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**Doctorado en Estudios del Desarrollo**

A CLASS ANALYSIS OF THE DYNAMICS OF CAPITALIST DEVELOPMENT IN  
PERU AND THE STRUGGLE FOR REVOLUTIONARY SOCIAL  
TRANSFORMATION

**TESIS PRESENTADO POR:**

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**PARA OBTENER EL GRADO DE DOCTOR EN ESTUDIOS DEL DESARROLLO**

**Director:** Henry Veltmeyer

**Codirector:** Víctor López-Villafañe

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**Asunto:** Aprobación de tesis doctoral

**Zacatecas, Zac., 5 de mayo de 2016**

**Dr. Humberto Márquez Covarrubias**  
**Responsable de Programa**  
**Presente**

Por este medio hacemos de su conocimiento que hemos revisado la tesis titulada *A Class Analysis of the Dynamics of Capitalist Development in Peru and the Struggle for Revolutionary Social Transformation* de la autoría de Jan Lust, estudiante del Doctorado en Estudios del Desarrollo.

Después de verificar que el trabajo cumple satisfactoriamente con todos los requisitos académicos de una tesis doctoral en estudios del desarrollo, manifestamos formalmente nuestra aprobación y solicitamos que se prosiga con los trámites académicos y administrativos para que el estudiante pueda sustentarlo en el examen doctoral de conformidad al Reglamento Interno del Doctorado.

Sin otro particular nos despedimos de usted.

**Atentamente**  
**El Comité Asesor**

**Director**



**Dr. Henry Veltmeyer**

**Co-director**



**Dr. Víctor López Villafañe**

c.c.p.- Consejo Académico de Unidad, para su conocimiento.  
c.c.p.- Dr. Rodolfo García Zamora, Director de la UAED-UAZ, mismo fin.  
c.c.p.- Archivo.

Dr. Humberto Márquez Covarrubias  
Responsable de Programa  
Presente

Por este medio hago de su conocimiento que he revisado la tesis titulada "A Class Analysis of the Dynamics of Capitalist Development in Peru and the Struggle for Revolutionary Social Transformation", escrita por Jan Lust, estudiante del programa de Estudios del Desarrollo, para el grado de Doctor.

Después de haber revisado la tesis citada, apruebo que se realice el Examen de Grado. La tesis cumple con todos requisitos de excelencia académica, con rigor teórico y analítico. La tesis está redactada en forma y estilo de los más altos estándares, y avanza una tesis muy bien argumentada y sostenida con amplia evidencia empírica.

También manifiesto que estoy dispuesto de participar en el Examen de Grado que ofrece a los miembros del Jurado de plantear preguntas al candidato para el grado de doctor, y una oportunidad al estudiante de defender su tesis.

Atentamente  
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Darcy Tetreault  
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Mayo 1, 2016

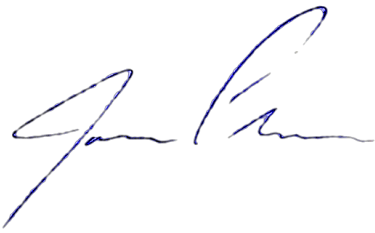
**Dr. Humberto Márquez Covarrubias**  
**Responsable de Programa**  
**Presente**

Por este medio hago de su conocimiento que he revisado la tesis titulada “A Class Analysis of the Dynamics of Capitalist Development in Peru and the Struggle for Revolutionary Social Transformation” de la autoría de Jan Lust, estudiante del programa de Estudios del Desarrollo, para el grado de Doctor.

Con esto, habiendo leído y revisado la tesis citada, doy testimonio de mi aprobación de que se realice el Examen de Grado. La tesis cumple con todos requisitos de excelencia académica, con rigor teórico y analítico. La tesis esta redactada en forma y estilo de los más altos estándares, y avanza una tesis muy bien argumentada y sostenida con amplia evidencia empírica.

También manifiesto que estoy dispuesto de participar en el Examen de Grado que ofrece el estudiante una oportunidad al estudiante para sostener su tesis y a los miembros del Jurado de cuestionar el candidato para el grado de doctor.

Sin otro particular mi despido de usted.

A handwritten signature in blue ink, appearing to read 'Jan Lust', is written over a faint, illegible stamp.

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**Dr. Humberto Márquez Covarrubias**  
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By means of this letter I hereby testify that having reviewed the PhD dissertation titled “A Class Analysis of the Dynamics of Capitalist Development in Peru and the Struggle for Revolutionary Social Transformation” submitted by Jan Lust for examination, is ready for an oral defence.

I also declare that I am able and willing to participate in this Oral Defence (the Examen de Grado), which I understand to be tentatively scheduled to take place in Zacatecas on May 18, as External Examiner.

I am, sincerely yours

A handwritten signature in black ink, appearing to read 'M. Riethof', with a horizontal line underneath it.

Marieke Riethof  
Reader in Latin American Politics  
University of Liverpool

## **DEDICATION**

This thesis is dedicated to  
my comrade,  
my friend,  
my lover  
and  
my wife,  
Carolina.

Hasta la victoria siempre,  
¡Venceremos!

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In February 2014, I presented my book *Lucha revolucionaria. Perú, 1958-1967* in Peru's capital city Lima. In one of these presentations I met former guerrilla fighter Néstor Guevara. He was very glad with the book and told me that I should stay healthy because I had a lot more to give to the revolutionary struggle in Peru. This comment has given me an extra stimulus to elaborate on a dissertation that should contribute to a process of socialist change in Peru. I would like to thank the surviving Peruvian revolutionary fighters of the 1960s for their example, for their lifelong battle for a society without exploitation and oppression.

This dissertation would not have been completed in four years if I did not have the opportunity to exclusively dedicate myself to this work. It was the Mexican people that through the agency *Consejo Nacional de Ciencia y Tecnología* funded this dissertation. Many thanks for this.

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For my study on capitalist development in Peru, the evolution of the class structure of Peruvian society and the struggle for revolutionary social transformation in the last thirty-



five years I have visited many libraries, institutions and archives in Peru. Especially I would like to thank the archives of the *Partido Comunista del Perú-Patria Roja*, the *Asociación Laboral para el Desarrollo* and the *Instituto de Estudios Sindicales*. Also literature that was provided by the *Revista Peruana del Pensamiento Marxista* has been very helpful.

I express my gratitude to the leaders, cadres, militants and intellectuals of the Peruvian socialist Left, the representatives and militants of two social movements in the department of Cajamarca that fight against extractive capital, and the leaders and cadres of the *Confederación General de Trabajadores del Perú* for having put their trust in me, for sharing with me their points of view on crucial issues for the revolutionary social transformation of Peruvian society. The interviews with these individuals were not only of key importance for the elaboration of this dissertation, but also contributed to the development of my own political thinking and helped me to see the Peruvian socialist Left in all its contradictions, weaknesses *and* strengths.

Finally I thank the following Peruvians for their contribution, in a variety of ways, to this dissertation: Guillermo Rochabrún, Antonio Zapata, Eduardo Cáceres, Gerardo Benavides, Jorge Bernedo, Violeta Tello, Hugo Blanco, Antonio Vicente Marcos, Ernesto Toledo Bruckmann, Eduardo Garate, César Risso, Mauricio Dominguez, Constante Traverso, Milton Sánchez, César Aliaga and the militants of the political organization *Pueblo Unido*.

## ABSTRACT

Over the last thirty-five years the Peruvian socialist Left has not been able to gain state power. This dissertation intends to contribute to its explanation by analyzing the dynamics of capitalist development in Peru and the struggle for revolutionary social transformation in the period 1980-2015. We argue that the erosion of the political and social bases of the socialist Left, the product of the dynamics of capitalist development in the 1980s and 1990s and the implementation of a radical form of neoliberalism in 1990s, was not politically and organizationally addressed by the socialist Left. The political practice of the socialist Left did not change as a consequence of the changes in the class structure and in the distribution of employment by enterprise size groups that were going on in the 1980s and 1990s. This dissertation uses a Marxist theoretical framework and employs Marx's method of political economy and the method of class analysis. This research is not only based on a review of the literature on political, economic and social developments in Peru, but also makes extensively use of the databases of Peruvian State organisms for the construction and analysis of the Peruvian class structure in the years between 1980 and 2014. For the analysis of the struggle for revolutionary social transformation interviews have been held with almost forty leaders, cadres, militants and intellectuals of the legal socialist Left and with representatives of social movements that struggle against extractive capital.

**Key words:** Peru, capitalist development, class structure, socialist Left, state power

## RESUMEN

Durante los últimos treinta y cinco años la izquierda socialista peruana no ha sido capaz de tomar el poder estatal. Esta tesis pretende contribuir a su explicación mediante el análisis de las dinámicas del desarrollo capitalista en el Perú y la lucha por la transformación social revolucionaria en el período 1980-2015. Argumentamos que la erosión de las bases políticas y sociales de la izquierda socialista, el producto de las dinámicas del desarrollo capitalista en las décadas de 1980 y 1990 y la puesta en práctica de una versión radical del neoliberalismo en 1990, no fue abordada política y organizativamente por la izquierda socialista. La práctica política de la izquierda socialista no fue cambiada como consecuencia de los cambios en la estructura de clases y en la distribución del empleo que estaban teniendo lugar en los años 1980 y 1990. Esta tesis utiliza un marco teórico marxista y emplea el método de economía política de Marx y el método de análisis de clase. Esta investigación no sólo se basa en una revisión de la literatura sobre los desarrollos políticos, económicos y sociales en el Perú, sino también hace ampliamente uso de las bases de datos de los organismos estatales del Perú para la construcción y el análisis de la estructura de clases del Perú en el periodo 1980-2014. Para el análisis de la lucha por la transformación social revolucionaria, se ha desarrollado entrevistas con casi cuarenta dirigentes, cuadros, militantes e intelectuales de la izquierda socialista legal y con representantes de movimientos sociales que luchan contra el capital extractivo.

**Palabras clave:** Perú, desarrollo capitalista, estructura de clases, la izquierda socialista, poder estatal

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## CHAPTER 1: INTRODUCTION

The aim of this dissertation is to contribute to an understanding of the dynamics of capitalist development and class struggle in Peru over the last thirty-five years. However, this dissertation would have no political relevance if confined within the cloisters of the academic world. It is hoped that the analysis we present might contribute to the process of progressive change and post-capitalist development in Peru.

An understanding of the workings of capitalism in Peru as it relates to the dynamics of social change (class formation and struggle) could help strengthen the theoretical and political ‘arsenal’ of the forces that struggle for a revolutionary social transformation of the system. In other words, this dissertation should not be seen as simply another social scientific interpretation of Peruvian reality but as a contribution to change, i.e. to help bring about a process of revolutionary social transformation of capitalism in Peru,<sup>1</sup> which, following Carchedi (1987a: 95), can be defined as a path that irreversibly changes the prevailing system of capitalist production relations.<sup>2</sup>

A dissertation elaborated within the framework of development studies should depart from a definition of development. Viewing development as a project constructed in the post Second World War period of capitalist development within the framework of the dominance of a capitalist mode of production, makes us believe that development is a political and ideological construct. It is political in that it opposes the liberation of people from the yoke of capitalism and it is ideological in that it tries to mask the character of the system. In general terms, development strategies intend to make believe that real and structural progress is possible within the implicit restrictions set by capitalism and the political and economic interests of imperialism and the local ruling class.

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<sup>1</sup> The capitalist development process brings about productive and social transformations within capitalism. The revolutionary social transformation of capitalism is the complete transformation of all aspects of social life in capitalism. The concept of revolutionary social transformation might be considered similar to systematic change, however, we believe that a revolutionary social transformation is irreversible and takes a considerable time to ‘mature’ after a systematic change has occurred. A systematic change is reversible.

<sup>2</sup> Carchedi (2011: 10): “The *production relations* consist of the different forms taken by the ownership-relation when the owners decide, and the non-owners have to accept, what to produce, for whom to produce it, and how to produce it.” See also, Carchedi (1987a: 95).

As these strategies surge from the womb of capitalism and are tightly connected with it by an umbilical cord, they do not and cannot point to the eradication of the system that precisely made them appear. The project of development that surged at the end of the 1940s —the Point Four Program launched in 1949 by the then President of the United States Harry Truman— was meant to keep the recently decolonized countries within the ‘free world’ of capitalist exploitation and oppression. During the passing of time this project has not changed its essential aim, i.e. to facilitate and expand the accumulation of capital by the corporations from the ‘North’.<sup>3</sup>

Notwithstanding the limitations of development strategies within the context of the global capitalist system and their political, economic, social and ideological functionality for furthering the system, we support every improvement in the well-being of the population. As a matter of fact, the history of the class struggle shows that impoverished masses do not necessary opt for a revolutionary path as survival is their main preoccupation. Especially in the case when the revolutionary forces have not been able to establish political and social bases at the local level, the masses are ready objects for the bourgeoisie, using the well-known system of *clientelismo* and *asistencialismo*.

We are aware that in the current correlation of class forces in Peru projects that point to revolutionary social transformation cannot count on a lot of support.<sup>4</sup> Furthermore, the panorama for revolutionary social transformation in Peru seems to be bleak if we consider that the struggle has to confront internal as well as external enemies. The interests of transnational capital are closely monitored by its political and military base and the local bourgeoisie. Because changes in the mode of production and distribution will enormously affect the wealth of the ‘advanced’ capitalist countries,<sup>5</sup> political developments are being ‘influenced’ in the case their interests are affected.

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<sup>3</sup> The ‘North’ is not a specific geographically determined area, but a political and economic definition of all those countries that because of their political, economic and also military strength impose their interests on the ‘underdeveloped’ countries, i.e. the global ‘South’.

<sup>4</sup> The correlation of class forces can be conceptualized as the whole of the political, social, ideological and organizational power relations between the socialist-oriented political Left, the non-socialist political Left, the political Right, and left and right-wing oriented social organizations. These power relations express the political strength of classes to pursue their political, economic and social interests.

<sup>5</sup> ‘Advanced’ capitalist countries might be considered similar to the countries of the ‘North’.

This chapter is organized as seven sections. In section 1.1 we outline the political, economic and social context of this dissertation. Section 1.2 describes the problem of this dissertation. The research questions, the working hypothesis, the working ideas and the research objectives are presented in section 1.3. In section 1.4 we elaborate on our theoretical framework and in section 1.5 we define the methodology. In Section 1.6 we present the thesis statement and the structure of the central argument. Section 1.7 provides a brief outline of the structure of this dissertation.

### **1.1. The Fujimori government: an epochal change in Peru**

The presidential elections in 1990 marked a turning point in the political, economic and social history of Peru. Just eleven days after being sworn in President Alberto Fujimori set the country on a neoliberal course. Price controls on basic products were eliminated, the prices for public services were to be revised, trade was liberalized and a process was started to ‘reconcile’ the country with international financial organizations. Just before proclaiming the measures, the Army was mobilized to take positions at different strategic places to repress possible protests. Besides, no money was being printed anymore and state expenditures were diminished (Murakami, 2007: 245-246, 249). According to Burt (2011: 81), in one day the number of poor people rose from six to 11 million, the half of the country. Béjar (1993) tells us that more than 200.000 civil service workers were fired. It is interesting to note that these measures were proposed by the candidate who lost the elections, the writer Mario Vargas Llosa. It seems that betrayal of election promises are common of governments that implement neoliberal measures and ‘structural adjustments’ (Petras & Veltmeyer, 2003: 89).<sup>6</sup>

In March 1991 new economic reforms were announced. Trade tariffs were diminished, the market for foreign exchange and other financial transactions was liberalized, the land of the indigenous communities could be bought and held as private property, public monopolies were abolished and its privatization promoted, foreign investments stimulated and labour stability was eliminated (Murakami, 2007: 254-255;

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<sup>6</sup> Also Ollanta Humala betrayed his election promises by maintaining the neoliberal development model (see below).

McClintock & Vallas, 2005: 164-165; Bowen, 2000: 84-85). To introduce these measures, the Peruvian Congress granted the government legislative powers. In September 1991, the International Monetary Fund (IMF) accepted the Peruvian 'stabilization program' and the government received loans from the Inter-American Development Bank. In addition, the country 'successfully' renegotiated its debt with the Club of Paris (McClintock & Vallas, 2005: 165). Peru's 'reinsertion' in the international financial community was dictated by the multilateral institutions of imperialism. In October 1991 the Commission for the Promotion of Private Investment was installed. This organism was in charge of the privatization of public companies.

In April 1992 Fujimori perpetrated an auto-coup. Increased opposition from Congress against the neoliberal measures and difficulties to proceed with their implementation 'forced' the government to take this undemocratic step. In the nine months after his auto-coup, Fujimori promulgated 746 decree-laws, basically related to the acceleration of the structural reforms and economic liberalization (Murakami, 2007: 304). When in 1993 a new constitution was accepted, the victory of neoliberalism was complete. Laws and judicial norms were submitted to the market and only when explicitly authorized by law, the State was allowed to realize business activities in those areas in which the market had not entered yet (Ruiz Caro, 2002: 24).

One of the key elements of the neoliberal program was the privatization of state-owned companies. Between 1990 and 1998 more than 180 companies were sold. Privatization was the principal motor behind the general increase of foreign direct investments (FDI). In the period 1994-1997, direct investments in Peru by United States' companies were the highest in the whole of South America (McClintock & Vallas, 2005: 172-173). It was thought that privatization would lead to competition, more production and lower prices, however in the case of for instance telecommunications and electricity the population had to pay monopoly prices (Jiménez, 2000: 15). This confirms the argument of Petras & Veltmeyer (2003: 130) that, in general, competition does not necessarily follow privatization but it simply re-concentrates ownership in private hands. The public monopolies were sold to private monopolies.

The introduction of a more or less radical form of neoliberalism in Peru by Fujimori counted on the support of the population (Murakami, 2007: 267).<sup>7</sup> As a matter of fact, in 1991 72 per cent of the Peruvian population believed that the free market was convenient for the country. In 1998, this percentage had decreased to 58 per cent (McClintock & Vallas, 2005: 179). In 1994 opinion polls showed that 56 per cent of the population considered that the State had to leave productive activities to the private sector (Parodi Trece, 2010: 302). According to Balbi Scarneo & Arámbulo Quiroz (2009: 302), in the context of a state that could not be considered anymore as a guarantee of social inclusion and “given the accelerated diffusion of individualistic utilitarian values”,<sup>8</sup> the market seemed to be the only way out. Collective action was no option anymore.<sup>9</sup>

In the years 1988, 1989 and 1990 Gross Domestic Product (GDP) in prices of 1979 diminished by 8.8 per cent, 11.7 per cent and 3.8 per cent respectively (Parodi Trece, 2010: 259). The real wage index (base year 1985) for persons working in the private sector contracted in the years 1988, 1989 and 1990 to respectively 90.7, 60.2 and 42.4. In the case of the minimum real wage, the figures were 84, 44.6 and 39.5 (Murakami, 2007: 160). In 1988, inflation amounted to 1722.3 per cent. Two years later it stood at 7649.6 per cent (Parodi Trece, 2010: 259). Governmental social expenditures per capita in the period 1980-1990 tended to diminish year after year. Furthermore, only in three different years these were higher than in 1970 (base year). In the years 1987, 1988, 1989 and 1990, the index stood at respectively 76, 57, 40 and 25 (Murakami, 2007: 160). Between 1986 and 1990 the value of governmental expenditures in education diminished by 75 per cent (Burt, 2011: 90) and while in 1985 the poverty rate stood at 41.6 per cent, six years later this was increased to 55.3 per cent.<sup>10</sup> Underemployment rose from 42.6 per cent in 1986 to 73.1 per

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<sup>7</sup> Béjar (1993) states that the neoliberal program was supported because it was considered as the “only possibility, the dark tunnel, at the end of which can be the way out”.

<sup>8</sup> In most of the cases, the Spanish citations in this dissertation have been translated by the author. Sometimes we also had an English version of the Spanish text and so, after reviewing this English version, we copied this English text, maintaining the Spanish reference.

<sup>9</sup> According to Crabtree (2005: 270), as the population considered the political party that governed Peru before Fujimori to be a left-wing oriented political organization (this party was the *Alianza Popular Revolucionaria Americana*, APRA for its acronym in Spanish, led by Alan García) and was ‘responsible’ for the economic and social disaster, it was very difficult for the Left to ‘capture’ the popular vote during the presidential elections of 1990. At the end of the 1980s and the beginning of the 1990s, the State seemed to be, according to Parodi Trece (2010: 271-271), discredited in the eyes of the population.

<sup>10</sup> Source: <http://www.inei.gov.pe/biblioinei/pub/bancopub/Est/Lib0069/c1.htm> (consulted 23/07/2013).

cent in 1990 (Ministerio de Trabajo y Promoción del Empleo, 1993) and almost 50 per cent of the Economic Active Population (EAP) worked in the informal sector.<sup>11</sup> In addition, in the period 1984-1990 companies with less than 9 workers increased with almost 50 per cent and those with 10 to 19 workers with around 61 per cent (Thomas, 1999: 268).

During the governments of Fujimori (1990-2000) inflation was diminished drastically. While in 1991 this was 409.5 per cent, in 1995 it was reduced to 11.1 per cent and in 2000 it stood around 3.8 per cent. Real GDP growth rates were in these years respectively 7 per cent, 7.5 per cent and 3.6 per cent (Wise, 2010: 240).

The unemployment rates did not diminish remarkably during the regime of Fujimori.<sup>12</sup> In the period 1990-1995 the rate of underemployment even increased. Until 1994, still less than 19 per cent was considered adequately employed. In 2000 43.1 per cent of the EAP of urban Peru and 61.8 per cent of rural Peru was underemployed (INEI, 2002: 70). This might not have been of major concern to the majority of the population as the liberalization of the economy made it very easy to start a small business to provide in the necessary additional income. In 1995, the informal economy employed more than 50 per cent of the labour force (Murakami, 2007: 374).

In order to alleviate the social problems related to the programs of 'structural adjustment' and to maintain popular support, social expenditures were stepped up. In the period 1990-1995, social expenditures as a percentage of GDP increased from 16.6 to 30.4 per cent (Parodi Trece, 2010: 371). At the end of Fujimori's government 54.1 per cent of the population was considered to be poor (Murakami, 2007: 433).

We consider the changes that were introduced by the Fujimori government fundamentally epoch breaking and epoch making. It marked the end of a decade in which

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<sup>11</sup> According to Parodi Trece (2014: 213ft57), in Peru there are two forms to calculate underemployment. The first one is by calculating all those individuals who work less than 35 hours a week but who would like to labour more hours but cannot find employment. The second form consists in calculating individuals who work 35 hours or more a week but receive a wage below the real minimum wage level. The reference of 35 hours a week might be heavily criticized as officially the working week is set at 48 hours. However, many times the labourers work more than 48 hours (Lee, McCann & Messenger, 2007: 27, 30, 32, 41, 80). In addition, during García's second term (2006-2011) wages were allowed to be under the nominal minimum wage level.

<sup>12</sup> It is safe to say that official unemployment rates in Peru do not tell much about real unemployment. In an economy such as Peru, with high rates of informal labour, in which it is difficult to survive when one is 'openly' unemployed and wherein one frequently switches from one formal job to another, the official unemployment rates can only be considered as indicators of unemployment (FitzGerald, 1981: 127-128).



the State was considered key for development (Parodi Trece, 2010: 153, 194-195; Wise, 2010: 201) and during which the correlation of class forces was in favour of the socialist Left,<sup>13</sup> the labour movement and the popular organizations in general. The political, economic, social and repressive measures taken by the first Fujimori regime (1990-1995) and especially after the auto coup in April 1992, radically changed the correlation of class forces in favour of capital. It started an epoch in which the role of the State was reduced (i) to defend the free functioning of the market; (ii) to eliminate whatever social disturbance that might hamper the functioning of the market; and, (iii) to promote an ideology in favour of the market and against collectively organized economic and social processes (Parodi Trece, 2010: 273, 276-278, 287; Wise, 2010: 269-270; Kistic, 1999: 83-84; Abugattas, 1999: 120-122). As a matter of fact, in the last decade of the 20<sup>th</sup> century, to speak with Althaus Guaderas (2009), a real capitalist revolution took place in Peru.<sup>14</sup>

The neoliberal orientation of the Peruvian governments was not changed after the ‘fall’ of President Fujimori in 2000. His successor Alejandro Toledo (2001-2006) reinserted the country within the ‘family of democratic nations’ and started with what might be called the third phase of the neoliberal program, i.e. the institutionalization of the reforms.<sup>15</sup> As a matter of fact, it was his government that formally established the Peruvian Agency to Promote Private Investments (Proinversión) that was assigned the task to systematically sell off the public assets.

During the presidential elections of 2006, the Peruvian population decided in favour of Alan García against the current Peruvian President Ollanta Humala who was considered to be a close ally of the former president of Venezuela Hugo Chávez and who suggested to change the neoliberal constitution of 1993. García proposed to continue and broaden the scope of the ‘reforms’ initiated under Fujimori and ‘institutionalized’ by Toledo. For

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<sup>13</sup> It must be underlined that the socialist Left include the legal and armed socialist Left.

<sup>14</sup> “After a decade and more of such policies, Latin America today is a very different place from what it was in the 1970s and what it was becoming. In the process, a revolution—or rather a counterrevolution—has been wrought in the social structure of Latin American society.” (Veltmeyer & Petras, 2005: n.p)

<sup>15</sup> In phase one the economic adjustment program was introduced and market-oriented reforms implemented (1990-1995). In phase two (1995-2000) social policies were started to be implemented to increase the acceptance of the model. According to Wise (2010: 236), the reforms that were to be ‘institutionalized’ by the Toledo regime should be considered as the second phase of the economic adjustment program.

instance, his government tried to speed up the process to parcel indigenous land and to provide individual ownership titles of this land.

In 2011, the nationalist and former Army captain Ollanta Humala was elected President of Peru. Humala was supported by a variety of progressive and left-wing organizations, groups and intellectuals. He also counted on a large popular base in the countryside.

There is no question that his election gave rise to many expectations. It was thought that the new government would put an end to neoliberal policies. As was written in Humala's election program, *La gran transformación* (The great transformation), the State would recuperate (not renationalize) its natural resources such as water and land, forests and biodiversity, gas and minerals. Their exploitation by foreign economic minorities could not continue (Gana Peru, 2010: 8).

The first nationalist government was a mix of neoliberal technocrats and professionals with a progressive orientation. This unnatural marriage lasted only five months. In December 2011 the government fell over the issue of how to manage the protests in the department of Cajamarca against a 4.8 billion dollar mining concession. The progressive ministers and governmental advisors were replaced by neoliberal hawks.

The current Peruvian development model is based on the export of the country's abundant mineral resources and a free and (relatively) unregulated functioning of the markets, and is accompanied by, among others, projects to provide infrastructure for a more efficient flow of these resources, and the fiscal redistribution of wealth to social layers that are affected the most by this model (Lust, 2014a: 208-216; 2016: 203-205). The regime views mining, gas and petroleum extraction essential for the development of the country. Policies to establish pacts between the regime and what are called civil society organizations are used to commit social actors to the political and economic course of the government.

The Humala government has transfixed the fiscal contribution of extractive industries into the cornerstone of its social policies. Even before his inauguration as President, Humala succeeded in closing a deal with the mining corporations. Their contribution to the treasury was to increase considerably and thanks to these funds a number of social and infrastructural projects would be financed. However, as the

commodity prices are determined at the level of international markets, Peru's development is constrained by the all too visible effects of the working of invisible market forces—economic shocks, fluctuations and speculative capital flows. A collapse of these prices and a drastic reduction of international demand for Peruvian commodities would have a devastating impact on its population.

The current Peruvian regime has not only been characterized by what might be called a socially inclusive form of neoliberalism but also by the struggle of the indigenous and peasants communities to protect their livelihoods and habitats against the invasion of extractive capital. During Humala's regime, more than 20 people died as a consequence of the repression of the social protest movements generated by the operations of extractive capital.

A radical change of the development model is currently politically not feasible given the fact that the bourgeoisie is absolutely hegemonic in society.<sup>16</sup> In the last two decades it was not only capable of implementing a large-scale privatization process, but it was also the major political force behind the bilateral free trade agreements that Peru signed with a variety of countries and its joining the Pacific Alliance, a neoliberal free trade alliance of governments aligned with corporate global capital and US imperialism. Currently it is one of the principal defenders of the interests of transnational extractive capital. It is encouraging infrastructural projects that facilitate the activities of extractive capital, considered by Gudynas (2011: 399) to be state-subsidies just like tax exonerations.

Another important factor that makes any radical change in Peru difficult is the weakness of the socialist Left, i.e. all those organizations that have the objective to destroy the capitalist system and to install a society based on socialist principles. These organizations might function within the boundaries of the legal political system or intend to install socialism through the armed struggle.<sup>17</sup>

At present, left-wing oriented currents that do not question the foundations of the capitalist development model dominate the political spectrum of the Left. These

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<sup>16</sup> "Hegemony is not attained by violence and terror but by the consent of the subordinates to a form of social organization that 'benefits' them" (Durand & Contreras, 1988: 86). Robinson (2010: 275): "The demands, grievances and aspirations of the popular classes tend to become neutralized less through direct repression than through ideological mechanisms, political co-optation and disorganization, and the limits imposed by the global economy."

<sup>17</sup> See subsections 7.3.2, 7.3.3 and section 8.8 on the current weakness of the socialist Left.

organizations propose changes within the model, which is to assume the possibility of achieving an inclusive, more human and equitable form of development via institutional reforms of the capitalist system.

The current struggle of indigenous and peasant communities for a development model that respect their rights and protect their territories against possible environmental damage caused by the activities of extractive capital, especially mining corporations, might be considered as the push the socialist Left needs to recuperate lost terrain. In fact, since the return of 'democracy' in 2001, social struggles show an upward trend.

The struggle of the communities against the State and extractive capital is generally being organized and led by local and/or regional organizations. These locally and/or regionally organized protests assure a popular base. This strength seems to be, nevertheless, also its major weakness as the fight is not able to cross regional borders. The political and organizational weakness of the indigenous and peasants communities in transforming their local struggles into a national movement for another development model is a third factor that, currently, makes a revolutionary transformational change in Peru very difficult.<sup>18</sup>

## **1.2. Posing the problem: The erosion of the social bases of the socialist Left**

Over the last thirty-five years, the Peruvian socialist Left has not been able to gain state power, notwithstanding that in the 1980s the class struggle reached its highest levels, a fact that is not only reflected by the spreading of the guerrilla struggle but also by the political (electoral) power of the legally functioning political organization *Izquierda Unida* (IU). As a matter of fact, according to McClintock & Vallas (2005: 71), in the 1980s IU was even considered the strongest Marxist-oriented electoral coalition in Latin America.

Political and military errors of the socialist Left in the 1980s and 1990s, the division of the Peruvian socialist Left at the end of the 1980s, state terror in the 1980s and 1990s, the economic and social disaster of state-led development in the period 1985-1990 (economic crisis, hyperinflation) and the neoliberal attack on the proletariat, the peasantry, and, in particular, on the labour movement, in the 1990s, which pointed to the political,

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<sup>18</sup> See subsection 7.4.3 for more details on the weakness of the social movements that struggle against extractive capital.

social, organizational and military destruction of the socialist Left and the workers unions, as well as international developments such as the collapse of what has been called ‘actually existing socialism’ in Eastern Europe (1989), the electoral defeat of the Nicaraguan Revolution (1990) and, above all, the widespread dissemination of the market ideology, are important factors to be considered and incorporated into an analysis that addresses the reasons why the Peruvian socialist Left has not been able to take state power.<sup>19</sup> However, although important, these factors cannot fully explain the failure of the Peruvian socialist Left to come to power. It does not mean that these factors are of secondary importance. In fact, they are crucial in that they are plain expressions of the class struggle. But in order to have a complete picture of why the socialist Left has not attained state power we need to bring into focus the evolution of the social and economic base of Peruvian society.

In order to understand capitalist development we should have a comprehension of the objective and subjective conditions that determine this development. The objective conditions of the capitalist development of society should be considered as the development of not only its economic and social structure (the base), but also its superstructure (the state, ideology, etcetera). The subjective conditions of capitalist development refer to the class struggle. The relations between the objective and subjective conditions are dialectical relations, in which the objective conditions are to be considered as the determinant instance.<sup>20</sup> Both the objective and the subjective conditions should be understood in a historical context and as determined by forces that operate in the national economy as well as internationally. Petras & Veltmeyer (2010: 57-58) formulate this problematic as follows:

[...] the dynamics of capitalist development and imperialism have both an objective-structural and a subjective-political dimension and [...] a class analysis of these dynamics should include both. This means that it is not enough to establish the workings of capitalism and imperialism in terms of their objectively given conditions that affect people and countries according to their class location in this system. We need to establish the

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<sup>19</sup> According to Letts (2014: 289), the defeat of the legal Left in the 1990s has been caused by (i) the ambiguity of the legal Left regards the armed struggle of the PCP-SL and the MRTA; (ii) the division of the electoral front *Izquierda Unida* in 1989; (iii) the collapse of ‘actually existing socialism’ in Eastern Europe and the dissolution of the Soviet Union; and, (iv) the campaign against the Left organized by the Fujimori regime.

<sup>20</sup> “Class struggle modifies the objective conditions [...].The results of class struggle alter the conditions of the “model”: they act upon the allocation of resources, the rates of productivity growth, etc.” (Amin, 2010a: 27).

political dynamics of popular and working-class responses to these conditions—to neoliberal policies of structural adjustment to the purported requirements of the new world order.<sup>21</sup>

In her work *Violencia y autoritarismo en el Perú: bajo la sombra de Sendero y la dictadura de Fujimori*, Burt (2011: 153-154) argues, referring to Cameron's *Democracy and authoritarianism in Peru: Political coalitions and social change* (1994), that the persistent economic crisis and the increase of the informality of the economy “undermined the organizational base of the identities and class mobilizations”. The structural economic changes introduced in the 1990s weakened, in terms of their capacity to organize, the social bases of IU. Lynch (2014: 171) explains that the economic crises of 1982-1983 and 1987-1989 destroyed the “fundamental bases of the Left”, i.e. the urban industrial working class. Verdera (2000: 6, 26) tells us that unemployment and the widespread introduction of subcontracting in the 1990s weakened the workers unions, although this weakening was already underway at the end of the 1970s. Lynch (2014: 167) adds that the defeat of the social movements in the 1990s coincided “with the change of the productive model” and led to the erosion of the “traditional bases of the Left” and the popular movement.

Portes & Hoffman (2003: 76) argue that the return of democracy in the 1980s was accompanied by the expectation “of a recuperation of trade union strength. This expectation has been negated by an adversary which, though peaceful, has proven far more effective than outright military repression. Plant closures, the precarization of employment, subcontracting, and the creation of special export zones—all part of the new model—have severely weakened the formal proletariat and, in turn, its capacity to support class parties”. Starting from 1988, in the private sector the number of strikes and workers involved in labour struggle began to decline. According to the neoliberal journalist Althaus Guarderas (2009: 306), the economic model implemented by the government of Fujimori caused the unions to lose power as “the artificial protection of industry and state-owned companies” and absolute labour stability was eliminated.<sup>22</sup>

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<sup>21</sup> “If the ‘structure’ really is ‘in dominance’; if the independent variables are simply ‘given’, and the dependent variables uniquely determined by them; of capital really is ‘dominant subject’; then we are left without a material basis for political action” (Elson, 1979: 173).

<sup>22</sup> See on the same, Thomas (1999: 278).

### **1.3. Research questions, working hypothesis, working ideas and research objectives**

The central research question for this dissertation is formulated as follows: How has the class structure of Peru changed as the consequence of the economic and political dynamics of capitalist development in the 1980s and 1990s and how might these modifications explain why the socialist Left has not gained state power in the last thirty-five years?

The central research question can be broken down in the following six secondary research questions: (i) how are the dynamics of capitalist development in a country at the periphery of the capitalist world system related to the evolution of this country's class structure?; (ii) what were the changes in the class structure of Peruvian society brought about by the neoliberal policies of structural reform implemented in the 1990s?; (iii) how has the class structure of Peruvian society evolved in the period 1980-2015?; (iv) how have the modifications in the Peruvian class structure contributed to the erosion of the political and social bases of socialist oriented political organizations?, (v) how has the Peruvian socialist Left contemplated the changes in the class structure?; and, (vi) in what way have the changes in the class structure modified the strategies and tactics of the socialist Left?

In order to develop our response to these questions we elaborated a hypothesis. This hypothesis was described as follows: As the Peruvian socialist Left did not politically and organizationally address the changes in the country's class structure that resulted from the political and economic dynamics of capitalist development in general and that of a country at the periphery of the capitalist world system in particular, it was not able to develop strategies and tactics that might have permitted it to respond to processes that were eroding its traditional political and social bases in the 1980s and 1990s. This working hypothesis formed the basis for the elaboration of our thesis statement (see section 1.6).

Apart from elaborating a working hypothesis, we also developed some working ideas. These ideas were the result of our literature review on capitalist development, the capitalist state, and class and class structure. These ideas were used as a kind of overall framework to develop our argument (see section 1.6). The working ideas for this dissertation were:

- 1) The determinant instance of societal development is the mode of production.

- 2) In a society more than one mode of production may exist.
  
- 3) The production of surplus value is a pre-condition for the development of capitalism. The appropriation of surplus value is indispensable for the accumulation of capital.
  
- 4) Society's economic base determines, in the last instance, society's superstructure. The relation between a country's economic base and its superstructure is a dialectical relation.
  
- 5) The capitalist state is as well as the consequence of the contradictions between classes and within classes, between fractions of classes, as an instrument in the hands of the dominant class.
  
- 6) The relations between the centre and the periphery might be expressed in the particularities of capitalist development in Peru.
  
- 7) The role of Peru in the international division of labour is to be a provider of raw materials. It is expected that this particularity is expressed in the country's economic structure.
  
- 8) The Marxist concept of class seems most suitable for the purposes of our research. It should form a red thread of this dissertation.
  
- 9) Class exists. This means that we can identify classes in the political and economic structure of society.
  
- 10) Class struggle and class consciousness are crucial for class in itself to become class for itself. Several factors, however, impede the proletariat to attain class consciousness. In the case of Peru we might point to the economic and social disaster of the state-led development of the 1980s, the dominance of the bourgeois ideology and the political and organizational weakness of the socialist Left.



11) The Peruvian class structure is the expression of the particularities of capitalist development in Peru and the class struggle.

12) The political and organizational weakness of the Peruvian socialist Left is a factor that explains why the socialist Left has not attained state power in the last thirty-five years.

On the basis of our central and secondary research questions we have formulated five research objectives:

1) To analyze the political and economic dynamics of capitalist development in Peru in the years between 1980 and 2015.

2) To develop the class structure of Peruvian society and to elaborate on its evolution in the period 1980-2014.

3) To describe the development of the class struggle and the Left in the years between 1980 and 2015.

4) To analyze the contemplation of the Peruvian class structure by the socialist Left.

5) To analyze the strategic and tactical responses of the socialist Left to the changes in the class structure, i.e. to analyze its political and organizational practice in relation to these changes.

The research we undertook fills an important gap in academic research. In Peru and abroad, in scholarly literature and other, no work exists that has analyzed the evolution of the Peruvian class structure of the last thirty-five years in relation to the political and economic dynamics of capitalist development in Peru. Our study might stimulate new investigations on the Peruvian class structure. This research may deepen our understanding on specific class and class fractions, and/or might have the purpose to advance towards more concrete levels of abstraction (see below).

## **1.4. Theoretical framework**

This section is dedicated to our theoretical framework. It is primarily based on our literature review that is presented in more detail in chapters 2 and 3.

The section is organized in two subsections. In section 1.4.1 we outline our conceptualization of capitalist development and the capitalist state and in section 1.4.2 we present our concepts of class and class structure.

### **1.4.1. Capitalist development and the capitalist state**

Capitalism is a historically determined social system. This means that it not always existed and that it may be replaced by another system, however not necessarily a more advanced or progressive social system.

The particular development of capitalist society depends on the development of the class struggle and the specific correlation of class forces instead of some neutral economic law of progression. Hence a theory of capitalist development should have adopted the basic scientific principles of historical materialism for the study of society and history.

An understanding of the dynamics of capitalist development in Peru urges us to have a comprehension of the laws and contradictions that govern a capitalist society in general. The analysis of the economic dynamics of capitalism elaborated by the economists at the Economic Commission for Latin America and the Caribbean (ECLAC) is limited as they do not grasp capitalist society in its fundamental workings. As a matter of fact, their analysis sticks to the surface of reality and does not point to the causes of the problems they intend to solve by elaborating concrete political and economic proposals. As they consider the state as a neutral and a rather independent agency for development—development economists and structuralists make an artificial differentiation between the economic base and the superstructure instead of seeing this relation in its dialectical unity—they are not able to understand the political and economic dynamics of the capitalist system. Their limited economic analysis and their lack of understanding of the political and economic

dynamics of capitalism are united in their overall purpose to guarantee the furthering and deepening of the capitalist system.<sup>23</sup>

For the sake of constructing our thesis argument we use a Marxist political economy approach for the analysis of Peruvian capitalist development. It not only provides us with a general understanding of the fundamental dynamics of the capitalist development of the forces of production and the corresponding social relations, but also with the general laws and contradictions of the capitalist mode of production.

It should be clearly stated that in this dissertation we are not delving into how capitalism emerged or how it was ‘introduced’ in Peru, but we intend to analyze its general laws and contradictions in Peru in the years between 1980 and 2015. In addition, we will also not enter into Marxian debates with regard to specific Marxian topics such as the transformation problem, the falling rate of profit and the labour theory of value. We accept that the profit rate has a tendency to fall and accept the validity (national and internationally) of the labour theory of value.

