

The Sustainability of Economic Reform in a "Most Likely" Case: Peru

Moisés Arce*

Resumen

El proceso de reestructuración económica durante el tiempo de Fujimori se caracterizó, entre otras cosas, por la presencia de un Ejecutivo fuerte, un Congreso no-deliberante e intensa cooperación entre el sector privado y el gobierno. Todo esto hace suponer que en el Perú las reformas económicas debieron haberse profundizado más en comparación a otros casos. Sin embargo, el resultado del avance de las reformas es mixto. Este artículo, a diferencia de la literatura existente, rescata la importancia de los intereses sociales durante la transición a economías de mercado. Analiza los cambios en las coaliciones de gobierno y las relaciones gobierno-empresarios cuando las economías pasan de la una etapa de crisis a otra de consolidación de las reformas. La presencia de diferentes grupos en distintas etapas del proceso de reforma económica ayuda a entender el debilitamiento de las reformas de mercado.

Abstract

A dominant chief Executive with a lengthy tenure, a rubber stamp legislature and increased business-government collaboration characterized the process of economic restructuring in Peru under Fujimori, and made the country the most likely candidate for deeper economic reforms. Nevertheless, the record of reform efforts was mixed. Departing from the tradition of previous scholarship, this article brings social interests back into the analysis of market transitions. It examines shifting governing coalitions, and the changing character of state-business interactions as countries move from the phase of crisis-induced reforms to the phase of consolidation of the reforms. The dominance of different groups across different phases of the economic restructuring process helps to account for the slowdown of the market agenda.

* I thank Karen Remmer, Kenneth Roberts, Cynthia McClintock, Caroline Beer, Cecil Eubanks, Cameron Thies, Jennifer McGarr and anonymous reviewers for their helpful comments and suggestions on earlier versions of this manuscript. Research was supported financially by the National Science Foundation and the Social Science Research Council.

INTRODUCTION

In 1994, *Latin Finance* declared the President of Peru, Alberto Fujimori, the leading champion of market-oriented economic reforms. The novice politician elected in 1990 had ended political violence, defeated hyperinflation, and brought the economy back from the brink of collapse. Throughout the 1990s, foreign investment skyrocketed, while only a few years earlier investment in Peru had been regarded as sheer madness.¹ However, by the end of the decade, a series of studies pointed out that the vigorous economic revolution initiated by Fujimori had turned increasingly sour. Among other things, the privatization program slowed down considerably, the courageous efforts to combat tax evasion grew significantly weaker, and a major overhaul of the state bureaucracy scheduled for 1996 never got off the ground, seemingly because of the political costs associated with these reform initiatives.² In a nutshell, Peru's one-time maverick, reform-minded political outsider, the self-proclaimed "statesman" who challenged vested interests, had become a politician, cautiously weighing the political costs of continuous reform. What explains this transition?

To date, the bulk of existing research on the politics of economic adjustment explores the political, economic, and social conditions that facilitate the initiation of market policies, while surprisingly devoting little attention to the conditions or incentives under which political leaders will deepen economic reforms. These accounts emphasize the importance of the autonomy of state actors and exclusionary decision-making processes as key ingredients to the implementation of reforms.³ Seen in this light, successful reform appears to require the marginalization or defeat of market foes, in particular, organized labor and labor-based political parties. But if the politics of economic reform is something more than "the politics of neutralizing the losers,"⁴ then business support also becomes a pivotal ingredient to successful economic restructuring.⁵

-
1. A general index of economic reforms also placed the country ahead of the Latin American average. See Samuel Morley, Roberto Machado and Steffano Pettinato, *Indexes of Structural Reform in Latin America* (Santiago, Chile: Economic Commission for Latin America and the Caribbean, 1999).
 2. On privatization, see Luigi Manzetti, *Privatization South American Style* (Oxford: Oxford University Press, 1999), ch. 5. On tax reform, see Francisco Durand and Rosemary Thorp, "Reforming the State: A Study of the Peruvian Tax Reform," *Oxford Development Studies*, 26 (1998), 133-151. For an overview of the reforms undertaken by Fujimori, see Roberto Abusada, Fritz Du Bois, Eduardo Morón and José Valderrama, *La Reforma Incompleta* (Lima: Centro de Investigación de la Universidad del Pacífico - Instituto Peruano de Economía, 2000).
 3. Stephan Haggard and Robert Kaufman, *The Politics of Economic Adjustment* (Princeton, New Jersey: Princeton University Press, 1992).
 4. Hector Schamis, "Distributional Coalitions and the Politics of Economic Reform in Latin America," *World Politics*, 51 (1999), p. 237.
 5. Eduardo Silva, "Capitalist Coalitions, The State, and Neoliberal Economic Restructuring: Chile, 1973-88," *World Politics*, 45 (1993), 526-59; and Francisco Durand and Eduardo Silva, eds., *Organized Business, Economic Change, and Democracy in Latin America* (Miami: University of Miami North-South Center Press, 1998), ch. 1.

An initial glance at Peru suggests that most of the aforementioned conditions identified by the existing literature have been met. Clearly, a dominant chief Executive was present; opposition was severely restrained; and business support for the Fujimori regime was consistent. In addition, earlier reforms were quite effective in both stabilizing the economy and reigniting growth; thus they might have been expected to create momentum for deeper reform. The apparent slowdown of the Peruvian market experiment poses an interesting puzzle and warrants more careful examination. Moreover, while much of the recent scholarly work about Peru has centered on the state, emphasizing its authoritarian tendencies, the story of the economic restructuring process, and in particular the stagnation of reform efforts, remains untold.

The argument presented here suggests that the slowdown of reforms began to take place during a period of economic recovery, a claim that is consistent with Kurt Weyland's application of prospect theory to the analysis of market transitions. In Weyland's view, the absence of crisis induces risk-averse behavior, and consequently, caution concerning the deepening of reforms. My analysis provides a more complete explanation, suggesting that the slowdown of "marketization" initiatives responded to not only a change in the Executive's priorities, but also to the influence of a broader set of interests from actors on which elites generally relied for support. Specifically, I examine shifts in the balance of power of governing coalitions and the changing character of state-business interactions as countries move from the phase of crisis-induced reforms to the phase of consolidation of the reforms.

A close examination of Peru's experience with reform provides important challenges to the accepted wisdom about economic reform. First, existing literature focuses almost exclusively on state structure and autonomy. The analysis presented here shows that there are competing interests that play a fundamental role in the process of reform, even within the state. Second, to the extent that attention has been paid to the actors outside of the state, these non-state actors, such as the business sector, have been treated as a monolithic force, precluding the possibility that the continuation of the market model may actually exacerbate divisions even within a traditionally organized sector. Finally, for the most part analysis has been confined to a short-term view of the initiation of reforms. A long-term view of the Peruvian case demonstrates that even under the most positive conditions for the initiation of reforms, the political will to continue the reform process may dissolve, possibly as a result of the reform process itself.

As the next section highlights, existing research offers limited theoretical insights about the conditions or incentives under which political leaders will engage in deeper economic

reforms. The discussion suggests that state-centric explanations continue to dominate the literature on economic reform at the expense of evidence regarding the variety of social interests shaping the economic restructuring process. The second part of the article provides an overview of the implementation of market reforms under Fujimori. This section examines in more detail groups within and outside the state that have been critical to the advancement of the market reform agenda. The third part of the article presents evidence of the slowdown of reforms and discusses alternative explanations. The conclusion summarizes the findings and broader implications of this article.

