Introduction

Throughout most of the post–World War Two era Latin America was perhaps best known for its erratic swings in political regimes and economic strategies and for a decidedly mediocre development record that failed to productively tap the region's rich resource base or buoyant international trade opportunities. While the East Asian region had spawned numerous cases of economic transformation based on high growth and dynamic trade, investment, and distributional gains over this same time period, Latin America could boast of virtually none. Through the "lost decade" that followed the 1982 debt crisis, some pessimists saw an underdeveloping Africa, rather than a newly industrializing Asia, as a more appropriate point of political-economic comparison for the region. The negative growth rates of the 1980s, not to mention the appalling outbreaks of hyperinflation in middle-income countries like Argentina, Brazil, and Peru, did little to dispel such pessimism.

However, with the advent of the 1990s, this all changed. In 1997, Latin American growth rates averaged more than 5 percent of gross domestic product (GDP) for the first time in twenty-five years, and inflation—long the scourge of the region—was heading toward single digits.[1] The region's fiscal deficit had been reduced from an average of more than 9 percent of GDP in the 1985–89 period to less than 1 percent a decade later. Latin American trade with the rest of the world had doubled, and private investment had rebounded from the depths of the 1980s. Because of lingering weaknesses in competitiveness, slack labor markets, and the tenacious hold of poverty and income inequality in the region, these advances still fell short of an Asian-style transformation. Nevertheless, when Latin America's corresponding transition to democracy is factored in, they qualify as a healthy turnaround by anyone's measure.

What explains this turnaround in the region? The answer to this question calls up long-standing debates over what actually drives political and economic development. Political scientists, for example, have long concerned themselves with the extent to which international or domestic variables should be more heavily weighted in the explanation. Economists, on the other hand, have approached this same question according to whether policies sponsored by the state or those that rely on the market deserve credit for triggering a turnaround such as this one. Since the late 1980s an impressive

1. These data are cited from the Economic Commission for Latin America and the Caribbean (ECLAC) Web page <www.eclac.org>.

body of policy research has attempted to operationalize such political and economic variables in ways that render them useful as reform prescriptions. John Williamson's (1990, 405) "Washington Consensus"—an ambitious set of proposals for restructuring Latin American economies along staunch market lines—falls solidly in this category, as do numerous policy analyses that have offered specific road maps for the reform of the state (Keefer 1995; Naím 1995; Burki and Perry 1998).[2]

In this book, I seek to answer this same question from the angle of the changing role of the Latin American state in the development process, which includes an in-depth case study of how these themes have played out in Peru. In doing so, I borrow from all three of these research approaches. For example, the political science literature offers compelling arguments about the force of such domestic variables as institutions (state agencies, congresses, political parties), interest coalitions, and executive leadership in explaining political-economic change. While some international relations theorists might insist that such change is rooted in a given country's position within the global system, or in any number of other international influences, I side with a rich tradition of comparativists who have declared this systemic variable an important contextual backdrop that must be taken into account but that falls short of offering a full explanation.

The trends in table 1, which charts the performance of those five Latin American countries that have gone the furthest in implementing market reforms, support this claim. For example, while the 1982 debt shocks constituted a critical juncture for Latin America in that the prevailing state-led strategy literally imploded under the force of rampant fiscal deficits and exorbitant levels of government-backed debt, the response of the respective countries in table 1 was quite variable. The general trend was toward sound macroeconomic recovery, although the five countries in the table can be broken down between fast growers in the 1990s (Argentina, Chile, Peru) and those with much slower growth rates like Brazil and Mexico.

At the same time, the most aggressive traders, Chile and Mexico, emerged from each of these two groups, as these are the only countries that experienced export growth rates that surpassed 22 percent of GDP over the past decade. Nuances and puzzles like these demand further reflection as to the sources and nature of political-economic change, but they also elude international explanations such as those based on external shocks, a given country's

2. With its emphasis on fiscal discipline, tax reform, financial liberalization, trade opening, deregulation, and privatization, the Washington Consensus became a "neoliberal" recipe for presidents like Carlos Andrés Pérez in Venezuela, Carlos Menem in Argentina, and Alberto Fujimori in Peru—all of whom ran on gradualist platforms, only to find their respective economies completely unmanageable by the time they were inaugurated.