The Marxist version of the theory of dependency is for at least two reasons of interest to us. First of all, the theory contributes to an understanding of the capitalist relations of domination between the countries in the centre of the world capitalist system and at the periphery of the system. Second, the theory helps to comprehend the peculiarities of Peruvian capitalism. In the words of Dos Santos (1986: 307-308) this means that our study should “determine the basic forms of dependence according to the historical development of the capitalist system and in its relations with the world system” and we should study “how these dependent national economies are structured within and in function of this world system and the role they perform in its development”.

In this dissertation the capitalist state is not only considered as an agency to further the interests of capital but also as an entity to maintain stability between the different fractions of the bourgeoisie and to elaborate on and implement policies that promote and guarantee class peace. The developmental state is a capitalist state and as such an

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<sup>23</sup> According to Marini (1994), the ECLAC is an agency for the dissemination of the theory of development that has been elaborated in the United States and Europe. That particular theory has the proposition to “respond to the concern and dissatisfaction expressed by the new nations that emerged to independent life” and that understood the “enormous inequalities that characterized international economic relations”.

ideological tool to mask in a social-democratic style its real political and economic underpinnings.

The section is organized in four subsections. In subsection 1.4.1.1 we elaborate on the principles of historical materialism and outline our concept of dialectics. In subsection 1.4.1.2 the concepts of Marxist political economy that are being used in dissertation are presented and in subsection 1.4.1.3 we outline how the Marxist variant of dependency theory is useful for our purposes. In subsection 1.4.1.4 we resume our conceptualization of the capitalist state.

#### **1.4.1.1. Historical materialism and dialectics**

A class analysis of the dynamics of capitalism in general and capitalist development in Peru in particular can only surpass an analysis grounded on particular political, economic and social occurrences and manifestations of the essence of reality when it is based on the general laws that govern society and in particular capitalist society. The analysis becomes static and deterministic, and simple mechanical causal relations will govern our research when we do not use materialist dialectics as a tool to understand the tendencies, counter-tendencies and contradictions that determine concrete social reality.<sup>24</sup> For the purpose to understand the dynamics of capitalism in itself, we should remind that mechanical causality differentiates between cause or effect and “for dialectical causality an instance is both cause and effect” (Carchedi, 1987a: 101). In addition, reality is antagonistic and contradictory and “movement and change do not come from outside; they are an essential feature of reality, since they come from the antagonisms and contradictions inherent in reality itself” (Carchedi, 1987a: 77).

The starting point of the analysis of every society is to determine the dominant mode of production. The primacy of the mode of production in society is given by the primacy of the production and reproduction of material life. The processes of production

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<sup>24</sup> “[...] the purpose of dialectics [...] must be that of explaining the possible (but not inevitable) developments inherent in concrete societies on the basis of an analysis of their laws of motion, beginning with their economic laws of development. It is only on this basis that class struggle is given the really essential role in the explanation of human societies which it must have if the future must be the creation of people, classes (on the basis of objective conditions), rather than the inevitable result of economic laws” (Carchedi, 1987a: 42-43).

and reproduction are not only economic in nature but also political and social. Their interrelations are not causal but dialectical, although the economic factor (production relations) is, in the last instance, the determining factor.<sup>25</sup> Dialectical (inter)relations, according to Carchedi (1987a: 78), are relations of existential interdependence between instances “*in which some instances (the determinant ones) call into existence other instances (the determined ones) as conditions of the former’s reproduction [...] or supersession [...].*” Both tendencies and counter-tendencies are called into existence as conditions for the reproduction of the determinant instance. However, the tendency “reproduces itself within the counter-tendency as soon as this latter realizes itself” (Carchedi, 1987a: 107).<sup>26</sup>

A mode of production is a combination of the existing forces of production and the social relations of production. As Marx (1973c: 775-776) pointed out, it is the specific economic form in which unpaid surplus labour is pumped out of the producers which is the instance that determines with what type of mode of production we are dealing with. Indeed, for instance, while in feudal society surplus labour was extracted, in capitalist society it is surplus value. The production relations designate the role and functions of individuals in the production process of a specific social organization. The production relations are to be considered as the determinant relations and have the primacy over the productive forces. As has been explained by Sánchez Vázquez (1970: 75-76), the “source” that originates system changes has to be found within the system.

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<sup>25</sup> “Determination in the last instance means that the determinant instance calls the determined instances into existence as *conditions of the determinant instance’s own existence (reproduction) or supersession.* [...] The determined instances are considered not in their specific, realized characteristics but in their functionality, as conditions for the existence (reproduction) or supersession of the determinant instance. They are such because *the determinant instance stamps the determined instances with its own (contradictory) class character.* Thus, to be determined in the last instance means to be imprinted by the (contradictory) class character of the determinant instance and thus to be a condition of reproduction or supersession of the determinant instance” (Carchedi, 1987a: 89-90).

<sup>26</sup> “In our example, unemployment is the main tendency and the absorption of the surplus labour force is the counter-tendency because the new branches of production (upon which such an absorption depends) will be immediately (from a logical point of view) subjected to the same tendency. It is this power to force its way through within the counter-tendencies, i.e. within the other determined instances, which characterizes and defines the main tendency even at times when it is the counter-tendencies that play the fundamental role for the reproduction of the system. It is precisely because of this ability to reappear within other determined instances that these phenomena (tendencies) can regulate the working of the system, can be the laws of movement of the system, and can do this in a recurrent way.” (Carchedi, 1987a: 196)

The dominant mode of production in Peruvian society is the capitalist mode of production. In general terms, the capitalist mode of production can be defined as based on the private ownership of the means of production, the expropriation of the means of production of the direct producers and the appropriation of the wealth produced by the direct producers.

The 'rule' of the capitalist mode of production does not imply that, within a country, other modes of production may not exist. Especially in the Peruvian case with a large indigenous community and community-based modes of production, more modes of production may exist, even non-capitalist modes of production. As a matter of fact, differences of modes of production are caused by, among others, internal and external historical influences, the natural environment and the geographical structure of the country. It is for this reason that the concept of social formation is a handsome tool that might help us to comprehend the particularities of Peruvian capitalist society as it 'accepts' the existence of different modes of production in society. However, these 'other' modes of production are (i) determined by the dominant mode of production; (ii) socially subordinated in various ways to the dominant mode of production; and, (iii) conditioned by specific internal mechanisms at the level of the superstructure.

Having (briefly) explained the issues of mode of production and social formation, it now becomes important to determine how this all is dialectically expressed in the superstructure of society. The superstructure of society is dialectically 'tied' to what we might call the economic base (the combination of the whole of the production relations and the productive forces). However, not only its relation to the base is dialectical but also the relations between the 'elements' that make up the superstructure are dialectical relations. As a matter of fact, the determined element (the superstructure in general) helps to shape the form of the determinant instance (production relations) and interacts "with other determined elements and thus with the determinant one [...] *the whole*, the articulation of determinant and determined instances, must be understood as a *process*, dynamically undergoing changes because of its inner antagonisms and contradictions" (Carchedi, 1987a:

101-102).<sup>27</sup> In other words, the superstructure is not a passive reflection of the economic base, it also shapes it and the elements that make up the superstructure influence one another.<sup>28</sup> In the case of the state, for instance, although the economic base determines the “political form of the relation of sovereignty and dependence, in short, the corresponding specific form of the state” (Marx, 1973c: 776), however, “it is not that the economic position is the *cause and alone active*, while everything else only has a passive effect. There is, rather, interaction on the basis of the economic necessity, which *ultimately* always asserts itself. The state, for instance, exercises an influence by tariffs, free trade, good or bad fiscal system” (Engels, 1894).

In general terms, politics are, in the last instance, at the level of the superstructure, the expression of economic interests. The relation is dialectical in sense that politics help to shape the form of economics, but also interacts with other determined elements and is relatively independent from economics. As the reigning fraction of the bourgeoisie may be different from the hegemonic fraction, concrete interests differ and may cause political frictions between these fractions of the bourgeoisie.<sup>29</sup> Although these frictions may result in major political problems for pursuing a stable political course by the government in favour of the bourgeoisie as a whole, only when these political frictions are accompanied by increasing class struggle and a growth of the strength of the socialist Left and the social organizations of the proletariat and the peasantry, these frictions might cause a political crisis. In capitalism, the government has the objective to guarantee the simple reproduction of the system and to provide the political, economic and social conditions for its reproduction on enlarged scale.

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<sup>27</sup> “Therefore, in terms of concrete realization, in terms of the concrete form taken by a certain realized instance (e.g. a certain ideology), there is no reason to assume (and to expect) that that ideology’s form has been shaped more by the form taken by the production relations than by the other determined instances (e.g. the educational system). To opt for the opposite view would mean to opt for a variant of economism.” (Carchedi, 1987a: 90-91)

<sup>28</sup> According to Plaza (2007: 28) Marx and Engels considered the relation between the economic base and the superstructure as “causal deterministic”. This is completely wrong. See on this relation by Marx and Engels, subsection 2.1.3.

<sup>29</sup> Political parties are expressions of these frictions. Engels (1895a: 191): “Hence, the materialist method has here often to limit itself to tracing political conflicts back to the struggles between the interests of the social classes and fractions of classes encountered as the result of economic development, and to show the particular political parties as the more or less adequate political expression of these same classes and fractions of classes.”

The policies by the capitalist state may not only favour the hegemonic fraction of the bourgeoisie but also the dominated classes. In other words, although politics express, in general terms, economic interests, it also expresses the interests of the class in power to maintain political, economic and social stability that might further these interests.

The policies implemented by a capitalist government are the manifestations of the correlation of class forces within and outside the state. These policies, in the case of a capitalist regime, are the overall result of the economic interests of the hegemonic fraction, the relative strength and influence (and mechanisms of influence) of the dominated class fractions within the bourgeoisie, and the political and social strength of the Left in general and the socialist Left in particular, the trade unions and peasants organizations. As every national economy is only part of the world capitalist economy, we must also include the development of the political and economic international conjuncture. The sacrifice, by the government, of certain economic interests of the class in power at the benefit of the overall class interests of the class in power, is a major feature of a capitalist government.

#### **1.4.1.2. Marxist political economy**

The labour theory of value is fundamental in Marx's analysis of capitalist development. In general terms, it regulates the exchange of commodities according to the quantity of socially necessary abstract human labor embodied in the commodities and it 'organizes' the distribution between the different branches of production of the whole of available working hours in society (Mandel, 1969a: 65). The exchange of commodities on the basis of the labour theory of value does not state, however, that in reality commodities are exchanged in proportion to their values. Since the labour theory of value 'help's to determine the surplus value produced, this theory is the point of departure of capital movements in search for the highest rate of profit.

The objective of capitalism is the accumulation of capital. For this to occur, surplus value should have been produced, transformed in profit and consequently accumulated. This does not mean that only when surplus value is produced it can be accumulated because unequal exchange also serves the interests of accumulation. However, value can only be transferred when it is produced. Capital is accumulated in order to create new surplus value.



The objective to accumulate obliges capital to continuously increase the expropriation of surplus value, i.e. to increase the rate of exploitation (see below). However, there is a physical limit to diminish the wages as it will make it impossible for labour to reproduce itself. According to Marx, as labour-power produces value it must be considered as the *source* of profit. Profit is not equal to surplus value. Profit is a part of the realized surplus value. Surplus value can further be divided into interests, land rents, etcetera.

When considering labour-power as the source of profit, this brings us to the concept of exploitation. This concept has to be stripped of all supposedly moral denotations as it embodies all that capitalism implies and which should be eradicated if human beings want to live in complete liberty and to develop themselves in full.

Exploitation supposes the existence of owners and non-owners of the means of production. The fact that labour-power has the capacity to produce more than its own value, hence its denomination as variable capital, makes it possible to extract this surplus value. This extraction by the owners of the means of production is what is called exploitation. Rates of exploitation do not necessarily need to rise in order to offset the tendency of the rate of profit to fall, but it surely is very helpful and a tool that capital frequently uses. The tendency of the profit rate to fall might be countered by (i) an increase or decrease of the rate of surplus value; (ii) an increase of the mass of surplus value; (iii) a decrease of the price of the elements that make up constant capital; and, (iv) a decrease of the price of variable capital.

Notwithstanding the limits to diminish the wages, the necessity to increase surplus value maintains. By increasing productivity expressed in the increase of the organic composition of capital, the production of relative surplus value increases.

A productivity rise makes it also possible to extract surplus value that was not produced by the capitalists' 'own' workers. This transfer of value expressed in production prices is conducted by the movements of capital in search for higher than average profit rates. The generalized higher organic composition of capital in the so-called advanced capitalist countries forms the basis for unequal exchange between the countries of the 'North' and the 'South'. It is assumed that the 'South' has a lower organic composition of capital than the 'North'.

The accumulation of capital causes competition and competition causes the concentration and centralization of capital. This chain of events is further accompanied by periodic crisis as the increase of the organic composition of capital, a direct effect of accumulation, conduces to the production of more commodities with lesser value incorporated. The realization problem of the produced value is the manifestation of an overproduction crisis.

The overproduction crisis is one of the principal expressions of the contradictions in capitalism. The cause of this crisis can be found in the main contradiction of capitalism. This contradiction is between the use value and exchange value of a commodity. Overproduction is, in the last instance, caused by the fall of the rate of profit.

The concentration and centralization of capital is the logical result of the laws of capitalist development. The fall in the rate of profit not only causes increased competition, but also the concentration and centralization of capital. Processes of concentration and centralization give rise to financial capital and monopoly capital.

The concentration and centralization of capital increases the difficulties for capital, considering its radius of action within the nation-state, to keep the rate of profit from falling and to realize the produced value. The reasons for capital to cross the borders of its country of origin can be summarized as follows. First of all, capital must, and this is an inherent tendency of the capitalist mode of production, enlarge the market for its goods and services in order to assure the realization of the produced value and surplus value on an expanded scale. Second, it needs to find an outlet for capital that cannot be properly invested in its country of origin as it does not generate the average rate of profit. This movement is also caused by the fact that abroad it might generate a higher profit rate than in its native country. Third, capital needs to assure the free flow of natural resources and the provision of a cheap labour force. Fourth, it has the urgent and structural need to reduce the value of constant and variable capital in the 'developed' countries<sup>30</sup> in order to increase the relative surplus value and to stop the tendency of the profit rate from falling.

In the era of monopoly capital and transnational capital, the laws of capitalist development have crossed the borders of the nation-state. As such, the laws and

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<sup>30</sup> The 'developed' countries might be considered similar to the countries of the 'North' and the 'advanced' capitalist countries.

contradictions of capitalist development as well as the labour theory of value are applied at a worldwide level.

#### **1.4.1.3. Marxist dependency theory**

The development of capitalism at the periphery of the world capitalist system can only be comprehended within the evolution of the global capitalist system and understood as the dialectical interplay of the workings of national and international class relations and the national and international class struggle. The adherents of the theory of dependency consider the lack of development, or ‘underdevelopment’, in the countries on the periphery to be caused by capitalist development itself. We consider Marxist political economy in combination with the Marxist variant of the theory of dependency very important to understand some elemental particularities of capitalist development in Peru.

Dependency theorists analyze dependent countries within the context of the capitalist world system. They consider these countries as an integral part of the system. World capitalist development as such should be taken as the determining factor, “in the last instance”, of the development of ‘underdeveloped’ countries.

The relations between the ‘North’ and the ‘South’ are not mechanical but dialectical, not static nor linear. Nevertheless, dependency is founded on the international division of labour. As such, the conditions for economic growth in the ‘South’ are conditioned by the growth in the ‘North’. In addition, as is explained by the new dependency theory, dominance by international capital is only possible when it has support from national sectors. The internationally and nationally dominant capitalist forces have common interests (Dos Santos, 1986: 309).

The relation between the ‘developed’ and ‘underdeveloped’ countries, or maybe better, the relation between transnational capital and local capital in which the first can count on the political, economic and military protection of the multilateral agencies of imperialism, is of great interest. The unraveling of the secret of unequal exchange by Marini (1985) shows the utility of dependency theory when it is combined with the political economy of Marxism. Differences in the rate of productivity expressed in differences in the organic composition of capital between countries demonstrate how value is extracted and

transferred from the periphery to the centre. Super-exploitation in the countries on the periphery is the answer of local capital to the loss of produced value due to international competition. Unequal exchange is a consequence of the functioning of capitalism on a world scale.

Peru is a very heterogeneous country, not only with respect to its population and geography but also for its levels of development. As might be expected, the level of development in the capitals of the Peruvian departments is according to whatever World Bank standard higher than in the rural areas. However, the levels of development in the biggest department capitals and located near the coastline are higher than in the department capitals in the jungle and in the highlands. The concept of metropolis and satellite elaborated by Frank seems useful for an understanding of the relations of political and economic dependency within the country itself.

#### **1.4.1.4. The Marxist concept of the capitalist state**

The capitalist state might be considered as a mechanism in the hands of capital to further its interests (instrumentalist vision). It can also be analyzed on the basis of a structuralist vision. We use the instrumentalist and structuralist vision of the state to analyze the development, the functions and the political practice of the Peruvian State.

The role of the capitalist state in society may change because of the modifications in the correlation of national and international class forces. These modifications, however, do not alter the state's principal functions. Its role in expanding neoliberalism and in socializing the debt of private corporations in the aftermath of the world financial crisis that started to unfold in 2008, for instance, confirms that the capitalist state may change its form but not its essence. The function of the capitalist state is to assure, to deepen and to broaden the capitalist mode of production and distribution. Differences between the capitalist state in the centre of the world capitalist system and at the periphery do exist but are not based on fundamental differences of opinion regarding the proper functioning of the capitalist system.

The capitalist state is not a homogeneous class entity. It is composed of different classes and class fractions. As a matter of fact, the state should be considered as one of the

areas where the class struggle is being fought out. As such, (i) the hegemonic fraction of the bourgeoisie is the dominant class fraction within the bourgeoisie; (ii) the reigning class fraction of the bourgeoisie does not necessarily have to be the hegemonic fraction of the bourgeoisie; (iii) the hegemonic fraction of the bourgeoisie competes with other fractions within the bourgeoisie for power, markets and surplus value; (iv) the hegemonic fraction of the bourgeoisie rules, through the reigning fraction, in the name of the whole of the bourgeoisie; (v) the exploited and oppressed classes not only fight the state but also try to take positions within state organism to defend their particular political, economic and social interests. The function of the state to defend the global interests of capital does not mean that it directly operates against the interests of the dominated classes. It also guarantees, in a certain way, the economic interests of the dominated classes.

The role of the capitalist state in capitalist society is to further the interests of capital. Certain social and economic reforms implemented by the capitalist state might benefit the exploited and oppressed classes but this does not alter its prime function. The concept of the developmental state is a handsome ideological tool of the bourgeoisie as it helps to disseminate the idea that the capitalist state might be reformed as to benefit of the majority of the population.

The concept of the developmental state confuses the policies implemented by the capitalist state and the proper concept of the capitalist state. Policies that point to reform the capitalist system do not change the system but rather broaden its scope to all sectors and all corners of society and help to fasten the political and ideological basis of capitalism. These reform policies are not the result of a change of the capitalist state itself, but are the product of concrete class struggle and changes in the correlation of class forces within and outside the state apparatus. Hence these policies do not have a lasting character within a system based on the exploitation and oppression of the subordinated classes.

#### **1.4.2. Class and class structure**

The 1970s and 1980s were heydays for scholarly Marxist literature on class and class structure. Since the 1990s, with the worldwide dominance of the neoliberal ideology and the demise of ‘actually existing socialism’, spaces seem to have reduced for Marxist

approaches to class and class structure in Latin America.<sup>31</sup> The current debate on class and class structure in Latin America seems to be determined by the Weberian concept of class and a structural-functionalist theory of social stratification.

A political and sociological debate on the concept of class appears to have been replaced by discussions on how certain ‘economic’ classes, defined according to income, especially what is denominated as the middle class, are expressed in occupational categories, life style and education, among others. The size of classes has become elastic as it increasingly depends on where the income boundaries between classes are set. In this context, class as a relational concept has disappeared, replaced by a gradational concept.

In this dissertation we use a Marxist concept of class. The Marxist concept of class is a relational concept. We consider the concept of class as described by Marx (1973c: 855-856) in volume III of *Capital* and elaborated by Marxists such as Lenin, Mandel, Poulantzas, Ollman, Carchedi and Wright the most effective tool for analysing the evolution of the Peruvian class structure as in the Marxist concept of class the dynamics of the capitalist development of society are concentrated. In other words, the Marxist concept of class is grounded in a theoretical understanding of the capitalist development process—the development of society’s forces of production and corresponding social relations. Also for an understanding of the functioning of the capitalist state the Marxist concept of class is of crucial importance.

In general terms, the class structure of society is derived from the whole of the production relations. To conceive of the social structure in terms of occupations might be helpful in determining an individual’s position in the division of labour, however, as a multiple range of occupations are presented without establishing their relationship to the

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<sup>31</sup> In the case of the ‘advanced’ capitalist countries, also changes in labour processes and the economic structure might explain, apart from the worldwide dominance of the neoliberal ideology and the demise of ‘actually existing socialism’, the lack of Marxist scholarly work on class and class structure. “A powerful subtext in these debates is that the ‘failure of the left’ is also a failure of socialist theory; that socialists have remained encumbered for too long by the trappings of outdated ideologies which required revision and updating in the light of ‘New Times’. The major thesis associated with such arguments, which reflects the economic changes discussed above, is that the decline of mass production, and with it a mass labour force, has led to the declining significance of the (mass, male) ‘working class’ and thus of class *politics*” [...] largely because of the economic, technological and labourforce changes [...] the rhetoric of ‘class’ no longer provided a framework through which opposition to the effects of the economic crisis (rising unemployment, welfare cuts etc.) could be generated” (Crompton, 1993: 85, 105). See on the “apparent neglect of class analysis”, Berberogl (2011: 143-144)

means of production or labour-power, or to the reproduction of the system as a whole, it is difficult to determine the common and objectively defined social interests of individuals that through social struggle determine or shape the dynamics of social change.<sup>32</sup> To elaborate society's structure on the basis of the individual's relation to income might be useful when describing differences in the social conditions of different strata of the population, and perhaps in order to construct policies to alleviate social problems such as poverty, but it does not enable us to get to the structural roots of these problems or eradicate their causes. A definition of class based on income categories does not help to understand the economic, political and ideological role and functions of the different classes that make up society for the production and reproduction of the capitalist system. To analyze society's social structure on the basis of the market and consumption has the disadvantage of what is presented as society's structure are its particularities or manifestations of a certain reality at a particular point in time in the history of a given social formation. Thus we are not able to establish the social and economic fundamentals of these particularities. In general terms, the theory of social stratification is focused on the expressions of reality instead of what lies behind these expressions. In other words, they take the differences between the various expressions of reality as given. In this way, categories of social stratification such as income can make class to become completely invisible (Wood, 2000: 110).

Classes<sup>33</sup> are formed within the structure of economic production and thus can, partially, be defined in economic terms.<sup>34</sup> Classes can be defined economically, on the basis of the production relations, at the highest level of abstraction, i.e. at the level of the mode of production. At the level of the economic structure of a socio-economic system, the

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<sup>32</sup> Occupations can be considered as positions "within the technical division of labor and classes as positions within the social division of labor" (Burriss, 1980: 21).

<sup>33</sup> It must be underlined that we do not use the concept of social class but class. The concept of social class implies the existence of 'economic class'. According to Ossowski (1969: 62), the difference between economic and social class lies in the fact that in the scheme of gradation the social position of individuals is determined by various (social) factors instead of only economic factors. Although it might seem that our concept of class resembles the concept of social class, we use the concept of class as in the concept of social class the factors that determine ones social position are not 'calculated'. We consider both economic and social factors to influence the social position of individuals. However, we attribute to economic factors decisive 'weight'.

<sup>34</sup> According to Carchedi (1977: 43), it is only possible to define classes in "pure economic terms" at the highest level of abstraction, i.e. at the level of a pure capitalist mode of production (capitalists and working class). Although a complete definition of the class includes a definition of class in political and ideological terms, the economic definition is determinant (Carchedi, 1977: 167).

definition should include political and ideological elements. Further down on the scale of abstraction, the analysis of classes in society may introduce social stratification. At the level of a social situation (or concrete society) as Dos Santos (1967: 35) argues, the analysis is “not purely empirical but scientific because it knows the determinations that explain this immediate or “apparent” reality.” The analysis of class in the conjuncture is the most concrete level of analysis.

In this dissertation we analyse classes at the level of the economic structure of a capitalist socio-economic system. In some places our analysis passes, for a part, this frontier and discusses classes at the level of a concrete society, for instance in the case of the Peruvian indigenous and peasants communities, and the urban and rural semiproletariat.

We are aware that the analysis of class and class structure at the level of the economic structure of a socio-economic system has the limitation that it not delves into more concrete distinctions within class fractions, i.e. the identification of social strata within these fractions (for instance on the basis of income, culture, etcetera.), and does not elaborate on the class structure of the ‘non-capitalist sections’ of the overall capitalist economy. Hence the classes and class structure presented in this dissertation is only an approximation of classes in Peru and the Peruvian class structure.

For two reasons we have decided not to analyse the evolution of the Peruvian class and class structure at the level of a concrete society. First of all, our objective is to get an overall impression of the evolution of the class structure. Second, as in the last thirty-five years Peruvian society has changed a lot (politically, economically, socially and culturally), it becomes impossible to reasonably compare the evolution of whole ranges of social strata (that appear, disappear and change their political, economic and social content), and classes, class fractions and social strata in the ‘non-capitalist’ sections of the capitalist economy. This might only be possible for much shorter and (politically, economically and socially) ‘closed’ time lapses, i.e. for the analysis of, for instance, class and class structure that encompasses the 1980s, the 1990s or the period 2000-2015 separately. The analysis of class and class structure at the level of the conjuncture lies, obviously, outside the purpose of this dissertation.

Class is a relational concept. As a guideline for the concrete elaboration of our general definition of class we consider the work of Van Parijs most adequate. A definition



of class should (i) be relevant for the explanation of consciousness and action; ii) be hierarchical, in the sense that one class is 'superior' to another; (iii) be discrete, in the sense that 'belonging to a class is not just a matter of degree', i.e. there should exist a 'non-arbitrary border'; (iv) it should be concerned with the distribution of material advantages and burdens (income, work, exercise and submission to power); and, (v) it should be rooted in the property relations that characterize the particular mode of production.

We do not share the point of view that a class only becomes a class in the context of class struggle, or when the individuals that make up a particular class have attained a certain level of class consciousness. Classes act politically and can be visualized politically in class struggle when the struggle is about class interests. First, class consciousness emerges in class struggle, on the basis of experiences in the struggle for direct social and economic interests. Second, class consciousness can be attained by intellectual labour or political clarification by workers organizations and left-wing oriented political organizations. The difference between these two 'moments' in the 'emergence' of class consciousness lies in the level of class consciousness attained. While the first level might be considered as an economic class consciousness, the second is political class consciousness. In short, a class in itself exists as an objective entity and might become a class for itself.<sup>35</sup> However, this process (of class formation) is very complicated and we cannot disregard a variety of factors that offset the emergence of, for instance, a proletarian consciousness. These factors can be found in the sphere of production and distribution, nationally and internationally. The state apparatus and ideology also have important influences on this process. Class formation is the formation of class for itself.

In section 1.4.1.1 on historical materialism and dialectics we explained the relationship between society's economic base and superstructure as well as between economics and politics. As, in general terms, the class structure is derived from the production relations, it finds expression in the political organizations that are active in society. That is, in capitalist society political parties are expressions of the interests of classes and class fractions. Although political parties do not reduce their political practice

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<sup>35</sup> Anderson (1974: 55-56) seems to confuse the concepts class in itself and class for itself when arguing that economic objectives are not sufficient to determine an individual's class placement. According to Anderson "subjective factors of culture, identification of interests, social relationships, class consciousness, and political ideology [...] must necessarily enter into a person or group's class placement".

to their 'proper' class or 'proper' class fraction and, most of the times, political parties include individuals from contradictory class locations, political parties can be distinguished on the basis of the overall class and class fraction interests they represent. Herein lies the importance to differentiate between the political and economic analysis of class. While an individual may economically pertain to a particular class because of his or her economic interests, it is the consciousness political act of this individual that determines if an individually politically belongs to this class. For instance, an individual may economically belong to what might be called the *petibourgeoisie*, but pertains to the proletariat when it assumes the class consciousness of the proletariat and takes part in the class struggle of the proletariat. In the case of for instance an individual that economically pertains to the proletariat but assumes the class consciousness of the *petitbourgeoisie* and mobilizes against the collective interests of the proletariat, does not politically belong to the proletariat.<sup>36</sup>

The concept of class struggle can be theorized abstractly or can be applied on concrete struggles in order to get a full understanding of these struggles. To dismiss the struggle for higher wages because it is not a class struggle in the sense of how Marx and Lenin defined it does not help when it comes to the class struggle. This struggle can be conceptualized at two levels: the economic and political. While at the economic level the struggle is mainly about direct interests, at the political level it has become a struggle for advancing class interests and, in the process, for power. To conceptualize the class struggle at two different levels makes it on the one hand understandable that classes can only be politically visualized when the class struggle becomes political, and on the other hand it enables us to understand the possible development track of class consciousness from an economic class consciousness to a political class consciousness.

There exist a variety of definitions of class. For the purposes of our research we have elaborated on a definition of class that is composed of elements of different existing class definitions, principally the one advanced by Lenin (1961b: 228). Our definition has the advantage that it allows us not only to distinguish between the owners and non-owners of the means of production, but also to determine the place of managers, individuals that work

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<sup>36</sup> See also, Hall (1981: 62-63) and Carchedi (1977: 138-139) See section 3.3 on the discussion of class consciousness.

in state apparatuses and the own account workers in the class structure, among others. The possibility to determine the place of this last group in the class structure, an important feature of the Peruvian social structure, has been one of our main reasons to elaborate our own definition of class. We define class in the following way: Classes are groups of people differing from each other by their relationship to the means of social production and labour-power, and by their political, ideological, economic and social role in the production and the reproduction of a historically political, economic and social system.

On the basis of our definition of class it is possible to establish class criteria that enable us to determine the class composition of society at the level of the economic structure (see section 1.5). Although our definition of class helps to locate and place individuals in the broader social structure, it does not allow us to conceive the social heterogeneity of every class in particular at the level of the economic structure of a socioeconomic system. This brings us to the question of class fractions.

We consider the concept of class fractions useful for the purpose of clearly visualizing class as a social relation under changing conditions of capitalist development and the class struggle. Class fractions are subdivisions of classes and can be distinguished on the basis of the political and/or economic role individuals play in society and by the role they play and the place they have in the social organization of labour.<sup>37</sup> Class fractions enable us to understand intra-class contradictions and to determine the concrete level of inter-class contradictions, a prerequisite for whatever political project of class alliances.

The class structure at the economic structure of a socio-economic system expresses the contradictions (i) at the level of socioeconomic system as a whole; (ii) between the different modes of production in a country; and, (iii) within the different modes of production itself. In order to elaborate on the evolution of the Peruvian class structure it is important to take into account the following ‘factors’: (i) the role of Peru in the international division of labour; (ii) the structure of the Peruvian economy; (iii) relations of political and economic dependency between the bourgeoisie in the ‘advanced’ capitalist countries and the bourgeoisie in Peru; (iv) overlapping political and economic relations and

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<sup>37</sup> It should be clear that at the level of class fractions we focus on the social division labour.

interests between the Peruvian bourgeoisie and the bourgeoisie of the ‘North’; and, (v) the particularities of the Peruvian labourforce.

### **1.5. Methodology**

The methodology that I used for this dissertation had the objective to discover tendencies instead of pointing out phenomena —to discover the movements behind the visible surface. The consideration here was that we cannot understand the tendencies or the movements behind the surface unless we start with an analysis of the whole to subsequently proceed towards an analysis of its individual aspects. Baran & Sweezy (1969: 2-3) write that “[...] as the whole is always more than the sum of the parts, so the amassing of small truths about the various parts and aspects of society can never yield the big truths about the social order itself —how it got to be what it is, what it does to those who live under it, and the directions in which it is moving.” In the same line of thought, Carchedi (1987b: 129) explains that when one starts from the individual level of analysis, the only way to come up to the social level is by aggregation. But the aggregation of individual units cannot explain their social nature, it cannot explain what constitutes the units as units of a whole”.<sup>38</sup>

My methodology did not have the intention to help us understand the absolute and isolated concrete, but the concrete within a specific historical context and in relation to historical occurrences, the concrete with a wide range of interconnections and relations with other concrete instances and phenomena, and the concrete within an overall structure, i.e. the capitalist mode of production (Sánchez Vázquez, 1970: 68-69). The methodology I employed had the aim to contribute to an understanding of the general in which the concrete fits, in which the concrete expresses and develops its particularities and in which the concrete becomes tangible.<sup>39</sup> Hence the research methodology I employed obliged me

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<sup>38</sup> According to Ollman (1993), “[...] the capitalist system can only be grasped through a study of its parts in their interconnectedness”.

<sup>39</sup> “The empiricist science, for its overvaluation of the datum over its determinations, substitutes the totality for the aspects or forms of its manifestation. Hence, tends to confuse the dynamics of the reality with the apparent dynamic of certain historical periods. [...] The empiricist social science absolutizes the immediate; it cannot show their relationships with the modes of being or the conditions that determines it and therefore it is not science” (Dos Santos, 1967: 38-39).

to look at the inner logic of the capitalist system (the general or the abstract) in order to get to its manifestations in a specific social formation (the concrete).

My research methodology constituted of two methods. In order to get below the surface of reality we necessarily needed to start with real existing phenomena.<sup>40</sup> In other words, we had to begin with the concrete in order to get to the essence. Marx's method of political economy fitted this purpose. The method of class analysis, the second method applied in this research, was used to help understand the whole of the dynamics of capitalist development in Peru and to elaborate on the evolution of the Peruvian class structure.

This research has made use of an inductive and deductive approach<sup>41</sup> as well as qualitative and quantitative research methods. The use of different methods and approaches was according to the phases of the research. In the first phase I employed an inductive approach in order to make detailed observations of Peru. In this phase I considered the use of qualitative research methods most appropriate as we intended to “formulate a set of concepts that reflect more or less accurately the relationship between real phenomena” (Longo, 1978: 142). In the second phase, I utilized a deductive approach to verify our theoretical constructs. I employed quantitative research methods to gather and analyze empirical data and to substantiate my thesis. Qualitative methods were employed to deepen the process of thesis validation and to increase the internal validity of the data analysis process.

The use of qualitative and quantitative research methods was designed to to deepen the process of the hypothesis validation. As De la Garza T. (1983: 35) writes regarding the ‘verification strategy’ and a ‘reconstruction strategy’, the “confrontation with the real does not take place at the end of the process [but]...during the reconstruction process where it undergoes a ‘first verification’. In this way, the culminating point is not verification but the reconstruction of the concrete thought.”

The section is organized in three subsections. Subsection 1.5.1 I reconstructs Marx's method of political economy, and subsection 1.5.2 delves into the method of class analysis. Subsection 1.5.3 outlines my research techniques and data sources.

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<sup>40</sup> See for some practical explanations and examples, Sweezy (1977: 49-50).

<sup>41</sup> On a description of this approach in relation to Marx's method of political economy, see Carchedi (2011: 44-47).

### 1.5.1. Marx's method of political economy

Marx's method of political economy is crucial for our research purposes as it might enable us to differentiate between phenomena and the essence of reality.<sup>42</sup> Although this method has not the objective to verify a hypothesis but to understand reality, the understanding of reality is elemental for whatever hypothesis validation process. Marx's method was outlined in the *Grundrisse* (Marx, N/Da: 21).

The 'essence' of visible empirical phenomena cannot exist without its appearance in the real world and vice versa (Gomezjara, 1997: 22, 235). In practical reality there exists the essence and its representation.<sup>43</sup> By pointing to and searching for the 'essence' rather than just looking at conjunctural issues related to society's political, economic and social structure, by considering "the individual facts of social life as moments of the social totality" and by unmasking the essential form and inner connections between facts (Jakubowski, 1936), during our research we might be able to avoid an empiricist practice, and "to grasp the unconscious infrastructure of social life" (Veltmeyer, 1978: n.p).

Marx's method is divided in a phase that is denominated inquiry and in a phase that is called exposition. For these two phases two distinct methods are used. While in the first phase we use the method of abstraction (from the concrete to the abstract) in the second phase the method of elevation is employed (from the abstract to the concrete). In the Afterword to the German Edition of Volume I of *Capital*, Marx (1973a: 31) noted the following regarding the phase of inquiry:

Of course the method of presentation must differ in form from that of inquiry. The latter has to appropriate the material in detail, to analyze its different forms of development, to trace out their inner connection. Only after this work is done, can the current movement be adequately described. If this is done successfully, if the life of the subject-matter is ideally reflected as in a mirror, then it may appear as if we had before us a mere *a priori* construction.

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<sup>42</sup> For a useful summary of Marx's method, see Mandel (1976: 16-17).

<sup>43</sup> According to Althusser (1968), "for Marx, the science of political economy, like every other science, depends on this reduction of the phenomenon to the essence, or, as he puts it, in an explicit comparison with astronomy, of the '*apparent movement to the real movement*'". Rochabrún (2009: 92), however, considers the reality to be the whole of the apparent and non-apparent. The apparent is not something superfluous, but is an inherent dimension of historical reality.

The process of abstraction and elevation should be contemplated as a unity. While during the process of abstraction we begin to understand the ‘essence’ of reality, of observable phenomena, to see behind phenomena and to discover hidden structures instead of visible forms, during the process of elevation concrete reality can be understood as a complex system of interrelations, determinations and contradictions, located within a particular historical context and class relations. By establishing their interrelations, or those many determinations and relations, as Marx puts it, during the process of elevation we will be able to not only understand in the case of Peru the concrete reality of its economic and social structure and to comprehend its specific inner laws of motion or how the capitalist system ‘works’, but also to conceptualize what the revolutionary social transformation of society means in concrete terms, to elaborate on proposals towards this objective and to contribute to changing Peruvian society.

The method of abstraction could be considered as a process of organizing and structuring phenomena that we might encounter in reality. According to Cámara Izquierdo (2002), it serves “to derive from mere observable phenomena the essential relations that govern and articulate these phenomena and their movement.”<sup>44</sup> According to Carchedi (1987a: 96), “to descend to more concrete levels of abstraction means not to add mechanically more and more elements but to unfold the contradictions already implicit in the determinant one. It is precisely here that the explanatory power of the method submitted above resides, in its ability to account for its own dynamic from within itself and not through a process of mechanical addition of exogenous elements”.

The method of abstraction necessarily starts with an analysis of phenomena. This means the observation of reality and an inquiry into its internal functioning (Cámara Izquierdo, 2002). The process of abstraction, according to Osorio (2001: 35), implies that the different elements that make up a totality should be isolated one from the other in order to determine their role and weight in the totality.

The process of elevation is also been called the process of reconstruction; to “integrate and reconstruct the totality”, as Osorio (2001: 35) puts it. According to Cámara Izquierdo (2002), “the reproduction of the concrete by way of thought, based on the

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<sup>44</sup> See regarding this matter also De la Garza T. (1983: 24).

simplest determinations, allows us to explain the concrete reality, apparently chaotic, from essential relationships, forming an orderly presentation of capitalist reality [...].” The result of this process, as Cámara Izquierdo (2002) states, is “the reproduction of the concrete in thought and the purpose of this theoretical elaboration of knowledge is the reproduction of the real concrete [...]”. This process can be summed up as follows: the individual elements that make up totality should (i) be theorized individually; (ii) be understood by a process of thinking; (iii) be analyzed in relation to other elements to understand interrelations, interdependencies and contradictions of the dynamics of practical reality; and, (iv) be considered as part of totality.<sup>45</sup>

The process of the reconstruction of totality we might term, referring here to Veltmeyer (1974-1975: 386-387, 397, 421), *structural analysis*:

With the concept of ‘system’, structural analysis focuses on the relations among phenomena rather than the nature of phenomena themselves; instead of treating phenomenal terms as independent entities, it emphasizes the primacy of relations. The object of structural analysis is to disclose the ‘internal logic’ of the system into which these relations enter, i.e., the structure of constant relations among phenomenal terms. This ‘invariant structure’ of essential relations should not be confused with visible ‘social relations’; rather, it constitutes a level of reality invisible but present behind the visible functioning of social relations. Structural analysis transcends empirical observation to achieve a deeper reality, i.e., to discover a structure, an internal logic, a unity or permanence beneath the diversity of life [...]. The structuralist problematic, in its reformulation of ‘essence’ as ‘structure’, ‘being’ as ‘production’, ‘essence-phenomena’ as ‘structure-superstructure’, thinks reality as a complex of structural relations rather than the manifestation of a simple inner essence in a process of self-realization of a historical subject. [...] Thus, a structuralist analysis of history is possible or adequate to its object when it reconstructs a determinate social formation as historically specific, and analyzes both the impact of the whole on its parts, and the genesis and laws of development/transformation of the social totality. It approaches reality dialectically, as a historical process of human praxis rather than as an analytical system: it does not reduce historical change to structural identity.

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<sup>45</sup> Jakubowski (1936): “An orientation of knowledge towards the whole makes it possible to break through the appearance of things —their apparent characteristics and apparent movement— and to see beyond, to the relationships of men themselves to each other.”