Shelving Deeper Economic Reforms: An Explanation

To date, much attention has been paid to explaining what makes economic reform possible, while surprisingly little is known about what makes economic reform sustainable. The emerging literature has, nonetheless, advanced a series of important propositions and hypotheses about the conditions that may facilitate economic governance. At the party system level, the literature suggests that fragmentation and polarization make it difficult to implement reform. Fragmentation creates a large number of "veto players" who can block reform initiatives.⁶ Polarization (or ideological distance) also decreases the capacity to reach policy compromises on a given set of policies. Generally speaking, executives in weak party systems find it hard to initiate and continue sweeping economic change because they have to rely on extensive patronage to maintain congressional support. In this view, Brazil, for instance, became the "regional laggard" in economic restructuring.⁷

The literature also argues that ruling (or "statist") political parties can also block or dilute economic reforms because they are likely to bear the political costs of the reforms more intensely than non-incumbents. As Barbara Geddes suggests, "For advantaged parties, the dominant strategy will always be to stick to patronage, unless the payoff for voting for reform is remarkably high and the future quite certain."⁸ In Venezuela, for instance, President Carlos Andrés Pérez (1989-1993) secretly negotiated a stabilization program with the International Monetary Fund (IMF). By abandoning traditional consultative

6. Stephan Haggard and Robert Kaufman, *The Political Economy of Democratic Transitions* (Princeton, New Jersey: Princeton University Press, 1995); and George Tsebelis, "Decision Making in Political Systems: Veto Players in Presidentialism, Parliamentarism, Multicameralism, and Multipartyism," *British Journal of Political Science*, 25 (1995), 289-325.

7. Scott Mainwaring, *Rethinking Party Systems in the Third Wave of Democratization* (California: Stanford University Press, 1999), p. 284. For a discussion of recent economic reforms in contemporary Brazil, see Kurt Weyland, "The Brazilian State in the New Democracy," in Peter Kingstone and Timothy Power, eds., *Democratic Brazil: Actors, Institutions and Processes* (Pittsburgh, Pennsylvania, University of Pittsburgh Press, 2000), ch. 2.

8. Barbara Geddes, *Politician's Dilemma: Building State Capacity in Latin America* (Berkeley: University of California Press, 1994), p. 96; and Javier Corrales, "Presidents, Ruling Parties, and Party Rules: A Theory on the Politics of Economic Reform in Latin America," *Comparative Politics*, 32 (2000), 127-149.

mechanisms, the ruling party *Acción Democrática* (AD) revolted and sacked Pérez from office. Market reforms were thus abandoned.

The Peruvian case, however, defies these explanations regarding the role of parties in the deepening of reform implementation. In Latin America various "populist" leaders, like Fujimori, have won the presidency with weak political coalitions, or simply no strong ruling party at all. In countries where strong ruling parties were absent, such as Brazil under Fernando Collor de Mello (1990-1992) or Ecuador under Abdalá Bucaram (1996-97), market foes managed to prevail by successfully exploiting the political fragility of the Executive Branch. Although Fujimori, Collor and Bucaram were all "untested" in national politics, in Peru the opposition did not prevail, but rather was severely crushed when Fujimori delivered a self-administered coup (*autogolpe*), suspending democratic and constitutional rule.⁹ In fact, Fujimori maintained a strict and disciplined congressional majority from 1993 onward. As pointed out by Gregory Schmidt, the new Congress elected in the aftermath of the *autogolpe* "proved to be the quintessential rubber stamp legislature."¹⁰ Certainly, Fujimori confronted neither a rebellious strong ruling party, as in Venezuela, nor a strong opposition, as in Brazil or Ecuador, thus suggesting that other factors different from political parties may have contributed to the slowdown of reforms. Alternatively, the existing literature suggests that the consolidation of the market agenda rests on business support. As suggested by Ben Ross Schneider and Sylvia Maxfield, "the road to markets is easier to negotiate if business actively cooperates."¹¹ Francisco Durand, and Manuel Castillo and Andrés Quispe, among others, have documented extensive business-government cooperation under Fujimori.¹² These accounts suggest that Fujimori effectively courted the business sector by appointing various business leaders to pivotal positions in the state, including the ministry in charge of managing the economy. But the impact of business support on the depth of reform implementation has been marginal, notwithstanding increased government-business collaboration.

In retrospect, it appears that all the necessary elements were present to deepen market reforms in Peru. Given, therefore, the absence of an effective opposition from parties or

-
9. Kurt Weyland, "Risk Taking in Latin American Economic Restructuring: Lessons from Prospect Theory," *International Studies Quarterly*, 40 (1996), 193.
 10. Gregory Schmidt, "Delegative Democracy in Peru? Fujimori's 1995 Landslide and the Prospects for 2000," *Journal of Inter-American Studies and World Affairs*, 42 (2000), 104.
 11. Ben Ross Schneider and Sylvia Maxfield, "Business, the State, and Economic Performance in Developing Countries," in Ben Ross Schneider and Sylvia Maxfield, eds., *Business and the State in Developing Countries* (Ithaca, New York, Cornell University Press, 1997), p. 4.
 12. Francisco Durand, "The Transformation of Business-Government Relations Under Fujimori," *Canadian Journal of Latin American and Caribbean Studies*, 24 (1999), 29-56; and Manuel Castillo and Andrés Quispe, *Reforma Estructural y Reversión Empresarial: Conflictos y Desafíos* (Lima: Consorcio de Investigación Económica, 1996).

other interest groups, a compliant congressional majority, increasing collaboration with the business sector, and a dominant Chief Executive with a decade-long tenure, what then explains the lack of deeper reforms in Fujimori's Peru?

One of the most recent and interesting explanations concerning the slowdown of market reform initiatives is Kurt Weyland's application of prospect theory to the analysis of market transitions.¹³ Drawing upon theoretical work in the field of political psychology, the core empirical finding of prospect theory is that people tend toward bold, risky choices when faced with the prospects of losses, but opt for caution when anticipating gains. Accordingly, severe economic crisis marked by hyperinflation puts citizens and leaders in the domain of losses. Thus citizens reject traditional politicians and make risky choices by voting for political novices or outsiders. New leaders, when confronting severe economic crisis, also take high risks by imposing neo-liberal shocks that have an uncertain chance of success. Conversely, in the absence of crisis, both leaders and citizens at large turn increasingly risk-averse and thus shelve deeper economic reforms. Economic recovery therefore leads to caution and moderation, and thus a stagnation of reform efforts.

My argument about the slowdown of reforms is consistent with Weyland to the extent that the stagnation of reform efforts coincided with a period of economic recovery. Weyland's economic recovery breed of reform fatigue thesis, however, does not provide a complete account of the slowdown of market initiatives. Part of the problem with Weyland's application of prospect theory (or any account that focuses solely on shifting preferences or priorities of the Executive) has to do with the conceptualization of market reforms as a revolution from above, directed by insulated and enlightened technocrats with limited input or interaction with social forces.¹⁴ These state-centered accounts, which continue to dominate extant explanations of economic reform, largely ignore groups or other sets of actors—however narrow their interests—to which political leaders turn for support.

By extension, as Eduardo Silva notes, "state structure cannot explain the content of policy;" rather policy necessitates "carriers."¹⁵ These groups or "policy carriers" can affect the pace of economic reform because of differences in their "policy repertoires." Policy repertoires

13. Kurt Weyland, "Neo-populism and Market Reform in Argentina, Brazil, Peru, and Venezuela," paper prepared for the 2000 International Congress of the Latin American Studies Association, Miami; "The Political Fate of Market Reform in Latin America, Africa, and Eastern Europe," *International Studies Quarterly*, 42 (1998), 645-674; and "Risk Taking in Latin American Economic Restructuring: Lessons from Prospect Theory."