TABLE 1. Macroeconomic and External Indicators in Argentina, Brazil, Chile, Mexico, and Peru: 1970–2000

	Argentina			Brazil			Chile			Mexico			Peru		
	1970–81	1982–90	1991–2000	1970–81	1982–90	1991–2000	1970–81	1982–90	1991–2000	1970–81	1982–90	1991–2000	1970–81	1982–90	1991–2000
GDPGRO	2.3	–0.6	4.7	7.5	2.3	2.7	3.1	3.9	6.6	7.2	0.7	3.5	4.1	–1.6	4.7
GNPPCGRO[a]	0.8	–2.6	5.0	4.8	–0.0	1.3	0.6	2.1	6.7	3.6	0.6	1.3	1.3	–4.0	4.3
INF	127.9	862.8	21.4	44.6	670.7	579.0	150.0	20.5	9.5	16.8	73.7	18.7	33.3	1,351.1	60.1
PRIVGDP[a]	14.4	13.7	16.5	14.9	16.0	15.5	7.9	12.7	18.8	12.9	12.8	15.4	10.2	14.2	16.7
PUBIGDP[a]	8.6	4.6	1.6	7.0	5.9	4.4	7.5	5.0	4.9	8.2	6.3	3.5	7.1	5.7	3.7
INVEST[a]	22.9	18.4	18.1	22.0	21.9	19.9	15.4	17.6	23.7	21.1	19.0	18.9	17.2	19.9	20.4
RER	97.9	142.7	57.1	109.8	169.3	91.3	51.6	99.4	78.9	85.9	123.4	83.5	226.7	214.7	75.4
TRADEBAL	759.2	4,153.6	–283	–1,395.3	10,920.9	2,718.5	–256.6	1,074.7	–19.0	–2,020.4	6,519.7	–6,045.7	9.5	336.5	1,142.4
CURACCT	–633.7	–1,517.2	–8,701.3	6,210.8	–3,202.9	–15,223.0	–933.8	–1,141.9	–2,000.2	–4,304.8	–868.9	–14,848.9	–483.6	–1,094.7	2,613.9
FDI	186.7	681.9	6,347.5	1,583.6	1,665.8	12,517.6	33.6	5,415.8	2,079.7	931.9	2,020.4	8,793.1	67.7	19.81	1,533.3
PORT	121.6	–397.0	6,952.2	337.3	–220.8	13,752.1	4.8	41.1	565.0	276.8	–271.4	9,312.5	–4.2	NA	140.1
DEBT	13,264.3	54,110.2	106,642.6	36,080.0	108,949.2	179,496.8	6,680.0	19,426.6	27,995.7	27,876.9	97,612.2	147,070.2	6,578.1	15,147.9	27,365.4

Source: GDP, GNP, and debt are from the World Bank, *World Tables, CD-ROM,* 2000 and 2001; GDP growth and debt are from Economist Intelligence Unit Country Reports (March and April 2001); and GNP per capita data are from the Inter-American Development Bank Web site (<www.iadb.org>) 2001. Data on investment from Bouton and Sumlinski 2001 (<www.ifc.org/economics/pubs/discuss.html>). Inflation, exchange rates, and payments are calculated from the IMF's *International Financial Statistics, CD-ROM,* 2001, except for the following: trade balance and current account data for Brazil and Chile prior to 1975, Argentina prior to 1976, Peru prior to 1977, and Mexico prior to 1979 are from IMF 1984; FDI and portfolio investment data for Brazil and Chile prior to 1975, Argentina prior to 1976, Peru prior to 1977, and Mexico prior to 1979 are from IMF 1994.

Note: GDPGRO = growth of real GDP; GNPPCGRO = growth of real per capita GNP; INF = Dec.–Dec. inflation; PRIVGDP = private investment as percentage of GDP based on data through 1998; PUBIGDP = public investment as percentage of GDP based on data through 1998; INVEST = total domestic investment as percentage of GDP based on data through 1998; RER = real exchange rate (1990 = 100), calculated using period average exchange rates, U.S. WPI and domestic CPI; TRADEBAL = trade balance (mil$) = merchandise exports – merchandise imports; CURACCT = current account (mil$); FDI = foreign direct investment (mil$); PORT = foreign portfolio investment (mil$); DEBT = total external debt (mil$).

[a]Data on investment and real per capita GNP are through 1998.

ranking in the global economy, or multilateral policy advice. Given that all five countries in table 1 faced the same external opportunities and constraints in the 1990s, domestic variables and the policy choices they have spawned become essential for specifying the causes of differential outcomes within this general turnaround scenario.