### 1.5.2. Marxist class analysis

Class analysis is predicated on a structural analysis of the relations that individuals necessarily enter into in the process of production, according to the level of the development of society's forces of production.

In Marxist circles there is frequently talk about class analysis. However, very often class analysis is not defined. Is class analysis an analysis of the capitalist dynamics of a particular society in which one relates to the antagonistic classes in society? Is class analysis an analysis of classes? Petras & Veltmeyer (2009: 32) argue that “class analysis [is] a materialist analysis of the dynamics of capitalist development that takes into account both the objectively given, the structural forces of productive and social transformation, and the subjective or politically determined response to these conditions, a dialectical interplay of the objective and subjective, in particular conjunctures and over time”. According to Erik Olin Wright (1989: 271), “the task of class analysis is not simply to understand class structure as such but to understand the interconnections among all these elements and their consequences for other aspects of social life”. Przeworski (1977: 343) explains that “the “theoretical” function of class analysis is to identify the objective conditions and the objective consequences of concrete struggles. [...] The assumption of class analysis is thus that the historical development of capitalist societies is to be understood in terms of the development of the capitalist system of production, more specifically, in terms of the process of the accumulation of capital and all of its attendant consequences”. We consider a Marxist class analysis of capitalist society to be an analysis of the objective and subjective conditions that determine the capitalist development of a specific social formation, on the basis of which a particular class structure is erected and developed that influences the specific capitalist development of the social formation and at same time forms the material basis for the supersession of the dominant capitalist mode of production of this social formation.

A Marxist analysis of the Peruvian class structure is only possible when we have data on this class structure. The principal Peruvian state organisms that might provide data on the class structure are the Ministry of Labour and Promotion of Employment, and the National Institute for Statistics and Informatics (*Instituto Nacional de Estadística e*

*Informática*; INEI for its acronym in Spanish). However, these organisms do not gather information with the objective to establish society's class structure but rather to collect data to analyse the country's occupational structure. This makes it very difficult to determine the country's class composition at the level of the economic structure.

Above I argued that to conceive society's social structure in terms of occupations makes it very difficult to determine the common and objectively defined social interests of individuals as these occupations do not establish their relationship to the means of production or labour-power, or to the reproduction of the system as a whole. Furthermore, the problem of the functionalist form of analysis is that people do not behave or act according to their occupational status or class; nor is their social condition and their social consciousness, or their ideology and politics, rooted in occupational class. Other limitations of using occupational categories and groups are the fact that a complete set of different kinds of social relations that are enclosed in the occupational categories and occupational groups are hidden and that it only includes the EAP.<sup>46</sup> However, as no other data exist, we must use a methodology that enables us to transmute data on occupational groups and categories into classes. As argued above, we do not consider it adequate to determine class by making use of income categories as (i) it does not help to understand the economic, political and ideological role and functions of the different classes that make up society for the production and reproduction of the capitalist system; and, (ii) it is not possible to objectively define the class boundaries.

Marx's Political Economy method has been used to help us transmute occupational categories and occupational groups into classes. We first decided to develop a rough outline of the Peruvian class framework. An analysis of the Peruvian occupational structure, data on sales and landownership, and a literature review on the country's class and social structure provided us with the necessary elements to fulfill this objective. Second, by making use of Peruvian specific class criteria we succeeded in establishing the interrelations, determinations and contradictions of the different classes in this framework. It also enabled us to verify if these classes really existed in Peruvian society.

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<sup>46</sup> See section 6.2 for more details on the limitations of occupational categories and occupational groups for class analysis

The eleven class criteria that helped us to transmute the occupational structure into a class structure were elaborated on the basis of our analysis of the Peruvian occupational structure. These criteria were:

- 1) Ownership or non-ownership of the means of social production.
- 2) Control or no control over the means of social production.
- 3) Selling or not selling of labour-power.
- 4) Hiring or not hiring of labour-power.
- 5) Control or no control over labour-power.
- 6) Control or no control over the labour process (of others or one's own).
- 7) Exploiting or not exploiting of labour-power.
- 8) Exploited or not exploited.
- 9) Economically oppress or not economically oppress.
- 10) Economically oppressed or not economically oppressed.
- 11) Location of main economic activities.

The third step in establishing the Peruvian class structure was by applying the class framework and the eleven class criteria on the classification codes of occupations used by the mentioned Peruvian state organisms above. This process enabled us to determine, theoretically and empirically, four classes: capitalist class, intermediate class, working class and peasantry.<sup>47</sup>

The four classes that make up Peruvian society do not encompass all individuals in the occupational structure. In order to locate individuals that perform a subordinated role in the oppressive agencies of the state apparatus, for instance soldiers and policemen, we have used the concept social category. Social categories, as explained by Poulantzas (1973) “do not, in fact, belong to one single class: their members generally belong to various classes”. Although Poulantzas uses this concept to determine, *inter alia*, the state bureaucracy, I use this concept in the case of individuals whose specific class location cannot be determined directly. We consider it possible to determine the class location of individuals in the state

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<sup>47</sup> See section 6.3 on the definition of these classes.

bureaucracy by making reference to their function of capital, function of collective worker and/or function of capital *and* collective worker.

### **1.5.3. Research techniques and data resources**

The techniques and resources we have used were determined by the different phases of our research. In the first phase we used the following research techniques and resources:

a) Revision of the literature in regards to theoretical and methodological concepts: historical materialism, dialectical materialism, theories of capitalist development, Marxist political economy, class and the capitalist state.

#### **Sources:**

➤ Books and journal articles.

b) Revision of the literature with regard to the phases of worldwide capitalist development in the period 1945-2010.

#### **Sources:**

➤ Books and journal articles.

c) Revision of the literature regarding capitalist development in Peru in the period 1980-2015.

#### **Sources:**

➤ Books and journal articles.

In the second phase we used the following research techniques and resources:

a) Analysis of statistics on the development of the Peruvian class structure in the period 1980-2014:

- Statistical data was analyzed in order to construct the evolution of the Peruvian class structure in the period 1980-2014.
- Statistical data was collected in order to elaborate on the distribution of employment by enterprise size groups for the period 1980-2014.
- Statistical data on the Peruvian class structure was correlated with the distribution of employment by enterprise size groups for the period 1980-2014.

**Primary sources:**

- INEI: population census and household surveys.
- Ministry of Labour and Promotion of Employment: household surveys and labour market statistics.

**Secondary sources:**

- Books and journal articles.

b) Revision of the literature regarding the development of the class struggle and the Left in the period 1980-2015.

**Sources:**

- Books and journal articles.

c) Analysis of historical records regarding the socialist Left's contemplation of the evolution of the Peruvian class structure in the period 1980-2000:

- Analysis of documents of the legal socialist Left and the guerrilla organizations: 1980-2000.

**Primary sources:**

- Documents of legal socialist political parties: 1980-2000.
- Documents of the guerrilla organizations: 1975-2000.

**Secondary sources:**

- Books and journal articles.

d) Personal (open and semi-structured) interviews with:

- Former leaders and militants of legal socialist political organizations: 1980-2000.
- Leaders and militants of the socialist Left: 2000-2015.
- Intellectuals of the socialist Left: 1980-2015.
- Former and current workers union leaders: 1980-2015.
- Leaders and militants of social movements that struggle against the extractivist development model: 2000-2015.

**1.6. Thesis statement and organisation of the central argument**

The thesis of this study is described as follows. One of the reasons why the Peruvian socialist Left has not gained state power in the last thirty-five years is because of the fact that the erosion of its political and social bases, the product of the dynamics of development of capitalist development in the 1980s and 1990s and the implementation of a radical form of neoliberalism in 1990s, was not politically and organizationally addressed by the socialist Left. The political practice of the socialist Left did not change as a consequence of

the changes in the class structure and in the distribution of employment by enterprise size groups that were going on in the 1980s and 1990s.

The argument and evidence provided in support of this thesis is organised in the form of seven chapters.

1) Chapters 2 and 3 reviews the literature on theories of capitalist development and class. On the basis of this review we will have obtained (i) an understanding of the laws and contradictions that govern a capitalist system; (ii) a comprehension of the peculiarities of capitalist development in the periphery; (iii) the role of the capitalist state in society; and, (iv) an understanding of the concept of class, class structure and class consciousness.

2) Chapter 4 describes the phases of world capitalist development in the period 1945-2010. This chapter helps to contextualize capitalist development in Peru. This description is of particular importance as the evolution of the Peruvian class structure is related to the role of Peru in the international division of labour, and is importantly influenced by changes in production processes under the influence of what has been called globalization, and the worldwide implementation of neoliberalism within the framework of the Washington Consensus.

3) Chapter 5 provides a framework for understanding then dynamics of capitalist development in Peru in the period 1980-2015. It helps us to understand the characteristic features of capitalist development in Peru and the principal factors that have influenced the development of the Peruvian economy. This chapter shows how the role of Peru in the international division of labour is reflected in the development of the Peruvian economy.

4) In chapter 6 the evolution of the Peruvian class structure in the period 1980-2014 is presented. It contributes to an understanding of the development of the different classes at the level of the country's economic structure, and provides data on the distribution of these classes by enterprise size groups and the development of informality.

5) Chapter 7 describes the development of the class struggle and the Left in the period 1980-2015. This chapter provides an overall view of the political practice of the Left (including the legal socialist Left and the armed socialist Left) in the mentioned period. Furthermore, it describes how the political practice of the Left has been influenced by the class struggle from below (positively affected) and above (negatively affected), and shows the bourgeois electoral deviation of the socialist Left.

6) Chapter 8 examines the Peruvian socialist Left's contemplation of the changes in the country's class structure in the 1980s and 1990s, and the strategic and tactical responses of the socialist Left to these changes or, in more concrete terms, the socialist Left's political and organizational practice in relation to the changes in the class structure. In other words, it sheds light on how (and if) the changes in the class structure have been analysed by the socialist Left and how these changes have influenced the political practice of the socialist Left.

### **1.7. Dissertation structure**

This dissertation is organised as nine chapters.

Chapter 1 introduces the context, the problematic, the research questions, the research objectives, the theoretical framework, the research methodology, the thesis statement, how the thesis statement is argued and the structure of this dissertation.

Chapter 2 reviews the Marxist concept of political economy, the points of view of two main development economists, the economic thought of the principal structuralists and the perspectives of dependency theorists, especially its Marxist variant. These theoretical propositions on capitalist development are accompanied by our conceptualization of the capitalist state. The chapter begins with the conception of historical materialism that we consider as our general 'guide' of study and analysis of Peruvian society.



Chapter 3 is dedicated to a literature review on class. In this chapter we outline the Marxist concept of class and delve into the issue of the class structure of capitalist society. In relation to the Marxist concept of class we also discuss the issue of class consciousness, class formation and class struggle. Within various sections of this chapter we have included non-Marxist points of view. As a matter of fact, one section is even exclusively dedicated to Max Weber and the theory of social stratification. This chapter closes with a description of the debates on class and class structure in Latin America and, more specifically, in Peru.

Chapter 4 describes the phases of world capitalist development in the period 1945-2010. It has the objective to politically and economically contextualize the chapters hereafter. The first phase is termed 'State-induced capitalist development: 1945-1970'. The second phase is titled 'Transition phase of capitalist development: 1970-1983' and the third phase 'Neoliberalism and globalization: 1983-2000'. The last phase that is subject of our analysis has not ended yet. The period that started in 2000 might be characterized by increased financialization of the world economy, the phenomenal development of the extractive sectors of, principally, the dependent capitalist countries, and the rise of a new world power (China).

Chapter 5 is dedicated to an analysis of Peruvian economic development in the period 1980-2015 and the economic policies implemented by the governments of Fernando Belaúnde (1980-1985), Alan García (1985-1990), Alberto Fujimori (1990-2000), Alejandro Toledo (2001-2006), Alan García (2006-2011) and Ollanta Humala (2011-2016).

Chapter 6 presents the evolution of the Peruvian class structure in the period 1980-2014. It includes sections on the distribution of employment by enterprise size groups and addresses the question of informal workers.

Chapter 7 describes the history of the class struggle and the Peruvian Left in the period 1980-2015.

Chapter 8 is dedicated to the analysis of the Peruvian socialist Left's (legal and armed) contemplation of the changes in the country's class structure in the 1980s and 1990s, and its strategic and tactical responses to these changes, i.e. the socialist Left's political and organizational practice in relation to the changes in the class structure. It is concentrated on the analyses and the political practice of the major Peruvian socialist organizations of the 1980s and 1990s as in these decades important changes in the class structure have taken place that have laid the foundation for the current class structure. This chapter not only includes an analysis of documents of the socialist Left, but also interviews with a variety of leaders, cadres, militants and intellectuals of legal Peruvian socialist organizations.

Chapter 9 presents our conclusions.

## CHAPTER 2: THEORIES OF CAPITALIST DEVELOPMENT AND THE CAPITALIST STATE

This chapter reviews the literature on the political economy of capitalist development and the capitalist state. This review needs to provide us with an understanding of the laws and dynamics of capitalist development and the role of the capitalist state as one of the principal agencies for furthering capitalist development.

This literature necessarily review necessarily begins with the materialist theory of history: *historical materialism*. Engels defined this theory in his letter to Bloch (1895b) with the following words: “According to the materialist conception of history, the *ultimately* determining element in history is the production and reproduction of real life.”

The materialist conception of history provides us with some general principles for the scientific study of the structure and development of society in the transition from one form to another. It contributes to our general understanding of the development of a capitalist totality and the interrelations of the parts that make up this totality.

This chapter is organized as four sections. In section 2.1 we describe the materialist theory of history. Section 2.2 reviews the literature on the political economy of capitalist development. Section 2.3 exams the literature on the capitalist state and the developmental state and in section 2.4 we present our conclusions.

### 2.1. Historical materialism

Historical materialism is Marx’s scientific conception of society—a set of basic principles laid out by Marx in the 1859 *Preface* to his *Contribution to the Critique of Political Economy* for the study of society and history.<sup>48</sup> The general theory or conception

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<sup>48</sup> Buroway (1990: 780) defines seven postulates of historical materialism: (i) “For there to be history, men and women must transform nature into means of their survival, that is they must *produce* the means of their existence”; (ii) “The “economic base” or mode of production defines the limits of variation of the superstructure”; (iii) “A mode of production develops through the interaction between the forces of production (how we produce the means of existence) and the relations of production (how the product of labor is appropriated and distributed)”; (iv) “Class struggle is the motor of transition from one mode of production to another”; (v) “A successful transition can only take place when the material conditions are present“; (vi) “History is progressive insofar as it follows the expansion of the forces of production”; and, (vii)

underlying these principles has been described by Marx and Engels in various works. In his letter to Annenkov, Marx (1973e: 532-533) writes:

The simple fact that every succeeding generation finds productive forces acquired by the preceding generation and which serve it as the raw material of further production, engenders a relatedness in the history of man, engenders a history of mankind, which is all the more a history of mankind as man's productive forces, and hence his social relations, have expanded. From this, it can only be concluded that the social history of man is never anything else than the history of his individual development, whether he is conscious of this or not. His material relations form the basis of all his relations. These material relations are but the necessary forms in which his material and individual activity is realised.

The materialist conception of history supposes that history changes according to changes in the mode of production. In the words of Marx (1973e: 533): "With the acquisition of new productive faculties man changes his mode of production and with the mode of production he changes all the economic relations which were but the necessary relations of that particular mode of production." In *Wage, Labour and Capital*, Marx (1849) describes this as follows:

We thus see that the social relations within which individuals produce, the social relations of production, are altered, transformed, with the change and development of the material means of production, of the forces of production. The relations of production in their totality constitute what is called the social relations, society, and, moreover, a society at a definite stage of historical development, a society with peculiar, distinctive characteristics.

Naturally, the economic categories that are used to describe or define a mode of production are also subject to change (Marx, 1973e: 536-537; Jakubowski, 1936; Longo, 1978: 132-133).

Historical materialism provides a tool for understanding and explaining epoch-defining changes that are expressed in the particular development of society's forces of production and relations of production. It also helps to understand (i) the relation between the economic base and the superstructure; (ii) the objective and subjective conditions for capitalist development; and, (iii) the conditions for the supersession of the capitalist mode of production.

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"Communism spells the end of social antagonisms and the beginning of the emancipation of individuals. We no longer make history behind our backs but consciously and collectively".

Wright, Levine & Sober (1992: 57ff17) argue that the theory of historical materialism “is intended to explain not particular transformations within epochs, but the succession of epochs themselves.” This reduction of historical materialism to epochal changes mutilates the theory. As these authors consider the ‘orthodox’ version of historical materialism” to be unable to explain reality, they elaborate on a variety of historical materialisms.<sup>49</sup> We think that you cannot change the theory of historical materialism. It should be determined if the theory explains reality or not. If it does not explain reality it should be replaced by another theory.

The discussions on the materialist concept of history have been primarily based on Marx’s *Preface to the Contribution to the Critique of Political Economy* (1859). These debates should be considered crucial for the political practice of the forces of revolutionary social change or, as Rojas Soriano (1989: 19) explains, “the theoretical perspective of historical materialism is seeking to discover the laws inherent to the capitalist social system so that the profound knowledge of the contradictions of society can guide the process of social change”. In this *Preface*, Marx (1973f: 517-518) wrote the following on historical materialism:

My inquiry led me to the conclusion that neither legal relations nor political forms could be comprehended whether by themselves or on the basis of a so-called general development of the human mind, but that on the contrary they originate in the material conditions of life [...]. In the social production of their existence, men inevitably enter into definite relations, which are independent of their will, namely relations of production appropriate to a given stage in the development of their material forces of production. The totality of these relations of production constitutes the economic structure of society, the real foundation, on which arises a legal and political superstructure and to which correspond definite forms of social consciousness. The mode of production of material life conditions the general process of social, political and intellectual life.<sup>50</sup> It is not the consciousness of men that

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<sup>49</sup> In order to adapt “orthodox” historical materialism to reality, Wright, Levine & Sober (1992: 96) present the following historical materialisms: “In strong historical materialism, the level of development of the forces of production functionally determines a unique economic structure. In weak historical materialism, the forces of production only determine a range of possible sets of relations of production; selections within this range are determined by historically contingent causes that bear particularly on the capacities of class actors to transform the relations. Inclusive historical materialism holds that economic structures determine all important properties of non-economic institutions (at appropriate levels of abstraction). On this view, the historical trajectory of economic structures determines the basis contours of human civilization overall. Restricted historical materialism, finally, holds that economic structures explain only those non-economic institutions that bear on the reproduction of the economic structure themselves.”

<sup>50</sup> According to Carchedi (1977: 19), the capitalist economic structure is made up of the capitalist mode of production and the capitalist production process. The capitalist production process is the unity of surplus

determines their existence, but their social existence that determines their consciousness. At a certain stage of development, the material productive forces of society come into conflict with the existing relations of production or —this merely expresses the same thing in legal terms— with the property relations within the framework of which they have operated hitherto. From forms of development of the productive forces these relations turn into their fetters. Then begins an era of social revolution. The changes in the economic foundation lead sooner or later to the transformation of the whole immense superstructure.

Among Marxists, Marx's *Preface* has been accepted not so much as a general theory of the historical evolution of society, but as a set of principles for the scientific study of society and history. However, Marx's conception of historical materialism has been surrounded by debate and polemics regarding (i) the primacy of the mode of production in society (Therborn (1982; Althusser, 1971; Callinicos, 2004b); (ii) the relation between the productive forces and the social relations of production (Carchedi, 1987a; Callinicos, 2004a; 2004b; Longo, 1978; Wood, 2000; Poulantzas, 1973; Sánchez, 1970; Dos Santos, 1967); and, (iii) the relation between the economic base and the superstructure (Callinicos, 2004b; Godelier, 1967; Jakubowski, 1936; Sánchez, 1970). In the following three subsections we will elaborate on these three debates.

### **2.1.1. The primacy of the mode of production**

The primacy of the mode of production is given by the primacy of the production and reproduction of material life by individuals. The social reproduction of society is not a special process but, as Therborn (1982: 196) states, “the very functioning of society as a whole in a constant process”. Althusser (1971) wrote that “[...] in order to exist, every social formation must reproduce the conditions of its production at the same time as it produces, and in order to be able to produce.<sup>51</sup> It must therefore reproduce: 1. the productive forces, 2. the existing relations of production”. Marx (1973b: 850) described the relation between production and reproduction of a social formation in the following way: “On the other hand, if the capitalist mode of production presupposes this definite social form of the conditions of production, so does it reproduce it continually. It produces not

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value producing process and the mode of production is the unity of the capitalist production relations and the capitalist productive forces.

<sup>51</sup> “The conditions of production are also those of reproduction” (Marx, 1973a: 543).

merely the material products, but reproduces continually the production relations in which the former are produced, and thereby also the corresponding distribution relations.”

The discussion about the primacy of the mode of production brings us to the question of what should be ‘included’ in the definition of a mode of production. According to Godelier (1967: 91) and Laclau (1974: 38), a mode of production is the combination of the productive forces and the relations of production. Weeks & Dore (1979: 65) tell us that “a mode of production is characterized by the specific social relations which determine how the surplus product is produced, the method whereby the surplus product is appropriated, and the superstructural forms which are implied by these social relations of production and appropriation”.

Marx’s has not provided a specific definition of the mode of production. Indeed, as Harvey (2006: 25ft12) observes, Marx comes up with various descriptions. In volume II of *Capital* (Marx, 1973b: 45) this is defined as follows: “Whatever the social form of production, labourers and means of production always remain factors of it. But in a state of separation from each other either of these factors can be such only potentially. For production to go on at all they must unite. The specific manner in which this union is accomplished distinguishes the different economic epochs of the structure of society from one another.” In volume III of *Capital*, Marx (1973c: 775-776) wrote:

The specific economic form, in which unpaid surplus-labour is pumped out of direct producers, determines the relationship of rulers and ruled, as it grows directly out of production itself and, in turn, reacts upon it as a determining element. Upon this, however, is founded the entire formation of the economic community which grows up out of the production relations themselves, thereby simultaneously its specific political form. It is always the direct relationship of the owners of the conditions of production to the direct producers—a relation always naturally corresponding to a definite stage in the development of the methods of labour and thereby its social productivity—which reveals the innermost secret, the hidden basis of the entire social structure and with it the political form of the relation of sovereignty and dependence, in short, the corresponding specific form of the state.

The definition of the mode of production provided by Godelier we consider most adequate as he makes it very clear which different “structures” should be taken into consideration. Godelier (1967: 91-92):

A mode of production is the combination of two structures, irreducible to one another: the productive forces and the relations of production. The notion of productive forces designates the set of factors of production, resources, tools, men, characterizing a determined society at a determined epoch which must be *combined* in a specific way to produce the material goods necessary to that society. The notion of relations of production designates the functions fulfilled by individuals and groups in the production process and in the control of the factors of production. For example, capitalist relations of production are relations between a class of individuals who have private possession of the productive forces and of capital, and a class of individuals without this property who must sell to the former the use of their labour-power in exchange for a wage. Each class complements and presupposes the other.

Along the same line of reasoning Laclau (1974: 38) defines a mode of production as: “1. a certain type of ownership of the means of production; 2. a particular form of appropriation of the economic surplus; 3. a certain degree of development of the division of labour; 4. a certain level of development of the productive forces. And this is not a purely descriptive list of isolated “factors”, but a defined totality by their mutual interconnections.”

### **2.1.2. The productive forces and the social relations of production**

In the *Preface*, Marx (1973f: 518) writes that “no social order is ever destroyed before all the productive forces for which it is sufficient have been developed, and new superior relations of production never replace older ones before the material conditions for their existence have matured within the framework of the old society.” In volume I of *Capital*, Marx (1973a: 189) argued that “it is not the articles made, but how they are made, and by what instruments, that enables us to distinguish different economic epochs. Instruments of labour not only supply a standard of the degree of development to which human labour has attained, but they are also indicators of the social conditions under which that labour is carried on.”

Marx’s conceptualization of the relation between the productive forces and the social relations has caused a lot of discussion within socialist circles. Is it possible to build a socialist society although the capitalist productive forces have not been fully development yet? When the primacy is given to the development of the productive forces, how can social change to be brought about? As Wright, Levine & Sober (1992: 57) argue, “historical



materialism, in contrast, recognizes *only* endogenous factors. The theory provides no way to describe exogenous sources of change. It would therefore count against historical materialism if it turned out that the best explanation for some epochal historical transformation, say, the emergence of capitalism out of feudalism, appeals principally to exogenous causes”. According to Carchedi (1987a: 36) “[...] the neutrality thesis explains social development in terms of the contradiction between an endogenous variable (production relations) and an exogenous one (productive forces); the thesis of the class determination of the productive forces explains social development in terms of the contradiction between two endogenous variables, and its explanatory power is therefore greater”.

The discussion in Marxist circles with respect to the relation between the productive forces and the social relations of production can be traced back to the beginnings of the twentieth century (Carchedi, 1987a: 1-46). Callinicos (2004a: 59, 105-106), Carchedi (1987a: 5-6, 34, 36), Amin (2010a: 47), Mandel (1973: 128) and Longo (1978: 106) give primacy to the relations of production. Dos Santos (1967) deems the social relations of production to depend on the productive forces but at the same time regards these as conditions for the development of the productive forces. Bukharin (1921) considers the productive forces overall determinant. According to Godelier (1967), the productive forces are to be considered existing outside the “structure” of the social relations of production.

The development of the mode of production of a given society is limited by the relation between the productive forces and the social relations of production. Changes between these “structures” cause modifications in the mode of production. In other words, the “source” that originates system changes has to be found within the system (Sánchez Vázquez, 1970: 75-76). Poulantzas (1973):

The ‘economic’ sphere is determined by *the production process* and the place of the agents, i.e. by their distribution into social classes by *the relations of production*: in the unit consisting of production/consumption/division of the social product, it is production which has the determinant role. [...] From this issue, we can move to an important problem. We stated above that the production process consists of the *unity* between the labour process and the relations of production. We can now put forward an additional proposition: within this unity it is not the labour process (including ‘technology’ and the ‘technical process’) which has the dominant role: *rather it is the relations of production which have primacy over the labour process and the ‘productive forces’*.

We consider the relation between productive forces and the social relations of production a dialectical relation,<sup>52</sup> in which the social relations of production should be considered as the determinant instance. As Althusser (1968) argued, “at the economic level, strictly speaking, the *structure* constituting and determining economic objects is the *following*: the unity of the productive forces and the relations of production”.

### **2.1.3. The economic base and the superstructure**

The debate between Marxists about the relation between the productive forces and the social relations of production has been reproduced in the discussions on the relation between the economic base and the superstructure. Longo (1978: 132) defines the structure of society’s economic base as the social relations of production (Longo, 1978: 132). Callinicos (2004a: 202) and Carchedi (1977: 19), however, include the forces of production in his description of the economic base. The state and the ideology are included in society’s superstructure.

Marx and Engels considered the relation between the economic base and the superstructure a dialectical relation. In his letter to Annenkov, Marx (1973e: 532) wrote:

If you assume a given state of development of man’s productive faculties, you will have a corresponding form of commerce and consumption. If you assume given stages of development in production, commerce or consumption, you will have a corresponding form of social constitution, a corresponding organisation, whether of the family, of the estates or of the classes—in a word, a corresponding civil society. If you assume this or that civil society, you will have this or that political system, which is but the official expression of civil society.

In 1894, Engels wrote the following to Starkenburg:

Political, juridical, philosophical, religious, literary, artistic, etc., development is based on economic development. But all these react upon one another and also upon the economic base. It is not that the economic position is the *cause and alone active*, while everything else only has a passive effect. There is, rather, interaction on the basis of the economic

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<sup>52</sup> According to Callinicos (2004b: 93), the relation between the productive forces and the social relations of production is a dialectical relation.

necessity, which *ultimately* always asserts itself. The state, for instance, exercises an influence by tariffs, free trade, good or bad fiscal system [...] So it is not, as people try here and there conveniently to imagine, that the economic position produces an automatic effect. Men make their history themselves, only in given surroundings which condition it and on the basis of actual relations already existing, among which the economic relations, however much they may be influenced by the other political and ideological ones, are still ultimately the decisive ones, forming the red thread which runs through them and alone leads to understanding.

In his letter to Bloch (1895b), Engels wrote:

Hence if somebody twists this into saying that the economic element is the *only* determining one, he transforms that proposition into a meaningless, abstract, senseless phrase. The economic situation is the basis, but the various elements of the superstructure—political forms of the class struggle and its results, to wit: constitutions established by the victorious class after a successful battle, etc., juridical forms, and even the reflexes of all these actual struggles in the brains of the participants, political, juristic, philosophical theories, religious views and their further development into systems of dogmas—also exercise their influence upon the course of the historical struggles and in many cases preponderate in determining their *form*. There is an interaction of all these elements in which, amid all the endless host of accidents (that is, of things and events whose inner interconnection is so remote or so impossible of proof that we can regard it as non-existent, as negligible), the economic movement finally asserts itself as necessary. Otherwise the application of the theory to any period of history would be easier than the solution of a simple equation of the first degree.<sup>53</sup>

Marxists have not disagreed on the primacy of the economic base over the superstructure. The main points of disagreement are related to the relative autonomy of the superstructure and the particularity of its relation to the economic base. According to Callinicos (2004b: 96), a proper understanding of society involves “grasping the way in which ideological and political factors interact with the economy, always bearing in mind, however, that the relations of production are the ‘real foundation’ of society”. Godelier (1967: 111) states that “non-economic structures are not simple “phenomena” accompanying economic activity with only a passive reaction on social life while the economic relations are the sole active causality with more or less “automatic” effect”. Jakubowski (1936) explains that not only the superstructure depends on its economic foundations, but also that “the superstructure operates retroactively on its base, and that both spheres therefore determine each other”. Sánchez Vázquez (1970: 67, 68) makes clear

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<sup>53</sup> See on this in relation to ideology, Therborn (1998:32-34).

that although the economy is the determining factor in society and determines the “non-economic” factors, the “non-economic” factors such as the state and ideology “enjoy a relative autonomy that manifests itself in the irreducibility of one level to another (e.g., from the artistic to the political, or ideological to economic)”. According to Althusser (1968)

[...] we can draw one conclusion at any rate where the relations of production are concerned: they relate to the superstructural forms they call for as so many conditions of their own existence. The relations of production cannot therefore be thought in their concept while abstracting from their specific superstructural conditions of existence. To take only one example, it is quite clear that the analysis of the buying and selling of labour-power in which capitalist relations of production exist (the separation between the owners of the means of production on the one hand and the wage-workers on the other), directly presupposes, for an understanding of its object, a consideration of the *formal legal relations* which establish the buyer (the capitalist) as much as the seller (the wage-labourer) as legal subjects —as well as a whole political and ideological superstructure which maintains and contains the economic agents in the distribution of roles, which makes a minority of exploiters the owners of the means of production, and the majority of the population producers of surplus value. The whole superstructure of the society considered is thus implicit and present in a specific way in the relations of production, i.e., in the fixed structure of the distribution of means of production and economic functions between determinate categories of production agents.<sup>54</sup>

## **2.2. The political economy of capitalist development**

The literature review on the political economy of capitalist development has the objective to contribute to an understanding of the laws and dynamics of capitalist development. Our focus in this literature review is determined by our criticisms on the proper dynamics of capitalist development and on the topic of this dissertation. An analysis of the dynamics of capitalist development in Peru forces us to review the literature on capitalist development in general and of capitalist development at the periphery of world capitalism.

The section is structured in four subsections. In subsection 2.2.1 the key elements of Marxist political economy are examined. In subsection 2.2.2 we discuss the points of view of Arthur Lewis and Walter Whitman Rostow, two of the main development economists. In

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<sup>54</sup> In the same line of reasoning, although she criticizes Althusser and considers the state as relatively autonomous, Wood (2000: 72) argues that one cannot separate the economic base from the superstructure and that, in some sense, the superstructure is incorporated in the economic base.

subsection 2.2.3 we review some of the thoughts of Raúl Prebisch, Celso Furtado and Oswaldo Sunkel, key figures of the structuralist school. Subsection 2.2.4 is dedicated to the dependency school.

### **2.2.1. Marxist political economy**

The Marxist analysis of capitalist economic development cannot be subscribed to one author or to one book, i.e. Karl Marx and *Capital*. After the publication of volumes I, II and III of *Capital*, Marxists have tried to further develop Marx's economic theory. We can mention not only Lenin, Bukharin, Kautsky and Luxemburg, but also Mattick, Baran, Sweezy, Amin, Mandel and Wood, among many others.

A review of the works of Marx (1973a; 1973c; 1973d) and some of the principal Marxists theorists (Kautsky, 1984; Lenin, 1974a; 1961a; Mandel, 1976; 1975; 1969a; Baran, 1964; Sweezy, 1977; Baran & Sweezy, 1969; Bravermann, 1984; Mattick, 1974; Petras & Veltmeyer, 2011a), has led us to conclude that a thorough understanding of Marxist political economy should encompass the following general topics: (i) the labour theory of value; (ii) the capitalist mode of production; (iii) the general laws and contradictions of capitalist development; (iv) the concentration and centralization of capital; and, (v) the internationalization of capital.

The section is organized in five subsections. In subsection 2.2.1.1 we discuss the labour theory of value. This theory is our principal point of departure for the understanding of Marxist political economy. In subsection 2.2.1.2 the concept of the mode of production is examined and we discuss how a mode of production is related to a social formation. In subsections 2.2.1.3, 2.2.1.4 and 2.2.1.5 we delve into the conditions for capitalist development, the key tools of Marxist political economy and the general laws and contradictions of capitalist development. The last three subsections are dedicated to the concentration and centralization of capital, the internationalization of capital and imperialism, and the discussion on the worldwide labour theory of value.

### 2.2.1.1. The labour theory of value

The labour theory of value is fundamental in Marx's analysis of capitalist development. The theory pertains to the era of commodity production (Kliman, 2007: 19-20; Mandel, 1973: 108). Harvey (2006: 33) and Weeks (1998: 3) point out that the law of value only prevails in capitalism.

The 'function' of the labour theory of value is to 'regulate' economic processes in capitalism. Fine & Saad-Filho (2004: 19-20) write that "the labour theory of value is not a metaphysical notion, for it analytically captures the essential aspects of material life under capitalism, concerning how production is organized and attached to the market, and how the products of social labour are appropriated and distributed within society". Mandel (1969a: 65) writes that the law of value "regulates the exchange of commodities according to the quantity of abstract human labor, simple, socially necessary [...] and only assures equivalents for each exchanged commodity". As such, the labour theory of value reorganizes "the distribution between the different branches of production of the whole of available working hours in society".<sup>55</sup> Foladori (1986: 125) explains that the law of value is the social law that regulates the social distribution of labour in capitalist society. The law of value, according to Sweezy (1977: 64-65),

summarizes those forces at work in a commodity-producing society which regulate (a) the exchange ratios among commodities, (b) the quantity of each produced, and (c) the allocation of the labor force to the various branches of production. The basic condition for the existence of a law of value is a society of private producers who satisfy their needs by mutual exchange. The forces at work include, on the one hand, the productivity of labor in the various branches of production and the pattern of social needs as modified by the distribution of income; and, on the other hand, the equilibrating market forces of competitive supply and demand.

Samir Amin (2010a: 30) tells us the following about the law of value:

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<sup>55</sup> In *Late Capitalism*, Mandel (1976: 527-528) describes the 'role' of the labour theory of value as follows: "In a commodity producing society the law of value has a two-fold role. 1) It provides an objective standard which regulates the distribution of economic resources (forces of production) over the various branches of the capitalist economy so that periodic equilibrium and more or less continuous production and reproduction can be assured; 2) it ensures that this distribution corresponds at least approximately to the structure of demand (structure of consumption) of the 'final consumers' (individuals, families; and broader consumer units—local, regional, national, and already marginally international communities—for so-called 'social services')." "

What does the law of value state? That products, when they are commodities, possess value; that this value is measurable; that the yardstick for measuring it is the quantity of abstract labor socially necessary to produce them; and, finally, that this quantity is the sum of the quantities of labor, direct and indirect (transferred), that are used in the process of production. The concept of the commodity and the existence of the law of value, formulated in this way, are inseparably interconnected.

The labour theory of value is based on Marx's concepts of value, use value, exchange value, concrete labour and abstract labour. A use value can be defined as something of use for an individual, an object of utility (Marx, 1973a: 88). Concrete labour needs to be expended in order to produce use values. Labour is concrete, "in the sense that it involves the material transformation of nature" (Harvey, 2006: 14).

Use values can be transformed in commodities when "they are something two-fold, both objects of utility, and, at the same time, depositories of value" (Marx, 1970: 47). As Marx (1970: 72) writes, "articles of utility become commodities, only because they are products of the labour of private individuals or groups of individuals who carry on their work independently of each other". The owner of the means of production is only interested in the use value when it also has an exchange value.

The exchange value of a commodity is the quantitative expression of a commodity. It tells us, for instance, how much commodities one will get in exchange for another amount of commodities. In general terms, the exchange value of a commodity is expressed in money (Elson, 1979: 133; Weeks & Dore, 1979: 73). While labour-time is the immanent or internal measure of value, the social (external) standard of measurement is money (Elson, 1979: 138-139). However, as we will see below, the exchange value of a commodity is not the same as its price on the market. Marx (1970: 86) described the relation between use values and exchange values as follows:

Hence commodities must be realized as values before they can be realized as use values. On the other hand, they must show that they are use values before they can be realized as values. For the labour spent upon them counts effectively, only in so far as it is spent in a form that is useful for others. Whether that labour is useful for others, and its product consequently capable of satisfying the wants of others, can be proved only by the act of exchange.

Commodities can only “assume the form of an exchange value when placed in a value or exchange relation with another commodity of a different kind” (Marx, 1970: 60).

The production of commodities is not universal but only takes place in a specific historically determined epoch or society. However, only when surplus value is produced commodity production is converted in capitalist commodity production (Marx, 1973a: 203).<sup>56</sup>

Commodity production supposes an advanced social division of labour and private production (Sweezy, 1977: 38). It assumes that labour-power has been converted into a commodity itself. Only when labour-power is a commodity, it is not only able to expend concrete labour but, more importantly, abstract labour. Abstract labour is defined as the socially necessary labour time to produce a commodity and is a measure of value (Harvey, 2006: 15, 17). It is “an activity that produces wealth —abstract wealth, wealth as such, considered without regard to its specific physical form” (Kliman, 2007: 20-21.).

The transformation of use values is called production. Production, according to Althusser (1968), “is characterized by two indissociable elements: the *labour process*, which deals with the transformations man inflicts on natural materials in order to make use values out of them, and the *social relations of production* beneath whose determination this labour process is executed”. The labour process is composed of human labour-power, the means of production and the object of labour (Callinicos, 2004b: 83; Althusser, 1968; Harvey, 2006: 6).

The concept of abstract labour is the point of departure to determine the concept of surplus value. Surplus value can be defined as non-paid labour, i.e. labour that has been expended after the commodity labour-power has been ‘reproduced’. Harvey explains (2006: 22):

Once capitalists acquire labour-power they can put it to work in ways that are beneficial to themselves. Since capitalists purchase a certain length of time during which they maintain the rights to the use of labour-power, they can organize the production process (its intensity, technology, etc.) to ensure that the workers produce greater value during that time span than they receive. The use value of labour-power to the capitalist is not simply that it

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<sup>56</sup> It is only in the era of commodity production that surplus value is produced (Kautsky, 1984: 75; Marx, 1973a: 219).



can be put to work to produce commodities, but that it has the special capacity to produce greater value than it itself has —it can, in short, produce surplus value.<sup>57</sup>

In other words, labour-power has the characteristic to produce more value than the socially necessary to time to reproduce itself (Marx, 1973a: 200). It should be added that Marx (1973a: 314) supposes, just like in the case of other commodities, that labour-power is bought and sold at its value.<sup>58</sup>

The production of surplus value is intimately tied to the production of commodities, i.e. although before capitalism surplus labour was performed and, as Kautsky (1984: 75) explains, its increase was the basis for the progress of human civilization, it did not mean that surplus value was produced. It is only in the era of commodity production that surplus value is produced.<sup>59</sup>

The production of surplus value is fundamental for the development of capitalism. As a matter of fact, the objective of the capitalist production process is to accumulate capital. The employment of surplus value as capital, “reconverting it into capital, is called accumulation of capital” (Marx, 1970: 579). Capital is accumulated in order to create new surplus value (Mandel, 1969a: 92). So in the case no surplus value is engendered, no capital is created and capitalism enters in crisis. The accumulation of capital is the motor of capitalist development (Sweezy, 1977: 92). Or, as Marx (1970: 624) puts it: “With the accumulation of capital, therefore, the specifically capitalist mode of production develops, and with the capitalist mode of production the accumulation of capital.”<sup>60</sup>

Surplus value can be increased in absolute and relative terms. An increase of the working-day is a prime example of how absolute surplus value can be increased. The extension of the working-day causes the part that is dedicated to the production of surplus value to increase. Relative surplus value arises from “the curtailment of the necessary labour-time, and from the corresponding alteration in the respective lengths of the two components of the working day” (Marx, 1973a: 315). An increase of productivity, an

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<sup>57</sup> See also Marx (1973a: 219).

<sup>58</sup> It should be added that Marx (1973a: 314) supposes that labour-power is bought and sold at its value See for the selling of labour-power beneath its value, Marini (1985).

<sup>59</sup> For the same argument, see Weeks (1998: 10).