14. For an exception to this view, see Schamis. Weyland also pointed out that prospect theory "cannot fully account for the role of important actors, such as interest groups." See "The Political Fate of Market Reform in Latin America, Africa, and Eastern Europe," p. 651.

15. Silva, p. 529.

are defined as “coherent frameworks of beliefs, values, and ideas” and “include conceptions about the proper role for government and the appropriate means of government intervention.”¹⁶ In other words, while the initiation of reforms has been a predominantly top-down process, the continuation of reforms may depend on the interplay of social forces with varying resources and repertoires.

Contrary to conventional views, the following analysis brings social interests back into the study of market transitions. It examines shifts in governing coalitions and patterns of state-business interactions as countries move from the initiation to the consolidation phase of economic restructuring. The article suggests that the stagnation of reforms was driven by differences among groups that provided critical support to the Fujimori regime. As Philip Mauceri suggested, since the beginning Fujimori enlisted the support of two important sets of actors: a group of personal loyalists (the “populists”) and a group of technocrats (the “liberals”).¹⁷ With the basic set of orthodox policies already in place, Fujimori would later reach out to the business elite organized in the *Confederación Nacional de Instituciones Empresariales Privadas* (CONFIEP), the business umbrella association created in 1984. Each of these groups would occupy different positions within the cabinet, where much of policy discussion took place. They would dominate different phases of economic reform, and while all of them were instrumental to the Fujimori regime, the relative importance of each waxed and waned according to the electoral calendar and the progress of the market agenda.¹⁸

Briefly stated, in the early 1990s during the implementation of the fiscal austerity and economic adjustment program the orthodox phase of 1990-92 – technocrats dominated the policy debate, notwithstanding the president surrounded himself with populists. During this period Fujimori did not hesitate to confront the traditionally powerful in Peru. Early reforms were largely state-imposed, but generally endorsed by business. Through time, however, as the economic situation improved, business-government relations became gradually more cooperative and stable. Both business and government were ultimately interested in economic recovery. During this period – the pragmatic phase of 1993-1998 – business effectively exploited the policymaking process, and the government became more responsive to business demands. The president was reelected in 1995. Populists attempted to gain control of the cabinet, albeit unsuccessfully. Finally, a new occurrence

16. Richard Snyder, “After Neo-liberalism: The Politics of Re-regulation in Mexico,” *World Politics*, 51 (1999), p. 181.

17. Philip Mauceri, “Return of the Caudillo: Autocratic Democracy in Peru,” *Third World Quarterly*, 18 (1997), 889-911.

18. The military also provided a critical source of support for the Fujimori government, yet its actual involvement in the formulation of economic policy has been marginal (Maxwell Cameron, personal communication).

of El Niño together with the advent of a series of external shocks in the late 1990s (beginning in Asia, but subsequently encompassing Brazil and Russia) led the Peruvian economy into a deep recession. The president also prepared himself for a highly controversial second reelection. During this period – the watered-down phase of 1999–2000 – the initial momentum that surrounded the implementation of market policies practically died away. Growing doubts about the benefits of the model distinguished this phase, even within the business sector. In fact, the program was criticized by business, mostly industrialists, as being particularly skewed to favor the financial and traditional export sectors. By the end of the decade, the technocrats were on the retreat, the business sector was divided over Fujimori, and populists enjoyed increased influence.

Fujimori as Market Maker

In 1990, Peruvians elected Alberto Fujimori, an independent candidate or political outsider, to the presidency. Fujimori initially proposed a gradual program of economic adjustment, but once elected turned to a classic program of neo-liberal orthodoxy in accordance with the so-called "Washington consensus."¹⁹ The absence of a congressional majority, however, was a critical limitation early in the Fujimori regime. Partly in response to this political shortcoming, on April 5, 1992 the president staged a self-administered coup. The *autogolpe* led to the election of a new Congress in which Fujimori's party obtained a majority of seats. The new Congress, known as *Congreso Constituyente Democrático* (CCD), crafted a new constitution that, among other things, provided the legal framework for a market economy and enabled Fujimori to run for reelection. The new constitution was approved by popular referendum in late 1993.²⁰

The *autogolpe* had major economic as well as political ramifications. Economically, it facilitated the implementation of market reforms that were initially opposed by important societal actors. Otherwise stated, it afforded technocrats leeway to consolidate the ongoing process of market restructuring. Prior to the *autogolpe*, for instance, the Fujimori regime drew up a list of 80 companies to be privatized, but was forced to reduce the original list to 23 because of opposition from cabinet members.²¹ By the end of 1996, the government had privatized more than 130 companies.²² Likewise, policy reforms that initially appeared

19. John Williamson, *Latin American Adjustment: How Much Has Happened?* (Washington, DC, Institute for International Economics, 1990).

20. Accounts detailing the 1990 election, the *autogolpe*, the referendum, and the 1995 reelection of Fujimori are very well documented and will not be repeated here.

21. Carlos Boloña, "The Viability of Alberto Fujimori's Economic Strategy," in Efrain Gonzales de Olarte, ed., *The Peruvian Economy and Structural Adjustment: Past, Present and Future* (Miami: University of Miami North-South Center Press, 1996), p. 186.

22. Banco Central de Reserva del Perú, *Memoria 1996*.

extreme were easily carried through after the *autogolpe*. The pension reform of 1993 is an important example. In 1995, the government enacted a new law that lifted restrictions on private ownership of land, effectively reversing the military-sponsored land reform of the 1970s.

In addition to facilitating economic stabilization and adjustment, the *autogolpe* enabled Fujimori to reengineer the nation's democratic institutions by strengthening the power of the presidency and thus limiting institutional checks and balances. To be sure, in the post-*autogolpe* period Congress became increasingly muted. Fujimori was able to minimize political dissension within his own party, thus expediting Congressional approval for policy initiatives drafted by the Executive. This rigid discipline made Congress more isolated and less engaged with society, allowing Fujimori's congressional majority to override any type of political opposition. As Maxwell Cameron notes, "the *autogolpe* created an oxymoron: a non-deliberative legislature."²³

The implementation of Fujimori's economic program by top-down Executive Branch fiat rapidly stopped hyperinflation and restored economic growth. In 1994, the Peruvian economy registered a record-high growth rate of 13 percent. Fujimori was equally successful in defeating terrorism. In early 1995, only 4 percent of the population believed that terrorism was the biggest problem facing the nation, lagging far behind unemployment with 50 percent and poverty with 20 percent.²⁴ As a result, the reelection of Fujimori in April 1995 was a foregone conclusion. Peruvians also rewarded Fujimori with a new congressional majority.

Clearly, a dominant Chief Executive, which has been identified by the existing literature as a pre-requisite for the initiation of market policies, was present in Peru throughout much of the 1990s. Not even President Carlos Menem (1989-1999) in Argentina during the initial years of his first administration –also known as the period of "hypermajoritarianism"– achieved the same degree of Executive Branch control as did Fujimori.²⁵ But despite the amount of Executive control and limited opposition, the pace of reform under Fujimori was not consistent, primarily because of differences among groups that the president relied upon for support.

23. Maxwell Cameron, "Self-Coups: Peru, Guatemala, and Russia," *Journal of Democracy*, 9 (1998), p. 129.

24. Apoyo S.A., *Informe de Opinión*, March 1995.

25. Steven Levitsky, "The 'Normalization' of Argentine Politics," *Journal of Democracy*, 11 (2000), 56-69.

26. *Debate*, March-April 1999, 12. In an interview with the author in Washington DC on July 14, 1999, Minister of Finance Jorge Baca indicated that the president deliberately staffed his cabinet with members of these groups and continued with the same practice throughout the 1990s. For a similar discussion, see Carlos Boloña, *Cambio de Rumbo: El Programa Económico para los 90* (Lima: Instituto de Economía de Libre Mercado San Ignacio de Loyola, 1993), p. 25.

