" by implementing a heterodox program (p. 210)? Textbook economics demonstrate that price administration cannot replace market forces, particularly when rampant corruption is inducing all kinds of speculation and the formation of black markets and when the state lacks the staff to supervise enforcement and the capacity to process hundreds of petitions to introduce new goods at new prices. Freezing the exchange rate when expectations are still inflationary will only generate overconsumption of imported goods, despite controls on imports. Given these and other contradictory aspects of the program, I cannot see how the heterodox program conceived by García's advisors and implemented during the first two years of his government had any chance of succeeding, even at the outset. Thus it is difficult to understand Crabtree's argument that a major opportunity was lost.

Hypothesis Three: The Fragility of Parties

In *Peru's APRA: Parties, Politics, and the Elusive Quest for Democracy*, Carol Graham aims to prove that political parties working within weak institutions (a situation characteristic of developing countries) pose serious obstacles to democratic consolidation. The example she chose is APRA and its experience in power when García became president in 1985. After carefully examining the party's role and the Peruvian socioeconomic structure in the 1980s, Graham arrives at several significant conclusions. First, APRA's failure can be traced to the sectarian and highly authoritarian nature of the party, which alienated popular organizations. García's erratic and autocratic populism also generated increasing opposition on all fronts, even within his own party. Moreover, the advisors and other professionals whom García appointed to major posts in public administration lacked the technical background needed to carry out their duties. Finally, under APRA administration, the state as an institution ceased to represent the interests of society and could not address basic issues facing public institutions. Such issues included lack of office supplies in government offices, absence of first-aid medicines in emergency rooms in public hospitals, and stoppage of state pension payments to the elderly. APRA's legacy was a civil society undermined by political violence and a severe economic crisis. Because of APRA's failure, Peruvian society openly rejected traditional parties as a genuine means of political representation in the 1990 presidential elections.

In contrast to Crabtree, Graham is keenly interested in making a theoretical contribution to an understanding of the relationship between socioeconomic factors and democratic consolidation. She criticizes restricted definitions of democracy based solely on political institutions. Instead, she conceptualizes democratic consolidation as the process by which socioeconomic progress and political and institutional actors attain a mutually reinforcing relationship that enables implementation of democratic reform via leadership, a viable macroeconomic strategy, and a favorable climate for the private sector. Following this theoretical discussion, Graham suggests that a positive causal relationship links democratic reform to democratic consolidation. Her main argument is that in Peru, democratic consolidation was undermined by APRA's failure from 1985 to 1990. Beyond Graham's excellent analysis of APRA in power, *Peru's APRA* is informed by a solid understanding of the disintegrating Aprista local culture, which had become patrimonial and increasingly outdated.

Conclusion: Is There Hope?

The works discussed here contribute to the ongoing debate on three critical issues in Peru. The first is the fundamental problem of inequity that manifests itself in a skewed distribution of income and

wealth in which a few Peruvians enjoy the benefits of socioeconomic comfort while all the rest are stranded in poverty. The second issue is the often conflicting relationship between the government and the private sector, which has impaired fruitful cooperation in designing economic policies. The third is the question of political representation and the role of political parties.

With regard to the issue of equity, additional academic research needs to be undertaken, despite the welcome efforts of multilateral organizations that are finally committing more resources to addressing issues of social policy. Concerning the relationship between the Peruvian state and the private sector, Latin America has witnessed in the 1990s the commitment of various governments to improving their relationships with the private sector. Younger generations of managers and policy makers believe in free-market competition and reject populist and interventionist macroeconomic policy design. The purpose of their reforms is to create pragmatic rules of the game that are conducive to efficient allocation of resources in the private sector. The hope is that such changes will lead to economic growth and socioeconomic development if the strategy is supported by social policies geared toward "poverty reduction." Finally, on the issue of political representation, neither Crabtree nor Graham predicted a political solution of the sort that President Fujimori is now advocating. His micro-management style of governing and the new form of civil-democratic authoritarianism have advanced major institutional reforms such as sanctioning a new constitution, privatizing important state enterprises, reforming pension funds comprehensively, and deregulating financial markets since 1990. But what kind of political institutions has Fujimori helped establish? What will be the impact of his highly centralized style of decision making on the broader state apparatus? And what degree of political cohesiveness exists among public institutions that can outlive his two terms in office (1990–2000)? These questions and the more fundamental theme of equity in Peru require further investigation.