<sup>60</sup> Marx (1970: 645): “But all methods for the production of surplus value are at the same time methods of accumulation; and every extension of accumulation becomes again means for the development of those methods.”

increase of the intensity of the labour process and/or the cheapening of the means to reproduce labour-power may increase the relative surplus value. It should be noted that an increase of productivity not automatically implies that more value is produced, although more use values are produced. As a matter of fact, more “dead labour” is transferred to the commodity than ‘new labour’ is added (Marx, 1973a: 207). In general terms, the value of every commodity is diminished as no change in the socially necessary labour time has taken place. This relation between an increase in productivity and a decrease in value is one of the fundamental contradictions of capitalist development.

The value of a commodity is measured by the socially necessary labour time embodied in the commodity. This means that it is not the amount of labour time that has been expended to produce a given commodity that determines its value, but the labour that is socially necessary, i.e. necessary given the existing social conditions (Marx, 1973a: 195-196; Marx, 1973c: 164-165; Sweezy, 1977: 53; Kliman, 2007: 21).

According to Althusser (1968), the surplus value cannot be measured and should be considered as a relation. He writes:

We know which concept in the capitalist mode of production expressed the fact of capitalist relations of production in economic reality itself: *the concept of surplus value*. The unity of the material and social conditions of capitalist production is expressed by the direct relationship between variable capital and the production of surplus value. The fact that surplus value is not a measurable reality arises from the fact that it is not a thing, but the concept of a relationship, the concept of an existing social structure of production, of an existence visible and measurable *only in its ‘effects’*, in the sense we shall soon define. The fact that it only exists in its effects does not mean that it can be grasped completely in any one of its determinate effects: for that it would have to be *completely present* in that effect, whereas it is only present there, as a structure, in its *determinate* absence. It is only present in the totality, in the total movement of its effects, in what Marx calls the ‘developed totality of its form of existence’, for reasons bound up with its very nature. It is a relation of production between the agents of the production process and the means of production, i.e., the very structure that dominates the process in the totality of its development and of its existence.

In the same sense, Fine & Saad-Filho (2004: 48-49) write that it is “necessary, though, to see surplus value as the result of coercion to work beyond the value of labour-power rather than as a deduction from what the worker produces or as a share taken in the division of net product (as in what are termed Sraffian or neo-Ricardian approaches).” Harvey (2006: 36-

37) states, apart from acknowledging the problems that arise of using the labour theory of value as an “accounting tool or as an empirically observable magnitude”, that the labour theory of value

could be construed as the ‘essence’ that lay behind the ‘appearance’, the ‘social reality’ behind the fetishism of everyday life. The validity of the concept could then be assessed in terms of the concrete effects that it helps us interpret and understand. The value concept is crucial since it helps us understand, in a way that no other theory of value can, the intricate dynamics of class relations (in both production and exchange), of technological change, of accumulation and all its associated features of periodic crises, unemployment, etc. But to accomplish this, traditional interpretations of value as whatever is achieved by labour in production have to give way to a more complex understanding of *social* labour as expressed and co-ordinated within a unity of production and exchange, mediated by distribution relations.

### **2.2.1.2. Modes of production and social formations**

Modes of production differ between countries. Althusser (1968) describes the following procedure for determining the mode of production:

On the side of the means of production we find the already familiar distinction between the object of production, e.g., the land (which played a determinant part *directly* in all the modes of production before capitalism), and the instruments of production. On the side of the *agents* of production we find, besides the distinction between labourer and labour power, an essential distinction between the *direct agents* (Marx’s own expression) whose labour power is set to work in production, and other men whose role in the general process of production is that of owners of the means of production, but who do not feature in it as labourers or direct agents, since their labour power is not used in the production process. By combining or *inter-relating* these different elements —labour power, direct labourers, masters who are not direct labourers, object of production, instruments of production, etc.— we shall reach a definition of the different *modes of production* which have existed and can exist in human history.

Within countries various modes of production may exist (Balibar, 1981: 225ft6; Poulantzas, 1973). The difference between mode of production and social formation is, as Callinicos (2004a: 41) argues, “one between different levels of abstraction: the former refers to certain basic combinations of forces and relations of production along with the other structures which may be inferred from each such combination, while a social formation typically ‘presents a particular combination, a specific overlapping of several

“pure” modes of production (as Lenin demonstrated in *The Development of Capitalism in Russia*)”. Balibar (1981: 225ft6) explains that a social formation “generally contains several different modes of production”. Bartra (1978, 11-12) indicates that while a social formation reflects a *pluriparticular* totality, the concept mode of production synthesizes the particularity and generality of the components that make up a social formation.

In the case more than one mode of production exists in society, the “subordinated modes of production acquire a dual character”, i.e. its own and the dominant mode of production (Bartra, 1978: 12). According to Cueva (1987: 12), “the modes of production are always combined under the hegemony of one of them, the *dominant* one, which stamps its character on the whole social formation and redefines the situation of the other modes of production (*subordinates*), setting the limits and development of its functioning”. The relation between the dominant mode of production and the subordinated one(s) is a dialectical relation and, therefore, the subordinated modes of production over-determine the functioning and development of the dominant mode of production with which they have a ‘conflicting relationship’. By over-determination “is to be understood, in this case, the possibility that the subordinate mode of production, without altering the fundamental laws of functioning of dominant mode of production, can impose certain specific modalities of development on it”.<sup>61</sup>

### **2.2.1.3. The conditions of capitalist development**

Capitalist production only then really begins, as we have already seen, when each individual capital employs simultaneously a comparatively large number of labourers; when consequently the labour-process is carried on an extensive scale and yields, relatively, large quantities of products. A greater number of labourers working together, at the same time, in one place (or, if you will, in the same field of labour), in order to produce the same sort of commodity under the mastership of one capitalist, constitutes, both historically and logically, the starting-point of capitalist production. With regard to the mode of production itself, manufacture, in its strict meaning, is hardly to be distinguished, in its earliest stages, from the handicraft trades of the guilds, otherwise than by the greater number of workmen simultaneously employed by one and the same individual capital. The workshop of the medieval master handicraftsman is simply enlarged. (Marx (1973a: 321)

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<sup>61</sup> See on this also, Wood (2000: 69).

However,

it is not enough that the conditions of labour are concentrated in a mass, in the shape of capital, at the one pole of society, while at the other are grouped masses of men, who have nothing to sell but their labour-power. Neither is it enough that they are compelled to sell it voluntarily. The advance of capitalist production develops a working class, which by education, tradition, habit, looks upon the conditions of that mode of production as self-evident laws of Nature. The organization of the capitalist process of production, once fully developed, breaks down all resistance. The constant generation of a relative surplus-population keeps the law of supply and demand of labour, and therefore keeps wages, in a rut that corresponds with the wants of capital. The dull compulsion of economic relations completes the subjection of the labourer to the capitalist. Direct force, outside economic conditions, is of course still used, but only exceptionally. In the ordinary run of things, the labourer can be left to the “natural laws of production,” *i.e.*, to his dependence on capital, a dependence springing from, and guaranteed in perpetuity by, the conditions of production themselves (Marx, 1973a: 716-717).

Capitalism develops under specific conditions. These conditions are the same time the conditions for its reproduction as for its supersession. The general conditions of capitalist development can be summarized as follows:

1) The separation of the direct producer of his means of production, *i.e.* the expropriation of the direct producers (Marx, 1973d: 7, 40-41, 48; Amin, 1979: 175). This process might also be called primitive accumulation. Marx (1973a: 690): “The so-called primitive accumulation, therefore, is nothing else than the historical process of divorcing the producer from the means of production. It appears as primitive, because it forms the prehistoric stage of capital and of the mode of production corresponding with it.”

2) The expropriated means of production are converted in capital and serve the production of commodities (Lenin, 1974a: 51; Mandel, 1969a: 111). The means of production include land and tools.<sup>62</sup>

3) Social division of labour. Society is divided in labourers and non-laboures (Marx, 1973a: 547).

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<sup>62</sup> “The first condition of capitalist production is that the soil has been expropriated from the hands of the mass” (Marx, 1973a: 747).

4) Labour-power is transformed in a commodity (Marx, 1973d: 7; Mandel, 1969a: 111; Sweezy, 1977: 68). Instead of producing surplus-labour, the worker produces surplus value.

#### **2.2.1.4. Key tools of Marxist political economy**

The capitalist production process creates specific relations between the agents involved in production. These relations are called the social relations of production. The social relations are not only determined by the technical division of labour (conditioned by a certain level of the productive forces), but also by the social division of labour (Lefévre, 1970: 16). The social division of labour divides society in classes.

Marxist have the defined the social relations of production differently. Althusser (1968):

We have thus arrived at a *new condition* of the production process. After studying the *material* conditions of the production process, which express the specific nature of the relations between men and nature, we must now turn to a study of the *social* conditions of the production process: *the social relations of production*. These new conditions involve the specific type of relations *between the agents of production* which exist as a function of the relations between these agents on the one hand and the *material means* of production on the other.

Poulantzas (1973):

In a society divided into classes, the relations of production consist of a double relation which encompasses men's relations to nature in material production. These two relations are relations first between men and other men—class relations, and secondly between the agents of production and the object and means of labour—the productive forces. These two relations thus concern the relation of the non-worker (the owner) to the object and means of labour and the relation of the immediate producer (direct worker) to the object and means of labour. These relations involve two aspects: (a) Economic ownership: by this is meant the real economic control of the means of production, i.e. the power to assign the means of production to given uses and so to dispose of the products obtained. (b) Possession: by this is meant the capacity to put the means of production into operation.

Carchedi (1987a: 95):

[...] capitalist production relations are the relations between the owner/exploiter/non-labourer and the non-owner/exploited/labourer, since there are three aspects to capitalist production relations: the ownership, the functional and the exploitation aspects. All three are necessary for a complete notion of capitalist production relations, even although only the ownership element is the determinant one while the other two elements are determined. To reduce the capitalist production relations only to the ownership (determinant) element means in fact to reduce them to property relations. To understand *production relations* we must understand *who* produces *what*, *for whom* and *how*. ‘Who’ refers to the non-owners of the means of production (who are at the same time, the owners of their labour-power); ‘what’ entails an analysis of the capitalist production process in terms of the production of use values and exchange value; ‘for whom’ implies that analysis in terms of performance of the function of capital or the function of labour, i.e. in terms of labour and non-labour. Thus we must see the carriers of the production relations not only as owners or non-owners but also as labourers and non-labourers and as exploited and exploiters.<sup>63</sup>

According to Therborn (1998: 45), the concept of the relations of production

denotes three aspects of the social organization of production: i) the mode of distribution of the means of production, channels of access to them and the barriers that prevent it; ii) the social relations between producers and appropriators of surplus labor in the economic mode of production (that includes the overdetermined aspects of circulation, the exchange, the distribution of income and consumption); iii) the objective or institutionalized orientation of production.

This last aspect refers to the accumulation of capital, i.e. “the investment in search of a profit to reinvest in search of more profit” (Therborn, 1998: 47). Finally, according to O’Connor (2001: 62), production relations have three facets: (i) the relations between the exploiting and exploited classes (how work methods are imposed and the extraction of surplus value); (ii) the relations between the exploiting classes (the mode of distribution and the use of the surplus value within the exploiting classes); and, (iii) the relations within the exploited classes (the organisation of production within the exploited classes).

Commodities are produced by a combination of constant and variable capital. Constant capital can be divided in fixed and circulation capital such as machines and raw materials. Variable capital is capital expended by the capitalist to pursue labour-power and

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<sup>63</sup> “[...] the production relations are relations between the agents of the production process and the means of production.” (Carchedi, 1977: 46)

could be considered as capital spent on wages. “The general variations of the wages”, as Marx (1973a: 612) explains, are

exclusively regulated by the expansion and contraction of the industrial reserve army —defined as that part of the population that are not owners of the means of production but are the whole of the unemployed masses— and these again correspond to the periodic changes of the industrial cycle. They are not determined by the variations of the absolute number of the working population, but by the varying proportions in which the working class is divided into active and reserve army, by the increase or diminution in the relative amount of the surplus population, by the extent to which it is now absorbed, now set free.<sup>64</sup>

A contradiction of capitalism is that on the one hand it tries to reduce the price of the labour-power (as sellers of a commodity), but on the other hand it needs the labourers as buyers of commodities (Marx, 1973b: 292ft4).

In general terms, exploitation is the extra time an individual expends labour-power in the benefit of another individual after having laboured the social necessary labour time for the reproduction of his or her labour-power.<sup>65</sup> In capitalism this extra time is called surplus-labour or surplus value.

Strictly speaking, labourers that produce surplus labour are not exploited but are economically oppressed (Carchedi, 1987a: 196). Labourers that produce surplus value are exploited.<sup>66</sup> The relation between surplus value and variable capital is called the rate of exploitation or the rate of surplus value (Marx, 1973a: 220). The rate of economic

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<sup>64</sup> This does not mean, however, that class struggle does not play any role. As a matter of fact, wages are determined by the correlation of class forces (Marx, 1973a: 498).

<sup>65</sup> In “Foundations of class analysis: a Marxist perspective”, Wright (1999) states: “Exploitation is a complex and challenging concept. It is meant to designate a particular form of interdependence of the material interests of people, namely a situation which satisfies three criteria: (1) *The inverse interdependent welfare principle*: the material welfare of exploiters causally depends upon the material deprivations of the exploited. (2) *The exclusion principle*: this inverse interdependence of welfares of exploiters and exploited depends upon the exclusion of the exploited from access to certain productive resources. (3) *The appropriation principle*: Exclusion generates material advantage to exploiters because it enables them to appropriate the labor effort of the exploited. [...] If the first two of these principles are present, but not the third, economic oppression may exist, but not exploitation. The crucial difference is that in non-exploitative economic oppression, the privileged social category does not itself need the excluded category. While their welfare does depend upon the exclusion, there is no on-going interdependence of their activities. In the case of exploitation, the exploiters actively need the exploited: exploiters depend upon the effort of the exploited for their own welfare.” See for this also: Wright (2000: 10).

<sup>66</sup> Fine & Saad-Filho (2004: 47) do not differentiate between individuals that produce surplus labour and surplus value in order to determine if a labourer is exploited or not. They write: “Although the unproductive workers do not directly produce surplus value, they are exploited if they work for longer than the value represented by their wage —being unproductive is no obstacle against capitalist exploitation!”



oppression is the relation between surplus labour and variable capital (Carchedi, 1987a: 196).

In what follows we will concentrate on the rate of exploitation as the activities of the unproductive labourers, i.e. those labourers that do not produce value, are aimed at transferring value and surplus value instead of producing value and surplus value. The surplus-labour is extracted in the form of surplus value (Carchedi.1987a: 196).<sup>67</sup> The rate of exploitation is described as follows:

s = surplus value

v = variable capital

Rate of surplus value or rate of exploitation =  $s / v$

The rate of exploitation may change due to a change in the relation between s and v. An increase of the wages leads to a lower rate of exploitation. An increase of the work intensity may increase the surplus value.

The class struggle has a determining influence on the rate of exploitation. It determines, for instance, if the capitalist is able to lower the wage level, to increase the work intensity and to introduce new organizational methods that might increase the production and/or the appropriation of surplus value and/or help to augment productivity.

The capitalist has the necessity to increase the rate of surplus value as it allows it to accumulate capital that enables it to increase the production and the appropriation of

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<sup>67</sup> Carchedi (1987a: 196): “Consider the formal material labour process. To begin with, we should recall that, if the unproductive enterprise does not produce value, it can appropriate its share of value and surplus value only through the redistribution of the value produced in the productive branches of the economy, i.e. where real (both material and mental) transformations determine the nature of the labour process and thus of the capitalist production process. This transfer of value to the unproductive enterprise is performed by forcing the unproductive labourers to work for longer than the time socially necessary to reproduce their labour power. Since they are expropriated of surplus labour in the form of surplus value, they cannot be said to be exploited: I refer to this type of expropriation of surplus labour as economic oppression. If the ratio between the surplus labour and the necessary labour is called the rate of economic oppression, then, other things being equal, the higher this rate the greater the value appropriated by the capitalist. In fact, the unproductive labourer in the commercial enterprise buys the commodities (at less than their value) and sells them (at their value) and thus allows the capitalist to appropriate the difference. Clearly, the longer, or the more intensively, the unproductive labourer has to work, the more transactions he or she will carry out and the more will be appropriated by the capitalist.”

surplus value. However, the rate of surplus value cannot increase permanently. First of all, the rate of surplus value cannot rise infinitely as variable capital cannot be reduced to zero (Mandel, 1969a: 156, Kliman, 2007: 30). Second, a continuous reduction of  $v$  at the benefit of  $s$  has a negative impact on the realization of the produced value.<sup>68</sup>

The increase of the surplus value is also limited by the proper dynamics of productivity growth. An increase of labour-productivity frequently also produces new necessities of the working class. These necessities might augment the value of labour-power. An increase of the value of labour-power might increase the power of the labour movement that enables the working class to limit the increase of the surplus value.

The capitalist is not interested in the rate of exploitation but in the rate of profit (Mandel, 1969a: 143). The rate of profit is the relation between surplus value and total capital invested. The profit rate can be described as follows:

$s$  = surplus value

$v$  = variable capital

$c$  = constant capital

$p$  = profit rate

$$p = s / (c + v)$$

According to Mandel (1969a: 155-158), the rate of profit is influenced by four factors:

- 1) An increase or decrease of the rate of surplus value.
- 2) An increase or decrease of the mass of surplus value.

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<sup>68</sup> Erik Olin Wright (2000: 32): “Exploitation is a powerful concept precisely because it brings together an account of opposing interests with an account of the rudimentary capacity of resistance. Exploiters not only have a positive interest in limiting the life chances of the exploited, but also are dependent upon the exploited for the realization of their own interests. This dependency of the exploiter on the exploited gives the exploited an inherent capacity to resist.

3) An increase or decrease of the price of constant capital.

4) An increase of the world market. An expansion of the world market might assure the free and cheap flow of natural resources ( $c$  decreases), the import of cheap food and the provision of a cheap labourforce ( $v$  decreases). When the costs of living decrease because of the import of cheap food from abroad, the labour time socially necessary to reproduce the worker of the importing country diminishes too. As a consequence, the capitalist may lower the wages, i.e. variable capital, without this affecting the reproduction of the labourforce. In this way, the relative surplus value increases because the worker still works the same amount of time, however, the hours that he or she works for its own reproduction is diminished.<sup>69</sup> Sweezy (1977: 120-122) adds the following factors that influence the rate of profit:

1) The strength or weakness of the trade unions.

2) The strength or weakness of employer's associations.

3) State actions that might benefit the workers or capital.

4) The export of capital. The export of capital "acts to relieve the pressure on the domestic labor market and in this way prevents accumulation from having its full depressing effect on the rate of profit" (Sweezy, 1977: 121).<sup>70</sup>

5) The formation of monopolies.

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<sup>69</sup> A decrease of the value of constant and variable capital in the 'advanced' capitalist countries might be brought about when the production of those goods and services that help to decrease its value is transferred to what might be called the Third World. Their import decreases the value of constant and variable capital in the home countries of international capital (Marx, 1973c: 257).

<sup>70</sup> According to Delgado Wise and Márquez Covarrubias (2011: 22), as a consequence of the falling rate of profit capital is pushed across borders in the form of direct investments and in its more or less speculative financial expression.

Profit is not the same as surplus value, although for reasons of exposition it is many times considered as identical.

Surplus value and rate of surplus value are, relatively, the invisible and unknown essence that wants investigating, while rate of profit and therefore the appearance of surplus value in the form of profit are revealed on the surface of the phenomenon. [...] Although the rate of profit thus differs numerically from the rate of surplus value, while surplus value and profit are actually the same thing and numerically equal, profit is nevertheless a converted form of surplus value, a form in which its origin and the secret of its existence are obscured and extinguished. In effect, profit is the form in which surplus value presents itself to the view, and must initially be stripped by analysis to disclose the latter. In surplus value, the relation between capital and labour is laid bare; in the relation of capital to profit, i.e., of capital to surplus value that appears on the one hand as an excess over the cost-price of commodities realised in the process of circulation and, on the other, as a surplus more closely determined by its relation to the total capital, *the capital appears as a relation to itself*, a relation in which it, as the original sum of value, is distinguished from a new value which it generated. One is conscious that capital generates this new value by its movement in the processes of production and circulation. But the way in which this occurs is cloaked in mystery and appears to originate from hidden qualities inherent in capital itself (Marx, 1973c: 70, 74-75).<sup>71</sup>

Before presenting the differences between surplus value and profit, it is first of all important that I explain the concept of the organic composition of capital. The organic composition of capital can be defined technically and in value terms. The value composition is determined by the relation between the value of constant and variable capital. The technical composition is the relation between the mass of the means of production and the necessary labour-power to put these means in movement (Marx, 1973a: 587).

The relation between constant and variable capital is expressed in:  $c / v$ . When the organic composition of capital rises, the value of constant capital that is being used in the production process has increased more rapidly than the value of variable capital. One of the reasons might be that machines have replaced labour power.

An increase in the organic composition of capital normally implies an increase of productivity. The introduction of new technologies might lead to lower unit costs. As a consequence of the introduction of new technologies or more machinery lesser new value is transferred to the commodities.

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<sup>71</sup> See regarding the same issue, Marx (1973c: 192, 230).

Differences between the profit rates of individual capitalists depend, principally, on the organic composition of capital. When we compare two companies, one company might have a higher organic composition of capital than the other company. The company with the higher organic composition of capital has a lower profit rate (Mandel, 1969a: 146-147).<sup>72</sup> However, a lower profit rate does not necessarily mean lesser profits. Although the company with the higher rate of organic composition of capital produces less value, it might have bigger profits.

In general terms, differences in the rate of profit between corporations within branches and between branches, induces capital to move to those companies and branches that give off a higher profit rate than their 'own'. This originates the tendency towards the equalization of the rate of profit (Marx, 1973c: 217; Kliman, 2007: 27).

The *tendency* towards the equalization of the average profit rate should be considered as a *tendency* and nothing more. It is a tool to understand the dynamics of capital movements (Marx, 1973c: 199; Mandel, 1969a: 150). According to Kliman (2007: 27), in reality the profit rate has never equalized, not even at the initial phase of capitalism.

The movement of capital to those companies and branches with the average and higher than average profit rates causes the elimination of the less productive capitals, i.e. the companies and branches with a lower than average profit rate (see below on the concept of the average profit rate). The movement of capital induced by the differences in the profit rates leads at the same time to an increase of the average organic composition of capital affecting, negatively, the average rate of profit.

A first difference between profit and surplus value is that profit is a part of the surplus value. After having produced and realized the surplus value, the commodity is produced and sold; surplus value is being divided between all those fractions of the capitalist class that have 'contributed' to production and distribution (Marx, 1973a: 541). Merchant capital and landowners are fractions of capital that benefit from the surplus value.

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<sup>72</sup> Sweezy (1977: 117) is not convinced that an increase of the organic composition of capital leads to a lower rate of profit. He is also not absolutely sure if a rise in the organic composition of capital conduces to a higher mass of profits. According to Sweezy's (1977: 118-119), the tendency of the average profit rate to fall and the tendency of the organic composition of capital to rise also invoke counter-tendencies. Amin (1979: 528), in the tradition of the under-consumption theory, argues that the tendency of the rate of profit to fall is caused by the contradiction between the capacity to produce and the capacity to consume. This contradiction is overcome by the broadening and the deepening of the capitalist market (Amin, 1979: 568).

The second difference between profit and surplus value is caused by the movement of capital induced by the existence of different profit rates between companies and between branches. In order to explain this second difference we need to introduce the concept of production prices.

Production prices are equal to  $c + v +$  the average profit rate (ap) (Marx, 1973c: 183, 259; Mandel, 1969a: 148; Kliman, 2007: 27). From this, it can be deduced that the individual values of the commodities can be different from its social values.

Corporations with a higher organic composition than the average have a lower rate of profit than the average. The individual values of their commodities are lower than the average. The corporations with a lower than average organic composition of capital produce commodities with more value incorporated than companies with the average organic composition of capital (individual value > social value) and have a higher rate of profit than the average. The average rate of profit in a specific branch is established on the basis of the relation between all surplus value produced and all capital invested in this branch. The transfer of surplus value from the less productive corporations to the more productive companies, by maintaining differences in the organic composition of capital (Mandel, 1969a: 147-148, 149), defines the average rate of profit.

The transfer of value from the less productive corporations to the more productive companies is the result of the differences in production prices. The less productive companies are more expensive than the more productive corporations. Under the condition that everything what is produced is being sold, while the less productive corporations need to 'lower' the value of their commodities, the more productive companies may 'increase' the value of their commodities, i.e. the price for the commodities produced by the less productive corporation gets below its value and the price for the commodities produced by the more productive corporation gets above its value.<sup>73</sup> That is what Marx (1973c: 66) called the law of competition.<sup>74</sup> So, the more productive, the less value it produces but more

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<sup>73</sup> See for a simple and clear description of these processes, Weeks & Dore (1979: 85).

<sup>74</sup> "[...] equilibration in exchange (a single price in a market) hides the generation of uneven development in production" (Weeks, 1998: 20).

it can appropriate that is produced elsewhere. This is the second difference between profit and surplus value.<sup>75</sup>

The third difference between profit and surplus value is caused by the workings of the market. Price increases and decreases influence the profit of the corporations and affect capital movements as explained above. Due to particular circumstances, market prices can be higher than production prices. It should be mentioned, however, that the ‘law of demand and supply’ only explains the fluctuations but do not determine the axis around which these fluctuations are produced (Mandel, 1969a: 149; Marx, 1973c: 204, 212).

### **2.2.1.5. The general laws and contradictions of capitalist development**

Capitalism is characterized by general laws that determine its development.<sup>76</sup> These laws are tendencies and embody contradictions that give rise to counter-tendencies. In this subsection we describe the laws and contradictions of capitalist development.<sup>77</sup> According

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<sup>75</sup> The appropriation of a part of the surplus value of a ‘competitor’ is not caused by a single factor but, as Mandel (1976: 77-78) points out, “*all* the laws of motion of the capitalist mode of production must be taken into account. These are: (i) differences in the organic composition of capital; (ii) the ability to force down the wages of labour-power below its social value; (iii) the ability to diminish the capital laid out for various component parts of constant capital below their social value; and (iv) the possibility to accelerate the reproduction of circulating capital (and of variable capital).

<sup>76</sup> According to Carchedi (1987a: 108), social laws “are not only necessary but also are indispensable. Without these laws (e.g. capital concentration and centralization, the falling rate of profit, dequalification of labour, surplus population, etc.) the system cannot function and reproduce itself. They must, therefore, be realized. But they must be realized in their specific form (tendential) and nature (antagonistic) as well. All other social phenomena (as ultimately determined by the production relations) are not indispensable, since the system can reproduce (or supersede) itself by ‘choosing’ as it were its own conditions of reproduction or of supersession, i.e. by realizing (or not) this rather than that form of ideology (or of state or of the family, etc.) with this rather than that particular class content. All other social phenomena are only necessary, and thus neither inevitable nor superfluous nor accidental.”

<sup>77</sup> Petras & Veltmeyer (2011a: 14) come up with eight general contradictions of capitalist development: (i) production based on social cooperation versus private appropriation; (ii) the forces of production do not correspond with the social relations of production; (iii) capitalism is driven by the need to accumulate and the search for profit, but has a “built in tendency” for the rate of profit to fall; (iv) the necessity to realize the surplus value versus a tendency towards overproduction; (v) the capitalist development of the forces of production is uneven in its dynamics and effects. This causes the general conditions that undermine imperial power but also the drive for world power; (vi) the basic institutions of capitalism need to maintain the political, economic and social order but they produce “class conflict, social disorganization (and criminal violence) and political disorder”; (vii) “capitalist development is predicated on the workings of the market and the freedom of capitalists to advance their interests and accumulate, but capitalism can only advance with the active support and agency of the state; (viii) capitalists intent to mask the workings of the system and to secure their legitimacy, but they act in such ways that undermine this and allow people to see through “the ideology designed to induce false consciousness of reality”.

to Mandel (1967), “all the “laws of motion” of the capitalist mode of production arise out of the process of capital accumulation.”

The objective of capital is accumulation. For accumulation to occur, the capitalist needs to appropriate the surplus value that is embodied in the commodities. The individual capitalist competes with a lot of other capitalists. This forces the capitalist to continuously improve the modes of appropriation of the surplus value and to increase the rate of exploitation, i.e. to increase ‘his’ rate of exploitation above the social average rate of exploitation (Harvey, 2006: 29). More surplus value appropriated would mean more capital to be invested in variable and/or constant capital.

The tendency of the organic composition of capital to increase is the first law of the capitalist economy (Mandel, 1969a: 322-321). A change in the relation between the value of variable and constant capital in favour of constant capital implies an increase of the organic composition of capital.

The accumulation of capital increases the demand for labour-power and increases the organic composition of capital. The increase of the organic composition of capital, for its turn, reduces the demand for labour-power. In the case the demand for labour-power is higher than its reduction caused by the rise in the organic composition of capital, wages will increase. These wage increases induce capital to accelerate the mechanization of the production process, leading to a diminution of the wages (Shaikh, 1990: 358). Mandel (1969a: 127) argues that capital is not introducing new machines to increase the productivity of labour-power but to reduce costs, to sell much cheaper and to defeat its competitors.

The law of the tendency of the average rate of profit to fall due to an increase of the average organic composition of capital is the second general law of the capitalist economy. Marx (1973c: 282):

No capitalist ever voluntarily introduces a new method of production, no matter how much more productive it may be, and how much it may increase the rate of surplus value, so long as it reduces the rate of profit. Yet every such new method of production cheapens the commodities. Hence the capitalist sells them originally above their prices of production, or, perhaps, above their value. He pockets the difference between their costs of production and the market-prices of the same commodities produced at higher costs of production. He can do this, because the average labour-time required socially for the production of these latter



commodities is higher than the labour-time required for the new methods of production. His method of production stands above the social average. But competition makes it general and subject to the general law. There follows a fall in the rate of profit —perhaps first in this sphere of production, and eventually it achieves a balance with the rest— which is, therefore, wholly independent of the will of the capitalist.<sup>78</sup>

The profit rate is not always and in all times falling. According to Sweezy (1977: 110-113), there are at least five causes that might counter the tendency of the average profit rate to fall: (i) the cheapening of elements of constant capital; (ii) the increasing intensity of exploitation; (iii) the depressing of wages below their value; (iv) the pressure on wages caused by relative overpopulation; and (v) the cheapening of raw materials that are imported from abroad.<sup>79</sup> On the basis of Marx's *Capital*, Harvey (2006: 178) mentions the following counter-tendencies: (i) a rising rate of exploitation; (ii) falling costs of constant capital; (iii) the depression of wages below the value of labour-power; and, (iv) an increase in the industrial reserve army.<sup>80</sup> Referring to Marx's *Grundrisse*, Harvey adds: (i) the constant devaluation of a part of existing capital; (ii) the transformation of a big part of capital into fixed capital which does not serve for direct production; and, (iii) unproductive waste. In addition, Harvey explains that the fall in the rate of profit can be “‘delayed by the creation of new branches of production in which more direct labour in relation to capital is needed, or where the productive power of labour is not yet developed’ (labour-intensive sectors are opened up or preserved)”. Monopolization must be considered as an “antidote to the falling rate of profit”.

Harvey (2006: 182-185) is not fully convinced that the profit rate has a tendency to fall. He mentions the following reasons: (i) technical changes may reduce fixed and circulating constant capital; (ii) the increase of vertical integration of companies may reduce costs as integration normally implies centralization; (iii) product innovation is

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<sup>78</sup> It should be noted, as Marx (1973c: 275) pointed out, that the fall of the profit rate causes competition between individual capitalists instead of the other way around.

<sup>79</sup> These ‘counteracting causes’ are the same as mentioned by Marx (1973c: 252-260), however, the author of *Capital* added a sixth factor: the increase of fictitious capital. This capital does not enter in the leveling of the general profit rate, but yields only dividends.

<sup>80</sup> To depress wages below the value of labour-power is called super-exploitation. Marx (1973a: 573-574): “In the chapters on the production of surplus value it was constantly presupposed that wages are at least equal to the value of labour-power. Forcible reduction of wages below this value plays, however, in practice too important a part, for us not to pause upon it for a moment. It, in fact, transforms, within certain limits, the labourer’s necessary consumption fund into a fund for the accumulation of capital.”

normally labour-intensive and characterized by small scale production; (iv) specialization might stabilize the value composition of capital; and, (v) the pace of technological change might be hold back due to takeovers, patent laws, etcetera.

The contradiction between the increase of productivity and the decrease of value embodied in the commodity is considered as the key contradiction of capitalist development. Although productivity increases enable the capitalist to appropriate more surplus value, the produced commodities embody lesser value. The profit rate of the individual capitalist tends to decline because of the rise in the organic composition of capital (Marx, 1973a: 316-318; 1973c: 244).

The reduction of surplus value embodied in every individual commodity obliges the capitalist to increase production. In the case the capitalist is able to sell more commodities. it also appropriates more surplus value. The increase of surplus value might help the profit rate from falling (rising  $s$ , by maintaining the values of  $v$  and  $c$ ). However, at a certain moment this increase leads to overproduction as the supply of commodities structurally exceeds the demand for commodities. The tendency of the capitalist economy towards overproduction is the third general law of the capitalist economy.<sup>81</sup>

It might seem that the overproduction crisis is caused by the lack of effective demand. However, the overproduction crisis is a manifestation of the fall of the profit rate as capital was urged to increase the production of surplus value (Marx, 1973c: 261; Mattick, 1974: 115-116).<sup>82</sup> The overproduction crisis does not break out “because relatively *too little* had been produced of the commodities consumed by the workers or too little of those consumed by the capitalists, but because too much *of both* had been produced — *not*

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<sup>81</sup> The law to accumulate finds its counterpart in the contradiction that is inherent of the commodity, i.e. the contradiction between use values and exchange values (Mandel, 1976: 33-34; 1969a: 320; Mattick, 1974: 114).

<sup>82</sup> On the contradictory relation between the fall of the profit rate and the increase of surplus value, Marx (1973c: 259-260) tells us that “although the total quantity of additional living labour contained in the commodities decreases, the unpaid portion increases in relation to the paid portion, either by an absolute or a relative shrinking of the paid portion; for the same mode of production which reduces the total quantity of additional living labour in a commodity is accompanied by a rise in the absolute and relative surplus value. The tendency of the rate of profit to fall is bound up with a tendency of the rate of surplus value to rise, hence with a tendency for the rate of labour exploitation to rise. [...] The rate of profit does not fall because labour becomes less productive, but because it becomes more productive. Both the rise in the rate of surplus value and the fall in the rate of profit are but specific forms through which growing productivity of labour is expressed under capitalism.”

too much *for consumption*, but too much to retain *the correct relation between consumption and realization; too much for realization*” (Marx, N/Da: 346-347).

The discussions in Marxist circles on the causes of the overproduction crisis are directly related to the debates about the under-consumption theory. Luxemburg is one of the principal representatives of this theory. Although surplus value is the “real incentive” of the private capitalist, “his production is determined entirely by the effective demand” (Luxemburg, 1951: 39).

Luxemburg rightly upholds that the expansion of production urges the increase of the market (1951:344). However, the realization of the increase of surplus value caused by the increased production is only possible by ‘strata of buyers’ that lay outside capitalist society (1951. 351).<sup>83</sup> The increase of the markets is the only way to solve the problem of the lack of effective demand. As must be obvious, Luxemburg completely omits the development of the credit system.

Another representative of the under-consumption theory is Sweezy.<sup>84</sup> According to Sweezy (1977: 159, 163) the overproduction crisis is the result of the rate of profit to fall, in all branches, below a ‘normal’ rate that makes investments ‘profitable’.<sup>85</sup> As consequence capital is not re-invested anymore and this originates an interruption in the circulation process and creates a realization crisis, i.e. capital is not able to realize the

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<sup>83</sup> Luxemburg (1951: 368, 416, 429): “The existence and development of capitalism requires an environment of non-capitalist forms of production, but not every one of these forms will serve its ends. Capitalism needs non-capitalist social strata as a market for its surplus value, as a source of supply for its means of production and as a reservoir of labour power for its wage system. For all these purposes, forms of production based upon a natural economy are of no use to capital. [...] Only the continuous and progressive disintegration of non-capitalist organisations makes accumulation of capital possible. [...] Enlarged reproduction, i.e. accumulation, is possible only if new districts with a non-capitalist civilization, extending over large areas, appear on the scene and augment the number of consumers.” Dunayevskaya (1946) criticizes this point of view in the following sense: “But if accumulation is “inconceivable” without this outside force, then it is this force, and not labor, which will bring about the downfall of capitalism. The historic necessity of the proletarian revolution falls to the ground.” In addition, it seems that Luxemburg wants to show that, in the real world, capitalism tends to equilibrium. Capitalism tends to disequilibrium. In addition, Marx’s reproduction schemes (in Volume II of *Capital*), which Luxemburg criticizes, presented a closed ideal capital society.

<sup>84</sup> See on this, Sweezy (1977: 175-210).

<sup>85</sup> Over-accumulation might be defined as a situation in which an increase of  $c$  does not produce a profit or in less proportion to  $c$  than before the expansion (Marx, 1973c: 270-171). Mandel (1976: 109) defines over-accumulation as follows: “The notion of over-accumulation indicates a situation in which a portion of the accumulated capital can only be invested at an inadequate *rate of profit* and increasingly only at a diminishing rate of interest. The concept of over-accumulation is never absolute but always only relative: there is never ‘absolutely’ too much capital, but there is too much available to attain the expected social average rate of profit.”

produced value. However, one should differentiate between two types of crisis: one related to the tendency of the average profit rate to fall and another related to the realization of the produced value (Sweezy, 1977: 163-164).

Sweezy (1977: 239) considers capital's tendency towards overproduction the same as its tendency towards under-consumption. We do not agree with this point of view as under-consumption is rooted in the circulation process and overproduction in the production process.<sup>86</sup> In addition, according to Sweezy (1977: 241-258) the forces that are supposed to counteract the tendency to under-consumption are all those forces that work independently from the causes that have generated the under-consumption crisis. In other words, these forces are not counter-tendencies as these do not surge from the tendency towards under-consumption. As Sweezy's counter-tendencies do not emerge from the inherent workings of the capitalist system, the system cannot 'regenerate' itself but needs 'outside' help, for instance a state-induced increase of effective demand.<sup>87</sup> The use of 'outside' Keynesian medicines to 'solve' the under-consumption crisis is clearly presented in Sweezy's work with Baran on monopoly capital. Baran & Sweezy, 1969: 143, 151):

Under monopoly capitalism, matters are very different. Here the normal condition is less than capacity production. The system simply does not generate enough "effective demand" (to use the Keynesian term) to insure full utilization of either labor or productive facilities. If these idle resources can be put to work, they can produce not only the necessary means of subsistence for the producers but also additional amounts of surplus. Hence if government creates more effective demand, it can increase its command over goods and services without encroaching on the incomes of its citizens. This creation of effective demand can take the form of direct government purchases of goods and services, or of "transfer payments" to groups which can somehow make good their claims for special treatment (subsidies to businessmen and farmers, doles to the unemployed, pensions to the aged, and so on). [...] Given the inability of monopoly capitalism to provide private uses for the surplus which it can easily generate, there can be no doubt that it is to the interest of all classes—though not of all elements within them—that government should steadily increase its spending and its taxing. We must therefore reject decisively the widely accepted notion that massive private interests are opposed to this trend. Not only is the viability of the system as a whole dependent on its continuation but likewise the individual welfare of a great majority of its members.<sup>88</sup>

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<sup>86</sup> In his analysis of Baran and Sweezy's work *Monopoly capital*, Mattick (1974: 115) states that for these authors "capitalistic problems are exclusively market problems. Not the production, only the realization of the surplus is the actual dilemma of capitalism".

<sup>87</sup> Baran & Sweezy (1969: 244): "[...] monopoly capitalism without external stimuli is powerless to pull itself out of a state of stagnation."

<sup>88</sup> For a critique on these issues, see Mattick (1974: 111-112, 115, 122).