As explained below, both the electoral calendar and growing doubts about the benefits of the market model itself, which intensified in the late 1990s, served to encourage shifts in the balance of power between technocrats and populists, as well as changes in the state-business coalition from traditional exporters to industrialists. When differences among these groups appeared irreconcilable, Fujimori was prone to endorse the views of one group to the detriment of the others. As the chief of economic advisors Fritz Du Bois put it, "Our job was to design reform proposals . . . when certain reform proposals were not approved or executed, it was because we failed to persuade the President."²⁶

Obviously, the interests of technocrats were commensurate with the interests of the business elite, with the notable exception of industrialists, who had greater difficulties in bearing the costs of a liberalized economy. Perhaps the President of the National Industrial Society (*Sociedad Nacional de Industrias*, SNI) Eduardo Farah's comment "we are liberals, but not fools" best summarizes the differences between technocrats and the organized industrial sector.²⁷

The Orthodox Phase (1990-1992): Technocrats on the Rise

As in other Latin American countries, market reforms in Peru have depended heavily on the expertise of technocrats, mostly trained in foreign universities, who implemented key government decisions within the state bureaucracy, and as Mauceri points out, "have overseen the most significant overhaul of the state apparatus."²⁸ This technocratic group (dubbed the "liberal wing" by Peruvians), provided the ideological basis for the ongoing process of economic reform and was very influential within and outside the Ministry of Finance. Key figures were Minister of Finance Carlos Boloña and Executive Director of the Privatization Commission (COPRI) Carlos Montoya.

According to Efraín Gonzales de Olarte, Boloña – a conservative economist in his own right – was truly the promoter of market initiatives.²⁹ In fact, the Boloña tenure has been described as "the most dynamic phase" of reform.³⁰ As indicated above, the Boloña years coincided with the timing of the *autogolpe*, which expedited the approval of a vast number of economic reform initiatives via presidential decrees.³¹

27. *Perú Económico*, November 1996, p. 12.

28. Mauceri, p. 900.

29. Efraín Gonzales de Olarte, *El Neoliberalismo a la Peruana: Economía Política del Ajuste Estructural, 1990-1997* (Lima: Instituto de Estudios Peruanos - Consorcio de Investigación Económica, 1998).

30. *Debate*, March-April 1999, p. 11.

31. For a discussion of these decrees, see Carlos Boloña, "The Viability of Alberto Fujimori's Economic Strategy," p. 186.

During this phase, Fujimori dealt with business from a position of strength. As a political outsider, as Luigi Manzetti pointed out, the president "appeared to owe few favors to the traditionally powerful in Peru, thus giving him a free hand in policy-making."³² Generally speaking, international investors were preferred over domestic economic groups, because the latter, according to Fujimori, were considered too small to play a major role in the economic transformation process. Sally Bowen also suggested that Fujimori and his innermost circle of advisors (or personal loyalists, described below) evaluated almost every single reform proposal according to "which economic interests stood to benefit from the measure."³³ The privatization of the national airline (AeroPerú) was a case in point. The airline was initially sold to a domestic consortium, but Fujimori later overturned the sale and awarded the airline to Mexican investors at a second auction.³⁴ Such was Fujimori's capacity to set policy independently from the Peruvian business sector.

With the basic set of reforms in place, the Peruvian economy stabilized and the Executive's priorities began to change. For the business sector and the president, Boloña had simply become too orthodox.³⁵ This situation led to his dismissal in early 1993, and the subsequent appointment of a business leader as head of the Ministry of Finance.

The Pragmatic Phase (1993-98): The Business Elite Steps In

As the economic situation gradually improved, the president began more seriously to court business in order to broaden his base of political support. The president reached out to the business elite organized in CONFIEP by appointing various business leaders to key cabinet positions (see Table 1). In this phase, business and government became intrinsically linked. Politically, the business elite had supported the president in a critical time: during the *autogolpe*. Economically, the president provided the business community with the social and economic predictability that had been lacking in Peru since the late 1970s. The president not only appeared committed to the market orthodoxy, but also applauded and defended the bulk of IMF-sponsored policies. The president argued that he was a *fondomonetarista*, suggesting a strict adherence to the agreements signed with the IMF.³⁶

32. Manzetti, p. 250.

33. Sally Bowen, *The Fujimori File: Peru and its President, 1990-2000* (Lima: Peru Monitor, 2000), p. 37.

34. Manzetti, p. 250.

35. *Perú Económico*, January 1993, pp. 1-3.

36. González de Olarte, p. 43.

Table 1: Summary of Some Cabinet Positions Held by Business

Names	Business Background	Government Position
Jorge Camet	CONFIEP	Minister of Finance
Liliana Canale	National Exporters Society	Minister of Industry
Alfonso Bustamante	Peruvian Banking Association	Minister of Industry
Arturo Woodman	National Exporters Society	FONCODES
Ricardo Márquez	National Industrial Society	Vice-president
Efraín Goldenberg	National Fishing Society	Minister of Finance

The appointment of Camet in early 1993 as the head of the ministry in charge of managing the economy was a turning point in the relationship between the organized business sector and the government. Camet, a business leader in the construction sector, headed the Ministry of Finance longer than any other minister in recent history, almost six years from early 1993 to mid-1998. Observers noted that the president and Camet got along well mostly because the latter, unlike the previous Finance Minister Boloña, kept a low profile. Durand also pointed out that when Camet was president of CONFIEP during the 1990-91 period, the business umbrella organization "had a weaker, less experienced leadership."³⁷ In this way, Fujimori was making sure that he would monopolize the credit for economic success.

Fujimori's overture to business leaders, nonetheless, had important economic and social consequences. First, the management of the economy became increasingly accommodating to both business and the Executive's interests. Second, it created schisms within the business community. Third, it facilitated collusion and selective rent-seeking behavior, largely because of the absence of a broader framework of institutionalized consultation or dialogue.

Under Camet, the economic program experienced a different slant. While its direction was still largely neo-liberal, the Ministry of Finance became packed with accommodating technocrats, suitable to the interests of the business sector and the president. In fact, Camet worked very closely with CONFIEP's pro-business think tank created in 1994, the Instituto Peruano de Economía (IPE), to the extent that it became increasingly difficult to distinguish which sets of proposals were drawn by the IPE as opposed to government itself.³⁸ As Table 2 shows, the IPE also became an effective "revolving door" mechanism for exchanging jobs between key government institutions and the business sector.