At least one strand of the economics literature—the "new institutionalism"—offers insights that enrich explanations based on domestic variables. While acknowledging the importance that their neoliberal colleagues have placed on market forces, institutional analysts simultaneously insist that the market alone cannot be counted on to foster constructive patterns of development. Rather, Douglass North (1990), Oliver Williamson (1985), and others have argued that favorable economic performance also requires that the market be grounded in a sound set of domestic institutions. This includes formal rules such as the statutes, common laws, regulations, and property rights embodied in the judicial system; informal rules in the way of conventions, norms, and self-imposed codes of conduct; and a wide range of state (e.g., central banks, planning entities, regulatory commissions) and societal (e.g., labor unions, business associations) organizations (Franko 1998, 149). For the new institutionalists, it is the combination of market restructuring and far-reaching institutional reform that would best account for the turnaround in table 1. And it is the variation in institutional structures, broadly defined, that would shed the most light on those differential reform outcomes that have occurred under the thrust of the same market paradigm.

The policy-research literature on Latin American economic reform in the post-debt-crisis era has taken this notion of a market tamed by formal and informal institutions several steps further. First, in light of the many stalled adjustment efforts in the 1980s, this literature came to identify market failure and the profound weaknesses of the Latin American state as two sides of the same coin (Naím 1994). Second, as state reform was gradually cast as a necessary condition for the ultimate success of a market strategy (Haggard 1995; World Bank 1997), this literature challenged the neoliberal notion that privatization and state shrinking were synonymous with such reform (Manzetti 1999). Institutions, as defined earlier, were posited as important, but so too was the reconstruction, renovation, and internal renewal of the state. Third, as the healthy growth rates of the mid-1990s began to give way to a series of external shocks and nagging recession, earlier calls for institutional reform began to shift in favor of a more active state policy (Rodrik 1998; Birdsall and de la Torre 2001). This does not refer to the kinds of reckless interventions that marked the region's past, but instead to the need for a cohesive set of public policies to better combat market failure, to soften the blows of liberalization, and to foster economic dynamism along more equitable lines.

In drawing on these three main political-economic approaches that focus on domestic institutional variables and the best of the policy-reform prescriptions that have emerged over the past decade, chapter 1 sets out to accomplish three main tasks. First, I analyze patterns of economic strategy and institutional change in post–World War Two Latin America from the standpoint of the changing role that the state has played in shaping development outcomes. Three main phases of state intervention are examined: (1) the developmentalist phase that prevailed from the early postwar years up until the 1982 debt shocks, an era in which import-substituting industrialization (ISI), protectionism, and government regulation flourished; (2) the period following the 1982 debt crisis, during which chronic financial insolvency and fiscal retrenchment prompted a retreat from statist strategies and in some cases a virtual collapse of public finances; and (3) the revival of the state's economic presence in the 1990s in a more arm's-length manner, as opposed to the direct modes of participation that had prevailed up through the 1980s.

Second, in order to better specify the ways in which the region has turned the corner, from an all-encompassing statist model to one in which the state has assumed a more market-supporting role in the economy, I construct a time-series database on state participation and economic performance in Latin America from 1960 to 2000. The database confirms that, although deemed problematic by market enthusiasts and multilateral lenders in the wake of the debt shocks (World Bank 1983; Balassa, Bueno, Kuczynski, and Simonsen, 1986), the size of the Latin American state still lagged far behind that of the industrialized countries (Slemrod 1995). Moreover, until the crisis-ridden 1980s, public-sector outlays moved in an upward secular pattern across the five countries, regardless of the different development strategies that may have prevailed over this time period. Although state participation rebounded in the 1990s after the precarious collapse of the 1980s, today's trends are now on par with those of the 1970s. Thus, when all is said and done, a supposedly streamlined Latin American state of the 1990s basically captured the same share of GDP as the grandiose developmentalist state of the 1970s. What to make of these trends?

Given that arguments based on the size of the public sector or the weight of the state in the economy have us literally running in circles, chapter 1 seeks to refine such arguments by identifying the ways in which state intervention became problematic over time. From the time-series database, I extract a cluster of state-related variables that accumulated over the post–World War Two period in the region and that largely account for the severity and duration of the crisis that exploded in 1982. In hindsight, the problem was less the economic scope of the state than it was the quality and nature of state participation across the region. Briefly, the cluster of problems surrounding the latter consisted of an excessive reliance on external borrowing to finance the state; the chronic neglect of fiscal and monetary policy; the placing of too much faith in inefficient state-owned enterprises (SOEs); a perpetual standoff between the state and private investors; and the persistence of dismal patterns of inequality despite a good deal of rhetoric about poverty reduction and the imperative to improve income distribution.

In large part I attribute the turnaround in table 1 to the resolution of this cluster of state-related problems (persistent poverty and inequality notwithstanding), which had become a necessary condition for achieving economic stabilization and recovery in the wake of the debt crisis. Yet, as the 1980s wore on, the track record also showed that the rationalization of the state sector was not an entirely sufficient condition for triggering a sustainable reactivation or anywhere near the levels of growth that would be necessary to revive regional economies. Institutions, regulations, and the state's overall organizational culture would also have to be reformed. Hence, a third task of chapter 1 is to identify those institutional variables that capture the changes that have occurred over the past two decades in Latin America.