The theory of under-consumption is heavily criticized within Marxist circles. Even Marx did not agree with this theory. Marx (1973b: 374-375):

It is sheer tautology to say that crises are caused by the scarcity of effective consumption, or of effective consumers. The capitalist system does not know any other modes of consumption than effective ones, except that of *sub forma pauperis* or of the swindler. That commodities are unsaleable means only that no effective purchasers have been found for them, i.e., consumers (since commodities are bought in the final analysis for productive or individual consumption). But if one were to attempt to give this tautology the semblance of a profounder justification by saying that the working-class receives too small a portion of its own product and the evil would be remedied as soon as it receives a larger share of it and its wages increase in consequence, one could only remark that crises are always prepared by precisely a period in which wages rise generally and the working-class actually gets a larger share of that part of the annual product which is intended for consumption. From the point of view of these advocates of sound and “simple” (!) common sense, such a period should rather remove the crisis.<sup>89</sup>

In his book *Behind the crisis. Marx's dialectics of value and knowledge* Carchedi dedicates a lot of space to examine and criticize the under-consumption theory. Carchedi (2011: 136, 137):

Two conclusions follow. First, if lower wages cannot decrease the average rate of profit, they cannot be the cause of crises. This disproves the underconsumptionist thesis. Second, if capitalists resort to lower wages in times of depression and crises, these wage-cuts are a counter-tendency holding back only temporarily the fall in the average rate of profit, rather than being its cause [...] The consequences of subscribing to the underconsumptionist theory are far-reaching. First, if lower wages were indeed the cause of crises, in principle the economy could exit the crisis through higher wages. But, as we shall see shortly, higher wages increase the realisation by labour of commodities but decrease profits. Second, if the economy could exit the crisis through higher wages (a lower rate of exploitation), crises would be due to harmful distributional policies, and could thus, in principle, be avoided. If crises can be avoided, the economic system does not tend towards depressions and crises, as Marx holds, but towards recovery and booms and prosperity, as it is held almost unanimously even by many Marxists. The consequences for labour are disastrous. If the

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<sup>89</sup> Dunayevskaya (1946): “The crisis that follows is not caused by a shortage of “effective demand.” On the contrary, it is the crisis that causes a shortage of “effective demand.” The worker employed yesterday has become unemployed today. A crisis occurs not because there has been a scarcity of markets – the market is largest just before the crisis – but because *from the capitalist viewpoint* there is occurring an unsatisfactory distribution of “income” between recipients of wages and those of surplus value or profits. The capitalist decreases his investments and the resulting stagnation of production appears as overproduction. Of course, there is a contradiction between production and consumption. Of course, there is the “inability to sell.” But that “inability to sell” manifests itself as *such because of the fundamental antecedent decline in the rate of profit, which has nothing whatever to do with the inability to sell.*”

system tends (or can be made to tend) towards prosperity and growth, even if through economic cycles with periods of depressions and crises, the system is rational. But if the system is rational, the struggle to replace it with a different system becomes irrational, because it is a fight against a rational system, and a pure act of will not based on an objective movement. Labour is deprived of the theoretical basis upon which to base its struggle. This is the class-content of underconsumptionism. Underconsumptionism is not only irreconcilable with Marxism, it is also (and for this reason) deeply inimical to labour.

Shaikh (1990: 279ft35) explains that what has been denominated as underconsumption is not the cause of the crisis but a symptom. As the profit rate falls, capitalists diminish their investments and as a consequence a part of what has been produced is not being sold. This makes it seem if the crisis is caused by a lack of effective demand.

#### **2.2.1.6. The concentration and centralization of capital**

Capital tends to concentrate and to centralize. This is not something of a prefabricated plan but follows from the laws of capitalist development itself (Mattick, 1974: 114-115). As Marx (1974: 20) explains, capital concentrates and centralizes as a consequence of the tendency of the average profit rate to fall (Marx, 1973c: 261). The concentration of capital is the product of the accumulation of individual capitalists. The quantity of capital under its control makes an enlarged scale of production possible.<sup>90</sup> Centralization can be defined as the “combining of capitals which are already in existence: [...]” (Sweezy, 1977: 280).<sup>91</sup> Processes of concentration and centralization do not, however, lead to the elimination of free competition (Lenin, 1961a: 764).

In his work *El imperialismo, fase superior del capitalismo*, Lenin (1961a: 702) explained that at a certain moment in the process of concentration, the concentration of capital transforms in monopoly. The following subsection is dedicated to a literature review on monopoly capital.

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<sup>90</sup> When a “growing proportion of the capital accumulated [...] stems from the production and realization of surplus value outside the home country”, we can talk about international concentration (Mandel, 1976: 323).

<sup>91</sup> See for the same descriptions, Marx (1973a: 599-600). Mandel (1976: 322): “International centralization of capital thus means central command over capital with originally different national origins and controls.”

### 2.2.1.6.1. Monopoly capital

The era of monopoly capitalism started at the beginning of the 20<sup>th</sup> century (Lenin, 1961a: 706).<sup>92</sup> Lenin argued that in this period bank capital became the dominant capitalist fraction in society (Lenin, 1961a: 723). Monopolies, Lenin (1961a: 794) explained, emerged from the banks.

In the definition of Lenin, bank capital is not the same as finance capital. Lenin (1961a: 764): “[...] finance capital is the bank capital of a few very big monopolist banks, merged with the capital of the monopolist associations of industrialists; [...]”<sup>93</sup>

In the first 50 years of the 20<sup>th</sup> century monopoly capital has played a progressive role in society as it furthered “the advance of productivity and science”. Since the 1950s its role has become retrograde. This is caused by the fact that the potential economics surplus (see below) is not being realized (Baran, 1964: 106).

Monopoly capital causes a variety effects on the proper functioning of the capitalist system. These can be summed up as follows:

1. Prices of monopolized commodities are raised.
2. The equal profit rates of competitive capitalism are turned into a hierarchy of profit rates, highest in the most completely monopolized industries, lowest in the most competitive.
3. Small segments of surplus value are reduced, large segments increased. This raises the rate of accumulation and hence accentuates both the falling tendency of the average rate of profit and the tendency to under-consumption.
4. Investment in monopolized industries is choked off; capital crowds into the more competitive areas. The rate of profit which is relevant to investment decisions is therefore lowered. [...]
5. The labor-saving bias of capitalist technology is enhanced, and the introduction of new techniques is so arranged as to minimize the need for new capital.

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<sup>92</sup> “Thus, the principal stages in the history of monopolies are the following: (1) 1860-70, the highest stage, the apex of development of free competition; monopoly is in the barely discernible, embryonic stage. (2) After the crisis of 1873, a lengthy period of development of cartels; but they are still the exception. They are not yet durable. They are still a transitory phenomenon. (3) The boom at the end of the nineteenth century and the crisis of 1900-03. Cartels become one of the foundations of the whole of economic life. Capitalism has been transformed into imperialism.” (Lenin, 1961a: 706)

<sup>93</sup> Confusing might have been caused by the following: “Imperialism, or the domination of finance capital, is that highest stage of capitalism in which this separation reaches vast proportions. The supremacy of finance capital over all other forms of capital means the predominance of the rentier and of the financial oligarchy; it means that a small number of financially “powerful” states stand out among all the rest.” (Lenin, 1961a: 739)

6. The costs of selling are raised and the distribution system is expanded beyond what is socially necessary. (Sweezy, 1977: 313-314)

In their work on monopoly capital, Baran and Sweezy use the concept of economic surplus instead of surplus value. This is defined as something “between what a society produces and the costs of producing it” (Baran & Sweezy, 1969: 9). In his work *La economía política del crecimiento*, Baran (1964: 39) defined this concept as follows. “*Actual economic surplus*, i.e. the difference between society’s *actual* current output and its *actual* current consumption. It is thus identical with current saving or accumulation, and finds its embodiment in assets of various kinds added to society’s wealth during the period in question: productive facilities and equipment, inventories, foreign balances, and gold hoards.” The relation with the concept of surplus value is defined as follows:

It comprises obviously a lesser share of total output than that encompassed by Marx’s notion of surplus value. The latter, it will be recalled, consists of the entire difference between aggregate net output and the real income of labour. The ‘actual economic surplus’ as defined above is merely that part of surplus value that is being *accumulated*; it does not include, in other words, the consumption of the capitalist class, the government’s spending on administration, military establishment, and the like. (Baran, 1964: 39ft1)

Apart from the concept of actual economic surplus, Baran (1964: 40) also introduces the concept of potential economic surplus. This surplus is defined as “the difference between the output that *could* be produced in a given natural and technical environment with the help of employable productive resources, and what might be regarded as essential consumption.” Its realization is not possible within capitalism. Baran (1964: 40-41):

Its realization presupposes a more or less drastic reorganization of the production and distribution of social output, and implies far-reaching changes in the structure of society. It appears under four headings. One is society’s excess consumption (predominantly on the part of the upper income groups, but in some countries such as the United States also on the part of the so-called middle classes), the second is the output lost to society through the existence of unproductive workers, the third is the output lost because of the irrational and wasteful organization of the existing productive apparatus, and the fourth is the output foregone owing to the existence of unemployment caused primarily by the anarchy of capitalist production and the deficiency of effective demand.



The economic surplus has, according to Baran & Sweezy (1969: 71-72), a tendency to rise as costs diminish and profit margins widen. Under monopoly capitalism, declining costs imply continuous widening profit margins. Monopolies compete with each other on the basis of cost differences instead of on prices. Price competition might be disastrous for all monopolistic corporations.<sup>94</sup> As a consequence, a cost discipline has been imposed on the members of the monopoly capitalist economy (Baran & Sweezy, 1969: 71).<sup>95</sup>

In *Monopoly capital*, Baran & Sweezy (1969: 72) equate aggregate profits with society's economic surplus. As the profit margins have a tendency to widen, so does the economic surplus. On the basis of this equation the authors come up with the law of monopoly capitalism: "the surplus tends to rise both absolutely and relatively as the system develops".<sup>96</sup> The law of monopoly capitalism substitutes the law of falling profit, not because the authors, as they say, are "rejecting or revising a time-honored theorem of political economy", but because "we are simply taking account of the undoubted fact that the structure of the capitalist economy has undergone a fundamental change since that theorem was formulated." (Baran & Sweezy, 1969: 72)

The assumption that the economic surplus tends to rise can be criticized on the basis of Baran and Sweezy's own concept of profit. Baran & Sweezy (1969: 87) use the concept of the rate of return to demonstrate that profits have a tendency to rise. The concept of rate of return is not exactly the same as the concept of surplus value to which Marx referred when he declared that the average rate of profit has a tendency to fall. In the age of monopoly capitalism the giant corporations have the power to increase their prices and this surely 'counters' the tendency of the average profit rate to fall. However, these profits are not necessarily based on the extraction of produced surplus value.<sup>97</sup>

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<sup>94</sup> According to Bellamy Foster, McChesney & Jonna (2011a), nowadays, monopolies not only resist price competition at the national level but also at the international level.

<sup>95</sup> Around forty years after the work of Baran and Sweezy, Bellamy Foster, McChesney & Jonna (2011a) repeat this argument when they write: "As in all cases of oligopoly, where a few firms dominate particular industries or spheres of production, what is evident is not competition in the classic sense. Rather we are confronted with a dialectic of rivalry and collusion. In particular, "price competition"—or "price warfare," as it is often called in business—is viewed as too dangerous, and generally avoided by the giant corporations. Instead, competition between firms largely takes other forms: the search for low-cost position, which remains the bottom line for business; competition for resources and markets; and product differentiation."

<sup>96</sup> As Mattick (1974: 110) observed, also Marx noted the possibility of the growth of the surplus value and its 'counter' effects on the tendency of the average profit rate to fall.

<sup>97</sup> See on the super-profits of monopolies, Mandel (1975: 38-48).

In the period of monopoly capital, prices are not fully determined by the labour theory of value. Marx (1973c: 762): “When we refer to a monopoly price, we mean in general a price determined only by the purchasers’ eagerness to buy and ability to pay, independent of the price determined by the general price of production, as well as by the value of the products.” The profits are also not completely directed by the law of value. Sweezy (1977: 299): “So far as the individual enterprise is concerned the transition from competition to monopoly brings with it an increase in profit; this is, indeed, the whole aim and end of monopoly. But the total value produced by the social labor force is in no way increased by the formation of monopolies, and hence the extra profit of the monopolist is in the nature of a transfer of values from incomes of other members of society.”<sup>98</sup> This brings Baran (1964: 105) to conclude that the labour theory of value is not valid in the period of monopoly capitalism:

In the monopolistic phase of capitalist development the mechanism of equalization of the rates of profit operates only in the greatly compressed competitive sector of the economic system. There the rates of profit are so low, and the mass of profits available for investment relatively small. In the monopolistic and oligopolistic sphere of the economy the rates of profit on invested capital are unequal but predominantly high and the mass of profit available for investment prodigiously large.

The existence of monopolies does not mean that there is no competition.<sup>99</sup> Under monopoly capitalism competition takes place between monopolies (Mandel, 1967; Dobb, 1970: 37). However, it is the “gigantic size of the monopolies” “which presents a formidable barrier to entry into monopolized sectors and thereby extends the duration of surplus-profit appropriation” (Mandel, 1976: 530). In Volume II of his *Tratado de Economía Marxista*, Mandel (1975: 55) argued that in the era of monopoly capitalism competition is not suppressed but, rather, it has brought competition at “a higher level and in a more exacerbated form”.<sup>100</sup>

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<sup>98</sup> In *El capital financiero*, Hilferding (1971: 259, 260-261) described the process of value transfer from non-cartelized’ corporations to ‘cartelized’ companies, caused by monopoly prices imposed by cartels.

<sup>99</sup> Only in the case when monopolies are not subject to competition, the value of their product cannot be determined by the law of value (Carchedi, 1991: 230).

<sup>100</sup> See for this also, Dos Santos (2011: 52ft3) and Magdoff (1969: 42ft22).

### 2.2.1.7. The internationalization of capital and imperialism

On the basis of Baran and Sweezy's arguments presented in the previous subsection it might be concluded that in the era of monopoly capitalism only monopoly profits are possible. The profit rates do not tend to equalize anymore. However, in the era of monopoly capitalism competition is between monopolies on a world scale, induced by the necessity to accumulate. The tendency of capital to accumulate, 'the drive to expand', as Marx (1973c: 264) writes,

and to produce surplus value on an extended scale [...] is law for capitalist production, imposed by incessant revolutions in the methods of production themselves, by the depreciation of existing capital always bound up with them, by the general competitive struggle and the need to improve production and expand its scale merely as a means of self-preservation and under penalty of ruin. The market must, therefore, be continually extended, so that its interrelations and the conditions regulating them assume more and more the form of a natural law working independently of the producer, and become ever more uncontrollable. The internal contradiction seeks to resolve itself through expansion of the outlying field of production. But the more productiveness develops, the more it finds itself at variance with the narrow basis on which the conditions of consumption rest.<sup>101</sup>

The reasons for capital to cross the border of its' native country could be summarized as follows. First of all, it needs to find an outlet for capital that cannot be properly invested in its country of origin as it does not generate the average rate of profit (Marx, 1973c: 274-275; Mandel, 1975: 70-71, Magdoff, 1969: 42; Mandel, 1975: 66).<sup>102</sup> This move is also caused by the fact that abroad it might generate a higher profit rate than in capitals' native country (Marx, 1973c: 274-275; Lenin, 1961a: 742; Janvry & Garramón, 1977: 35; Magdoff, 1969: 229).<sup>103</sup> Needless to say, capital from the 'advanced' capitalist countries has not the intention to produce for the internal market of the 'underdeveloped'

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<sup>101</sup> Marx & Engels (1980: 49): "The need of a constantly expanding market for its products chases the bourgeoisie over the entire surface of the globe. It must nestle everywhere, settle everywhere, establishing connexions everywhere." Lenin (1974a: 550): "What is important is that capitalism cannot exist and develop without constantly expanding the sphere of its domination, without colonising new countries and drawing old non-capitalist countries into the whirlpool of world economy."

<sup>102</sup> The export of capital has the side-effect of postponing the ripening of the contradictions in the accumulation process in the exporting countries (Sweezy, 1977: 320, 333).

<sup>103</sup> According to Baran & Sweezy (1969: 106), "except possibly for brief periods of abnormally high capital exports from the advanced countries, foreign investment must be looked upon as a method of pumping surplus out of underdeveloped areas, not as a channel through which surplus is directed into them."

countries, but instead its productive activities are determined by the world market (Dobb, 1970: 42; FitzGerald, 1981: 197).<sup>104</sup> According to Bellamy, McChesney & Jonna (2011a), this drive “to go outside of and beyond its historical field of operations” and the “strength of this compulsion is the greater the more monopolistic the firm and the greater the amount of surplus value it disposes over and wishes to capitalize”. Second, capital needs to be invested to accumulate. If in the native country expansion possibilities are ‘exhausted’, it needs to look over the borders (Magdoff, 1969: 42). Third, it has to assure the free flow of natural resources (Magdoff, 1969: 39-40) and the provision of a cheap labourforce. Fourth, capital has the urgent and structural need to reduce the value of constant and variable capital in the ‘developed’ countries in order to increase the relative surplus value and to stop the tendency of the profit rate in the centre countries from falling (Marx, 1973c: 258-259; Janvry & Garramón, 1977: 36, Magdoff, 1969. 43-44). Fifth, capital must enlarge the market for its goods and services (Amin, 1979: 565) in order to assure the realization of the produced value and surplus value on an expanded scale.<sup>105</sup> However, and in this we agree with Kolko (1988: 93-94), capital would rather reduce their ‘costs’, principally labour, than to expand the market.

The internationalization of the world economy, or globalization, is the result of the continuously search of capital for higher profit rates, facilitated by the neoliberal prescription of abolishing capital controls, the opening of the markets and favourable tax regimes. According to Walden Bello (2006: 1355), globalization was one of the mechanisms to escape the pressures of over-accumulation and overproduction. Nayyar (2006: 72-84) argues that globalization is not a new phenomenon in that it started in the last quarter of the nineteenth century. The fact that capital spreads its wings all over the globe does not necessarily mean that capital cannot be profitably employed within ‘its’ nation-state, but it is just that abroad it can obtain higher profit rates (Marx, 1974: 253). Global expansion of transnational capital is not only imperative for accumulation and their survival

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<sup>104</sup> Cueva (1983: 89) makes the interesting observation that a big part of the Latin American internal market is nothing more than the extension of the metropolitan market, i.e. the market of the countries of the ‘North’. According to Zermeño (1979: 63), the investments of foreign capital in Latin America before the era of monopoly capital did not have the objective to produce for the internal market.

<sup>105</sup> Bellamy Foster, McChesney & Jonna (2011a) argue that “for today’s oligopolistic multinationals, global expansion is understood to be an imperative for accumulation, and hence survival. If one major corporation moves into a new market, its rivals have to follow quickly or risk being shut out”.

(Bellamy, McChesney & Jonna, 2011a), but it also further expands and deepens the centralization and concentration of capital.

The use of the term globalization by policy-makers and mainstream economists has the intent to mask its class-nature, the class realities behind it (Petras & Veltmeyer, 2010: 65). While its direct relation with neoliberalism shows that it needs to be considered as an attack on the welfare of the majority of the population, on the other hand, its institutionalization on a worldwide scale under the leadership of the United States at the service of the corporations makes it a deliberate project of world domination. The interests of these corporations are military defended by the capitalist centre under the flag of multilateral institutions such as the United Nations and the North Atlantic Treaty Organization. It is for these reasons that the term imperialism is more suitable to define what is been known as globalization. This brings us to Lenin's definition of imperialism.

In his work *El imperialismo, fase superior del capitalismo*, Lenin (1961a: 764) defined imperialism as follows:

If it were necessary to give the briefest possible definition of imperialism we should have to say that imperialism is the monopoly stage of capitalism. Such a definition would include what is most important, for, on the one hand, finance capital is the bank capital of a few very big monopolist banks, merged with the capital of the monopolist associations of industrialists; and, on the other hand, the division of the world is the transition from a colonial policy which has extended without hindrance to territories unseized by any capitalist power, to a colonial policy of monopolist possession of the territory of the world, which has been completely divided up.<sup>106</sup>

Imperialism, according to Lenin (1961a: 765), has the following five features:

- (1) the concentration of production and capital has developed to such a high stage that it has created monopolies which play a decisive role in economic life
- (2) the merging of bank capital with industrial capital, and the creation, on the basis of this "finance capital", of a financial oligarchy;
- (3) the export of capital as distinguished from the export of commodities acquires exceptional importance;
- (4) the formation of international monopolist capitalist associations which share the world among themselves, and

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<sup>106</sup> It should be stated that imperialism is not something new in the development of human society (Lenin, 1961a: 759). It existed before capitalism. Hence Lenin (1961a: 764) talks about capitalist imperialism.

(5) the territorial division of the whole world among the biggest capitalist powers is completed.

Imperialism is capitalism at that stage of development at which the dominance of monopolies and finance capital is established; in which the export of capital has acquired pronounced importance; in which the division of the world among the international trusts has begun, in which the division of all territories of the globe among the biggest capitalist powers has been completed.

As we have seen above, the tendency of the profit rate to fall causes tendencies to emerge that counteract this decline. One of these counter-tendencies was the increase of fictitious capital, pointed out by Marx in Volume III of *Capital*. This brings us to what is called the financialization of the world economy

Dos Santos (2010: 174) argues that the fall of the rate of profit has pushed processes of financialization.<sup>107</sup> Powerful mechanisms were created to transfer income from the productive to the financial sector. Bellamy, McChesney & Jonna (2011a) argue that the problem to “find sufficient investment outlets for their enormous economic surpluses within production”, turned giant corporations increasingly “to speculation within the global financial sphere”. According to Amin (2010b: 6), the oligopolies deliberately choose the route of the financialization of the capitalist system as it allowed them to concentrate a growing proportion of the mass of profits realized in the real economy.

#### **2.2.1.8. A worldwide labour theory of value**

In the subsection on monopoly capital it was outlined that Baran & Sweezy considered that in the era of monopoly capitalism the law of value did not apply anymore. According to Sweezy (1977: 317-318), also at the international level the law of value did not hold. Labour was not mobile and the mechanism of international trade was not sufficient for the

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<sup>107</sup> It is interesting to observe that some authors explain the rise of financialization by financialization, i.e. they use as evidence of the explanation what they need to explain. So they do not explain anything at all. One of those authors is Lapavitsas. The ‘emergence’ of financialization is explained as follows: “Financialization does not represent the escape of capital to the realm of finance in search of higher (and possibly speculative) profits. Financialization has indeed been characterized by rapid growth of circulation compared to production, but this asymmetry is the outcome of ‘financialized’ interactions among the fundamental agents of the capitalist economy. The emerging social phenomena are highly complex, and cannot be interpreted as the outcome of non-financial capitalists escaping low profits in the sphere of production” (Lapavitsas, 2013: 798).

transfer of value. Capital movements were excluded from the analysis of Sweezy.<sup>108</sup> Marx, however, considered it definitively possible that surplus value could be transferred through the workings of international trade. Marx (1973c: 258-259): “Capitals invested in foreign trade can yield a higher rate of profit, because, in the first place, there is competition with commodities produced in other countries with inferior production facilities, so that the more advanced country sells its goods above their value even though cheaper than the competing countries. [...] The favoured country recovers more labour in exchange for less labour, although this difference, this excess is pocketed, as in any exchange between labour and capital, by a certain class.”

Mandel argues that the law of value works at the international level. It is especially the workings of the law of value at the international level that has contributed to the acceleration of growth in the ‘advanced’ capitalist countries since the end of World War II. Mandel (1976: 102-103):

Without underdeveloped regions, there can be no transfer of surplus to the industrialized regions and hence no acceleration of capital accumulation there. Over the span of a whole historical epoch no transfer of surplus to the imperialist countries could have occurred without the existence of under-developed countries, and there could have been no acceleration of capital accumulation in the former. Without the existence of underdeveloped branches of industry there would have been no transfer of surplus to the so-called growth sectors and no corresponding acceleration of the accumulation of capital in the past 25 years.

The lower price of labour-power in the ‘underdeveloped’ countries has allowed for a higher world average rate of profit, “which ultimately explains why foreign capital flows into these countries at all” (Mandel, 1976: 68).<sup>109</sup>

Although Mandel believes that the law of value works at the international level, he also argues that there is not one sole law of value, one international average of the organic composition of capital, and one international average profit rate, but at least two.<sup>110</sup> One

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<sup>108</sup> In the case capital export is taking place, the profit rates tend to equalize as capital is transferred to the most lucrative sectors, i.e. to those sectors with the highest profit rate (Sweezy, 1977: 319-320).

<sup>109</sup> It is exactly the law of value that “compels the backward countries with a low level of labour productivity to specialize on the world market in a manner disadvantageous to themselves” (Mandel (1976: 74).

<sup>110</sup> One worldwide law of value only may exist if there were a homogenized capitalist world economy with a single capitalist world state” (Mandel, 1976: 71). According to Carchedi (1991: 236) this is not necessary: “If access to sound direct evidence is barred, we can turn to indirect evidence. Suppose we can observe that

law of value applies to the monopolized sectors and another to the non-monopolized sectors (Mandel, 1976: 83, 542-543).<sup>111</sup>

### **2.2.2. Development economists**

Development economists consider capitalism an adequate form of organizing society. When analyzing capitalist society, development economists think it possible that by making some adjustments to the system and by giving an active role to the state in production and distribution processes, progress for all will be achieved.<sup>112</sup>

A literature review on some of the works of the main development economists is important for this dissertation as the theories of the development economists, but also those of ECLAC, were, in a certain way, applied in Peru during the Velasco government (1968-1975) and in the first three years of the first government of Alan García in the years between 1985 and 1990. It should be mentioned that we have concentrated ourselves on the conditions that are necessary for development to take off.

The section is organized in three subsections. In section 2.2.2.1 we review Arthur Lewis' book *Teoría del desarrollo económico*. Subsection 2.2.2.2 is dedicated to some of the viewpoints of Walter Whitman Rostow. We consider the work of Whitman and Lewis fundamental for the debate that later on was developed and deepened by ECLAC. In subsection 2.2.2.3 we examine some elements of the works of the main exponents of Latin American structuralism: Raúl Prebisch, Celso Furtado and Osvaldo Sunkel.

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capitals compete internationally (1) by introducing new techniques, (2) by moving from one country to another within the same branch, and (3) by moving from one country to another across branches. The first two points would allow us to assume the formation of an international modal production process and thus of a modal rate of profit for each international branch. The third point would allow us to assume the tendential equalization of all rates of profit into an average. The three points taken together would allow us to assume the tendential realization of this average by the modal producers.”

<sup>111</sup> Also Dobb (1974: 44-45) argues that two profit rates may exist: one for the monopolized and the other for the non-monopolized sectors.

<sup>112</sup> “Developmentalism is an ideology or world view that accords industrialization a higher priority than other societal goals and gives the state the leading role in promoting it” (Schneider, 1999: 283). According to Bina and Yaghmaian (1991: 114), by referring to the economic propositions of the structuralist Raúl Prebisch, “Prebisch’s voice at the United Nations was indeed the crystallisation of the opposition registered by LDCs’ local bourgeoisies to the old (and long eroding) colonial international division of labour”.



### 2.2.2.1. Arthur Lewis

In his book *Teoría del desarrollo económico* (1955), Arthur Lewis explained the problems that thwart the ‘underdeveloped’ countries from developing. Development was to be considered similar to economic growth, expressed in industrialization and modernization. A reduction of the agricultural population, an increase of professions, and the participation of women in the labour process, among others, indicated that development was going on (Lewis, 1955: 361-364).

Lewis considered industrialization as ‘one of the clearest indices of the degree of economic development’. An increase of the labourforce that was employed in the industrial sectors was the result of economic development (Lewis, 1955: 366, 371-372).

One of the main conditions for a successful industrialization was the transfer of the labourforce employed in the agricultural sector to the industrial sector. For this to occur, it should have been necessary to implement a profound agrarian reform. According to Cypher & Dietz (2009: 275), “an industrial transformation aimed at raising a nation’s level of development that fails to foment an effective agrarian transformation eventually will falter and fail”. Lewis did not propagate an agrarian reform

The transfer of the labourforce employed in the agricultural sector to the industrial sector would definitively lead to shortages in agricultural production. To avoid this, Lewis considered it necessary that productivity in the agricultural sector increased.<sup>113</sup> This increase would create a surplus agricultural population that might be transferred to the industrial sector without affecting agricultural production (Lewis, 1955: 254-255). In the case productivity growth in the agricultural sector did not take off or exports did not increase, the agricultural workers should be transferred to those industries that would provide the country with international reserves (Lewis, 1955: 372).

The shortage of capital to increase productivity was another factor that hindered economic development. Low national incomes that caused low rates of national savings were its principal cause (Lewis, 1955: 236). This issue was very complicated to solve for Lewis as he was not in favour of importing capital but considered that investments should

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<sup>113</sup> Increased productivity of the agricultural sectors might lead to a decrease of food imports and increased savings that might be invested elsewhere (Lewis, 1955: 366).

be financed by the increase of national savings, albeit not through the increase of the money supply as this might lead to inflation. It was the emerging capitalist class that would provide the necessary national savings (see below).

Lewis' thought that the import of capital would not trigger economic development and would not initiate the necessary cycle of increased income, increased savings and increased investments<sup>114</sup> as (i) the management of capital was not adequate; (ii) capital was not well distributed; and, (iii) there would not be enough sufficient educated personnel to use the imported techniques (Lewis, 1955: 221-222; 271). In addition, Lewis argued that in order to import one needs to export, however, "if the ability to earn foreign exchange is not extended, the entire development program will be stopped" (Lewis, 1955: 308). If no adequate infrastructure and social structure were 'available' in the country, the country would not properly benefit from the import of capital (Lewis, 1955: 227, 271): "productivity of an investment depends on all the investments that have been made previously in the diverse fields" (Lewis, 1955: 271).

Lewis thought that the lack of adequate personnel to manage new (imported) technologies was caused by the fact that a class of entrepreneurs did not exist. It was exactly this class that saved more than any other class in society and would invest their savings productively (Lewis, 1955: 246, 253).

#### **2.2.2.2. Walter Whitman Rostow**

In his work *Las etapas del crecimiento económico* (1961), Rostow described five phases of economic development. The generalization of the capitalist mode of production throughout society was a prerequisite for economic development to occur.

Economic development would only take off if society's structure would provide the necessary political, economic and social conditions such as an efficient and well-working state apparatus, an adequate economic infrastructure and an educated population. A political revolution was necessary to make the state apparatus more efficient and to create

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<sup>114</sup> Lewis thought that one stimulus would trigger a whole set of economic and social processes. An increase of investments would lead to more income, to more savings and then, again, to more investments (Lewis, 1955: 246). He also believed that "[...] an economy that has put itself on the path to progress tends to stay in it" (Lewis, 1955: 301).

the adequate economic infrastructure. Political power should pass from the hands of the land-owner class to what might be called the capitalist class (Rostow, 1961: 38-44).

Already at the beginning of the economic take off, emphasis should have to be laid on the increase of productivity. Furthermore, it had to be assured that the country's surplus was productively invested. Under no circumstances it should stay or get in the hands of those classes or those groups of individuals that would use the surplus to purchase luxury goods, to accumulate or to expend it in low productivity investments (Rostow, 1955: 65). An adequate economic environment should be created that would make economic activities in agricultural production and commerce less lucrative than activities in the manufacturing sector (Rostow, 1961: 30-33).

For the economic take-off to be transformed into sustained economic development, Rostow (1961: 65-68) mentions three other conditions:

- i). Institutions should be developed that would provide cheap and adequate operative capital.
- ii). One or more sectors must grow quickly and should stimulate processes towards further industrialization. A considerable proportion of the utilities of the entrepreneurs in these sectors should be reinvested productively.
- iii). A group of persons (entrepreneurs) who are willing to accept innovation ("the sources of the entrepreneur spirit") should exist in society.

Furthermore, a proper economic context should be created. This meant, among others, that economic activities in agricultural production and commerce would need to be less lucrative than activities developed in the manufacturing sector, and that society should have an 'educated' population or a population that was willing to be educated (Rostow, 1961: 30-33). This argument is comparable with Lewis' point of view on the necessity of skilled personnel.

### 2.2.2.3. Structuralism

The structuralists of the 1960s and 1970s proposed, in general terms, a combination of industrialization with import substitution as the panacea for development. Industrialization would increase income and, as a consequence, this would broaden the internal market.<sup>115</sup> The exports would finance the imports of machinery. This would further processes of industrialization. In all these matters, the state had a fundamental role to play (Bresser & Gala, 2010: 4-5). The state should take care that the exports were not to be concentrated in sectors in which foreign capital would be predominant as the development of the internal market would be hindered (Furtado, 1980: 126).

The structuralists, and also the neo-structuralists of the 1980s, did not have the intention to alter the fundamentals of the existing “economic power structure” of Latin American capitalist society. The structuralists criticized the international division of labour, however, as Barón (2012: 69) noted, the studies of the structuralists “permit that the structures of the capitalist mode of production persist in time”.

When neo-structuralists talk about “structural transformation” (Infante & Sunkel, 2009: 148), they refer to a new social order within the existing social structure (O’ Malley, 2011: 209). This means, for instance, that the state should intervene to regulate and improve the workings of the market (Bresser & Gala, 2010: 21).<sup>116</sup> According to Munck (2011: 74), neo-structuralism has converged with the hegemonic neoliberal paradigm.<sup>117</sup>

In the following subsections we have focused ourselves on the key ideas of the main exponents of structuralism. These ideas are useful for an understanding of the economic policies implemented during the Velasco regime and the first García government, as

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<sup>115</sup> According to Dos Santos (1986: 318, 319), the development of the internal market is economically limited by (i) the necessity to maintain the traditional export sector; (ii) the limits set on purchasing power of those persons working in the dependent industrial sector caused by high levels of exploitation; and, (iii) new sources of income are restricted due to the fact that industrialization, i.e. the intensive use of capital instead of labour-power, creates a few jobs in comparing with the growth of the population.

<sup>116</sup> In his article “Estado y mercado en el nuevo desarrollismo”, Bresser (2007: 116) considers globalization as “an intense competition between nation states through their companies”. In order to compete it was essential to politically, administratively and fiscally strengthen the state, “while at the same time providing the conditions for national companies that they can compete internationally”. The state should not be an investor but should ensure competition (Bresser (2007: 119), and “create investment opportunities” (Bresser & Gala, 2010: 19).

<sup>117</sup> According to Bresser & Gala (2010: 19), new developmentalism proposes to diminish the role of the state in the economy and to increase the role of the market.

explained in the introduction of section 2.2.2. In subsection 2.2.2.3.1 we review Raúl Prebisch's paper "The economic development of Latin America and its principal problems" (1949). Subsection 2.2.2.3.2 discusses Celso Furtado's *Desarrollo y subdesarrollo* (1965) and his *La economía latinoamericana. Formación histórica y problemas contemporáneos* (1980). In subsection 2.2.2.3.3 we examine Osvaldo Sunkel's article "Política nacional de desarrollo y dependencia externa".

### **2.2.2.3.1. Raúl Prebisch**

In his paper "The economic development of Latin America and its principal problems", Raúl Prebisch considered that the standard of living of the Latin America masses had to depend "on the existence of a considerable amount of capital per man employed in industry, transport and primary production, and on the ability to use it well". For this to occur, Latin American countries should accumulate capital. This capital was needed for industrialization and the technical improvement of agriculture.

The necessary increase of productivity could be brought about by "well-directed foreign investments added to present savings". If foreign capital was "effectively used, the increase in productivity will, in time, allow savings to accumulate which could be substituted for foreign capital in the new investments necessitated by new technical processes and the growth of the population".

Basing himself on previous experiences, Prebisch explained that the workforce needed in the industrial sector should be transferred from the primary sector and "other occupations". The introduction of techniques that increased productivity in the agricultural sector would enable a country to transfer its workforce from the agricultural to the industrial sector. Prebisch:

We shall now consider the increase in productivity in relation to the existing population. There are two aspects of the question. On the one hand, the adoption of modern techniques will allow production per man to increase, making labour available to increase production in the same activities in which it was already employed, or directing it to others. On the other, the index of productivity will also be raised by the diversion of persons ill-employed in activities where the very low productivity cannot be increased to any notable extent, to others where technical progress makes such improvement possible. Agriculture offers a

typical example of the influence of technical progress. In some of its important branches, technical development has made possible a steady increase in production with a proportionally lower increase in employment. In other words, agriculture absorbs a decreasing proportion of the increase in the population of working age, with the result that industry and other activities have been able to increase their employment more. This is not a case of diverting, to other work, people already employed, but of offering a different form of employment to people reaching working age. There have, however, been instances in which the rapid growth of industry during recent years has brought about an actual transference of workers, with unfavourable consequences for agriculture.

Prebisch considered exports crucial for economic development as it would permit the import of techniques.<sup>118</sup> Due to multiplier effects, exports would also increase income and employment.

In his paper Prebisch analyzed economic development in the period 1870-1930. The productivity increases in these years did not lower the prices in the manufacturing sector in relation to the primary sector. While he expected, in line with his theoretical economic framework, that the prices of the manufactured products in the centre countries of the world capitalist system would fall in relation to those of the primary products in the periphery, this was not the case. Hence as Prebisch was not able to see further than his neo-classical economic point of view, his solution for the Latin American countries to overcome their unequal position in the world capitalist system was to try to compete with the 'advanced' countries. Development would take off when productivity would be increased.

#### **2.2.2.3.2. Celso Furtado**

In line with Lewis and Prebisch, also Furtado (1965: 18) focused on labour productivity increases. According to the Furtado (1965: 70), "a theory of development must have as a base an explanation of the accumulation of capital".

Furtado (1965: 64-65) believed that the accumulation process consisted of three parts: (i) the saving of resources; (ii) the incorporation of these resources in the productive process; and, (iii) the partial or complete appropriation of the increase in productivity

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<sup>118</sup> It is not Latin America that decides over its exports but the situation in the 'developed' countries (Amin, 1979: 273).

resulting from “the transformation of the investment in source of progress.” Investment theory was the “fundamental piece of the theory of development” (Furtado, 1965: 97).

Economic development was not possible without accumulation. Accumulation was conditioned by the political and economic system. In his work *Desarrollo y subdesarrollo*, Furtado (1965: 70) argues that “the accumulation process of capital cannot be explained through a purely abstract formulation, as it finds itself intimately tied to the system of the organization of production, the forms of distribution and the use of the income, or, to sum up, to the economic structure.”

The accumulation of capital and its transformation in investments would increase productivity. This increase would augment real income, increase wages and salaries, change the demand structure, and, subsequently, modify the production structure (Furtado, 1965: 82, 109; 1980: 125-126).<sup>119</sup> However, for productivity to increase not only new combinations of the available production factors at a certain known technological level should have to be introduced, but also technological innovations should be implemented (Furtado, 1965: 80). Economic growth of a ‘developed’ economy is, above all, “a question of the accumulation of new scientific knowledge” and the application of this knowledge (Furtado, 1965: 81).

A new combination of the existing production factors could be triggered by international commerce. The international demand for goods and services would increase income and create a surplus that would make the accumulation of capital possible.<sup>120</sup> The profits obtained in the “initial phase” might stimulate new investments. In the case this process of accumulation would lead to an increase of the rate of productivity that might help to further the accumulation process, the chain reaction of economic events would result in economic development. As a consequence, the ‘underdeveloped’ country would be lesser dependent on international commerce (Furtado, 1965: 85-86).

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<sup>119</sup> Furtado (1965: 83) explained that low productivity levels implied that the satisfaction of the fundamental necessities of the population absorbed a high proportion of national production. As a consequence, the surplus that might be used for investment purposes would be very low, or almost zero.

<sup>120</sup> With regard to income growth, Furtado (1965: 87-88) considered its distribution crucial as the concentration of income would stagnate economic growth. Furtado (1980: 126): “A high concentration of income meant the predominance of the consumption of luxury objects, which, when these came from manufacture industry, they necessarily had to be imported.”

The lack of capital in countries at the periphery of the world capitalist system made productivity increases very difficult. This also caused an inefficient use of labour. According to Furtado, to solve the shortage of capital it was not wise to import capital. In line with Lewis, the availability and the combination of the production factors and resources in an ‘underdeveloped’ country do not (necessarily) correspond to the demands of the technology that is being imported (Furtado, 1965: 179). In addition, the assimilation of the imported techniques would not only lead to growth but also to unemployment. The ‘underdeveloped’ countries were not able to solve this problem as they did not have their own industry (Furtado, 1965: 81-82).

### **2.2.2.3.3. Osvaldo Sunkel**

In his article “Política nacional de desarrollo y dependencia externa”, Osvaldo Sunkel (1968: 140-144, 156) analyzed four issues that impeded development and should be taken into consideration when elaborating a national policy of development: (i) the agrarian structure in Latin America is still for a big part traditional; (ii) the export structure is still largely concentrated in a few products; (iii) industrialization has not led to a reduction of Latin America’s external dependency. One of the central defects of the import substitution policies was the import of means of production, raw materials and consumption goods; and, (iv) the Latin American state was faced with structural financial problems as the costs of industrialization could not be financed by the limited tax base. As a consequence, the external debt tends to grow.<sup>121</sup> For all these reasons, Latin America is still very dependent on the countries in the centre of the world capitalist system.

Sunkel (1968: 152-153) does not consider that the industrialized capitalist countries might be willing to help the ‘underdeveloped’ world. It is not in the benefit of the industrialized capitalist countries to support the ‘underdeveloped’ countries. For instance, the demand of the ‘underdeveloped’ countries to eliminate the import tariffs for their products has a direct effect on the agricultural sectors of the ‘developed’ countries.

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<sup>121</sup> For an analysis of these issues, see also Kay (1989: 130-132).



The structuralists in general, and Sunkel is no exception, consider it possible to regulate capitalism. Industrialization is possible but problematic as it needs a big and homogenous market in order to avoid high costs and under-capacity (Sunkel, 1968: 166-167). Given the fact the majority of the Latin American population lives on a low income, Sunkel does not explain how this big and homogenous market can be established.

As we assume with Cypher & Dietz (2009: 273-274) that industrialization is “not simply the expansion of the industrial and manufacturing sectors that is critical to the pace and path of development” but should include “a quantitative and qualitative reorientation of the entire economic and social structure of a nation, of basic changes in the education level of the population, in what they know and can do, in business organization and in the population’s way of thinking about their relation to the world around them”, one might ask how these changes can be brought about within the boundaries of the capitalist mode of production and the corresponding class and power structure.

### **2.2.3. Theory of dependency**

In every work that critically examines the economic development of Latin American it is almost impossible not to find some references to the theory of dependency.<sup>122</sup> The study of the relations between the centre and the periphery are crucial for research on capitalist development in the countries at the periphery of the capitalist world system as “through the synthesis of the internal and external structures and mechanisms [...] we shall understand the particular form of development” (Ayres & Clark, 1998: 114). Marxist dependency theorist Marini (1969: 33) upholds that only a comprehension of the “evolution and the mechanisms that characterize the world capitalist economy provides the right framework to locate and analyze the problems of Latin America”.