37. Francisco Durand, *Business and Politics in Peru* (Boulder: Westview Press, 1994).

38. Personal interview with IPE's director Leoni Roca (Lima, August 27, 1997).

Business leaders channeled their demands directly to Camet.³⁹ During the pragmatic phase, among other things, the president agreed to certain tax cuts and restructured the privatized pension system. Business had demanded some of these policy changes for quite a while. In response to the executive's electoral necessities, namely, the 1995 presidential reelection campaign, the Ministry of Finance under Camet also eased certain aspects of macroeconomic policy, particularly social spending.⁴⁰

Table 2: Summary of Some Government-IPE Exchanges

Name	Prior Position	Later Position
Roberto Abusada	IPE Founder	Economic Advisor
Jorge Baca	IPE Director	Minister of Finance
Leoni Roca	Prime Minister Advisor	IPE Director
Fritz Du Bois	Economic Advisor	IPE Director

Naturally, Fujimori's overture to business leaders was welcomed by some and rejected by others. As in other Latin American countries, holders of more mobile factors, e.g., the financial sector and export-oriented primary producers, were more pro-market than holders of more specific or dedicated assets, e.g., local manufacturing.⁴¹ On repeated occasions, for instance, SNI President Farah defended local manufacturing as opposed to extractive activities (such as mining and fishing) because the former, he argued, created jobs.⁴² In response, the President of CONFIEP Manuel Sotomayor (from the National Fishing Society) indicated that "the role for business people was not to create jobs, but wealth."⁴³ For technocrats in the Ministry of Finance, including some business leaders, Farah incarnated the "Antichrist" of market policies because of his repeated requests for greater protectionism in the form of a higher, more differentiated system of trade tariffs.⁴⁴

Perhaps one of the reasons that explains Camet's lengthy tenure as Minister of Finance was the fact that his appointment coincided with presidents of CONFIEP who represented *gremios* (business groups) holding more mobile factors, and thus benefited more from market restructuring. Such were the cases of Arturo Woodman (1994–95), from the

39. Francisco Durand, "Collective Action and the Empowerment of Peruvian Business," in Francisco Durand and Eduardo Silva, eds., *Organized Business, Economic Change, and Democracy in Latin America* (Miami: University of Miami North-South Center Press, 1998), ch. 9.

40. Carol Graham and Cheikh Cane, "Opportunistic Government or Sustaining Reform? Electoral Trends and Public-Expenditure Patterns in Peru, 1990–1995," *Latin American Research Review*, 33 (1998), 67–104.

41. For a discussion, see Jeffrey Frieden, *Debt, Development and Democracy: Modern Political Economy and Latin America, 1965–1985* (Princeton: Princeton University Press, 1991).

42. *Perú Económico*, November 1996, p. 12.

43. *Caretas*, March 12, 1998.

44. *Caretas*, March 5, 1998; and *Perú Económico*, November 1996, p. 12.

National Exporters Society (Sociedad Nacional de Exportadores, SNE);⁴⁵ Jorge Piccaso (1996-97), from the Peruvian Banking Association (Asociación de Bancos, ASBANC); and Manuel Sotomayor (1998), from the National Fishing Society (Sociedad Nacional de Pesquería, SNP). While ASBANC grouped the financial sector, both the SNE and the SNP represented exporters of traditional goods (primarily extractive economic activities, including mining and fishing). Because these *gremios* were open to the new economic model, business demands on the government were inherently less hostile or conflictive, and thus the government was more inclined to accommodate them. Some observers noted that Camet had actually "hand picked" Woodman, Piccaso and Sotomayor to lead CONFIEP.⁴⁶ In contrast, other *gremios* including the Association of Exporters (Asociación de Exportadores, ADEX), which groups exporters of non-traditional goods, and the SNI were more critical of the government. Both *gremios* represented a large number of manufacturing companies, and generally had not been able to adjust quickly to the emerging market rules. The struggle between "winners" and "losers" was also reflected within CONFIEP. In fact, in March 1998, the organization faced the prospects of breakdown when elections polarized the organization into pro-Camet and independent candidates. Trade associations such as ADEX and the SNI perceived the leadership of CONFIEP as too close to the government, leaving the umbrella association without an independent voice. In March 1999, these conflicts intensified when CONFIEP's President Manuel Sotomayor sought reelection. In the end, CONFIEP's leaders acquiesced to the demands of trade associations seeking an independent voice by electing Roque Benavides, a representative of the National Mining and Petroleum Society (Sociedad Nacional de Minería y Petróleo, SONAMINPET), to the presidency of CONFIEP.⁴⁷ Benavides appeared to be a more independent candidate than the incumbent Sotomayor, who happened to be a close friend of Camet. This schism within CONFIEP that appeared for the first time in 1998 would intensify at the end of the decade. In early 2001, the SNI and ADEX, among others, would effectively abandon the business umbrella organization.⁴⁸

Finally, the connections between government and business also led to collusion and selective rent-seeking behavior. As Durand points out, Fujimori's overture to business leaders did not necessarily evolve into an institutionalized form of dialogue or consultation; instead, informal channels of access to state officials dominated the government-business landscape.⁴⁹

45. In 1998, the SNE changed its name to Sociedad de Comercio Exterior del Perú (COMEXPERU).

46. *Caretas*, March 12, 1998. When interviewed, Minister of Finance Baca, who succeeded Camet, indicated that the tenure of the latter also coincided with an unprecedented bonanza of short-term capital inflows, which in turn helped Camet to keep business demands at bay.

47. *Caretas*, January 18, 1999.

48. *El Comercio*, March 29, 2001.

Appointees like Camet and other business leaders derived particularistic benefits from government service.⁵⁰ Moreover, at least three different prime ministers (Alfonso de los Heros, Alfonso Bustamante y Bustamante, and Efraín Goldenberg) sat on the board of directors of the new pension companies almost immediately after leaving office.

Although the business sector continued to support Fujimori, the president's endorsement of the market orthodoxy began to wear down during his second presidential term, and considerably more so by the end of the 1990s. The president's changing views about the progress of economic reform would resonate primarily among populists.

The Watered-Down Phase (1998-2000): Populists on the Rise

Complementing the "liberal wing" and the business elite, Fujimori nurtured an informal network of personal loyalists, most of whom were connected with the president through personal, familial or social ties. This "kitchen cabinet" was dubbed the "populist wing" or "populists" because their views, according to technocrats, deviated from market principles. They were also known as the *santiaguistas* because of their association with the president's younger brother and main advisor, Santiago Fujimori, and last but not least, the "socially sensitive" wing because the majority of them ended up serving in ministries with a social slant, such as Health, Education and Labor.⁵¹ Populists afforded the president "the sort of loyal following within the state bureaucracy that is often associated with a political party."⁵² Throughout the entire Fujimori regime, populists occupied various official as well as unofficial positions within the state bureaucracy. However, as explained below, their ideas became more prevalent only in the late 1990s.

Ironically, the "populist wing" failed to form a unified front. In fact, populists often competed with a few technocrats, who were also very close and loyal to the president. Examples of the technocrats were Beatriz Boza (head of the consumer protection agency INDECOPI) and Alejandro Afuso (director of the targeted poverty alleviation program FONCODES). Among the populists, important figures were Absalón Vásquez (Agriculture), John Motta (Health), Sandro Fuentes (Labor), and Víctor Joy-Way (Industry). Vásquez became "one of Fujimori's closest confidants and most unreserved admirer."⁵³

49. Durand, "The Transformation of Business-Government Relations under Fujimori," p. 45.

50. Camet's construction company, for instance, appears to have benefited from a large number of government contracts. In a ranking of Peru's largest firms, J. J. Contratistas Generales S.A. went from the 1,285th position in 1987 to the top 70 in 1993. During that time, Camet served for two years in the Ministry of Industry and later was appointed head of the Ministry of Finance. See *Caretas*, January 29, 1998. By 1999, J. J. Contratistas was the eighth largest Peruvian construction company. See *Perú en Números 1999*, p. 903.

51. Bowen, p. 297.

52. Mauceri, p. 907.

Populists have always had a distinct "policy repertoire" very unlike that of the radical neo-liberals. They were more skeptical about the alleged benefits of market policies. In what came to be regarded as "absalonomics," Absalón Vásquez openly criticized, among other things, the privatization of public utility companies because it had led to monopolistic practices and higher fees, the liberalization of the banking system because it had resulted in prohibitive interest rates for consumers, and open trade policies that had seriously hurt the industrial and agricultural sector.⁵⁴ In short, "absalonomics" called for a bigger state presence, and through more regulations and government oversight, hoped to contain the pressure wielded by powerful business interests.