In this study I treat institutions in both the classic sense, as articulated by Oliver Williamson (1985) and Douglass North (1990), and in more concrete terms that take into account the coherence of the bureaucracy, the delegation of decisional and operational authority, and the kinds of instruments that policy makers have at their disposal (Willis 1986; Ikenberry 1988; Sikkink 1991; Keefer 1995; Graham and Naím 1998). From the political-economy literature and the actual experiences of the five countries in table 1, four key institutional variables stand out as essential. These include the creation of autonomous agencies within the public bureaucracy; the consolidation of state economic and planning institutions; the stability and character of the leadership coalition; and the nature of the state's ties to organized interests in civil society.

As concerns for institutional reform took center stage in the early 1990s, these state and societal institutions emerged as intervening variables in a couple of ways. First, institutional renovation became the main conduit through which the countries considered here were able to address the cluster of state-led problems identified earlier. I attribute this to the considerable headway that has been made in modernizing institutions along all four of the variables just mentioned. Within state bureaucracies, for example, autonomy has come to mean much more than simply insulating technical staff to pursue specific policy mandates; increasingly, this also refers to the creation of more output-oriented autonomous agencies that are responsible for the delivery of public services according to performance-based criteria (Bresser Pereira 1999, 6–8; Wilkins 1999; Marcel 1999).

Across the five countries, economic ministries and central banks have also been overhauled, and the latter have been granted more leeway in executing monetary policy without political interference (Velasco 1994; Kim 1999; Corrales 2000b; Boylan 2001). Similarly, the old-style planning ministries have been either jettisoned altogether or completely reoriented away from populist sectoral strategies and toward multisectoral policies that support competitiveness and structural adjustment in a more neutral manner. At the executive level, while never entirely free from clientelist pressures, presidential leadership has generally assumed a more managerial and professional stance. For the most part, interest intermediation has become more pragmatic, as representatives on both sides of the negotiating table—state and societal—have settled their differences in a more strategic and levelheaded manner.

Apart from addressing the numerous problems that had accumulated from the past, institutional reforms also emerged as intervening variables in the sense that they were essential for pushing forward an ambitious market-oriented policy agenda. But this involved much more than the implementation of the neoliberal prescriptions (e.g., liberalization, privatization, and deregulation) offered up by the Washington Consensus. Rather, reform of the state in the post-1982 period also involved the redefinition of what it is the state should actually be doing (Przeworski 1999), as well as the revival and concentration of the state's presence in those areas that have traditionally been regarded as crucial for defending the public good. These include, for example, the regulation of natural monopolies; the protection of property rights; the correction of externalities; and the more careful targeting of investments in education, health, and various other endeavors that directly promote more productive and equitable human-capital development.

In essence, deep institutional reforms were instrumental for bringing the state back to life, both quantitatively and qualitatively, and for instilling an ethos of constructive state action in a region where the state had long been regarded as a predatory intruder. Having said all this, it is important to keep these gains in perspective. While the turn-of-the-century prognosis on the capabilities of the Latin American state is certainly more favorable than it was a decade ago, the bar has also been gradually raised on definitions of state effectiveness. In the initial stage of reform post-1982, public policy was considered a success if it met the formidable goals of macroeconomic stabilization. This crucial task having been accomplished by the end of that decade, the benchmark for effective intervention shifted to the state's ability to foster a sound economic recovery. As continued macroeconomic stability laid the groundwork for higher levels of growth and investment in the 1990s, measures of state effectiveness have come to focus increasingly on a number of unresolved microeconomic challenges in the areas of income distribution, efficiency, and competitiveness.

In sum, although I argue throughout this study that the Latin American state has largely reinvented itself over the past two decades, these lingering microeconomic weaknesses suggest that policy makers have been perhaps too literal in following neoliberal dictums for a minimalist state. The microeconomic data presented throughout the book confirm that rather than doing too much, the state still must do considerably more to rectify these microlevel problems. Again, the challenge now is not one of further minimalizing state intervention but rather of finding the proper interaction between state institutions and particular market situations (Amsden 1989; Wade 1990).