The relation between the ‘developed’ and ‘underdeveloped’ countries has been the focus of the Marxist and non-Marxist variant of dependency theory. The fact that both emphasize the dominant influence of foreign powers on the national economy, might have

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<sup>122</sup> According to Veltmeyer (1980: 198ft1) dependency theory is not a theory but a model: “Strictly speaking, ‘dependency’ is not a theory but a model, a set of general propositions that direct analysis to a range of questions suggested by a Marxist theory of capitalist development but adapted to conditions not found in European history.” Johnson (1981: 111) considers dependency more a perspective than a theory.

led to an underestimation of the relations these forces uphold with their internal counterparts.<sup>123</sup> The weight that is attributed to external political and economic factors could even belittle the key social and economic positions ‘internal’ classes and groups occupy within society that mobilize against projects that point to a change of the rusted social structures of exploitation and oppression.<sup>124</sup> Dos Santos (1986: 362), representing the Marxist variant of dependency theory, however, points out that in order to understand the society of backwards countries within the world economy, one also have to specify “the character of the links that are established between the different internal and specific elements of the studied socioeconomic units and this world economy”. Poulantzas (1976b: 40), on the other hand, regards the process of imperialist domination and dependency to appear “as the reproduction, in the very heart of the dominated social formations, and under specific forms for each of them, of the relation of domination that it links to the imperialist metropolis”.<sup>125</sup> Magdoff (1969: 227) tells us that the material base of dependency is an industrial and financial structure that through the normal workings of the market reproduces the conditions of economic dependence. According to Kay (1989: 129),

both dependency positions<sup>126</sup> [also] share the view that underdevelopment, or the pattern of development of dependent countries, is the particular form capitalist development assumes in these countries. They also agree that dependency originated when these countries were forcefully incorporated into the world capitalist system by the dominant countries, and concur that, in order to understand the internal dynamics of the Third World countries, it is necessary to examine their relationships to the world capitalist system.

The theory of dependency is important for this dissertation as it contributes to clarify the political, economic and social dynamics of the relations between the countries in the centre of the world capitalist system and those at the periphery of the world capitalist system. According to Petras & Veltmeyer (2010: 74),

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<sup>123</sup> According to Cypher & Dietz (2009: 185), “dependency theory found the causes for the lack of development to be *external* to the socio-economic formations of the less-developed nations”.

<sup>124</sup> According to Janvry & Garramón (1977), “the center molds the dominated periphery so that the internal contradictions of accumulation in the periphery create necessary external relationships that are consistent with the necessities of the center. Through domination, external possibilities are induced to meet the necessities of the dominant center. In this fashion a single world-scale process of capital accumulation is able to produce development in the center and underdevelopment in the periphery” (Janvry & Garramón, 1977: 30).

<sup>125</sup> Poulantzas (1976b: 43): “[...] the mode of production of the metropolis is reproduced, under a specific form, in the very heart of the dominated and dependent formations.”

<sup>126</sup> These are the Marxist *dependentistas* and the non-Marxist *dependentistas* (see below).

a serious discussion of the prospects for socialism in Latin America today must take into account world economic conditions in the current conjuncture, the state of U.S.-Latin American relations relative to the project of world domination and imperialism, the specific impact on Latin American countries of these conditions and relations, the conditions deriving from the correlation of class forces within these countries, and the class nature and agency of the state relative to these forces.

In another work, they argue that the relation between what has been denominated as advanced and lesser developed countries is determined by the laws that govern the capitalist mode of production, its corresponding internal contradictions and the class struggle. This relation cannot be described as linear or static, but has to be considered as dynamic and changing (Petras & Veltmeyer, 2011b: 105).

The section on dependency theory is organized in five subsections. In subsection 2.2.3.1 we delve into the concept of dependency theory. In subsections 2.2.3.2 and 2.2.3.3 we describe the positions of the Marxist *dependentistas* and the non-Marxist *dependentistas*. Subsection 2.2.3.4 is dedicated to the new dependency theory, and in subsection 2.2.3.5 we present some Marxist criticisms on dependency theory.

### **2.2.3.1. Dependency theory: the concept**

Dependency theorists analyze dependent countries within the context of the world capitalist system. They consider dependent capitalist countries to be the product of world capitalist expansion. Hence the world capitalist system determines, in the last instance, the development of the 'underdeveloped' countries.

The *dependentistas* believe that underdevelopment is caused by capitalist development itself (Chilcote, 1974: 12-13). Frank (1966: 23): "We must conclude, in short, that underdevelopment is not due to the survival of archaic institutions and the existence of capital shortage in regions that have remained isolated from the stream of world history. On the contrary, underdevelopment was and still is generated by the very same historical process which also generated economic development: the development of capitalism itself."

The relations of dependency between the countries at the centre of the world capitalist system and at periphery find their expression in the relations of dependency that

we can find within the ‘underdeveloped’ countries. The “economic surplus of the countryside drains into urban areas” (Chilcote, 1974: 12).

The relation between the rural areas and the cities as well the relation between the ‘underdeveloped’ and the ‘developed’ country is described as a relation between the satellite (rural area, ‘underdeveloped’ country) and the metropolis (cities, ‘developed’ country). According to Cardoso (1972: 90), in countries such as

Argentina, Brazil, Mexico, South Africa and India there is an internal structural fragmentation, connecting the most ‘advanced’ parts of their economies to the international capitalist system. Separate although subordinated to these advanced sectors, the backward economic and social sectors of the dependent countries then play the role of ‘internal colonies’. The gap between both will probably increase, creating a new type of dualism, quite different from the imaginary one sustained by some non-Marxist authors. The new structural ‘duality’ corresponds to a kind of internal differentiation of the same unity.

The relation of dependency that arises from the particular relation between the centre and the periphery conditions the internal economic and social structure of the periphery. As pointed out by Bamberger (1985: 9-10), “dependency conditions the economic structure that engenders the parameters of the structural possibilities”. In the same line, Marini (1969: 33) writes that an understanding of “the evolution and the mechanisms that characterize the world capitalist economy, provides the adequate framework to locate and analyze the problems of Latin America”.

### **2.2.3.2. Marxist *dependendistas***

This section is dedicated to the principal ideas of two classic authors of the Marxist current of dependency theory. On the one hand we look into the work of André Gunder Frank, “The development of underdevelopment”, and on the other hand we delve into the book *Dialéctica de la dependencia*, written by Ruy Mauro Marini.

André Gunder Frank (1966: 19) describes the historical relation between processes of development and underdevelopment as follows:

Therefore, the economic, political, social, and cultural institutions and relations we now observe they are the products of the historical development of the capitalist system no less

than are the seemingly more modern or capitalist features of the national metropolises of these underdeveloped countries. Analogously to the relations between development and underdevelopment on the international level, the contemporary underdeveloped institutions of the so-called backward or feudal domestic areas of an underdeveloped country are no less the product of the single historical process of capitalist development than are the so-called capitalist institutions of the supposedly more progressive areas.

When providing the main features of the concept of the theory of dependency we have referred to the relation between the satellite and the metropolis. In his work, Frank provides us with an exact description of how the chain of dependency from the rural areas in an ‘underdeveloped’ country to the metropolis of the developed countries works. Frank (1966: 20):

Just as the colonial and national capital and its export sector become the satellite of the Iberian (and later of other) metropolises of the world economic system, this satellite immediately becomes a colonial and then a national metropolis with respect to the productive sectors and population of the interior. Furthermore, the provincial capitals, which thus are themselves satellites of the national metropolis—and through the latter of the world metropolis—are in turn provincial centers around which their own local satellites orbit. Thus, a whole chain of constellations of metropolises and satellites relates all parts of the whole system from its metropolitan center in Europe or the United States to the farthest outpost in the Latin American countryside (Frank, 1966: 20).

The ‘different’ satellites in global capitalism, serve as instruments “to suck capital or economic surplus out of its own satellites and to channel part of this surplus to the world metropolis of which all are satellites” (Frank: 1966: 20).<sup>127</sup>

The development of the ‘underdeveloped’ countries, according to Frank (1966: 23), is limited by their satellite status, as also are the subordinated metropolises to the world metropolis (Frank, 1966: 23). As a consequence, it may not come as a surprise that instead of proposing more relations with the ‘industrialized’ countries, Frank suggests a complete break. On the basis of his research, Frank (1966: 15, 23, 27) concludes that the source of a region’s underdevelopment is not its isolation and its pre-capitalist institutions, not due to a capital shortage, but its past and actual relations with the ‘developed’ countries. Frank

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<sup>127</sup> Frank (1966: 20-12): “[...] each national and local metropolis serves to impose and maintain the monopolistic structure and exploitative relationship of this system (as the Instituto Nacional Indigenista of Mexico calls it) as long as it serves the interests of the metropolises which take advantage of this global, national, and local structure to promote their own development and the enrichment of their ruling classes.”

(1966: 23): “[...] underdevelopment was and still is generated by the very same historical process which also generated economic development: the development of capitalism itself.”

Marini (1985: 27-29) argues that Latin America has been important for the development of world capitalism. In fact, Latin America itself has ‘caused’ the dominance of the ‘North’ as cheap food from Latin America diminished the value of labour-power in the ‘North’ and cheap raw materials reduced the value of constant capital. When the countries in the capitalist ‘North’ industrialized, fundamentally supported by Latin American supplies, capitalist development in these countries was starting to be primarily based on the production of relative surplus value instead of on the production of absolute surplus value. This is the secret of unequal exchange between the ‘North’ and the ‘South’ (Marini, 1985: 22-24).

The secret of unequal exchange is based on the unequal exchange of values. Some countries have a higher average rate of productivity than others and are able to appropriate more value than they have actually produced. When a country produces commodities that other countries do not possess, it enables this country to demand a price above the value of these commodities. This implies a transfer of value in the exchange process (Marini, 1985: 34-35).<sup>128</sup>

The unequal exchange between the ‘North’ and the ‘South’ obliges the capitalists from the ‘South’ to increase the rate of exploitation as the transfer of surplus value to the ‘North’ diminishes the possibilities of local capital to accumulate. This increase can only take place when the wage-labourer is paid below the value of his labour-power. This is what Marini calls super-exploitation. Nations that are disadvantaged by unequal exchange do not seek to correct the imbalance between prices and the value of their exported commodities, but rather intend to offset the loss of revenue generated by international trade through the recourse of mayor exploitation of their workers (Marini, 1985: 36-38).

Super-exploitation is not a consequence of unequal exchange, but unequal exchange is the consequence of the functioning of the capitalist system, i.e. the conversion of use

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<sup>128</sup> “The two mechanisms by which international trade results in surplus extraction to the benefit of the center are (1) unequal exchange whereby equilibrium production prices imply a transfer of value from disarticulated (cheap labor) to articulated economies and (2) unequal trade whereby domination of the center on the international market results in a monopolistic rent to its benefit that materializes in a discrepancy between production and market prices”(Janvry & Garramón, 1977: 36).

values in exchange values (Marini, 1985: 39). Super-exploitation has no ‘financial’ or ‘realization’ consequences or problems for locally working capitalists as “Latin American production does not depend for its realization on the internal capacity to consume” (Marini, 1985: 50). As circulation is separated from production, and circulation basically takes place in the external market, “the individual worker’s consumption does not interfere with the realization of the product, although determines the rate of surplus value” (Marini, 1985: 52).

### **2.2.3.3. Non-Marxist *dependentistas*: Fernando Henrique Cardoso**

Fernando Cardoso (1972: 94) does not think development to be contradictory to dependency. He believes that one cannot analyze the dependent countries as a whole as important differences between dependent countries exist. Some countries are included in the plans of productive investment of the corporations, reorganizing the international division of labour, and some are not.<sup>129</sup>

In his work with Faletto (1968: 196), “*Dependencia y desarrollo en América Latina*”, Cardoso tells us that economic stimuli or mechanisms that might constitute the beginning of an industrialization process can only sort effect when transformations have taken place in the international market or when the conditions have been created that favour development.<sup>130</sup>

Internal political and social factors can “produce policies that take advantage of the ‘new conditions’ or the new opportunities of economic growth” (Cardoso and Faletto, 1968: 196).<sup>131</sup> Development itself may produce a shift in the “internal power, displacing the

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<sup>129</sup> Cardoso & Faletto (1968: 193) argue that there exist a difference between ‘developed’ and ‘underdeveloped’ countries with regard to the “function or position within the same international economic structure of production and distribution”.

<sup>130</sup> The non-Marxist variant of dependency theory, however, or every economic current that also might be denominated as developmentalism, “never aspired”, according to Dos Santos (1986: 442), “to break with the hegemonic centre but to get a more prominent role and with relative independence in the international system to which these economies and societies were inextricably linked.” It is an “evident utopianism” (Dos Santos, 1986: 442).

<sup>131</sup> In regards to this point, Cardoso and Faletto do not distinguish from Prebisch (1949) who also considered it necessary to change the political structures of Latin American society, ultimately expressed in the objectives of the Alliance of Progress. Prebisch (1949): “Throughout most of Latin America, the characteristic lack of savings is the result, not only of this narrow margin, but, in many cases, of its improper

old oligarchical power groups and reinforcing more ‘modern’ types of political control” (Cardoso, 1972: 94), necessarily to further development.<sup>132</sup> However, and this shows a clear difference with the Marxist variant of dependency theory, “the stimuli of the international market depend on the ‘national policies’ with regard to the commodities to export” (Cardoso & Faletto, 1968: 214).

#### **2.2.3.4 New dependency theory: Theotonio Dos Santos**

The Marxist variant of dependency theory was developed in the 1960s and boosted in the 1970s. The original concept formulated by Frank and Marini was further developed, in particular, by Theotonio Dos Santos. According to Dos Santos (1986: 308), the conditions of underdevelopment “can only be understood from the point of view of the global development of the system”. Dependency is “a historical situation that shapes a certain structure of the world economy that favours the economic development of some countries over others in detriment of others and determines the development possibilities of the internal economies” (Dos Santos, 1986: 307).

The concept of “satellites” as has been used by Frank, we cannot find in Dos Santos’ work. The relation of dependency, as Dos Santos (1986: 307) explains, “conditions a certain internal structure that defines it in function of the structural possibilities of these national economies”. In addition, the ‘underdeveloped’ economy does not respond mechanically and automatically to world economy cycles. The internal structure of the ‘underdeveloped’ economy in combination with internal factors has distinct answers to the fluctuations in the world economy, regressive as well as progressive (Dos Santos, 1986: 381).

Dos Santos mentions three characteristics of dependency. Dependency is founded on the international division of labour that permits the industrial development of some countries and limits this for others. The countries that are not industrialized are subjugated

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use. Saving means refraining from consumption and is thus incompatible with certain types of consumption peculiar to relatively high income groups.”

<sup>132</sup> According to Mandel (1974: 169-171), only industrialization is possible when “the economic situation as a whole can create in these classes [who own the means of production, JL] a major interest to undertake industrial development”.



to the conditions of growth induced by the centres of world domination. The conditioned countries can only expand as a reflection of the expansion of the countries that condition this expansion. This expansion “can act positively and /or negatively on its immediate development”. This is the first characteristic of dependency (Dos Santos, 1986: 305-307).<sup>133</sup>

Dependency “conditions a certain internal structure that redefines it in function of the structural possibilities of the particular economies” and, as such “can only be understood from the point of view of the global development of the system”. This means that relations of dependency delimit the possibilities for the expansion of the dependent country (Dos Santos, 1986: 307).<sup>134</sup> This is the second characteristic of dependency.

The third characteristic of dependency refers to the “necessary articulation between the dominant interests in the hegemonic centres and the dominant interests in dependent societies” (Dos Santos, 1986: 308-309).<sup>135</sup> These interests are essentially common, although “internal conflicts exist between these dominant interests” (Dos Santos, 1986: 309).<sup>136</sup>

Dos Santos (1978: 49) considers dependence as an “intrinsic feature of the socioeconomic system of underdeveloped countries”. The “internal face”, as Dos Santos puts it, of domination by “one or more dominant centers” is, however, “not a consequence of external factors, but it is its own way —*the dependent mode*— to participate in this process of development of the capitalist world economy.<sup>137</sup> Dependence is therefore the specific mode of capitalist production in our countries.<sup>138</sup> [...] Dependence is the situation that conditions our development and gives it a specific way in the world context —of that of

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<sup>133</sup> According to Magdoff (1969: 227), the integration in the capitalist world market makes the countries that provide raw materials to distance from the path towards development as this requires independence. They also lose economic self-sufficiency and become to depend on their exports.

<sup>134</sup> Magdoff (1969: 227) explains that the industrial structures of raw materials exporting countries adapt themselves to the necessities of the importing countries. As a consequence, it reduces the possibilities of these countries to establish a diversified production structure.

<sup>135</sup> According to Dos Santos (1986: 309), “dominance is only possible when it finds support in the national sectors that benefit from it”.

<sup>136</sup> Furtado (1965: 224-225) considers those groups tied to the external sector “par excellence” economically and mentally dependent groups. Their level of autonomy is limited as the groups that control the world economy of raw materials “superimpose their interests to the ones of every exporting country”.

<sup>137</sup> On the same issue, see Poulantzas (1976b: 40, 43).

<sup>138</sup> Edelstein (1981: 197) argues that “dependent capitalist development is in no way “unnatural” or “distorted” in any absolute sense, since it is one locus of the process of world capitalist development”.

dependent capitalist development—. This development follows its own laws, conditioned by this situation that we have to discover in order to act consciously on our reality”.

### **2.2.3.5. Marxist criticisms on dependency theory**

The critique of Marxists on dependency theory has been concentrated on two issues. First of all, they criticize the *dependentistas* on the issue that their analyses take as a point of departure nations<sup>139</sup> instead of classes (Weeks, 1981: 122; Howe, 1981: 100; Friedmann & Wayne, 1977: 414).<sup>140</sup> Second, they considered it wrong to focus on circulation instead of production to determine the fundamental cause for underdevelopment.<sup>141</sup> Chilcote (1974: 14) formulates the Marxist critique on the Marxist *dependentistas*, especially on Frank, as follows:

First, there is the view that underdevelopment must be understood in terms of classes, that the description of class structure seems overly schematic. Second, dependency is considered as purely an external relationship imposed on Latin America from abroad rather than as an internal integral element of Latin American society. Third, Frank’s argument is static—it is necessary to demonstrate how the forms of dependency have changed in spite of its persistence. Fourth, the term dependency lacks specific and well-defined content, and it must be operational.

In his article titled “Imperialism and Dependency: Recent debates and old dead-ends” (1981), Munck resumes the criticisms of the communist parties on dependency theory. Munck (1981: 163):

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<sup>139</sup> For a critique on the issue of surplus-appropriation by countries, see Weeks & Dore (1979: 64).

<sup>140</sup> In his reply to Rodolfo Puiggrós (N/D) on the modes of production in Latin America, Frank (N/D: 76) noted that the internal and external colonial structure does not substitute the class structure but complements it.

<sup>141</sup> “Surplus product or surplus labor is appropriated by a class in production, and this process is technically described by the word exploitation. Exploitation is the appropriation of a part of the product of one class by another. To understand the origin of this surplus product, we must understand the conditions under which it arises — the social relations of production. However, the dependency theorists initiate their analysis after the barn door has been opened and the horse is in full gallop. By looking at surplus product in its circulation between countries, the analysis commences after surplus product has been produced and after it has been appropriated. Such a procedure is hopelessly crippled in its analytical power, for the analysis begins after all the major events are over. It is restricted to the realm of appearances.” (Dore & Weeks, 1977: 15)

Among its negative theoretical effects the following are listed: denying the development of capitalism as a system of social relations of production; denying the existence of a real class enemy, that is a real, strong bourgeoisie with its own class personality; making imperialism (understood always as the economic, political and cultural presence of the United States in the continent, and not as a phase in the development of capitalism) into the main enemy of the revolution without locating the anti-imperialist struggle in its correct context; seeing the struggle for socialism purely as the development of the forces of production (i.e., economism); exaggerating the specificity of local capitalism to the point of ignoring the operation of the laws which dictate the development of capitalism.

John Weeks is one of the main Marxist critics on dependency theory. In his article “The differences between materialist theory and dependency theory and why they matter” (1981), he formulates this critique as follows:

Materialists identify their theory of the world economy as “the theory of imperialism” which can be defined as the theory of the accumulation of capital in the context of the struggle among ruling classes. Derivative from this theory are (1) the analysis of the conflicts and cooperation between the ruling classes of advanced capitalist countries (which lead to inter-imperialist wars); (2) the conflicts and cooperation between advanced capitalist ruling classes and ruling classes of underdeveloped countries (“articulation” of modes of production); and (3) conflicts between ruling classes and oppressed peoples (“the national question”) (Weeks, 1981: 121).

The materialist theory of development is fundamentally different from dependency theory. According to Weeks (1998: 18), in the materialist theory “underdevelopment is the incomplete development of capitalism in a society”.<sup>142</sup> Dependency theory “concludes that countries are underdeveloped because of capitalist penetration, while materialist theory concludes that underdevelopment reflects the incomplete dominance of capitalist relations over precapitalist ones” (Weeks, 1998: 18ft41).

Another Marxist, Alonso Aguilar, criticizes dependency theory for its’, among others, “simplistic centre-periphery scheme”. According to Aguilar (1990: 146), the analysis should focus on the “principal contradictions of the process of accumulation and development” in the ‘underdeveloped’ economy. The centre-periphery scheme “makes the periphery appear as a passive entity and even merely reflects the centre”. Dependency theory does not permit to investigate the “changes of the internal structure and to the extent

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<sup>142</sup> Fernández & Ocampo (1974: 36) consider “Latin American backwardness” based on the “lack of capitalist development and the persistence of feudal forms in agriculture”.

that such changes condition and simultaneously are conditioned by the development of the system as a whole and by the structure of international economic relations” (Aguilar, 1990: 146-147).<sup>143</sup>

Petras & Veltmeyer (2006: 61-62) argue in their critique on the categories centre, semi-periphery and periphery used by Immanuel Wallerstein, that the centre-periphery scheme obscures “fundamental differences in class relations and the interests within every nation-state”. Hence the centre-periphery scheme is not able to determine (i) the distribution of resources and income; (ii) the property relations of the means of production; and, (iii) the living standards of the population. In addition, fourth, it does not contribute to an understanding of the political dynamics related to the differences in class relations and interests within each country.

The struggle for revolutionary social transformation in peripheral capitalist countries has not only to face foreign enemies, but also needs to confront internal adversaries. Although it is possible, as Chilcote (1974: 21) observes, that dependency theory offers a foundation for strategies to promote class struggle, though, for this to occur, the analysis of Marxist dependency theorists should focus on exploitation *within* countries as a consequence of the workings of the global capitalist system instead on relations of domination *between* countries. In his analysis of dependency, Dos Santos appears to assume this argument when he explains that although internal conflicts may exist between the interests of the internationally dominant forces and the interests of the dominated national rulers, essentially these are common interests (see above).

### **2.3. The capitalist state and the developmental state**

The role of the state in capitalist society has not diminished in the era of neoliberalism. Indeed, in the neoliberal conception of how the world ‘works’ the role of the state is not

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<sup>143</sup> Ayres & Clark (1998: 114) criticize the theory in the same line as Aguilar when they comment that the development or underdevelopment “cannot be understood solely in terms of external dependency or national autonomy. “[...] we need to study the specific form of capitalist development—the balance of power, the struggles and alliances between classes and the rate of accumulation—in concrete situations. It is through the synthesis of the internal and external structures and mechanisms that we shall understand ‘the particular form of development.’” On the same, see Cueva (1978: 43).

reduced to an absolute minimum, or is only considered as an organism that guides and regulates economic activity.

As has been demonstrated by the worldwide financial crisis that started to unfold in 2008, the state still seems very necessary, or as Serfati (2014: 147) puts it, the crisis “has reinforced the central role of public authorities in supporting TNCs in their home territory”. According to Wood (2002: 177), “global capital, no less than ‘national’ capital, relies on nation states to maintain local conditions favourable to accumulation as well as to help it navigate the global economy. It might, then, be more accurate to say that ‘globalization’ is characterized less by the decline of the nation state than by a growing contradiction between the global scope of capital and its persistent need for more local and national forms of ‘extra-economic’ support, a growing disparity between its economic reach and its political grasp”. Petras & Veltmeyer (2006: 66) argue that what is called globalization would not have existed without the intervention of the state. The markets would have been closed if it was not for the intrusion of the imperialist state through political threats and economic pressure, among others.

The emergence of transnational corporations (TNCs) does not mean that they do not have any ties with their territorial origins. According to Serfati (2014: 147), these corporations “are far from becoming ‘global’ in the sense of being disconnected from a territorial anchor, and remain quite dependent on their ‘home country’”. These corporations maintain significant links with their home countries through a variety of measures such as public funding of research and development, procurement, national ‘security’ and ‘sovereignty’ strictures, tax exemptions, and interpersonal and institutional links between corporations and specific branches of the state”.<sup>144</sup> Petras & Veltmeyer (2006: 77) argue that multinational corporations “work closely with their imperial states”.<sup>145</sup>

In this section we present the Marxist concept of the capitalist state and the concept of the developmental state. Both concepts are of interest to us. The Marxist concept of the capitalist state will shed light on its function for the development of the system. The

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<sup>144</sup> Serfati (2014: 150) emphasizes that capitalism cannot “abolish the national or the local, but makes for denser, overlapping sociospatial networks which remain dependent on national states to help arbitrate between the different scales of the circulation of capital”. Although currently this might be the case, we do not disregard the future possibility of regional states that take up the functions that are today still in the domain of the national states.

<sup>145</sup> For the same argument, see: Delgado Wise and Márquez Covarrubias (2011: 20).

concept of the developmental state might help us to increase our understanding of state-led development processes that were implemented in Peru in the 1970s and 1980s.

The section is organized in two subsections. In subsection 2.3.1 we resume the Marxist concept of the capitalist state and in subsection 2.3.2 we discuss the concept of the developmental state.

### **2.3.1. The Marxist concept of the capitalist state**

Marx and Engels' conception of the state included what later has been denominated as a structural and instrumental vision of the capitalist state. While the instrumentalist vision of the capitalist state has to do with the use of the state by the dominant class for its own interests, the structuralist vision is "derived from logical needs of the reproduction of capital" (Osorio, 2010: 78). The structuralist vision of the capitalist state, according to Katz (2013), "analyzed how the State ensures the objective reproduction of the system. It illustrated the essential role that this organism fulfills to weaken the resistance of the dominated and to facilitate cohesion of the rulers to recreate the economic conditions and the legal foundation that capitalism needs to function". The instrumentalist vision of the capitalist state, argues Katz (2013), does not help to understand the role of this institution in periods of stability. This vision provides only a starting point to study the issue, but needs to be complemented "by looking into the multiple and changing functions that performs the state in each stage of accumulation".

In relation to the utility of both theories, Gold, Lo & Wright (1977: 35-36) comment that the instrumentalist perspective tends to voluntarism when explaining the activities of the capitalist state. In the case of the structuralists, the authors consider that their analysis has almost completely eliminated conscious action. According to Poulantzas (1980: 143), "the Leninist expression of the state apparatus is not reduced to whatever "instrumentalist" concept of the capitalist state as an organ or instrument of power but situates, in the first place, the political superstructure according to its location, and its function, in a whole of structures".

In line with the structuralist theory of the capitalist state, in his *Origin of the family, private property and the state*, Engels (1974: 344) noted the following:

The state is therefore by no means a power imposed on society from without; just as little is it “the reality of the moral idea,” “the image and the reality of reason,” as Hegel maintains. Rather, it is a product of society at a particular stage of development; it is the admission that this society has involved itself in insoluble self-contradiction and is cleft into irreconcilable antagonisms which it is powerless to exorcise. But in order that these antagonisms, classes with conflicting economic interests, shall not consume themselves and society in fruitless struggle, a power, apparently standing above society, has become necessary to moderate the conflict and keep it within the bounds of “order”; and this power, arisen out of society, but placing itself above it and increasingly alienating itself from it, is the state.

The instrumentalist vision of the capitalist state can also be found in this work. Engels (1974: 346): “As the state arose from the need to keep class antagonisms in check, but also arose in the thick of the fight between the classes, it is normally the state of the most powerful, economically ruling class, which by its means becomes also the politically ruling class, and so acquires new means of holding down and exploiting the oppressed class. [...] and the modern representative state is the instrument for exploiting wage-labor by capital.”

A certain mix of the ‘structuralist character’ of the capitalist state and its instrumentalist function can be found in Engels’ *Herr Eugen Dühring’s Revolution in Science* (1878). Engels:

Society thus far, based upon class antagonisms, had need of the state, that is, of an organisation of the particular class, which was *pro tempore* the exploiting class, for the maintenance of its external conditions of production, and, therefore, especially, for the purpose of forcibly keeping the exploited classes in the condition of oppression corresponding with the given mode of production (slavery, serfdom, wage-labour). [...] As soon as there is no longer any social class to be held in subjection; as soon as class rule, and the individual struggle for existence based upon our present anarchy in production, with the collisions and excesses arising from these, are removed, nothing more remains to be repressed, and a special repressive force, a state, is no longer necessary.” And: “But with the differences in distribution, *class differences* emerge. Society divides into classes: the privileged and the dispossessed, the exploiters and the exploited, the rulers and the ruled; and the state, which the natural groups of communities of the same tribe had at first arrived at only in order to safeguard their common interests (e.g., irrigation in the East) and for protection against external enemies, from this stage onwards acquires just as much the function of maintaining by force the conditions of existence and domination of the ruling class against the subject class.

In *Socialism: utopian and scientific* (1880), Engels wrote: “And the modern state, again, is only the organization that bourgeois society takes on in order to support the external conditions of the capitalist mode of production against the encroachments as well of the workers as of individual capitalists. The modern state, no matter what its form, is essentially a capitalist machine — the state of the capitalists, the ideal personification of the total national capital.”<sup>146</sup>

In his work *Civil war in France* (1871a), Marx wrote the following regarding the instrumentalist function of the capitalist state: “At the same pace at which the progress of modern industry developed, widened, intensified the class antagonism between capital and labor, the state power assumed more and more the character of the national power of capital over labor, of a public force organized for social enslavement, of an engine of class despotism.”

### **2.3.1.1. The necessity of the capitalist state**

The necessity of the capitalist state emerged, according to Engels (1974: 347), “at a definite stage of economic development, which necessarily involved the cleavage of society into classes, the state became a necessity because of this cleavage”. Poulantzas (1969: 73) defined the necessity of the capitalist state in the following terms: “[...] the State is precisely *the factor of cohesion of a social formation and the factor of reproduction of the conditions of production of a system* that itself determines the domination of one class over the others [...]”.<sup>147</sup> In relation to this, in another work Poulantzas (1980: 241) states: “The capitalist state with hegemonic class leadership does not *directly* represent the economic interests of the dominant classes, but *their political interests*: it is the center of the political

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<sup>146</sup> Miliband (1983: 64): “The people in charge of the state have generally been strongly imbued with the belief that the ‘national interest’ was bound up with the well-being of capitalist enterprise, or at least that no conceivable alternative arrangement, least of all socialism, could possibly be more advantageous to the ‘national interest’; and they have therefore been particularly attentive to the interests of capitalist enterprise, whatever view they might take of capitalists. However, being attentive to these interests might well mean refusing to pay heed to capitalist wishes: very often, it was precisely because they wanted to ensure the best conditions for capitalism that they did things which ran counter to the wishes of capitalists.”

<sup>147</sup> “The state, which maintains the unity and the cohesion of a social formation divided into classes, concentrates and summarizes the class contradictions of the *whole of the social formation*, consecrating and legitimizing the interests of its dominant classes and fractions against the *other classes* in this formation, as well as assumes the class contradictions at world level” (Poulantzas, 1976b: 74).



power of the dominant classes as being the organizing factor of its political struggle.” And: “The state crystallizes [...] the *relations* of production and class relations. The modern political state does not translate at the political level the “interests” of the dominant classes, *but the relationship of these interests with those of the dominated classes*; it constitutes precisely the expression “politics” of the interests of the dominant classes” (Poulantzas, 1976a: 12-13).<sup>148</sup> Or: “[...] the state is not a thing but a *relation*, more *precisely the condensation of a relationship of force*” (Poulantzas, 1976b: 151).<sup>149</sup>

The function of the capitalist state to defend the global interests of capital does not mean that it directly operates against the interests of the dominated classes and social layers. Indeed, as Poulantzas (1980: 241-242) rightly points out, the capitalist state also guarantees, in a certain way, the economic interests of the dominated classes, “to the extent that this warranty is in agreement with the hegemonic dominance of the dominant classes, i.e. with the political constitution of the dominant classes in relation to this state, as representatives of the general interest of the people [...] compatible with its political interests, with its hegemonic domination”. However, as Adler (1982: 139) argues, although the capitalist state does not create exploitation “and therefore this cannot also be its objective”, it nevertheless “gives to this exploitation a particular form, precisely that of the legal form”.<sup>150</sup>

According to George Novack who wrote the foreword to Mandel’s (1969b) pamphlet titled “Marxist theory of the state” (Novack, 1969),

historical materialism takes a more realistic view of the nature of the state. The state is the product of irreconcilable class conflict within the social structure, which it seeks to regulate on behalf of the ruling class. Every state is the organ of a given system of production based upon a predominant form of property ownership, which invests that state with a specific class bias and content. Every state is the organized political expression, the instrument, of the decisive class in the economy.

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<sup>148</sup> See also Poulantzas (1976b: 147).

<sup>149</sup> “To conceive, thus, the state as a relation (more precisely as the condensation of a *relationship* of forces), is to avoid the *false dilemma* of the actual discussion about the state, between a state regarded as a *thing* and a state considered as a *subject*. As a *thing*: the instrumentalist conception of the state, useful passive in the hands of a class or fraction; as *subject*: the autonomy of the state, which in this case is considered as *absolute* [...]” (Poulantzas, 1976b: 151ff51). See also Poulantzas (1976b: 26).

<sup>150</sup> Wood (2000: 72) indicates that the ‘structure’, considered as the “production process and the production relations” is not only economic, but is also “embodied in legal-political and ideological forms and relations that cannot be relegated to a spatially separate superstructure”.

Mandel (1969b) himself wrote in this pamphlet that the

state is a special organ that appears at a certain moment in the historical evolution of mankind and that is condemned to disappear in the course of this same evolution. It is born from the division of society into classes and will disappear at the same time that this division disappears. It is born as an instrument in the hands of the possessing class for the purpose of maintaining the domination of this class over society, and it will disappear along with this class domination.

Finally, in his article “Historical materialism and the capitalist state”, Mandel (1980) tells us the following about the functions of the capitalist state:

The capitalist state must not only secure the external conditions, but also the social conditions of the capitalist mode of production. That is, it must also create those general conditions for production proper which the “functioning capitalists” cannot produce themselves, either because it is not profitable for them to do so, and because of the prevailing competition among private capitals.<sup>151</sup> Capitalism presupposes social production and social exchange. [...] The link between the “external” (social) and the “economic” (general) conditions is formed by those state functions that fall under the general heading of “administration”. Included here are not only the administration securing law and order and the protection of private property, but also the police and military apparatus protecting the bourgeoisie from “internal and “external” enemies as well as all of the administration concerned with other public services, such as the infrastructure proper (e.g. the public health system, which, given the raw poverty of the early proletariat was essential to protect the bourgeois class in the large cities from the danger of epidemics).

### **2.3.1.2. The (relative) autonomy of the capitalist state**

In the 1970s, an important discussion broke out between Poulantzas and Miliband regarding the (relative) autonomy of the capitalist state. However, it was Friedrich Engels who first put this on the Marxist agenda. In his *Origin of the family, private property and the state*, Engels (1974: 346) wrote: “Exceptional periods, however, occur when the

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<sup>151</sup> According to O’ Connor (2001: 175-178, 195), and by referring to Marx, the conditions for production are labour-power (“personal condition of production”), land (“natural condition” of production or “physical external condition” of production) and the physical infrastructure such as the means of communication and transport (“common and general conditions” of production). Spence (2000: 89) does not agree with O’ Connor that Marx has used the concept “conditions of production” in the way O’ Connor ascribes to it. “The only sensible conclusion that can be drawn from this is that in the course of his work Marx used the phrase ‘conditions of production’ to carry a variety of meanings, dependent on context.

warring classes are so nearly equal in forces that the state power, as apparent mediator, acquires for the moment a certain independence in relation to both.”

The discussion on the (relative) autonomy of the capitalist state was in particular about in relation to what this (relative) autonomy did or did not exist, i.e., (relative autonomy) in relation to the dominant class in general or (relative) autonomy in relation to parliamentary decision-making. It seems that Miliband considers the (relative) autonomy in both cases.

Miliband (1983: 61) argued that the (relative) autonomy of the capitalist state depends, above all, on the class struggle. In the case the dominant class was “truly hegemonic in economic, social, political and cultural terms”, the autonomy of the capitalist state would be restricted. When, however, the “hegemony” of the dominant class was being challenged, “in conditions of intense class struggle and political instability”, it might “emancipate itself from constraining constitutional checks and controls”. The increase of this autonomy had the purpose to better “protect and serve the existing social order and the dominant class which is the main beneficiary of that social order” (Miliband, 1983: 62). Miliband also considered the state apparatus as a force that was separated from the dominant class. Miliband: (1983: 65):

In short, an accurate and realistic ‘model’ of the relationship between the dominant class in advanced capitalist societies and the state is one of *partnership between two different, separate forces*, linked to each other by many threads, yet each having its own separate sphere of concerns. The terms of that partnership are not fixed but constantly shifting, and affected by many different circumstances, and notably by the state of class struggle. It is not at any rate a partnership in which the state may be taken necessarily to be the junior partner. On the contrary, the contradictions and shortcomings of capitalism, and the class pressures and social tensions this produces, require the state to assume an ever more pronounced role in the defense of the social order.

Poulantzas view on the (relative) autonomy of the capitalist state grows out of his structuralist vision of the capitalist state. Poulantzas (1980: 370-371) considers the (relative) autonomy of the capitalist state to be based on the fact that “the bourgeoisie, by its constitution and its place in the class struggle” is not able to “erect itself through their own political parties at the hegemonic level of organization”. The inability to “realize its internal unity” due to their individual private interests and fraction struggle on the one hand

and the struggle of the bourgeoisie against the dominated classes and the particular difficulty it has to realize its political hegemony with respect to these classes on the other hand, causes the (relative) autonomy of the capitalist state.<sup>152</sup> This relative autonomy, however, does not mean that the capitalist state functions separately from the political interests of the bourgeoisie. The (relative) independence or autonomy of the capitalist state is born (i) out of its function as the “political organization of the dominant classes”; (ii) out of its function as a factor for the political reorganization of the working class, to impede that the working class organizes itself in an autonomous political organization; and, (iii) out of its particular function with respect to “certain classes of non-dominant modes of production in the capitalist formation, but are affected by the super determining isolation of the dominant capitalist mode of production”, for instance the peasantry (Poulantzas, 1980: 374). In sum, the fact that the capitalist state has a relative autonomy with respect to the dominant classes is “precisely insofar as it constitutes a unique and exclusive political power” of the dominant classes (Poulantzas, 1980: 376-377).

The importance to determine in relation to what (relative) autonomy exists or does not exist becomes clear in what Mandel has to say about this matter. Mandel believes that in times of political instability, “when the very survival of capitalism is at stake”, i.e. in periods of “intense class struggle to speak with Miliband, “then the big capitalists suddenly govern in the most literal sense of the word. At that point, every semblance of “autonomy” of the capitalist state vis-à-vis business disappears completely.”<sup>153</sup> The loss of autonomy by the capitalist state refers to its relation to the dominant class in general.<sup>154</sup>

In his text “Clases sociales y crisis política en América Latina”, Mandel (1982: 4) explains that “only in times of acute crisis, the bourgeoisie is forced to seek its salvation in greater autonomy of the state apparatus, i.e. in Bonapartist and fascist dictatorships”. The increase of the autonomy of the capitalist state refers to the bourgeois democratic system of check and balances. In the same line of thought, Petras (1982: 416) argues that in times of

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<sup>152</sup> On the same argument, see Mandel (1982: 4; 1988: 350). Durand & Contreras (1988: 84) argue, in some sense in line with Poulantzas, that the state ‘acquires’ its highest level of autonomy when the different class fractions within the bourgeoisie are equally politically powerful. The state turns into a referee of the ‘battle’ between class fractions.

<sup>153</sup> On this, see also Mandel (1988: 351).

<sup>154</sup> It must be remembered that Milliband considered this autonomy to increase in times of “intense class struggle”.

“revolutionary upheaval” the peripheral state has expanded beyond what appears as “economically rational”.<sup>155</sup>

We agree that the capitalist state has a (relative) autonomy in relation to the dominant and dominated classes. However, we do not think that the capitalist state and the dominant class belong to two separate spheres of concern. In this sense, it seems that Miliband comes very close to the advocates of civil society discourse who believe that there exist a gap and even contradictory interests between the capitalist state and society. In civil society discourse the capitalist state is considered autonomous and politics and economics are conceived as two different spheres of action. We also do not neglect that the capitalist state bureaucracy has particular interests that might come in conflict with the owners of the means of production and that the specific policies of state organisms are an expression of the correlation of class forces or, as Zeitlin (1980: 25) argues, a “response to changes in the balance of forces, within and between classes”, however, Miliband does not consider the spheres of action of the capitalist state and the dominant class as intertwined or interrelated but separated. The capitalist state and the dominant class relate to each other as equal partners. This does not mean that we consider, as Miliband (1976: 59) rightly criticizes, “the economic elite of the advanced capitalist countries” to be a “governing” class, comparable to the aristocratic classes and the landowners in the pre-industrial era.” Just like Poulantzas (1976b: 172), we think there exist a difference between the hegemonic fraction and the governing fraction.