The economic restructuring process under Fujimori is replete with examples in which technocrats, business leaders, and populists vied for policymaking pull. In 1993, for instance, when Absalón Vásquez was Minister of Agriculture, he proposed preferential tax treatment for agriculture. But the then Finance Minister Camet rejected Vásquez's proposal, stating that sectorial policies simply contradicted the main objective of the ongoing tax reform, which was to maximize tax revenues.⁵⁵ Populists were also entrusted with the direction of the consumer protection agency INDECOPI, and the president endorsed repeatedly its work. However, business leaders and technocrats objected to INDECOPI, particularly when the institution acted on behalf of the state without an explicit request from consumers.⁵⁶

Central to the balance of power among these groups was the control of the cabinet, where much of policy discussion took place. The prime-ministership became a pivotal position that could easily help sway the debate in favor of or against market orthodoxy. According to Fritz Du Bois, the most serious threat to the continuation of reforms took place in mid-1995, when the president, following the recommendation of his brother Santiago, appointed Dante Córdoba as Prime Minister and Minister of Education.⁵⁷ But technocrats and business leaders closed ranks, forcing the resignation of the Córdoba cabinet in early 1996. Shortly after, Santiago Fujimori withdrew as the main presidential advisor. However, the defeat of the "populist wing" was only temporary.

Various factors contributed to the re-emergence of the "populist wing" in the 1998-2000 period. On the external side, instability in international markets brought the Peruvian economy into a deep recession. A new occurrence of El Niño in early 1998 also pounded

53. Bowen, p. 336.

54. *Perú Económico*, March 2000, pp. 6-9.

55. *El Comercio*, November 10, 1993.

56. INDECOPI was also dubbed "ghost buster." See *Presencia*, April 1996, p. 17.

57. *Debate*, March-April 1999, p. 15. Like Vásquez, Córdoba also attempted to set up protective measures for the agricultural sector. See *Revista Sí*, April 15, 1999, pp. 8-15.

the economy. The economic recession gradually resurrected organized political opposition to the president, that continued well into the year 2000. On the domestic front, the president prepared himself for a highly controversial second reelection. In response to these events, Absalón Vásquez suggested that one way to counterbalance the rising political organization against the president was through political mobilization among lower class sectors. These efforts were also targeted at increasing Fujimori's electoral chances. But the president had openly avoided and discouraged this type of partisan grassroots mobilization.⁵⁸ In fact, rather than establishing an institutionalized base of support, Fujimori created three "disposable parties."⁵⁹ In the end, Vásquez successfully persuaded the president to go along with the idea, which implied, among other things, the manipulation of government relief programs. As such, the poverty alleviation program FONCODES increasingly became a target of Vásquez's political ambitions. In mid-1998, FONCODES director Alejandro Afuso was forced to resign by pressure from the populist Vásquez because the technocrat Afuso was seen as "uncooperative" and "disobedient."⁶⁰ FONCODES was perhaps the last standing social program to overtly fall prey to Fujimori's growing electoral machine.

The impact of these events was more dramatic in the ministry in charge of managing the economy, and signaled the end of the technocratic-business era. In early 1999, the president appointed an old populist loyalist, Victor Joy-Way, as new Minister of Finance.⁶¹ The new minister ousted the entire team of economic advisors, which had assisted Boloña and Camet for almost seven consecutive years. During the last two years of Fujimori's second term, the president replaced Ministers of Finance three times, each of which had a tenure averaging six months. Fujimori thus came full circle: in 1990 he began his first administration improvising a set of market initiatives; he ended his second term in 2000 also improvising, though this time without a clear sense of direction.

In the absence of any sign concerning possible changes to the market model, the economic recession eventually took a toll on business unity. In fact, the business-state alliance forged during the Camet years, which was largely dominated by traditional exporters and the financial sector, shifted in favor of local manufacturing and agriculture. Signaling tensions

58. See Kenneth M. Roberts, "Neo-liberalism and the Transformation of Populism in Latin America: The Peruvian Case," *World Politics*, 48 (1996), 82-116. See also Mauceri, p. 900.

59. Steven Levitsky, "Fujimori and Post-Party Politics in Peru," *Journal of Democracy*, 10 (1999), p. 81. Fujimori's lack of an institutionalized base of support may have encouraged his increased reliance on Vladimiro Montesinos – the president's chief security advisor – which would eventually undermine accountability in a political sense, and effectiveness in an economic sense.

60. *El Comercio*, September 15, 1998.

61. Camet resigned in mid-1998, but managed to entrust the direction of the ministry to a close friend Jorge Baca. Baca's tenure lasted only five months. Interestingly, in the early 1990s, Joy-Way described himself as a "prudent heterodox" in direct defiance to Boloña's strict orthodoxy. See *Caretas*, January 14, 1999.

between business and government, in 2000 the president failed to appear at CADE, the elitist annual meeting of business executives. The president also began to court SNI President Farah, who had been a fierce critic of market economics and *Fujimorismo*. Farah went on to become a Congressional representative under Fujimori's party. The alienated sectors of CONFIEP, such as the SNI and ADEX, appeared to join ranks with the populists led by Vásquez, who was also elected to Congress. But the new governing coalition never materialized. Mounting evidence of corruption and gross criminality forced Fujimori to resign from office, and seek refuge in Japan.

In all, different groups with varying resources and repertoires shaped the process of economic reform in Peru. Shifts in the balance of power between technocrats and populists were encouraged by the electoral calendar. Populists were always critical players throughout the entire Fujimori regime. They attempted to capture the cabinet in the mid-1990s, albeit unsuccessfully. Growing doubts about the benefits of the market model also served to encourage changes in the state-business coalition from traditional exporters to industrialists. The discrepancies within the business sector ultimately led to the collapse of CONFIEP as an encompassing organization. Only in the late 1990s, aided by an economic recession and electoral uncertainty, did the ideas from populists and industrialists find a receptive audience in the Executive. To be sure, the president was persuaded by these ideas. The results of their influence are made clear by the sets of policies that emanated from the Executive, which in essence deviated from the prevailing market orthodoxy.

Fujimori as Politician

The courageous efforts that characterized the initial implementation of market reforms in Peru began to wear down early during Fujimori's second presidential term. The change in the Executive's priorities is puzzling for various reasons. First, business-government relations were still relatively cooperative; but despite CONFIEP's requests for the continuation of economic reforms, particularly in the area of privatization, these petitions failed to register in the Executive. Second, the economy continued to grow (see Table 3); yet economic growth did not trigger positive feedback for the deepening of reforms. Third, some of the reforms discussed below were discarded as early as 1996, precisely when presidential popularity for that same year averaged 60 percent, still relatively high compared to previous years.⁶²

62. Apoyo S.A., *Informe de Opinión*, January–December 1996. Presidential support declined considerably during the 1997–1998 period, and may have further eroded the political will to continue with the reforms. Yet is also clear that the slowdown of reforms preceded the decline in presidential popularity.