The Case of Peru

The remainder of this book focuses on the case of Peru, which stands out among this group of reformers as a dramatic example of a "turnaround" state in the 1990s, defined in terms of growth, investment, and overall macroeconomic stability. The case study seeks to explain this turnaround by analyzing the various economic strategies and patterns of institutional reform that have been embraced by Peruvian policy makers across the three main development phases mentioned earlier. As the title of this book suggests, these long-run development patterns will be examined from the standpoint of the changing economic role of the Peruvian state. While a sizable segment of Peru's established elite continue to attribute the country's economic transformation in the 1990s to the triumph of market over state (Boloña 1996; Gonzáles 1998), this study reveals much stronger parallels with Chile's quiet process of state reconstruction post-1982—itself a reaction to the failure of ideologically driven market reforms implemented during the decade prior to the debt crisis (Schurman 1996; Eduardo Silva 1996; Kurtz 2000).

By drawing strongly on the resources and mentorship of public-sector reform specialists within the multilateral institutions (Keefer 1995; Shepherd 2000), not to mention the determination of former president Alberto Fujimori (1990–2000) to assume the role of a managerial executive advocated along the lines of the "New Public Management" (Pollitt 1990; Bresser Pereira 1999), the Peruvian state has now traded its longstanding predatory image for one that is more market promoting. However, the analysis will also show that, like Chile's, Peru's economic revival has depended disproportionately on autocratic decision-making practices and insulated state agencies

(Guerra-Garciá 1999). Peru now stands at the same critical juncture that Chile reached in the late 1980s, whereby the sustainability and ultimate success of market reforms hinge on the capacity and willingness of bureaucrats and politicians to subject the policy-making process to much broader standards of accountability and societal input (Haggard 1995; Przeworski 1999); and on policy makers' commitment to work more aggressively so that a wider segment of the population can gain access to the benefits of the new market economy (Pastor and Wise 1999a; Birdsall and de la Torre 2001).

Why focus a study of state reconstruction and economic recovery on the Peruvian case, as opposed to other market reformers, like Chile or Mexico, that have also relied on state leadership and the renovation of public institutions as a springboard for economic recovery? In light of the data presented in table 1, the experiences of all five countries clearly offer valuable lessons for other emerging-market economies that are still struggling to overcome the political, economic, and institutional challenges intrinsic to market reform. Peru, however, stands out among its peers in three curious ways.

First is the sheer extremities in the country's economic performance over the past two decades, during which Peru was the absolute worst performer for the 1980s but in macroeconomic terms succeeded in joining the ranks of the Latin American emerging economies over the following decade. By the turn of the millennium, Peru had steadily outpaced its neighbors within the Andean Community (Bolivia, Colombia, Ecuador, and Venezuela) in terms of growth, investment, and overall macroeconomic stability.[3] Even on global competitiveness indicators (e.g., economic openness, quality of government institutions, finance, infrastructure, and labor markets), Peru ranked thirty-sixth out of a total of sixty-two developing countries, compared to the other four Andean countries, which all placed in the fifty-first to fifty-eighth range (Vial and Sachs 2000, 9). Until recently, only Chile had been able to make this same claim to fame in Latin America, and Mexico is now clipping at Chile's heels. Thus, given the rich body of research and policy insights that Chile's turnaround has already inspired (Velasco 1994; Edwards 1995; Schurman 1996; Eduardo Silva 1996; Marcel 1999; Kurtz 2000), and so too Mexico's (Kessler 2000; Chand 2001; Levy and Bruhn 2001; Pastor and Wise 2002), the timing seems propitious for an in-depth examination of those factors that account for another turnaround case in Latin America.

Second, underpinning Peru's radical swings in economic performance since the demise of the country's liberal primary-exporter model in the late 1950s has been an equally erratic pattern of shifting and contradictory development strategies. While other countries in the region have flirted alterna-

3. Andean Development Corporation 2000.

tively with state-led and market-oriented development models, as can be seen in table 2, Peru did so with a vengeance. The combination of a severe institutional deficit, frequent and chaotic policy shifts, and drastic dips in economic performance helps to explain why Peru exhibited a barrage of problems—a violent twelve-year guerrilla insurgency that began in 1980, a formal break with the international financial community from 1985 to 1991, the complete collapse of traditional political parties, and the outright abandonment of democracy from 1992 to 1995—that ordinarily strike any given state one at a time. The country's ability to overcome this seemingly insurmountable array of challenges also renders an explanation of the subsequent turnaround all the more pressing.

While I argue throughout the first two parts of the book that the region's notorious development shortcomings are intricately tied to the political, economic, and societal institutions that framed the various strategies that have been adopted, recent empirical evidence and the comparative case analysis developed in part 3 also confirm that the process of economic recovery over the past decade can be attributed to the renovation of these same state and societal institutions. Thus far, I have depicted the Peruvian case as one where the process of institutional reform in the 1990s has been both uneven and incomplete. Yet, even with its cup half empty in this respect, the country has made tremendous economic inroads.