### **2.3.1.3. The class composition of the capitalist state and the bloc in power**

The capitalist state is not a homogeneous entity. It is composed of different classes and fractions. As Poulantzas (1973) has pointed out, “the terrain of political domination is not occupied by the hegemonic class or fraction alone but by an ensemble of dominant classes or fractions”. According to Mandel (1969b), “the state apparatus is not a homogeneous

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<sup>155</sup> Petras (1982: 416): “The peripheral state apparatus grows out of the *logic of the imperial state* (adopting modern military technology to repress petty commodity producers) *in relationship to the development of the class struggle*. The uneven growth of technology, between military and economy, characteristic of many Third World countries, can only be understood not in terms of the logic of the state or by some mystical bureaucratic imperatives within the state, but by the crises in class relations: the loss of hegemony by the dominant classes over the labour force.”

instrument. It involves a structure that rather closely corresponds to the structure of bourgeois society, with a hierarchy of classes and identical differences between them". Zeitlin (1980: 26) argues that the (democratic) state is "ordinarily an arena for struggle between special interests, spheres of influence, interest groups, and distinctive segments of the capitalist class itself, as well as between it and labor and other subordinate social elements. To this extent, the relative autonomy of the state derives from these plural intra-class conflicts, as well as from its place within class relations as a whole". In the specific case of the capitalist state at the periphery of world capitalism, the state apparatus is not only composed of the local dominant class fractions but also, according to Evers (1987: 81-82), of a fraction of the "external bourgeoisie".

The presence of different classes and fractions within the capitalist state does not mean, as explained by Poulantzas (1973), "that the capitalist state is an ensemble of separate parts, expressing a 'share-out' of political power among the various classes and fractions. On the contrary, over and beyond the contradictions within the apparatuses, the capitalist state always expresses a *specific internal unity, the unity of the power of the hegemonic class or fraction*". The hegemonic fraction of the dominant class constitutes its economic interests in political interests "that represent the common general interest classes or fractions of the bloc in power" (Poulantzas, 1980: 175).<sup>156</sup>

The hegemonic class fraction within the capitalist state apparatus can be determined on the basis of an analysis of the power relations within this apparatus (Poulantzas, 1973), i.e. of an analysis of the bloc in power. The bloc in power

constitutes a contradictory unity of the *dominant* classes or fractions, a unity dominated by the *hegemonic* class or fraction. The unity of the bloc in power is constituted under the aegis of the hegemonic class or fraction that politically *polarizes* the interests of other classes or fractions that are part of it. [...] *Political unity of the bloc in power under the aegis of the hegemonic class or fraction means, thus, a unity of state power, in its connection with the specific interests of that class or fraction* (Poulantzas, 1980: 388-389).

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<sup>156</sup> "Within the class, a specific segment may gain political ascendancy, thereby not only representing the class as a whole, but transforming *its* interests into *class* interests. In this sense, it becomes the dominant or 'hegemonic' segment of the class." (Zeitlin, 1980: 26)

### 2.3.2. The developmental state

The concept of the developmental state is intimately linked to the development economists in general and the structuralists of ECLAC in particular, and, of course, to the economic development of the South-East Asian nations after the Second World War, especially to the “Japanese miracle” (Johnson, 1982). Arthur Lewis, for instance, favoured a major role of the state in economic processes. State expenditures should be productive in the sense that these should help to increase investments and national income (Lewis, 1955: 265). As the free functioning of the market forces did not conduce to development in the ‘underdeveloped’ economies and industrialization was essential, the state was called in to intervene (Pérez Caldentey, 2008: 42). A “noteworthy feature of late developments”, according to Chibber (2003: 14), was the focus of the state not on “*managing the effects of accumulation*” but on “*accelerating its pace*”. In the case of the Japanese developmental state, the role of the state was to facilitate the development of the nation. This meant not to regulate capitalist development, but to set the conditions that this development would be possible.<sup>157</sup> By referring to his work *MITI and the Japanese miracle. The growth of industrial policy, 1925-1975* (1982), Johnson (1999: 37) tells us the following with regard to the developmental state, state intervention and state regulation in Japan:

The issue is not of state intervention in the economy. [...] The United States is a good example of a state in which the regulatory orientation predominates, whereas Japan is a good example of a state in which the developmental orientation predominates. A regulatory, or market-rational, state concerns itself with the forms and procedures—the rules, if you will—of economic competition, but it does not concern itself with substantive matters. A state attempting to match the economic achievements of Japan must adopt the same priorities as Japan. It must first of all be a developmental state—and only then a regulatory state, a welfare state, an equality state, or whatever other kind of functional state a society may wish to adopt.

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<sup>157</sup> In order to “calling forth and enlisting for development purposes resources and abilities that are hidden, scattered, or badly utilized”, Chang (1999: 194) argues, by referring to Hirschman’s *The strategy of economic development* (1958), that “the problem facing a state promoting development is not only that of identifying and moving to an optimal state in a given “choice set” but also that of formulating the “choice set” itself. As there are certain decisions that can be made sensibly only at the national level, the state as the sole agent that has the potential (if not the actuality) of representing the national interest, has to formulate the choice sets required for those decisions by providing a “vision” for the future of the economy”.

The ECLAC economist Esteban Pérez Caldentey (2008: 28) has defined the concept of the developmental state in the following terms: “The term *developmental state* refers to a state that intervenes and guides the direction and pace of economic development”. Johnson (1999: 60) defined the developmental state as follows:

[...] it is equally important to stress, as I did in the earlier discussion of industrial policy versus de market, that regardless of the cultural or nationalistic norms that may prevail in either the state or civilian enterprises, both entities need each other. [...] The concept “developmental state” means that each side uses the other in a mutually beneficial relationship to achieve developmental goals and enterprise viability. When the developmental state is working well, neither the state officials nor the civilian enterprise managers prevail over the other.

The functions of the developmental state are mainly to improve the working of an economy based on the private ownership of the means of production. As Chang (1999: 92) tells us, the developmental state “takes the goals of long-term growth and structural change seriously, “politically” manages the economy to ease the conflicts inevitable during the process of such change (but with a firm eye on the long-term goals), and engages in institutional adaptation and innovation to achieve these goals”. The developmental state alters market incentives, offers entrepreneurial visions, manage conflicts (Johnson 1999: 48) and builds institutions, necessary for the implementation of the mentioned entrepreneurial vision of the state (Chang, 1999:195).

The developmental state is a capitalist state as it intends to improve the workings of capitalism. The relation between the developmental state and capital becomes crystal clear in the case of the policies of Import Substitution Industrialization (ISI). According to Chibber (2003: 34),

capitalists [...] had an interest in supporting the subsidizing side of ISI, while strenuously opposing the state’s power to regulate and monitor the flow and utilization of investment. [...] Since their preference is for the state to offer its assistance, but without the right, or the ability, to make demands on them [...] This is not to say that they will oppose state intervention in the economy; after all, the offer of subsidies and protection can hardly be regarded as an instance of *laissez faire*. The opposition will be to a particular *kind* of intervention, one that seeks to regulate the flow and disposition of investment. The political consequences of ISI, therefore, are that capitalists will support the idea of planning as state subsidization of industry but not the project of building the institutional base for a *disciplinary* planning regime”.



The functionality of the developmental state for capital can furthermore be demonstrated when we review the economic development of Japan in the 1950s and 1960s and take notice of the essence of its industrial policy.

The economic development of Japan after the Second World War is directly related to the development and the implementation of an industrial policy by its Ministry of International Trade and Industry. Industrial policy, according to Johnson (1999: 48), is not “an alternative to the market but what the state does when it intentionally alters incentives within markets in order to influence the behavior of civilian producers, consumers and investors”.

The key policy of the Japanese developmental state was industrial policy. Industrial policy concerns the structure of domestic industry and the promotion of a structure “that enhances the nation’s international competitiveness” (Johnson, 1982: 19). This policy had two basic components: industrial rationalization policy and industrial structure policy. The first policy meant “state intrusion at the micro level”, i.e. intrusion into the” detailed operations of individual enterprises with measures intended to improve those operations (or, on occasion, to abolish the enterprise)”. The second policy was focused on the macro level. It pointed to changing the weights of the different economic sectors in the economy and in the case of the manufacturing sector to influence the proportions of the light and heavy industries as well as the labour-intensive and knowledge-intensive industries (Johnson, 1982: 27-28). “The heart of the industrial structure policy”, as Johnson (1982: 28) explains, “is the selection of the strategic industries to be developed or converted to other lines of work”.

The developmental state is not necessarily a democratic state. The objective is to accumulate capital, to increase productivity and to augment national income, by any means necessary. This is very well formulated by Schneider (1999: 303): “In other words, authoritarianism and the desarrollista state may have an elective affinity because democracy so upsets the interaction among the four components: democratic conflict makes developmentalism contentious, political capitalism exacerbates polarization in a democracy, and political competition cripples the appointive bureaucracy.” The example of the Japanese developmental state with regard to a successful implementation of an industrial policy can shed further light on the democratic standards of the developmental

state. According to Johnson (1999: 53), “the source of authority in the developmental state is not one of Weber’s “holy trinity” of traditional, rational-legal, and charismatic sources of authority. It is, rather, revolutionary authority: the authority of a people committed to the transformation of their social, political, or economic order. Legitimation occurs from the state’s achievements, not from the way it came to power”.

In their article, “The ‘Development State’ in Latin America: Whose development, Whose State?”, Petras & Veltmeyer (2007) discuss, among others, the role of the state in relation to the development process. In regards to the concept of the development state, these authors argue that it

came to prominence [...] in response to two problems endemic to the ‘economically backward’ societies of the developing world. First, the perceived absence or weakness of a capitalist class loath to invest its capital productively. And second, the need for the ‘advanced’ capitalist states that dominated the world order to ensure that the developing countries, many of which were engaged in a struggle for national liberation, would not succumb to the lure of communism, instead taking a capitalist path on the road to independence and nation-building.

The concept of the developmental state should be discussed and theorized in the context of the capitalist state in the countries at the periphery of the capitalist world system. The experiences of the developmental state in Asia cannot be copied as it was implemented in very specific historical and geopolitical circumstances.

The power of the hegemonic fraction of the bourgeoisie in the capitalist state apparatus or its dominant influence in organs of government is conditioned by the imperialist centre. According to Poulantzas (1976b: 40), “the organization of class relations and the state apparatuses in the dominated and dependent formation reproduces in its heart the structure of the relationship of domination and thus specifically expresses the forms of domination that characterize the class (or the classes) in power in the dominant social formation (or formations).” Hence the bourgeoisie of the peripheral countries are unable to pursue a political course independent from the centre. Furthermore, the relative autonomy of the national bourgeoisie in the political and ideological structure depends on the type and level of its contradictions with imperialist foreign capital (Poulantzas, 1976a: 67).

The internal political situation of a country is not a mere reflection of external factors. This means that although transnational capital might dominate the political and economic course of its government, it does not signify that there is no part to play for the representatives of national capital or what might be called the national bourgeoisie.

The role of the capitalist state in the economy differs between the countries of the 'North' and the 'South'. In the 'advanced' capitalist countries it (i) contributes to the conquest of foreign markets and the protection of their own internal markets; (ii) puts pressure on the countries in the 'Third World' to 'denationalize' their companies in order to permit the multinationals that originate in the 'North' to acquire these; and (iii) generates the political and economic conditions for 'their' multinationals to move around the globe (Petras & Veltmeyer, 2006: 21-22, 56). The capitalist state at the periphery of the capitalist world system primarily executes the economic and ideological functions that are indispensable for the enlarged reproduction of multinational capital or, as Evers (1987: 97) puts it, in the context of a situation of dependency on the world market the basic function of the capitalist state in the periphery is to guarantee the general conditions of reproduction. In concrete terms this implies guaranteeing the very existence and expansion of the interests of foreign capital in the peripheral country.

In regard to the relation between transnational capital and national capital, González Casanova (2006: 225) explains that the role of national capital in the capitalist countries at the periphery, within the global capitalist system, is reduced to principally the exports of raw materials, occupying a place as intermediaries in the metropolis of the countries of the 'South'.<sup>158</sup> According to Marini (1969: 36), "the development of the main export sector tends, in these countries, to be secured by foreign capital through direct investments, leaving the national ruling classes to control secondary export activities or the exploitation of the internal market". Durand & Contreras (1988: 94-95) point out that strictly spoken there is no national bourgeoisie anymore as the 'national bourgeoisie' is associated with other bourgeoisies. Although it might appear that some of the national bourgeoisies in Latin America are dominant and hegemonic, these are the ones that own economic branches "that

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<sup>158</sup> Mandel (1975: 77-78): "The economy of the colonial and semi-colonial countries becomes the complement of the capitalist economy in the metropolitan countries, and it only develops at the limits of this function."

command the worldwide economic process” and whose location is multinational. Bourricaud (1988: 336), in the case of Peru, states that the relations between the local oligarchy and the international ruling class are complex and connected, but at the same time the local oligarchy has room to make autonomous decisions.<sup>159</sup>

## **2.4. Conclusions**

The laws that ‘govern’ capitalist development in Peru should be considered as specific laws. Peru is a country at the periphery of the world capitalist system. Hence its development is, for a large part, determined by developments in the countries at the centre of the system. Although the centre conditions the development in the periphery, ‘underdevelopment’ in countries such as Peru may fortify capitalist development in the centre. The relations between the centre and the periphery might be expressed in the particularities of capitalist development in Peru.

The Marxist variant of the theory of dependency is important for an understanding of the relations between Peru and the ‘advanced’ capitalist countries on the one hand, and between the Peruvian bourgeoisie and the bourgeoisie in the centre on the other hand. We consider Ruy Mauro Marini and André Gunder Frank important authors for the elaboration of this dissertation.

The theory of dependency is criticized for (i) its emphasis on external factors to explain ‘underdevelopment’ in the periphery; (ii) its focus on countries instead of on classes, and, (iii) its concentration on the circulation sphere instead of on the production sphere. It might even be argued that the focus on the role of capitalist development in the ‘advanced’ capitalist countries, imperialism and the weight that is given to the dominant fractions of the international bourgeoisie, has led to an underestimation of the importance of political, economic and social developments within the dependent capitalist countries and of the native bourgeoisie in particular.

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<sup>159</sup> Mandel (1988: 358) supports the position of Bourricaud when he argues that it surely is possible for “small bourgeois states” to defend the interests of its own bourgeoisie against imperialist capital, however, it does not mean that this defense is efficient.

The critique of Marxists on dependency theory has led Dos Santos to elaborate on a revision of this theory. Although Dos Santos upholds that external factors, in the last instance, determine the ‘development of underdevelopment’ in the countries at the periphery, however, more than for instance Frank, he emphasizes the fact that the interests of the native bourgeoisie might come into conflict with the international bourgeoisie. He also acknowledges that the internal structure of the dependent capitalist country is an important factor that helps to explain dependency. Dos Santos is essential for the understanding of the workings of international factors on the internal structure of a dependent capitalist country.

A Marxist analysis of capitalist development in Peru should be guided by a theory that helps to explain the determinant instances of capitalist development in Peru and the relations between the political, economic and social spheres of capitalist development. We consider historical materialism the principal guide for our study of capitalist development in Peru.

The determinant instance of societal development is the mode of production. The primacy of the mode of production is given by the primacy of the production and reproduction of material life by individuals. We consider Godelier’s definition of the mode of production, a combination of the productive forces and the social relations of production, most adequate for this dissertation. The production relations are the determinant instance in this relation. Only changes in the production relations can explain the particular development of the productive forces.

The development of the mode of production of a given society is limited by the relation between the productive forces and the social relations of production. Changes between these “structures” cause modifications in the mode of production. The relation between the productive forces and the production relations are dialectical relations.

Society’s economic base determines, in the last instance, society’s superstructure. Society’s economic base consists of the whole of the social relations of production and the productive forces. The relation between the economic base and the superstructure is a dialectical relation. All elements that compose the superstructure react upon each other and upon the economic base. As Engels wrote, “it is not that the economic position is the *cause and alone active*, while everything else only has a passive effect. There is, rather,

interaction on the basis of the economic necessity, which *ultimately* always asserts itself". For the understanding of the elements that compose a mode of production and their interrelations, for the comprehension of the primacy of the mode of production for societal development and for the relation between society's economic base and superstructure, Marx, Engels, Althusser, Godelier, Carchedi, Callinicos, Poulantzas and Mandel are our principal references.

The labour theory of value is fundamental for a Marxist analysis of capitalist development. In general terms, the law of value regulates the exchange of commodities according to the quantity of socially necessary abstract human labor embodied in the commodities and it 'organizes' the distribution between the different branches of production of the whole of available working hours in society. Since the labour theory of value 'helps' to determine the surplus value produced, this theory is the point of departure for the analysis of capital movements in search for the highest rate of profit. A worldwide law of value exists because competition and capital movements are not restricted to the national sphere. Competition takes place between oligopolies.

The production of surplus value is a pre-condition for the development of capitalism. The appropriation of surplus value is indispensable for the accumulation of capital. The objective of the capitalist production process is to accumulate capital. As Marx wrote, "with the accumulation of capital, therefore, the specifically capitalist mode of production develops, and with the capitalist mode of production the accumulation of capital".

The accumulation of capital is the motor of capitalist development. It is also the cause of economic slowdown and crisis. This brings us to the three general laws of capitalist development:

- 1) The organic composition of capital has a tendency to increase.
- 2) The average rate of profit has a tendency to fall.
- 3) The capitalist economy tends to overproduction.

The laws that 'govern' capitalist development are intimately related to the principal contradiction of the capitalist economy, i.e. the contradiction between the increase of productivity and the decrease of value embodied in the commodity. It is the proper development of capitalism and its proper laws that cause recurrent economic crisis. The necessity of capital to accumulate forces it to increase the appropriation of absolute and/or relative surplus value.

The increase of the relative surplus value is caused by an increase of productivity that, finally, leads to an overproduction crisis. The increase of the absolute and relative surplus value triggers the realization crisis.

The capitalist is not interested in the rate of exploitation but in the rate of profit. Although the capitalist produces to appropriate surplus value, it is also the proper production process that enables it to appropriate surplus value that is produced elsewhere. The more productive capitalist produces less value but is able to appropriate more value because he or she is more competitive. The profit rate is influenced by the following nine factors:

- 1) An increase or decrease of the rate of the surplus value.
- 2) An increase or decrease of the mass of surplus value.
- 3) An increase or decrease of the price of constant capital.
- 4) An increase of the world market.
- 5) The strength or weakness of trade unions.
- 6) The strength or weakness of employer's organizations.
- 7) State actions that might benefit the workers or capital.
- 8) The export of capital.

## 9) The formation of monopolies.

The capitalist economic system is a dynamic system, induced by the necessity to accumulate. The system tends (i) to the concentration and centralization of capital in a few hands (ii) to the monopolization of the national economies; and, (iii) to internationalization. The internationalization of capital, or what is called globalization, is currently the principal trend of capitalism. The reasons for the internationalization of capital are the following:

- 1) Capital does not generate the average rate of profit in its 'native' country.
- 2) Possibilities of expansion are exhausted in capitals' country of origin.
- 3) Capital has to assure the free flow of natural resources and the provision of a cheap labourforce.
- 4) Capital has the urgent and structural need to reduce the value of constant and variable capital in the 'developed' countries in order to increase the relative surplus value and to stop the tendency of the profit rate in the centre countries from falling.
- 5) Capital must enlarge the market for its goods and services in order to assure the realization of the produced value and surplus value on an expanded scale.

For the analysis of the dynamics of capitalist development in general, we principally use Marx, Althusser, Kliman, Lenin, Mandel, Amin, Sweezy, Baran, Carchedi, Petras and Veltmeyer. Notwithstanding that we do not fully agree with all these authors, however, we consider them our key references.

The analysis of capitalist development cannot be limited to society's economic base. It necessarily has to include the superstructure, and especially the state apparatus. Poulantzas is the main reference for our analysis of the role of the state in capitalist society.

The role of the capitalist state in society can be analyzed on the basis of a structural and/or instrumental vision of the state. We consider, with Lenin, the capitalist state as well



as the consequence of the contradictions between classes and within classes, between fractions of classes (structuralist theory of the capitalist state), as an instrument in the hands of the dominant class (instrumentalist theory of the capitalist state).

In general terms, the function of the capitalist state is to defend the global interests of capital. However, this does not mean that it directly operates against the interests of the dominated classes and social layers. Poulantzas argued that the capitalist state also guarantees, in a certain way, the economic interests of the dominated classes, “to the extent that this warranty is in agreement with the hegemonic dominance of the dominant classes, i.e. with the political constitution of the dominant classes in relation to this state, as representatives of the general interest of the people [...] compatible with its political interests, with its hegemonic domination”.

The capitalist state has a (relative) autonomy versus the dominant and dominated classes. This autonomy does not imply that the economic base and the superstructure belong to two different spheres of concern. We agree with Poulantzas who says that the inability to “realize its internal unity”, due to their individual private interests and fraction struggle on the one hand and the struggle of the bourgeoisie against the dominated classes and the particular difficulty it has to realize its political hegemony with respect to these classes on the other hand, causes the (relative) autonomy of the capitalist state.

The capitalist state is composed of different classes and class fractions in which the power corresponds to the hegemonic class fraction of the dominant class. It is this fraction that constitutes its own economic interests into the political interests of the bloc in power. This bloc, Poulantzas argues, “constitutes a contradictory unity of the *dominant* classes or fractions”.

Development economists consider that the causes of ‘underdevelopment’ can be found in the economic and social structure of the ‘underdeveloped’ countries. Although they are aware that the dominance of certain ‘archaic’ classes may impede development and they believe that their ‘rule’ is grounded in the internal economic structure of the ‘underdeveloped’ countries, they do not seem to relate the dominance of these classes to their functionality for the worldwide capitalist system. Development economists tend to criticize the international division of labour, however, instead of broadening and deepening their scope of criticism to the workings of capitalism itself, development economists

propose policies that help the ‘underdeveloped’ countries to better adapt to the international division of labour imposed by the countries at the centre of the world capitalist system.

Development economists and Latin America structuralism think that a ‘correct’ or ‘classic’, capitalist development will lead to social welfare for all. Their analysis is not based on a class analysis of society and the contradictions between classes expressed in class struggle are not considered to be the motors of societal development. Development economists and the Latin American structuralists and neo-structuralists are focused on capitalist social transformation and class reconciliation. The state should provide the political, economic and social conditions for the necessary capitalist transformation and/or help further the capitalist development of the ‘underdeveloped’ societies.

The works of the development economists and Latin American structuralism is important for this dissertation as the Peruvian military experiment of the 1970s and the first three years of the first APRA (*Alianza Popular Revolucionaria Americana*) government in Peruvian contemporary history (1985-1990) was based on their theories. The failure of these governments must be sought in the limitations of the development economists and Latin American structuralism to fully explain the dynamics, laws and internal contradictions of capitalist development. The idea that the state—the developmental state—might be able to pursue policies ‘relatively independent’ from the international and national political and economic class context resulted incorrect.

## CHAPTER 3: CLASS MATTERS

This chapter is dedicated to the revision of the literature on the concept of class, the class structure, class consciousness and class struggle. The central focus is on the internal debates and discussions in Marxist circles.

Apart from Marxist debates on class and issues related to class, I also delve into the discussion on class and class structure in Latin America and, more specifically, in Peru. This review should enable us to elaborate on the evolution of the Peruvian class structure in the period 1980-2015.

The Marxist concept of class is crucial to Marxist theory. Ollman (1968: 580): “For those who accept Marx’s version of capitalist social relations, the key concepts in which it is couched are second nature; ‘class’ serves as a necessary vehicle for conveying what Marx taught. For those who do not share Marx’s analysis, or something close to it, using his concept ‘class’ can only distort what they have to say. [...] As a concept, ‘class’ cannot be detached from the structured knowledge it seeks to express and of which it is, in the last analysis, an integral part”.<sup>160</sup> Hunt (1981: 9-10) argues that the study of class and class structure is fundamental to every Marxist analysis as on the basis of this analysis the foundations are laid for the development of the political strategies of revolutionary and socialist movements.<sup>161</sup> According to Giddens (2000: 112), in the works of Marx class is the “fundamental element of a generalized interpretation of the succession of the different types of society through history [...]”

Various authors have underlined the importance of class for social analysis. According to Atria (2004: 13), for example, the concept of class becomes obligatory reference when one would like to explain social equity “in terms of the structure of

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<sup>160</sup> According to Giddens (2000: 112-113), Marx’s class concept “has little meaning when it is taken out from the context of the overall scheme”.

<sup>161</sup> Petras & Veltmeyer (2005: N/P): “It is of critical importance to understand the nature of this social structure. For one thing, the capacity for people to change this structure and thereby to improve the conditions of their social existence to some extent depends on this understanding. For another, it is not possible to understand the development of Latin American society in its critical dimensions (economic, social, political) without a solid grasp of the social structure that underlies this development.” According to Paredes (1976: 8), “[...] only of a correct analysis of the social classes one can extract objective conclusions for the development of the theory of the Peruvian revolution”.

opportunities”. Sautu (2011: 250) defends the position that the class structure is the ‘skeleton of capitalist society’.

In Marxist circles several definitions of class are in use. As is known, only in Volume III of *Capital* and in the *Eighteenth Brumaire of Louis Bonaparte*, Marx (1973c; 1973g) has explicitly set out some, scarce, ideas regarding class. Also in his work with Engels (Marx & Engels, 1973), *Feuerbach. Opposition of materialist and idealist outlook*, we can find some notions on the concept of class. Lenin’s (1961b) definition of class, formulated in his article “A great beginning”, is generally used as a point of departure for the elaboration and analysis of class and class structure (Harnecker, 1970; Zeitlin, 1980). Wright (1985) and Osorio (2008) add to Lenin’s definition relations of domination.

The definition of one’s concept of class should, according to Van Parijs (1989: 215-216), include various elements. It should (i) be relevant for the explanation of consciousness and action; ii) be hierarchical, in the sense that one class is ‘superior’ to another; (iii) be discrete, in the sense that ‘belonging to a class is not just a matter of degree’, i.e. there should exist a ‘non-arbitrary border’; (iv) be concerned with the distribution of material advantages and burdens (income, work, exercise and submission to power); and, (v) be rooted in the property relations that characterize the particular mode of production. Przeworski, criticizing Lenin’s concept of class (on Lenin’s concept of class, see below), considers class a name of a relation and not a collection of individuals. Przeworski (1977: 388): “Individuals occupy places within the system of production; collective actors appear in struggles at concrete moments of history. Neither of these—occupants of places or participants in collective actions—are classes. Class is the relation between them, and in this sense class struggles concern the social organization of such relations.”

Class can be considered as a relational or gradational concept. According to Wright (1985: 34), when class is considered as a relational concept one looks upon a certain class in relation to another class.<sup>162</sup> “In gradational notions of class”, Wright explains,

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<sup>162</sup> Class is a relational concept and the relations between classes are “intrinsically antagonistic” (Wright (1985: 34, 35-36). In order to count as a class relation there should be unequal rights and powers over the sheer physical use of a resource and unequal rights and powers over the appropriation of the results of that use” (Wright, 1999). A class relation unifies relations of domination and appropriation (Wright, 1985: 300).

classes differ by the quantitative degree of some attribute (income, status, education, etc.) and not by their location within a determinate relation. Thus the names of classes within gradational approaches have a strictly quantitative character: upper class, upper middle class, middle class, lower middle class, lower class, and so on. Of course, relationally defined classes also have gradational properties—capitalists are rich, workers are poor— but it is not these distributional properties as such which define them as classes.<sup>163</sup>

Ossowski (1969: 55, 56) differentiates between simple and synthetic gradation schemes. In the case of simple gradation in the “system of social classes”, one refers to one aspect of the social structure in which the ‘system of superior and inferior classes’ are based on ‘objectively measurable traits’. In simple gradation, the class structure is based on a ‘sole criterion’. The concept of synthetic gradation is used, according to Ossowski (1969: 56) when ‘two or more non-measurable criteria’ are used. It might be argued that a synthetic gradation scheme synthesizes the different factors that are influencing and/or determining the class position of individuals. In addition, due to its ‘non-measurable’ characteristics, in contradiction to simple gradation, synthetic gradation does not ‘facilitate an objective scale’.

In general terms, the Marxist concept of class is based on the individual’s relationship to production, i.e. the social relations of production.<sup>164</sup> Although this implies particular property relations, property relations are not central for the Marxist concept of class but are, one might say, derived from the relations of production.<sup>165</sup> The ownership over the means of production does not necessarily alter the particular relations of production of the individuals. The collectively owned means of production in the former Soviet-Union did not fundamentally change the social relations of production. In addition,

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<sup>163</sup> Wright (1985: 59-60): “It is noteworthy in this regard that theorists who adopt gradational notions of class structure tend to treat class in an extremely ahistorical manner. All societies have ‘upper’ and ‘lower’ classes, and gradational accounts of class tend to treat these terms as having the same meaning regardless of historically specific features of the society.” Osorio (2008: 117) argues that to talk about, for instance, “the bourgeoisie —and not about the high class— is indicating that there exist a sector in society that not only receives high incomes but appropriates the work of others in the form of surplus value. To talk about the proletariat —and not of the low class— is to demonstrate that this social sector is reproduced by means of the earning of a salary, and that this supposes a social organization supported by the expropriation of the part of the value produced by this social group”.

<sup>164</sup> Burris (1980: 19): “[...] the social relations which serve as the primary basis for the analysis of class are those of the sphere of production forces.”

<sup>165</sup> According to Crompton (1993: 24), “Marx’s account of antagonistic class relationships did not rest upon ownership and non-ownership alone. Rather, ownership of the material forces of production is the means to the exploitation of the proletariat by the bourgeoisie within the very process of production itself. The key to Marx’s understanding of this process lies in the labour theory of value”.

by providing the workers the legal ownership over the means of production in capitalism does not change the capitalist mode of production and the capitalist social relations of production. Hence we do not agree with Van Parijs who claims that class is, among others, “rooted in the property relations that characterize the particular mode of production” and also not with Anderson (1974: 124) who states that a “Marxist class model must begin with property as central to class definition”.

Apart from using the Marxist concept of class in order to comprehend the social structure of a particular society, it might also be understood (i) in terms of the individual’s relation to consumption or the market—an individual’s ‘life chances’, as conceived by the sociologist Max Weber (upper, upper middle, middle, lower middle, lower); (ii) an individual’s relationship to ‘work’, or his/her location in the technical division of labour according to industry and occupation (occupational class as conceived by the sociologist Emile Durkheim); and (iii) according to an individual (or household’s) level of income, as understood by most economists, i.e. as a statistical grouping of individuals in relation to national income rather than as a social group in a sociological sense.

In chapter 2, we discussed that a social formation may be composed of several modes of production. As to a particular mode of production ‘corresponds’ particular social relations of production, classes and class structures differ between and within social formations.<sup>166</sup> Callinicos (2004a: 54) describes the relation between mode of production, the social relations of production and classes as follows:

Every mode of production involves a particular combination of the forces and relations of production. The productive forces are the labour-process, the particular technical combination of labour-power and means of production employed in order to transform nature and to produce use values, thereby determining a particular level of productivity. The production relations comprise the relationship of the direct producers to the means of production and their labour-power, the nature of any non-producing owners and the mode of appropriation of surplus-labour from the direct producers by any such owners. This mode of surplus-extraction, or exploitation, in turn determines the class structure, so that classes are defined relationally, by their objective relationship both to the means of production and labour-power and to other classes.

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<sup>166</sup> Poulantzas (1980: 82) writes that “the effects of the concrete combination of the respective instances of the modes of production [...] give rise to a whole series of phenomena of fractioning of classes, of dissolution of classes, of class fusion [...] of the appearance of specific categories, etc.: these things cannot always be located by examining the modes of production that enter into the combination”.

The determination of the classes in society is a rather complicated procedure. As Dos Santos (1967) observes, “[...] the determination of the basic social classes of society is not a task of empirical observation of a theoretical investigation of the mode of production that it constitutes. [...] That is, the question of the existence of such and such classes is resolved in the analysis of the mode of production itself.”

In determining the classes that make up modern society Dos Santos (1967: 27-37) differentiates between four levels:

1) Classes and mode of production: “The class concept appears as a result of the analysis of the productive forces (technological level of the means of production and the organization of the labourforce) and the relations of production (relations that men establish among themselves in the process of social production)”.<sup>167</sup>

2) Classes and the social structure:

A concrete society, historically given, cannot correspond directly to abstract categories. In a concrete society:

1. The development of the mode of production and its contradictions brings up historically specific social situations [...].
2. The development of the mode of production develops new specific forms of relations between its components and creates new components [...].
3. At an even more concrete level, in a society distinct social forms coexist in antagonism with the dominant formation and limiting it, but forming historically bounded equilibrium situations (for instance: the struggle between dominant and dominated classes of antagonistic modes of production —capitalism vs. feudalism—; the rise of the middle class on track of dying out, or classes in formation; the case of the urban-rural contradiction, etc.). At this level, the analysis must be set through the description, still theoretically, of the possible modes of relation in a given society, i.e. in a given social structure. The difference from the previous level is that now the analysis has to refer to a historical and geographically located universe, in which the level of development of a particular social formation and its relations with other social formations is distinguished. You have to work

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<sup>167</sup> “The determination of classes depends on the relations of production, which relate directly to the social division of labour and the politico-ideological superstructure, not to the data of any ‘technical process’ as such. *The technical division of labour is dominated by the social division.* So we do not define productive labour as consisting of those who take part in production understood in a technical sense, but as consisting of those who produce surplus value and who are thus exploited as a class in a determinate manner, i.e. those who occupy a determinate place in the social division of labour.” (Poulantzas, 1973)

on empirical data of historical, demographical, sociological character etc., in order to establish the frame of the basic relations and its dynamics.<sup>168</sup>

### 3) Classes in a social situation:

At this level, the analysis approaches the description of a concrete society. However, this description is not purely empirical but scientific because it knows the determinations that explain this immediate or “apparent” reality. [...] when we internally differentiate the structure, we find a number of phenomena that are correlated and are dependent on the class structure. One of these phenomena is social stratification that introduces an element of hierarchy of individuals in society not only by their class position but also by differences in income, professional, cultural, political, etc. We see that, at this moment, the focus can be separated from the pure social categories in order to classify the individuals within these categories in forms sometimes theoretically unexpected. [...] At this level, we work with given social values where the class structure faces very different determinations, due to the specificity of a given social situation.

4) Classes in the conjuncture: “The class structure will undergo profound changes in accordance with the conjuncture in which their contradictions are developed. In times of an upwards going capitalist cycle, for example, the behavior and psychology of the classes is presented completely differently than in crisis or revolutionary situations”.

Carchedi (1977: 16-23) differentiates four levels of abstraction for the analysis of class. At the highest level of abstraction we can find the analysis of class in a pure capitalist economic structure, i.e. at the level of capitalist mode of production. At this level we can only identify capitalists and workers. The second level is the capitalist socio-economic system. “At this level we introduce the superstructure (both political and ideological) as well as the class struggle in all its three aspects, e.g. economic, political and ideological.” (Carchedi, 1977: 21) The third level is the analysis of class at the level of a concrete society. At this level the analysis is not reduced to the ‘capitalist section’ of society, but includes all other non-capitalist structures. Finally, the lowest level of abstraction, just like

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<sup>168</sup> Poulantzas (1973) argues that when we analyze classes in a mode of production “in a pure and abstract fashion, we find that each of them involves two classes—the exploiting class, which is politically and ideologically dominant, and the exploited class, which is politically and ideologically dominated: masters and slaves in the slave mode of production, lords and serfs in the feudal mode of production, bourgeois and workers in the capitalist mode of production. But a concrete society (a social formation) *involves more than two classes*, in so far as it is composed of various modes and forms of production. No social formation involves only two classes: but the two fundamental classes of any social formation are those of the dominant mode of production in that formation.” At the end of the 19<sup>th</sup> century Kautsky (1984: 3-4) considered it a mistake to see capitalists and proletarians as the sole factors in “modern society”.



Dos Santos, is conjunctural level. At this level, “we consider a certain concrete society at a specific juncture of its development, i.e. we consider the synthesis of all the contradictions of a certain society at a specific moment of its development” (Carchedi, 1977: 23).

This chapter is organized as nine sections. In section 3.1 we outline the Marxist concept of class. Section 3.2 is dedicated to the issue of the class structure of capitalist society. In section 3.3 we discuss class consciousness and in section 3.4 we delve into the matter of class struggle. In section 3.5 we turn to class formation. Section 3.6 examines Weber’s notions on class, explores the question of social stratification and reviews functionalism. Sections 3.7 and 3.8 are dedicated to the debates on class and class structure in Latin America and, more specifically, in Peru. In section 3.9 we present our conclusions.

### **3.1. The Marxist concept of class**

The concept of class is widely discussed in Marxist literature. Marxists not only differ on the definition of class, but also, as we have seen in chapter 2, on concepts that are related to class such as mode of production and social formation (Wright, 1999).

In Volume III of *Capital*, Marx (1973c, 855-856) defined classes as follows:

The owners merely of labour-power, owners of capital, and landowners, whose respective sources of income are wages, profit and ground-rent, in other words, wage-labourers, capitalists and landowners, constitute then three big classes of modern society based upon the capitalist mode of production. In England, modern society is indisputably most highly and classically developed in economic structure. Nevertheless, even here the stratification of classes does not appear in its pure form. Middle and intermediate strata even here obliterate lines of demarcation everywhere (although incomparably less in rural districts than in the cities). However, this is immaterial for our analysis. We have seen that the continual tendency and law of development of the capitalist mode of production is more and more to divorce the means of production from labour, and more and more to concentrate the scattered means of production into large groups, thereby transforming labour into wage-labour and the means of production into capital. And to this tendency, on the other hand, corresponds the independent separation of landed property from capital and labour, or the transformation of all landed property into the form of landed property corresponding to the capitalist mode of production. The first question to be answered is this: What constitutes a class? – and the reply to this follows naturally from the reply to another question, namely: What makes wage-labourers, capitalists and landlords constitute the three great social classes? At first glance – the identity of revenues and sources of revenue. There are three great social groups whose members, the individuals forming them,

live on wages, profit and ground-rent respectively, on the realisation of their labour-power, their capital, and their landed property. However, from this standpoint, physicians and officials, e.g., would also constitute two classes, for they belong to two distinct social groups, the members of each of these groups receiving their revenue from one and the same source. The same would also be true of the infinite fragmentation of interest and rank into which the division of social labour splits labourers as well as capitalists and landlords-the latter, e.g., into owners of vineyards, farm owners, owners of forests, mine owners and owners of fisheries.

In their work *Feuerbach. Oposición entre las concepciones materialista e idealista*, Marx and Engels (1973: 64) wrote:

The separate individuals form a class only insofar as they have to carry on a common battle against another class; otherwise they are on hostile terms with each other as competitors. On the other hand, the class in its turn achieves an independent existence over against the individuals, so that the latter find their conditions of existence predestined, and hence have their position in life and their personal development assigned to them by their class, become subsumed under it. This is the same phenomenon as the subjection of the separate individuals to the division of labour and can only be removed by the abolition of private property and of labour itself. We have already indicated several times how this subsuming of individuals under the class brings with it their subjection to all kinds of ideas, etc.

In the *El dieciocho brumario de Luis Bonaparte*, Marx (1973g: 490) wrote:

Thus the great mass of the French nation is formed by the simple addition of homologous magnitudes, much as potatoes in a sack form a sack of potatoes. Insofar as millions of families live under conditions of existence that separate their mode of life, their interests, and their culture from those of the other classes, and put them in hostile opposition to the latter, they form a class. Insofar as there is merely a local interconnection among these small-holding peasants, and the identity of their interests forms no community, no national bond, and no political organization among them, they do not constitute a class.

Lenin has elaborated a definition of class that in the following years was used and referred to by Marxists.<sup>169</sup> Lenin (1961b: 228) defined classes as large groups of people

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<sup>169</sup> Przeworski (1977: 382ft82) has elaborated, however, a critique on Lenin's description on which we agree. According to this author, "the problem is that several characteristics that Lenin treats as synonymous do not remain in a constant relation to developmental stages of particular capitalist socioeconomic formations. Size of income need not follow closely the relation to the means of production: in contemporary Sweden incomes from employment slightly exceed those derived from property, although the latter do not include undistributed corporate profits. The role of the owners of the means of production in the social organization of production also becomes altered when the state assumes several functions of private firms".

differing from each other by the place they occupy in a historically determined system of social production, by their relation (in most cases fixed and formulated in law) to the means of production, by their role in the social organisation of labour, and, consequently, by the dimensions of the share of social wealth of which they dispose and the mode of acquiring it. Classes are groups of people one of which can appropriate the labour of another owing to the different places they occupy in a definite system of social economy.