Recent literature has suggested that important changes occur as market-oriented reforms shift from initial to later stages. Various scholars have noted that later reforms – dubbed “second-generation” reforms – are more messy and less predictable than earlier reforms. Among other things, these reforms are thought to be more difficult to implement, take much longer to achieve results, involve a broader array of actors, and require the cooperation of a wider range of societal groups.⁶³ Manuel Pastor and Carol Wise disaggregate “second-generation” reforms into three different types: market-completing reforms, which generally include antitrust legislation and laws that guarantee property rights; equity-oriented programs that seek to ameliorate distributional issues; and finally, institution-building initiatives, which consists of efforts to create a more professional civil service.⁶⁴ Drawing upon this framework, only one of the Peruvian reforms discussed below – the so-called reform of the state of 1996 – fits the categorization of “second-generation” reforms, specifically institution-building initiatives. Privatizations, which are thought to be part of the first phase of reform, stagnated considerably in the late 1990s. Moreover, state agencies, like the Central Bank and the tax office SUNAT, which arguably advanced the most in creating modern bureaucracies, actually suffered significant institutional decay, rather than the predicted problems associated with the implementation of this type of reforms. All told, the theorized difficulties involved in implementing “second-generation” reforms do not account well for the bulk of reforms that stalled in the post mid-1990 period.

In hindsight, it is plausible that Fujimori was unwilling to pursue further reform plans in his second term so as not to compromise future reelection prospects. In fact, it is widely known that preparations for a second reelection began also in 1996, when Fujimori’s supporters in Congress proposed the so-called “law of the authentic interpretation” of the constitution (*Ley de Interpretación Auténtica*). This law sought to make the president eligible for a third presidential term. The events surrounding the 2000 presidential election clearly demonstrated that Fujimori’s supporters were willing to go to great lengths to make his third presidential term a reality. The bribing of politicians to switch party loyalties is a case in point. By no means do I wish to suggest that these electoral motivations were of no consequence. However, they have been amply discussed elsewhere.⁶⁵ The preparations for a third presidential term that began in 1996 also cast some doubt on the suggestion that reforms

63. For a discussion, see Moisés Naím, *Latin America’s Journey to the Market: From Macroeconomic Shocks to Institutional Therapy* (San Francisco: Institute for Contemporary Studies, 1995); and Joan Nelson, *Intricate Links: Democratization and Market Reforms in Latin America and Eastern Europe* (New Brunswick: Transaction Publishers, 1994).

64. Manuel Pastor and Carol Wise, “The Politics of Second-Generation Reform,” *Journal of Democracy*, 10 (1999), 35.

65. See Martin Tanaka, “The Political Limits to Market Reform in Peru,” paper prepared for the 2001 Annual Meeting of the Latin American Studies Association, Washington, D.C.

could have stagnated because of a "lame duck" effect of a second, but final, presidential term.

Neither the hypothesized difficulties involved in implementing "second-generation" reforms nor the reelection motives that could have potentially derailed further reform plans tell us much about the direction of the economic reform agenda of the late 1990s, which in many ways was more in line with the populists' repertoire. If anything, by the end of decade the president ceased to pursue marketization altogether. Fujimori now criticized IMF-sponsored policies, gave agriculture the long-awaited preferential tax system, made plans to reinstate the so-called development banks, primarily for agriculture, and in what would be his last presidential address, announced a program of "import substitution industrialization," hoping to revitalize fading industries and thus create jobs. Had Fujimori remained in power, he would have found plenty of "policy carriers" willing to continue this revisionist reform agenda.

On the privatization side, whereas initially government officials indicated that there were no "sacred cows," by the mid-late 1990s state officials not only began to explicitly withdraw companies from the "privatization menu," but also attempted to "submit to review" existing privatization agreements. The suggested review process had a "chilling effect" on investment expectations.⁶⁶ All told, the president now stated that he was "not much of a fan of privatization" after all.⁶⁷

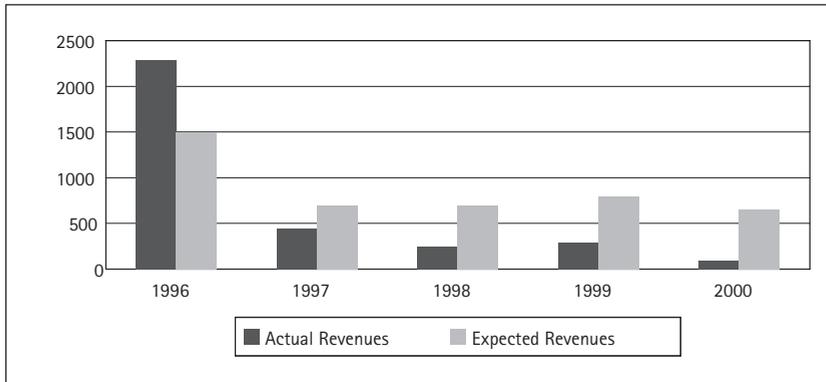
Figure 1 presents clear-cut evidence that the privatization efforts indeed stalled. Beginning in 1997 the government failed to obtain the estimated revenues from privatization as indicated in the letters of intent signed by Peruvian authorities with the IMF.⁶⁸ The fact that governments fail to meet IMF targets is not new; yet in the Peruvian case the stagnation of the privatization program was particularly troublesome, given the rising budget deficit, which in 1999 amounted to 3.1 percent of GDP. (See Table 3).

66. *Perú Económico*, April 1999.

67. Bowen, p. 302.

68. I have reviewed the letters of intent for the 1993-2000 period. The estimated revenues from privatization are explicitly indicated beginning in 1996 onward. These letters were taken from the *Revista Moneda*, a monthly magazine published by the Peruvian Central Bank.

Figure 1: Privatization Revenues, 1996-2000



Sources: Actual revenues were taken from Instituto Nacional de Estadística e Informática, *Peru Compendio Estadístico Económico Financiero 1999-2000*. Expected revenues were taken from the letters of intent signed by Peruvian authorities with the IMF. Figures in millions of U.S. dollars.

Moreover, the much anticipated 1996 reform of the state – a staple of “second-generation” reforms – which attempted to streamline and strengthen the capacity of the public sector, was abandoned. With 16 ministries and more than 100 autonomous agencies, by the end of the 1990s the public sector under Fujimori employed more workers than the García administration. Spending on wages and salaries alone increased from \$1,760 million in 1991 to \$3,634 million in 1996.⁶⁹

State institutions, such as the Central Bank and the tax office SUNAT, which were drastically reorganized in an effort to create competent modern bureaucracies early in the Fujimori regime, suffered important institutional decay. By the end of Fujimori’s second presidential term, the Central Bank housed 514 cases of nepotism. As pointed out by Rolando Reátegui, the President of the Oversight Committee of the 2000–01 Congress: “We found that the Central Bank employed (multiply by two) 77 brothers, 52 married couples, 62 in-laws, 19 uncles and nephews, 40 cousins and 7 fathers and sons, which amounts to 514 people from a total of 1,058 bank officials.”⁷⁰ Having earned an unusual reputation for technical competence, the tax office SUNAT also suffered an important loss in policy efficacy. According to Robert Taliercio, the origins of the decay began in the Ministry of Finance,

69. *El Comercio*, October 29, 2000; and July 26, 2001.