This gives rise to the third compelling reason for the Peruvian case study: while economic success has correlated with a higher quality of state intervention and a partial revival of the country's main institutions, some of these reforms were modest. In other words, minor changes, such as the relocation of a policy to a new office with a new staff (e.g., Peru's privatization strategy, banking-sector regulation) or the overhaul of existing entities (e.g., the tax-collection and customs agencies, the Central Reserve Bank of Peru [BCRP]), went a long way toward promoting the overall reform effort. The implication here is that, even under the direst of economic circumstances, policy makers may not have as far to go as they think in accomplishing certain goals. Conversely, in the event that these same policy makers are able to deepen the process of institutional reform, the possibilities for approximating the dynamic economic gains witnessed in the Chilean and Mexican cases become all the more tenable.

Despite a good deal of ideological posturing and overly stylized facts that credit the various turnarounds reflected in table 1 to the role of market forces, this study argues for a broader explanatory framework based on the intricate and changing ties among state, society, and market. In constructing such a framework, the methodological approach adapted here is distinctly eclectic. The first and final chapters of the book rely on Przeworski and Teune's (1970, 31–46) "most similar systems" approach, in that the five selected cases are as similar as possible on the independent variable (the implementation of deep market reforms) but vary widely on the dependent variables (political-economic outcomes in the postreform era). As Peter Smith (1995, 4) has pointed out, similar system designs "lend themselves especially well to intraregional comparisons . . . since location within a single region can operate as a 'control' for the effects of a substantial range of potential independent variables." The remainder of the book relies on within-case analysis (George 1979; Ragin 1987; Collier 1993, 115–16), which shifts the research design from a cross-country comparison to one that probes the patterns of economic strategy and institutional change that have played out over time within the Peruvian case. In both instances—a broader similar-systems comparison or a more detailed case analysis—institutions emerge as intervening variables that work to shape the diverse range of political-economic outcomes that emerge in this study.

Plan of the Book

The plan of the book is as follows. In line with the within-case method employed here, chapters 2 through 6 encompass the five separate episodes of political-economic development in Peru that are outlined in table 2. Chapters 2 and 3 constitute part 1 of the book, which examines Peru's developmentalist heyday that began with the first phase of ISI in the early 1960s and ended with the virtual meltdown of state capitalism in the late 1970s. The story begins at the very point at which the country's outward-looking strategy based on primary exports ran up against the same volatile price fluctuations and unfavorable shifts in the terms of trade that had prompted Argentina, Brazil, Chile, and Mexico to pursue ISI more intently and much earlier on. Yet, whereas powerful interests within the state and the private sector drove a state-sponsored industrial strategy in these other countries, Peru's ISI strategy in the 1960s unfolded almost as a policy by default. Given the incipient nature of state institutions at this time, and the lack of cohesive organizational ties between the state and key groups in civil society, chapter 2 shows how fairly moderate intentions to launch an ISI strategy in Peru quickly escalated into a much more encompassing role for the state.

The outright incoherence of economic policy and the unraveling of the country's political coalitions prompted a 1968 military coup and the installation of a twelve-year reformist military experiment that departed radically from other South American military regimes emerging at the time. For example, in contrast to the avid free-market authoritarian governments that were erupting simultaneously in the Southern Cone, the Peruvian military

TABLE 2. Presidential Administrations and Development Models in Peru: 1963–2000

	Presidential Administration	Economic Policy	Development Model
1963–68	Fernando Belaúnde	Developmentalism	• Infant industry protection • Large-scale public infrastructure investments • Fiscal expansion • Redistributive rhetoric • Pegged exchange rate • Loose monetary policy • Increased public borrowing
1968–80	Revolutionary Government of the Armed Forces (RGAF) Phase I Juan Velasco (1968–75)	State capitalism (expansion phase)	• Secondary import substitution • Large-scale public infrastructure investments • Widespread nationalization • Agrarian land reform • Redistributive policy • Pegged exchange rate • Erratic monetary policy • Increased public borrowing
	Phase II Morales Bermúdez (1975–80)	(Adjustment phase)	• Promotion of nontraditional exports • Trade liberalization • Crawling peg exchange rate • Fiscal and monetary tightening • Debt renegotiation and increased public borrowing
1980–85	Fernando Belaúnde	Orthodox stabilization with populist overtones	• Promotion of primary exports • Large-scale public infrastructure investments • Fiscal expansion • Crawling peg exchange rate

			• Erratic monetary management • Debt renegotiation and increased public borrowing • Trickle-down social policy
1985–90	Alan García	Neostructuralism	• Wage and price controls • Consumer-led economic reactivation • Trade protection • Redistributive rhetoric • Multitiered exchange rate • Expansionary fiscal and monetary policy • Neglect of infrastructure • Unilateral debt moratorium
1990–2000	Alberto Fujimori	Neoliberalism and the "Washington Consensus"	• Tax and banking reform • Privatization • Financial liberalization • Deregulated labor markets • Liberalization of land holdings • Trade liberalization • Floating exchange rate • Tight monetary policy • Resumption of debt-service payments and debt renegotiation • FONCODES safety net

launched an ambitious state-led development program that sought to strengthen the country's position in international markets and to reverse longstanding patterns of poverty and inequality. Chapter 3 details the ways in which this full-blown state capitalist strategy was hampered by the fact that those crucial bureaucratic, institutional, and administrative supports that would be mandatory for its effective implementation were being built up simultaneously with the launching of the program. Thus, for all its attempts at institutional reform at the level of the state and civil society, the military regime was not able to carve out an effective role for the state as the motor of development or as an effective mediator of pivotal societal interests. In the end, a main legacy of this period was the solidification in Peru of the cluster of problems related to state-led development mentioned earlier, a theme that would plague policy makers and dominate domestic policy debates long after the military's return to the barracks.

Part 2 encompasses chapters 4 and 5, which span the purposive attempt in the early 1980s to turn back the clock to the pre-1960s era of a "small" state, balanced budget, and low inflation, as well as the heterodox backlash and complete collapse of the state that followed. Chapter 4 analyzes the efforts of newly installed civilian policy makers in 1980 to rationalize public spending and to restore the state to its previous ancillary role as a backup for private initiative. However, in the absence of any effort at authentic institutional reform, and under the thrust of severe external financial restraints, this effort quickly stalled. In their rejection of state-led management approaches, civilian politicians and policy makers tended to work around those bureaucratic, institutional, and administrative structures that would have been crucial for the successful implementation of any development program. In essence, rather than a return to the market, this brief spurt of orthodoxy was more a reflection of the animosity that political and economic elites now held toward the state. Meanwhile, as the impact of the 1982 debt shocks intermingled with these institutional weaknesses, the cluster of state-led problems (excessive debt, macroeconomic incoherence, a fickle private sector, predatory SOEs, deepening inequality) spun out of control.

Despite the collapse early on of any semblance of an orthodox adjustment strategy in the early 1980s, Peru's 1985 elections provoked yet another backlash—this time against the market and in favor of a platform that promised to pursue a supposedly more fine-tuned state-led strategy. Examined in chapter 5, this heterodox venture consisted of both a short-term anti-inflation shock program based on wage and price controls and a longer-term program of state-led industrialization that basically embraced its own version of ISI. In hindsight, this particular policy episode proved to be a grand finale of sorts, as institutional reform was completely eclipsed by populist politics, and the

Peruvian state could not begin to rise to the new set of demands that were placed on it. The state literally collapsed under its own weight, rendering hyperinflation and an unprecedented explosion in the country's poverty levels as the most glaring legacies of this period. At this point, the resolution of the numerous state-led problems mentioned earlier could no longer be circumvented or ignored, nor could the reform of the state itself.

Part 3 analyzes Peru's economic turnaround in the 1990s from these very standpoints: the determination of the Fujimori administration to resolve these state-led problems once and for all and its resort to partial institutional reform as the means for doing so. While there was in fact little consensus in the region over the implementation of Washington's sweeping prescriptions for market reform at the outset of the 1990s, the exigencies of hyperinflation and a decade-long recession compelled all five countries in table 1 to adopt this package, each in its own way. For example, while the launching of market reforms in Chile, Mexico, and Peru was largely a state-centered phenomenon, Argentina and Brazil relied more on interest intermediation and the transformation of institutional ties among the executive, political parties, and other civic organizations.

With Chile's transition to democracy in 1990, and Mexico's in 2000, the past decade has seen a shift in those countries toward greater civic participation and intermediation between the state and society over the content and direction of the reform process. Again, in line with its tendency for being slightly out of step in terms of regional development patterns, Peru carried its strategy of using the state as the main locus for reform to extremes—as witnessed in its 1992 civilian coup and the suspension of formal democratic procedures from 1992 to 1995. With Fujimori's bizarre and unexpected resignation under a cloud of corruption in late 2000, and the truly democratic election of President Alejandro Toledo in June 2001, the country is just now embarking on a badly needed microlevel economic-reform strategy based on broadening and deepening the overhaul of domestic institutions and on the initiation of Chilean-style dialogues, or *concertación,* between the state and a wide range of groups in civil society (Kuczynski and Ortíz de Zevallos 2001).[4]