70. *El Comercio*, May 5, 2001.

which persistently challenged the autonomy of the tax office.⁷¹ Recent investigations also indicated that Montesinos gained substantial control over the tax office as early as 1997. All these events had obvious serious repercussions concerning tax collection.⁷²

Table 3 provides macroeconomic trends for the 1990s. Inflation appears to be one of the few economic indicators that improved considerably compared to previous years. At the macro level, while GDP growth, tax revenues, and terms of trade declined, the government deficit increased. At the micro level, the indexes of wages and employment also deteriorated. Along these lines, and contradicting official accounts, a recent study revealed that the percentage of the population living in poverty increased from 42.7 in 1997 to 48.8 percent in 2000. In Lima, the percentage of the poor increased from 25.4 in 1997 to 38.9 percent in 2000.⁷³ These new figures parallel estimates from independent institutions, suggesting that the Fujimori government had actually manipulated poverty estimates. GDP estimates, which were widely known for being overestimated, were also subject to political manipulation.⁷⁴

Comparatively, the question remains as to how well Peru did vis-à-vis other countries. The Global Competitiveness Report ranks countries according to their growth potential.⁷⁵ Within a sample of 59 countries, the 2000 report indicated that the Peruvian economy slipped considerably compared to previous years. It was ranked 48th, slightly better than the Andean average (52th), but lagging far behind the Latin American (40th) and East Asian (37th) averages.⁷⁶

71. Robert Talierto, "Unsustainably Autonomous?: Challenges to the Revenue Authority Reform Model in Latin America," paper prepared for the 2001 Annual Meeting of the American Political Science Association, San Francisco.

72. In the wake of allegations concerning Montesinos's multimillion dollar fortune, Finance Minister Camet ordered the tax director Jorge Baca to state that "the taxpayer Vladimiro Montesinos files and pays his taxes on time." See *El Comercio*, November 25, 2000.

73. Instituto Nacional de Estadística e Informática, *Nota de Prensa* 37, July 2001.

74. *El Comercio*, December 6, 1999; and *Gestión*, October 19, 1999.

75. World Economic Forum, *The Global Competitiveness Report 2000* (Oxford: Oxford University Press, 2000). Alternatively, Morley et. al. have put forward a general reform index. However, for my purposes this index has a significant limitation in that the last year for which the data were available is 1995.

76. The Andean average corresponds to Venezuela, Colombia, Ecuador and Bolivia; the Latin American average involves Mexico, Chile, Brazil and Argentina; and the East Asian average corresponds to Malaysia, Korea, Thailand, Philippines, China, Indonesia, and Vietnam.

Table 3: Macroeconomic Performance in Peru, 1991-2000

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Real Gross Domestic Product (percent change)										
Total	2.2	-0.4	4.8	12.8	8.6	2.5	6.7	-0.5	0.9	3.1
Manufacturing	5.4	-3.3	3.4	16.6	5.5	1.5	5.3	-3.2	-0.5	6.7
Government Finance (as a percentage of GDP)										
Tax Revenues	11.1	12.0	12.2	13.1	13.4	13.9	14.1	13.8	12.5	12.1
Balance	-2.8	-3.9	-3.1	-2.8	-3.1	-1.0	0.2	-0.8	-3.1	-3.2
Consumer Prices (percent change) and Wages (index)										
Prices	409.5	73.5	48.6	23.7	11.1	11.5	8.5	7.3	3.5	3.8
Real Wages	120.9	102.8	116.4	130.1	110.1	109.0	108.2	106.3	104.6	n.a.
Employment	123.1	109.8	101.7	102.3	101.4	104.9	108.5	110.4	106.1	104.5
Trade (millions of U.S. dollars)										
Exports	3 406	3 661	3 516	4 598	5 589	5 898	6 832	5 757	6 119	7 028
Imports	3 595	4 001	4 123	5 596	7 754	7 886	8 553	8 222	6 749	7 349
Terms of Trade	100.4	99.6	92.6	100.0	103.9	99.5	104.8	90.5	85.5	85.1

Sources: Banco Central de Reserva del Perú, *Memoria 2000*. Terms of Trade: price of traditional exports relative to imports, 100 = 1994. Real wages: index of wages in Lima, 100 = 1990. Employment: yearly average index of the number of workers employed in firms employing 100 workers or more, 100 = January 1995. Real wages and employment figures were taken from the Instituto Nacional de Estadística e Informática, *Peru Compendio Estadístico Económico Financiero 1999-2000*.

CONCLUSION

This article has examined the internal dynamics of *Fujimorismo* to shed new light on the stagnation of reform efforts. While the slowdown of reforms began during a period of economic recovery, reform fatigue is more complex than conventional wisdom suggests. Paradoxically, Fujimori had almost everything a would-be reformer would envy, and yet the record of reform was mixed. The dominance of different groups with varying resources and repertoires across different phases of the economic restructuring process helps to account for the slowdown of reforms. Both the electoral calendar and the progress of the economic reforms determined the importance of these groups. Essentially, whereas technocrats prioritized reforms over politics, populists prioritized politics over reforms, and business acted united only insofar as it was beneficial for them to do so. Extant state-centered accounts on the politics of "marketization" continue to overlook the role of state-society interaction, and sources of support, which have been critical to the advancement of reforms even within the state apparatus.

Aside from explaining the process of economic reform in Peru, a number of conclusions having broader implications for the politics of "marketization" may be drawn from this

study. First, if an authoritarian regime like Fujimori's was subject to group pressure politics, surely more democratic societies are likely to face the same, if not greater, societal pressures. Second, while the presidential reelections of Menem in Argentina, Cardoso in Brazil and Fujimori in Peru have been interpreted as a sign of the popularity of "marketization" policies, lengthy Executive tenures in office appear unlikely to be conducive to deeper economic reforms. In fact, the disappointment with executives that have also enjoyed unusually lengthy tenures because of carefully crafted reelection schemes is hardly unique to Peru. In Argentina, for instance, after an initial period of Executive Branch dominance, President Menem gradually acquiesced to the political grievances of his party, the Partido Justicialista (PJ). This process of party-accommodation also led to some "illiberal" pockets in the reforms.⁷⁷ Menem, for instance, agreed not to change the existing labor code and social welfare provisions. These so-called "illiberal" pockets would continue to haunt the Argentine economy throughout the 2000s. However, among "inchoate" party societies, such as Brazil and Peru, parties may not necessarily be central to the deepening of reforms.⁷⁸ In Brazil, as David Samuels noted, President Cardoso's political capital has been in short supply largely because the Brazilian Executive does not enjoy the coattail effects that most federal systems normally afford.⁷⁹ Brazilian state-based politics continue to complicate the implementation of economic reforms. Certainly, new leaders like Fujimori have greater "political capital" to implement economic reforms early during their initial years in office.⁸⁰ However, once reelected, the political incentives that may drive these state officials to deepen reform efforts are not entirely clear. Preparations for a third presidential term, which incidentally were also present in Argentina, only served to weaken further reform plans.

Finally, the Peruvian experience suggests that policy centralization, which became a permanent feature throughout the entire Fujimori regime, does not always deliver effective market change. Consequently, the successful implementation of market reforms may require a broader framework of contestation and accountability rather than centralized policymaking.⁸¹ The absence of institutional checks and balances was obviously more acute in Peru than anywhere else in Latin America, which casts doubt on the capacity of insulated decision-making processes to establish the basis for deeper reform. Ironically,

77 Corrales, p. 139.

78 Scott Mainwaring and Timothy Scully, *Building Democratic Institutions: Party Systems in Latin America* (Stanford, California: Stanford University Press, 1995).

79 David Samuels, "Concurrent Elections, Discordant Results: Presidentialism, Federalism, and Governance in Brazil," *Comparative Politics*, 33 (2000), 1-20.

80 Karen L. Remmer, "The Political Economy of Elections in Latin America, 1980-1991," *American Political Science Review*, 87 (1993), 393-407.

81 Haggard and Kaufman, *The Political Economy of Democratic Transitions*.

organized business benefited from this pattern of centralized authority, mostly through back-room lobbying, and with privileged and easy access to the Ministry of Finance. However, when push came to shove, for instance, when business demanded greater transparency in the statistics being released by the government, or the continuation of the privatization program, the impact of business on policy was null. Thus the absence of a broader framework of contestation and accountability can be also detrimental to business interests in the long run.