Nevertheless, despite the collapse of political parties since the 1990 election, and the emergence of a decidedly dysfunctional leadership coalition composed of the fiercely independent Fujimori, the military, and considerable segments of the private sector, even partial institutional renovation (as described earlier) took the country all the way through the first phase of market reforms. Thus, chapter 6 analyzes the impressive inroads that were indeed

4. I thank Eduardo Ballón for sharing these insights during a January 2002 fieldwork visit to Peru.

made in the realm of macroeconomic stabilization, the modernization of public finances, and the restoration of growth and investment in Peru. For better or worse, and barring the still tenacious hold of poverty on the country, the decade-long Fujimori government did succeed in resolving the cluster of state-related problems that had completely overwhelmed policy makers by the late 1980s.

As an exercise in assessing the inroads that Peru has made in reforming the political economy and the institutional framework that surrounds it, chapter 6 also identifies those tasks that remain on the reform agenda. This assessment draws partly from my own fieldwork observations but also from a rich body of local research and debate that blossomed in the context of a transition government led by former congressional leader and interim president Valentín Paniagua from 2000 to 2001. Similar to Argentine president Carlos Menem in the late 1990s and Brazilian president Fernando Henrique Cardoso in their second terms, Fujimori was unable to fulfill the mandate that supposedly justified a constitutional amendment to allow him to run for a second term. That is, rather than expanding the reform process into the tough microeconomic areas that still must be addressed in order for Peruvian workers and smaller firms to benefit from a market economy, Fujimori squandered the resources available on sporadic social spending geared toward promoting his candidacy for yet a third term. Moreover, when the electorate and the congress resisted this quest for reelection, badly needed institutional reforms in the areas of justice, the central government ministries, and the country's long-neglected regional governments were completely ignored. If anything, institutional integrity in these areas actually declined.

The completion of these tasks—devising a dynamic microeconomic strategy that will promote competitiveness and greater equality and deepen the processes of institutional reform—has now fallen to the Toledo administration. Yet, in contrast to the outset of the reform period in the 1980s, when Peruvian policy makers were at a considerable loss as to what the proper policy mix should be for stabilizing inflation and promoting sustainable growth, the current reform agenda is highly articulate and very much in the realm of what's possible for Peru. And to its credit, the Toledo administration succeeded early on in bringing together perhaps the most talented cohort of policy makers and administrators that the country has ever seen. Politics, however, are still unwieldy, as the handful of new political parties that have arisen over the past decade still amounts to little more than social groupings that band together at election time and then fragment once in office. Civil society, moreover, has again begun to flex its muscle, with labor unions and any number of civic protestors taking to the streets in ways not possible during Fujimori's heavy-handed reign.

Thus, while Peru has finally turned the corner, such that the tasks of economic and institutional reform are widely agreed upon and broad segments of civil society have accepted the *concertación* strategy as the most appropriate venue for pursuing these goals, party politics have yet to follow suit. Despite the inroads that have clearly been made, without a more cohesive institutionalization of politics itself, the country risks sinking back into the same underachiever niche that it has heretofore occupied. Conversely, with strong political leadership and a little fortitude, the economic track record over the past decade readily shows that Peru is capable of breaking into the ranks of the high achievers. The present juncture is one of the right time and the right place for pursuing the ambitious reform agenda that Toledo identified during his campaign (see Kuczynski and Ortíz de Zevallos 2001). Already, after just a year in office, the presidential cabinet has seen one major changeover.[5] This rotation is far from fatal, given that the new appointments spring from the same mold as the former team. But this does up the ante for Toledo, as it is time for the president and this new team to show that they are the right ones to finally get the job done.

During its first year in government, the Toledo administration made much progress in terms of rectifying the errors of the recent past. At least four special congressional commissions are at work investigating the corruption of the Fujimori era—including money laundering, flagrant interference in the judicial system, and possible abuses that occurred in the privatization process. The military, Fujimori's most prominent partner in crime, has seen a sharp reduction of personnel and the retirement of nearly 500 officials. "Transparency," previously a foreign concept in Peru's public discourse, has become an everyday fact of political life in the post-Fujimori era. In sum, there exists little doubt as to the commitment of the current administration to set the country back on course. The task now is for the Toledo team to look forward and to more assertively advance its own project, one that deepens the political inroads made by the Paniagua transition team, and completes the process of market restructuring necessary to sustain higher and more equitable patterns of economic growth.

5. Juan Forero, "Top Peruvian Ministers Forced Out in Cabinet Shakeup," *New York Times,* July 12, 2002, p. A3.