One of the main Marxist authors in the 1970s on class was Nicos Poulantzas. According to this author, to determine classes we not only have to include an economic determination but also political and ideological determinations.<sup>170</sup> He also explained that classes are only conceivable as class practices (Poulantzas, 1980: 100).<sup>171</sup> In other words, “social classes have existence only in the class struggle, which has an historical, dynamic dimension. It is only possible to constitute and even delimit classes, fractions, strata and categories by considering them in the historical perspective of the class struggle” (Poulantzas, 1973). The relation between class practices and structures is a dialectical relationship: “The determination of the practices by the structure and the intervention of the practices in the structure, consist in the production by the structure of the limits of the variations of class struggle: these limits are the effects of the structure [...] the effectiveness of the structure on the terrain of the practices [...] is itself limited by the intervention in the structure of the practical politics” (Poulantzas, 1980: 112-113). Castells (1977: 8-9) agrees with the vision of Poulantzas when arguing that a class does not exist when there is no class practice that corresponds to the objective interests of the particular class. For a class practice to exist, according to Castells, “it is necessary that the practice expresses and objectifies the structurally defined position of the class at the level of the production process”.<sup>172</sup> Przeworski (N/D: 25, 29) tells us that classes are an effect of the struggle and these struggles are not solely determined by the relations of production. Class struggle is structured by the totality of the political, economic and ideological relations. These relations have an autonomous effect on the process of class formation. Classes organize and

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<sup>170</sup> Classes can be identified at the economic, political and ideological level (Poulantzas, 1980: 69). Fine & Saad-Filho (2004: 170) explain that “class interests are necessarily formed economically, politically and ideologically in ways that arise socially and historically out of the class relations from which they derive”.

<sup>171</sup> See on this issue also Harnecker (Harnecker & Poulantzas, N/D: 28). Castells (1980: 168) agrees with the point of view that classes are only conceivable as class practices and that classes only exist through class struggle.

<sup>172</sup> Przeworski (1977: 367) claims that “classes as historical actors are not given, uniquely by any objective positions, not even those of workers and capitalists”.

de-organize themselves as a result of continuous struggles. In his work *The revolutionary ideas of Karl Marx*, Callinicos (2004a: 76) wrote that only in class struggle classes “begin to behave as classes”.<sup>173</sup>

It has been argued that a class is constituted as a class when class consciousness is attained. Ollman (1993): “What emerges from the foregoing is that our object of study, class consciousness, is much larger than the mind or understanding of any individual and much longer than the present moment. It is the class, its interest and self-understanding, in the context of the situation, especially its interaction with opposing classes, that constitute it as a class, and all this as it has developed, is developing and will continue to develop into the future.” According to Mohandesi, one can make a distinction between class as an economic category (technical composition) and class as a political subject (political class composition). Mohandesi (2013, 85-86):

Technical composition refers to the particular ways in which labor-power is divided, managed, and, ultimately, exploited. It is therefore concerned not only with the immediate process of production —where this commodity is directly exploited— but also the world outside the factory where it must be continually reproduced so as to be re-appropriated the next day. Political composition refers to the particular ways in which proletarians, as the vendors of that labor-power, seize hold of the characteristics of this mode of production in order to overcome their division, management, and, ultimately, their exploitation.<sup>174</sup>

Meiksins Wood (2000: 97) considers classes to exist without the necessity of having a specific class consciousness. Classes exist by definition. According to Ste. Croix (1985), the individuals “constituting a given class may or may not be wholly or partly conscious of their own identity and common interests as a class, and they may or may not feel antagonism towards members of other classes as such”. Bresser-Pereira (1981), although not a Marxist, argues in the case of the working class that “it is a real class, it possess its own collective interests and ideology in opposition to the dominant class. [...] A class only

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<sup>173</sup> According to Torres-Rivas (1980:74), you can only recognize a particular class in relation to another class.

<sup>174</sup> “As Marx has shown in *Capital*, militant struggles for a shorter work day coerced employers in the 19<sup>th</sup> century to introduce labor-saving machinery into the immediate process of production. In this way, the proletariat compels capital to restructure, thereby transforming its technical composition, the conditions of production, and the mode of exploitation. The relationship between technical class composition and political class composition is therefore understood to be wholly reciprocal, just as the capitalist mode of production is itself said to be a mutually involved relation between the fundamentally dynamic poles of capital on the one side and labor on the other.” (Mohandesi, 2013: 92)

becomes an effective historical force once it attains some degree of class consciousness, organizes itself politically and fights for state power”.

It is important to underline that difference between class in itself and class for itself. Saltalamacchia (N/D: 103) points out that the debate on the ‘voyage’ from class in itself to class for itself does not resolve itself “by deleting or redefining the concept of class but by explicitly stating that both are placed on different analytical levels”. Przeworski seems not to make a difference between class in itself and class for itself. Classes only exist when individuals that pertain to a certain class are conscious about their belonging to this class.<sup>175</sup> Przeworski (1977: 369):

The general problem is the following: If classes are thought to exist objectively at the level of the relations of production, then during many historical periods the concept of class may be irrelevant for the understanding of history, such as when these classes do not develop solidarity and consciousness or when they have no political effects. On the other hand, if classes are identified at the level at which they appear as organized or at least “pertinent” political forces, then the problem appears how to trace back these classes to places in the social organization of production. The distribution of the carriers of the relations of production does not become simply “reflected” at the level of politics and ideology; yet the emergence of political forces is nonarbitrary with regard to the distribution of carriers of these relations. Or, to put it bluntly, if everyone who is a manual worker in industry is expected to behave politically qua worker, then the theory is simply false; if everyone who is a potential socialist is considered a worker, then the theory is meaningless in the positivist sense of the word.

Classes are, according to Poulantzas (1973),

groups of social agents, of men defined *principally* but not exclusively by their place in the *production process*, i.e. by their place in the economic sphere. The economic place of the social agents has a *principal* role in determining social classes. But from that we cannot conclude that this economic place is sufficient to determine social classes. Marxism states that the economic does indeed have the determinant role in a mode of production or a social formation; but the political and the ideological (the superstructure) also have important roles.

In *Poder político y clases sociales en el estado capitalista*, Poulantzas (1980: 75) describes class as follows: “[...] social class is a concept that indicates the effects of the whole of the structures, of the matrix of a mode of production or a social formation on the agents that

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<sup>175</sup> Przeworski, 1977: 371: “Classes are not a datum prior to political and ideological practice.”

constitute their support: this concept indicates, then, the effects of the global structure in the domain of the social relations”. Classes are bearers of the legal-political and ideological social relations (Poulantzas, 1980: 73).

Harnecker (1970: 116) argues that “social classes are antagonistic social groups, in which one appropriates the work of another because of the different places they occupy in the economic structure of a given mode of production, the place that is fundamentally being determined by the specific way it relates to production means”. Classes are not only determined by the economic structure, also “elements of the superstructure (legal-political and ideological)” intervene in class formation (Harnecker, 1970: 137).

At the level of the mode of production not all individuals form part of a class. Harnecker (1970: 124, 138):

But there are other social groups that are not directly linked to production (teachers, lawyers, officers of the state apparatus, etc.) or that are linked to production, such as technicians and administrators that occupy an intermediate position between the extreme groups: capitalists and workers. [...] When we study the social classes at the level of the mode of production we see that in a society not all individuals belong to one of the two antagonistic classes, that there exist social groups that cannot be defined as social classes as they represent intermediate groups between the two antagonistic classes at the level of production, as they not directly participate in the production because they are employed by the institutions of the superstructure. These groups do not properly constitute classes, but tend to adopt positions that favor one or the other of the opposite classes.<sup>176</sup>

According to Carchedi, at the level of a concrete society there are groups of individuals that are ‘engaged in transformative processes’ but do not form a class. Carchedi (1987a: 110):

Finally, there are specific groups of people cutting across classes. These groups manifest themselves politically and ideologically as social movements expressing trans-class interests. To understand their proper place within class analysis, we should recall that the collective labourer, defined as all those who are employed by capital in the transformation of material reality and thus in the mental transformations determined by it, is only one of the laboring classes existing in a concrete capitalist society. There are other labouring classes, engaged in material and mental transformations outside the capitalist yoke, as well

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<sup>176</sup> Cueva (1987: 39) argues that social groups such as intellectuals and the bureaucracy need to be considered as layers or categories because they are not generated “at the level of the economic matrix of a given mode of production, but arise at the superstructural level, either at the judicial-political instance (case of the bureaucracy), or at the ideological level (case of the intellectuals)”.

as groups which, even though engaged in transformative processes, do not form a class. In these groups of people which cut across classes, the unifying element is a specific form of domination (i.e. a specific form of social reality) which may or may not be based upon the access to a specific form of transformative processes. The important point is that this form of domination, even if it is not specific to a certain class or to certain epoch, is class-determined because it is functional for the domination of the capitalist class over other classes (and not only over the collective labourer) and thus for the reproduction of the capitalist system.<sup>177</sup>

Wright's contribution to Marxist class theory can be resumed in his concept of contradictory class locations. This concept was elaborated in order to determine the class location of all those individuals that perform social and economic activities that locate these individuals in contradictory classes. Wright (1985: 43-44):

But why should positions which are simultaneously bourgeois and proletarian be viewed as 'contradictory' in any sense? The rationale is that the basic class relation of capitalism generates objectively contradictory interests for workers and capitalists, interests which are intrinsically (rather than just contingently) opposed to each other. Contradictory locations are contradictory precisely in the sense that they partake of both sides of these inherently contradictory interests. The characterization of such positions as 'contradictory' therefore does not deny the basic contradiction of capitalist class relations; it is derived from that basic contradiction.<sup>178</sup>

Classes are not homogeneous. Classes can be divided into class fractions and social strata. Class fractions are determined by the political and/or economic role of the individuals that make up a specific class. Poulantzas (1973) distinguishes hegemonic, reigning and subordinate fractions within the bourgeoisie. Social strata are politically and ideologically determined (Poulantzas, 1973). An example of a social stratum within the working class is the 'labour aristocracy'.<sup>179</sup> Wright (1989: 333) differentiates social strata within classes "by varying degrees of exploitation within a common location in the social

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<sup>177</sup> Ossowski (1969: 189) argues that not all members of society pertain to a given class. According to one's definition of class, society may be a system of classes or a system of classes and groups.

<sup>178</sup> Wright (1989: 345) considers individuals working in state organisms to "occupy a kind of dualistic class location: direct locations within state classes and mediated located within capitalist relations."

<sup>179</sup> Poulantzas' concept of social strata seems to resemble Wright's concept of contradictory class locations. While economically the labour aristocracia forms part of the proletariat, politically and ideologically it pertains to the middle class as they perform the function of capital. It is exactly the new middle class that performs the global function of capital and the function of the collective worker (Carchedi, 1977: 94, 118en70).

relations of production. Strata within the bourgeoisie, accordingly, depend upon the amount of surplus they appropriate; strata in the working class, by the amount of discretionary income they earn through various kinds of credential rents”.<sup>180</sup>

Apart from classes there also exist social categories. Individuals that pertain to a social category “do not, in fact, belong to one single class: their members generally belong to various classes”, for instance individuals that belong to the state bureaucracy and intellectuals (Poulantzas, 1973).<sup>181</sup>

### **3.2. The class structure**

In general terms, the class structure of a society is derived from the whole of production relations. Marta Harnecker (1970: 131) calls a class structure “the articulation of the different classes and class fractions at different levels (economic, political, ideological) of a social formation”. Wright (1999) defines it as the sum total of the social relations that correspond to a particular level of the development of society’s forces of production.

The class structure, according to Wright (1993: 102),

sets the broadest limits of variation on class struggle in at least two senses. First, the class structure defines the potential actors in the class struggle (for example, without peasants it is impossible to have land seizures as a form of class struggle).<sup>182</sup> Secondly, the class structure defines the range of potential objectives of class struggle (for example, until the emergence of large-scale industrial capitalism, nationalization as an objective of the class struggle was not a viable possibility”. The “class structure should be viewed as a structure

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<sup>180</sup> Osorio (2008: 106-116) distinguishes between classes, fractions and class sectors. While his description of class is similar to the one of Lenin and for the concept of fractions he refers to Poulantzas, the concept of class sector is new. Class fractions are split into class sectors. Differences between class sectors are based on magnitudes (income, big, small). The definition of class sectors appears to be the same as Wright’s definition of social strata.

<sup>181</sup> “Social categories do not, in fact, belong to one single class: their members generally belong to various social classes. Thus, in their way of life, political role, etc., the senior personnel, the top of the administrative bureaucracy, generally belong to the bourgeoisie, while the intermediate and lower echelons may belong either to the bourgeoisie or to the petitbourgeoisie. These social categories belong to classes and do not in themselves constitute classes: they have no specific role of their own in production” (Poulantzas, 1973). Evers (1987: 176-177) shares the position of Poulantzas in the sense that state employees are in the first place agents of the state and, as such, do not form a class but a “category of persons”.

<sup>182</sup> The class struggle has indirect effects on the class structure, since the effects of this struggle modifies “the system of production out of which classes are formed” (Przeworski, 1997: 397).



of social relations that generates a matrix of exploitation-based interests (Wright (1985: 123)).<sup>183</sup>

The section is structured in four subsections. In subsection 3.2.1 we discuss the bourgeoisie. Subsection 3.2.2 elaborates on the middle class. In subsection 3.2.3 we review the literature on the working class and in subsection 3.2.4 we turn to the peasantry.

### **3.2.1. The bourgeoisie**

Marxists have defined the bourgeoisie in different forms, however, not fundamentally different. Wright (1993: 97) for instance, defines the bourgeoisie “as those positions which: (a) occupy the bourgeois position within the social relations of production, i.e., positions of control over money capital, physical capital and labour power; or, (b) are linked directly to the bourgeoisie through families or class trajectories; or, (c) occupy bourgeois positions within the political and ideological apparatuses, i.e., positions which involve the control over the creation of state policy and the production of ideology”.

The bourgeoisie can be divided in class fractions. Marx & Engels (1973: 45-46):

The division of labour, which we already saw above as one of the chief forces of history up till now, manifests itself also in the ruling class as the division of mental and material labour, so that inside this class one part appears as the thinkers of the class (its active, conceptive ideologists, who make the perfecting of the illusion of the class about itself their chief source of livelihood), while the others' attitude to these ideas and illusions is more passive and receptive, because they are in reality the active members of this class and have less time to make up illusions and ideas about themselves. Within this class this cleavage can even develop into a certain opposition and hostility between the two parts, which, however, in the case of a practical collision, in which the class itself is endangered, automatically comes to nothing, in which case there also vanishes the semblance that the ruling ideas were not the ideas of the ruling class and had a power distinct from the power of this class. The existence of revolutionary ideas in a particular period presupposes the existence of a revolutionary class; about the premises for the latter sufficient has already been said above.

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<sup>183</sup> According to Ossowski (1969: 197), considering classes to be some groups that form a system of groups in a social structure, a system can only be constructed on the basis of “ordering relations or on relations of dependency”.

Poulantzas (1973):

Some of its fractions are to be located already at the economic level of the constitution and reproduction of capital: industrial, commercial and financial capital, big and medium capital at the stage of monopoly capitalism (imperialism). But precisely at the imperialist stage, a distinction arises which is not to be located at the economic level alone—the distinction between the ‘*comprador*’ bourgeoisie and the *national bourgeoisie*. The comprador bourgeoisie is that fraction of the class whose interests are constitutively linked to foreign imperialist capital (capital belonging to the principal foreign imperialist power) and which is thus completely bound politically and ideologically to foreign capital. The national bourgeoisie is that fraction of the bourgeoisie whose interests are linked to the nation’s economic development and which comes into relative contradiction with the interests of big foreign capital.<sup>184</sup>

The bourgeoisie or the capitalist class might include more than just the owners of the means of production. As we have seen in the definition of Wright on the bourgeoisie, it can be argued that individuals who control the means of production but do not own these also form part of the bourgeoisie. According to Baran & Sweezy (1969: 34-35), whose point of view we share, “managers are among the biggest owners; and because of the strategic positions they occupy, they function as the protectors and spokesmen for all large-scale property. Far from being a separate class, they constitute in reality the leading echelon of the property-owning class”. Braverman (1984: 298) argues that

capital and professional management —at its top levels— are drawn, by and large, from the same class [...] It is true that ownership of capital and the management of enterprises are never totally divorced from each other in the individuals of the class, since both remain concentrated in a social grouping of extremely limited size: therefore, as a rule, top managers are not capital-less individuals, nor are owners of capital necessarily inactive in management.

Poulantzas (1969: 71-72) believed that managers were not part of the bourgeoisie but pertained to the *petitbourgeoisie* or the ‘middle class’. Real property relations or “real appropriation” were decisive for determining the class location of managers. According to

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<sup>184</sup> “The distinction between comprador bourgeoisie and national bourgeoisie does not entirely coincide with economic position. Because of the marked interpenetration of capitals under imperialism, the distinction between capitals tied to foreign imperialism and national capitals becomes extremely vague and questionable. Moreover, the distinction does not coincide with that between big and medium capital: it is possible for big national monopolies to exist whose interests are in relative contradiction with those of foreign monopolies, just as it is possible for medium enterprises to exist which are bound by a series of sub-contracts to foreign imperialism.” (Poulantzas, 1973)

Wright (1979), the position of company managers is a contradictory class location. On the one hand they are subordinated to capital; on the other hand they dominate workers.

### 3.2.2. The middle class

At the beginning of the 1980s, Marxists heavily debated on the question of the ‘old’ and the ‘new’ middle class. These debates were the consequence of the changes in the economic structure of the ‘advanced’ capitalist countries.<sup>185</sup> As Kolko (1988: 309) explains, “relatively high-wage factory work in heavy industry” was replaced by “low-wage service occupations”. In 1984 “up to 65-70 percent of the jobs in Europe were in the services of all sorts” and three out of four American workers occupied jobs in the service sector (Kolko, 1988: 311). Data presented by Maddison (192: 148) showed that for the major capitalist countries 58 per cent of the labourforce was occupied in the service sector. Wright (1985: 40-41) resumes these discussions as follows:

The first systematic solution proposed by Marxists in the recent debates over the conceptual problem at hand is to classify the ‘middle class’ as part of the *petitbourgeoisie*. Sometimes the rationale for this place is that such positions involve ‘ownership’ of skills or ‘human capital’, and this places them in a social relation with capital akin to that of the traditional *petitbourgeoisie* (owners of individual physical means of production). A more common rationale for this solution revolves around the category ‘unproductive labour’, i.e. wage-labour which does not produce surplus value (e.g. clerks in banks). Such wage-earners, it is argued, in a sense ‘live off’ the surplus value produced by productive workers and thus occupy a different position from workers within the relations of production.

Marx defined the *petitbourgeoisie* or the ‘old’ middle class as a transition class.<sup>186</sup> Transition classes are the result of the remains of previous modes of production that have maintained their presence in a ‘fully’ grown capitalist society (Konstantinov, 1966: 125-126). Marx (1973c: 437g): “But the democrat, because he represents the *petitbourgeoisie*

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<sup>185</sup> Economic developments in the 1990s and 2000s triggered discussions and stimulated research on the ‘middle class’ in Latin America.

<sup>186</sup> Lukasz (1970: 89): “The outlook of the other classes (petty bourgeois or peasants) is ambiguous or sterile because their existence is not based exclusively on their role in the capitalist system of production but is indissolubly linked with the vestiges of feudal society. Their aim, therefore, is not to advance capitalism or to transcend it, but to reverse its action or at least to prevent it from developing fully. Their class interest concentrates on *symptoms of development* and not on development itself, and on elements of society rather than on the construction of society as a whole.”

—that is, a transition class, in which the interests of two classes are simultaneously mutually blunted— imagines himself elevated above class antagonism generally. The democrats concede that a privileged class confronts them, but they, along with all the rest of the nation, form the people.”

It seems that Marx has defined the middle class. In his notes on the theories of surplus value, Marx (1967: 576) mentions the constant increase of the middle classes, “who stand in the middle between the workers on one side and the capitalists and landed proprietors on the other side, who are for the most part supported directly by revenue, who rest as a burden on the labouring foundation, and who increase the social security and the power of the upper ten thousand”.

It has been discussed if the middle class should be considered as a class as such. Becker (1973: 276) does not think so because it is not a homogenous class. “It is but a divided fragment of the totality of social labor. The middle class is only an appearance; its reality is a cleavage between administrative labor and the managers. This split, in turn, reflects the more fundamental and extensive schism between productive and unproductive labor, and more deeply, between the producing class and the ruling class”. Also the non-Marxist Bresser-Pereira (1981) does not consider the middle class as a class as such. According to this author, the middle class is a stratum because one cannot determine white-collar workers such as office workers, salespeople, clerks, managers, technicians, military officials and administrators as a part of the middle class as it “is incompatible with class theory that is based on the role social classes play in the relations of production”. Poulantzas considers the middle class a group instead of a class. Poulantzas (1976b: 182):

This ‘class’ would be the melting pot of a mixture of classes and the dissolution of their antagonism, mainly as a place of circulation of individuals in a constant process of ‘mobility’ between the bourgeoisie and the proletariat. This group appears as the dominant group in the heart of current capitalist societies. I say group, because indeed, having to do with a dissolving whole of the class struggle, the very use of the term class is utterly useless; employment, the use, in this context, of the term ‘middle class’ means, in the case of this current, that classes have ceased to exist.

According to Therborn (1998: 49-50), since the middle class is not a bearer of “a determined mode of production but the product of a capitalist development,” it cannot be considered as a class in the strict Marxist sense.

The debate on the definition of the middle class mingles the description of the ‘old’ and ‘new’ middle class or the ‘old’ and ‘new’ petitbourgeoisie. Poulantzas argues that for a definition of the ‘new’ petitbourgeoisie political and ideological criteria come into play. Poulantzas (1973):

The first is the ‘traditional’ petitbourgeoisie, which is tending to decline in size: these are the small-scale producers and small traders (small property). They include forms of artisanal work and small family businesses in which one and the same agent is both owner of the means of production and of labour and is the direct worker. Here there is no economic exploitation in the strict sense, inasmuch as these forms do not employ paid workers (or only very rarely do so). Labour is principally provided by the real owner or the members of his family, who are not remunerated in the form of wages. Small-scale producers derive profit from the sale of their goods and from participating in the total redistribution of surplus value, but they do not extort surplus value directly.<sup>187</sup> Secondly there is the ‘new’ petitbourgeoisie, which tends to increase under monopoly capitalism. It consists of the *non-productive wage-earning workers* mentioned above; we should add to it civil servants employed by the state and its various apparatuses. These workers do not produce surplus value.

It should be added that individuals belonging to the ‘new’ petitbourgeoisie are not only ‘non-productive’, but they also perform political and ideological functions that make them pertain to this class, for instance surveillance activities. Workers that carry out intellectual labour belong to the ‘new’ petitbourgeoisie as they also, often, execute surveillance activities. For their location in the class structure these activities are determinant (Poulantzas, 1976b: 223, 232).

Since its inception, capitalism has not ‘eliminated’ the petitbourgeoisie. In fact, the development of capitalism ‘created’ more classes, class fractions and/or social strata. Sweezy (1977: 311-312):

Conversely, given a steady increase in the productiveness of labor the stage is set for an expansion of surplus value and the social classes which are maintained out of surplus value. [...] The rise in labor productivity and the disproportionate growth in the distributive sphere to which it leads under monopoly capitalism constitute a development with far-reaching

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<sup>187</sup> See also Poulantzas (1976b: 265, 308).

social and political implications. The so-called ‘new middle class’ of industrial bureaucrats, professionals, teachers, state employees, and the like, which inevitably grows up in the wake of centralization and rising living standards, is augmented by the army of salesmen, advertising agents, publicists, and salaried employees who form such a large proportion of those engaged in distributive activities.<sup>188</sup> [...] Moreover since under capitalism a large proportion of them derive their incomes directly or indirectly from surplus value, so that a diminution of surplus value would necessarily react upon them unfavorably, there also exists an objective bond linking their fortunes with those of the ruling class.<sup>189</sup>

Burris (1980: 18):

Unlike earlier intermediate groupings, such as the traditional *petitbourgeoisie*, this new middle class does not exist on the receding periphery of capitalist production, but emerges within the very center of capitalist economic relations. Hence, it cannot plausibly be dismissed as a declining remnant of some prior mode of economic organization, destined to disappear with the fuller development of capitalism, but poses a direct challenge to the viability of the two-class model.

Burris (1980: 19) defines the “new middle class”

as those positions within the social division of labor which share a common position with the proletariat in terms of two basic ownership relations: (1) non-ownership of the material means of production, and (2) the alienation of one’s labor power in exchange for a wage, but which are distinguished, in varying degrees, by some combination of the following relations of possession: (1) control over the immediate employment of the material means of production, and (2) control over the exercise of one’s own labor and/or the labor of others.

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<sup>188</sup> Przeworski (1977: 391): “The problem of places other than capitalists and workers appears in Marx not because there is surplus product that cannot find consumers but because there is surplus labor power that cannot find productive employment.”

<sup>189</sup> Burris does not agree with the explanation that technological developments, or increases in labour productivity as Sweezy argues, have determined the rise of the new middle class. Burris (1980: 20): “At the root of the inadequacies of the technogenic perspective are two fundamental errors. The first is the tendency to fetishize technology as an extra-social, quasi-natural evolutionary force. Second is the failure to properly distinguish between occupation and class, i.e. between the technical division of labor and the social division of labor. The implicit claim of the technogenic viewpoint is that the development of technology follows imperatives that are essentially independent of the historically specific social relations in which it occurs. Such a reification of technology disregards the extent to which productive techniques are themselves conditioned by the patterns of conflict, relations of authority and forms of economic organization characteristic of the society in which they are developed and implemented. The technogenic viewpoint stresses, in a one-sided fashion, the impact which technologies have upon social and political relations, but without recognizing that technologies have such an impact precisely because they are from the beginning a material expression and crystalization of social and political forces.”

In more concrete terms, Burris (1980: 29) divides the middle new class in four general categories

depending upon their major function with respect to the capital accumulation process. 1. The supervision and control of the labor process: managers, foremen, technical supervisors, etc. 2. The reproduction of capitalist social relations: teachers, social workers, health professionals, state administrators, lawyers, cultural workers, etc. 3. The accounting and realization of value: professionals in advertising, sales, accounting, banking, finance, insurance, etc. 4. The transformation of the technical means of production: scientists, engineers, research technicians, etc.

Calinicos (2006) argues that as the new middle class (managers, supervisors, and semi-autonomous employees) occupy contradictory class locations that “pull them in two directions—in the case of managers and supervisors away from or towards the bourgeoisie and the proletariat, in the case of semi-autonomous employees away from or towards the petitbourgeoisie and the proletariat”, they are “not a class in the sense that the bourgeoisie or the proletariat are a class”. According to Carchedi (1987b: 119), “the new middle class’s structural interests are contradictory since this class partly performs the function of labor (i.e., it carries out the labor process) and partly performs the function of capital (i.e., it carries out the work of control and surveillance within the production process).”

The question of the middle class has been, and still is, one of the major topics of concern of non-Marxists. In general terms, non-Marxists define the middle class on the basis of income and levels of consumption.<sup>190</sup> The discussion between the non-Marxists is to determine where to put the boundaries. On the basis of the household surveys of 13 developing countries, Banerjee & Duflo (2007: 1-5) define the middle classes as those whose daily consumption per capita is between 2 USD and 4 USD or between 6 USD and 10 USD (at purchasing power parity exchange rates). The authors use two different ranges in order to be able to locate the middle class between the 20<sup>th</sup> and the 80<sup>th</sup> percentile of income, given the income particularities of the countries in the survey. As a consequence of this ‘methodology’, the working class is eliminated. One is either poor, middle class, or rich. Along the same line of thought Kapsos & Bourmpoula elaborate on a model for

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<sup>190</sup> Apart from the non-Marxist authors presented in this section, see also Cárdenas, Kharas & Henao (2011), Castellani, Parent & Zentero (2014) and OECD (2011: 58-60).

generating national estimates and projections of the distribution of the employed across five economic classes for 142 developing countries over the period 1991 to 2017. After having described the works of other authors on defining class on the basis of income and consumption, the authors choose to define five economic classes on the basis of per capita household consumption (at purchasing power parity): (i) the extreme working poor (below 1.25 USD); the moderate working poor (between 1.25 USD and 2 USD); the near poor workers (between 2 USD and 4 USD); the developing middle class workers (between 4 US dollar and 13 US US dollar); the developed middle class; and, the upper middle class (above 13 USD) (Kapsos & Bourmpoula, 2013: 4). Ravallion (2009: 446) determines the boundaries by starting from the premise “that middle class living standards begin when poverty ends [...] The developing world’s middle class is defined as those who are not deemed ‘poor’ by the standards of developing countries but are still poor by the standards of rich countries”. For the upper bound the paper uses the poverty line of the United States. The lower boundary is defined as the median amongst 70 national poverty lines for developing countries.

### **3.2.3. The working class**

“The proletariat is that class in society which lives entirely from the sale of its labor and does not draw profit from any kind of capital; whose weal and woe, whose life and death, whose sole existence depends on the demand for labour—hence, on the changing state of business, on the vagaries of unbridled competition. The proletariat, or the class of proletarians, is, in a word, the working class of the 19<sup>th</sup> century.” (Engels, 1847) The working class, i.e. a class of labourers, lives “only so long as they find work, and who find work only so long as their labour increases capital. These labourers, who must sell themselves piecemeal, are a commodity, like every other article of commerce, and are consequently exposed to all the vicissitudes of competition, to all the fluctuations of the market” (Marx & Engels, 1980: 53)



Wright (1993: 96-97) defines the working class

as those positions which: (a) occupy the working class position within the social relations of production, i.e. wage labour which is excluded from control over money capital, physical capital and labour power; or, (b) are linked directly to the working class through immediate family or class trajectories, or, (c) occupy working class positions within political and ideological apparatuses, i.e. positions which are excluded from either the creation or execution of state policy and ideology.

The deciding issue for determining if one belongs to the working class is one's role in the social division of labour instead of one's function in the technical division of labour (Poulantzas, 1976b: 211, 224). This means, for instance, although foremen may technically do the same work the "ordinary" worker, they are not part of the working class. Their function as supervisor is determinant. In the same line, engineers and technicians are not working class because their political and ideological function is to subordinate the working class to capital.

The discussion on the definition of the working class has largely been determined by the issue of productive and unproductive labour. Poulantzas (1973) argued that "in the capitalist mode of production, productive labour is that which (always on the basis of use value) produces exchange value in the form *commodities*, and so *surplus value*. It is precisely in this way that the *working class* is economically defined in the capitalist mode of production: productive labour relates directly to the division between classes in the relations of production".<sup>191</sup> In regards to the workers in the service sector *in general*, Poulantzas (1976b: 197) writes that "it is considered, in short, as unproductive jobs which take the form of *services* whose products or activities are consumed directly as *use values* that are not exchanged for capital but for income" (Poulantzas, 1976b: 197). However, "some types of jobs seem to correspond to the process of circulation and can be performed by commercial companies, while in fact they increase the exchange value as a commodity on the basis of their capitalist use value, and are, therefore, producers of surplus value, thus a part of their agents are working class" (Poulantzas, 1976b: 197).

Poulantzas' point of view seems to be similar to Marx's definition of productive labour, although Marx considered intellectual labour not necessarily as unproductive

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<sup>191</sup> See also Poulantzas (1976b: 196).

labour. Marx (1973a: 487): “That labourer alone is productive, who produces surplus value for the capitalist, and thus works for the self-expansion of capital. If we may take an example from outside the sphere of production of material objects, a schoolmaster is a productive labourer when, in addition to belabouring the heads of his scholars, he works like a horse to enrich the school proprietor.”<sup>192</sup>

Our point of view on the issue of productive and non-productive labour in relation to the working class is described by O’Connor, Przeworski and Carchedi. O’ Connor (1975: 312): “To conclude, productive labour reproduces and expands the means of production and also the control of the boss over the labor process and the workers who engage in this process. These means of production are not only instruments required to produce things but also things that are required to use workers as instruments.” According to Przeworski (1977: 393), “productive labour is ‘all labor which creates, modifies, or conserves use values or which is technically indispensable for realizing them’” Carchedi (1987a: 133) considers productive labour not only as labour that changes material use values, but also “when the use values are preserved (prevented from deteriorating) and brought to the place of consumption”. Carchedi (1987a: 185) states that it is wrong to claim that “productive labour can only be labour that produces material goods”. The relation between material and mental labour with respect to the question of productive labour is described as follows:

What does this mean for the definition of productive labour? It means that the material process, i.e. the labour process in which the material transformations are determinant of the mental ones is productive in a capitalist sense (i.e. of value and thus surplus value) when this labour process is carried out for a profit and when the transformation of material use values refers to the determinant transformation within this labour process (in this labour process there are also mental transformations and these, in their turn, require the transformation of the material aids to mental transformation; these are necessary elements of the labour process but are not necessary logical requirements for this process to be identified as productive of surplus value)” (Carchedi, 1987a: 189).

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<sup>192</sup> Lenin talks about “unproductive population” instead of unproductive labour. Lenin (1974a: 464-465): “Now the question is how to distribute the commercial and industrial and the unproductive population. The latter group contains sections of the population who obviously belong to the big bourgeoisie: all the rentiers (“living on income from capital and real estate”—first subdivision of group 14 in our statistics: 900,000), then part of the bourgeois intelligentsia, the high military and civil officials, etc. Altogether, these will number about 1 1/2 million. At the opposite pole of this group of unproductive population are the lower ranks of the army, navy, gendarmerie and police (about 1.3 million), domestics and numerous servants (about 1/2 million altogether), nearly 1/2 million beggars, tramps, etc., etc.”

### 3.2.4. The peasantry

In his *Preface* to the second edition of *The Peasant War in Germany* (1870), Engels wrote:

The small peasants (bigger peasants belong to the bourgeoisie) are not homogeneous. They are either in serfdom bound to their lords and masters, and inasmuch as the bourgeoisie has failed to do its duty in freeing those people from serfdom, it will not be difficult to convince them that salvation, for them, can be expected only from the working class; or they are tenants, whose situation is almost equal to that of the Irish. Rents are so high that even in times of normal crops the peasant and his family can hardly eke out a bare existence; when the crops are bad, he virtually starves. When he is unable to pay his rent, he is entirely at the mercy of the landlord. [...] There is another group of peasants, those who own a small piece of land. In most cases they are so burdened with mortgages that their dependence upon the usurer is equal to the dependence of the tenant upon the landlord. What they earn is practically a meager wage, which, since good and bad crops alternate, is highly uncertain. These people cannot have the least hope of getting anything out of the bourgeoisie, because it is the bourgeoisie, the capitalist usurers, that squeeze the life-blood out of them. Still, the peasants cling to their property, though in reality it does not belong to them, but to the usurers. [...] Wherever middle and large land ownership prevails, the wage-workers of the land form the most numerous class. This is the case throughout the entire north and east of Germany, and it is here that the industrial workers of the city find their most numerous and natural allies. In the same way as the capitalist is opposed to the industrial worker, the large landowner or large tenant is opposed to the wage-workers of the land.

The peasantry is considered to be the most heterogeneous class. According to Mintz (1973: 94-95), “however total a peasant society may appear to be, its members rarely—if ever—may be said to compose the entire fabric of rural life. Various modes of share-tenure, sharecropping, squatting, etc., all of which both throw light upon, and complicate, the definitional problem, are typical of peasant societies”. Bernstein (2012, 159-160) argues that the big diversity of ‘working classes’ in the rural areas makes it impossible to find a common social relationship in relation to capital.

In his work *El desarrollo del capitalismo en Rusia*, Lenin made a distinction between various groups within the “mass of peasants”, i.e. excluding the landlords. Lenin (1974a: 464):

In the peasant mass of 97 million, however, one must distinguish three main groups: the bottom group—the proletarian and semi-proletarian strata of the population; the middle

group—the poor small peasant farmers; and the top group—the well-to-do small peasant farmers. We have analysed above the main economic features of these groups as distinct class elements. The bottom group is the property-less population, which earns its livelihood mainly, or half of it, by the *sale of labour-power*. The middle group comprises the poor small peasant farmers, as the middle peasant, even in the best of years, barely manages to make ends meet, but the *principal* means of livelihood of this group is “independent” (supposedly independent, of course) *small-scale farming*. Finally, the top group consists of the well-to-do small peasant farmers, who exploit more or less considerable numbers of allotment-holding farm labourers and day labourers and all sorts of wage-labourers in general.

Foladori (1986: 109) believes that peasants are proletarians with land instead of peasants that sell a part of their labour-power. The tendency of the peasantry is to prefer salaried work. The class character of the peasantry depends upon numerous particular circumstances: (i) the amount of time that the peasant sells his labour-power; (ii) the regularity that the peasant sells his labour-power; (iii) the relative importance of direct labour, i.e. ‘the work in the field’, for the total income of the peasant; (iv) the levels of dependency of capital; and, (v) the forms of capital that controls the peasants’ own direct production.

### **3.3. Class consciousness**

The issue of class consciousness has been subject to debates inside and outside Marxist circles. It was discussed if, for instance, the social consciousness of the working class decided if the working class existed as a class as such. It has also been debated in relation to what has been called false consciousness. According to Jakubowski, false consciousness corresponds “to a particular social situation, to a position in society from which correct knowledge is impossible. Ideas are, however, ‘correct’ in the extent to which they are the adequate expression of their own particular social position; but at the same time, the objective falsity of consciousness is expressed by this very particularity.”

Georg Lukács’ book *Historia y conciencia de clase* might be considered as one of the principal works written by a Marxist on the question of class consciousness. The book leaves us, however, with a very simplistic impression of how class consciousness emerges. According to Lukács, there exist a difference between the laws that govern society and the

knowledge about society. The bourgeoisie has a false consciousness because it is not able to understand the laws of capitalist development. If it would comprehend these laws, it would come to the conclusion that its class should be eradicated.<sup>193</sup> The working class is able to obtain a correct class consciousness because it has a historical interest in eliminating class society. From this it follows that class consciousness is “*the sense to become conscious of the historical role of the class*” (Lukács, 1970: 102).

The position of the proletariat in society, as Jakubowski (1936) argues, does not necessarily mean that the proletariat has a “non-reified proletarian class consciousness”. For this to occur, it should

“also recognise the theoretical conclusions which Marx and Engels came to, on the basis of the following steps:

- 1) The class struggle and its socio-economic foundations.
- 2) The historical and transitory character of capitalism.
- 3) Capitalism supplying the lever for its own defeat, in the shape of the proletariat.
- 4) The proletariat’s distinction from all other revolutionary classes in that its rule does not lead to a new form of exploitation; it can only free itself by freeing the whole of society at the same time.
- 5) The proletariat’s use of its own class rule to socialise the means of production so that classes actually disappear (and with them the state, the expression of class struggle) (Jakubowski, 1936).

Ollman (1993) defines class consciousness —and I am in agreement with this definition— in the following terms:

Class consciousness [...] differs from the actual consciousness of each individual in the group in three ways; (1) it is a group consciousness, a way of thinking and a thought content, that develops through the individuals in the group interacting with each other and with opposing groups in situations that are peculiar to the class; (2) it is a consciousness that has its main point of reference in the situation and objective interests of a class, viewed functionally, and not in the declared subjective interests of individual class members [...];

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<sup>193</sup> Lukács (1970: 84): “The class consciousness of the bourgeoisie may well be able to reflect all the problems of organisation entailed by its hegemony and by the capitalist transformation and penetration of total production. But it becomes obscured as soon as it is called upon to face problems that remain within its jurisdiction but which point beyond the limits of capitalism.”

and (3) it is in its essence a process, a movement from wherever a group begins in its consciousness of itself to the consciousness appropriate to its situation. In other words, the process of becoming class conscious is not external to what class consciousness is but instead is at the centre of what it is all about.”<sup>194</sup> Wright (1989, 272ff2) defines class consciousness as “the understanding by people within a class of their class interests”. In another work, Wright (2000: 195) understands class consciousness “as the subjective processes with a class content that shape intentional choices with respect to [...] [class] interests and [class] struggles.

Class consciousness exists or does not exist. On this point I am in agreement with Callinicos (2004a: 176) who writes:

The inconsistencies in working-class attitudes noted by Michael Mann are a reflection of class struggle. The ‘means of mental production’ —the education system, the mass media etc.— do not so much induce in workers a systematically false consciousness as prevent the formation of a coherent revolutionary class-consciousness, in particular by impeding the kind of theoretical reflection which would be necessary to remove inconsistencies and to arrive at a coherent analysis of existing society.

According to Petras (1986: 193), the social and political organizations within which the individual operates,

the struggles in which he or she is involved, and the global existing relations between conflicting classes and the state, are indeed the decisive determinants of class consciousness. This awareness is based on the class struggle, and this, in turn, is rooted in class consciousness”. Marshall (1983: 288-289) considers that consciousness cannot be studied in isolation as it is a relational concept; “it must be investigated as a component or dimension of everyday class practices.

The classification by Giddens (2000: 128) of class consciousness in three distinct levels (identity of class, the recognition of opposing interests with another class or other classes and revolutionary class consciousness) is interesting as it indicates a possible process towards the attainment of class consciousness as defined by Ollman. The consciousness of class conflict (the recognition of the opposition of interests) might be

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<sup>194</sup> A class conscious working class is conscious of: “[...] one’s identity and interests (subjective and objective) as members of a class, something of the dynamics of capitalism uncovered by Marx (at least enough to grasp objective interests), the broad outlines of the class struggle and where one fits into it, feelings of solidarity toward one’s own class and of rational hostility toward opposition classes (in contrast to the feelings of mutual indifference and inner-class competition that accompany alienation), and the vision of a more democratic and egalitarian society that is not only possible but that one can help bring about” (Ollman, 1993).

transformed in revolutionary class consciousness when ‘the class conflict originates in the contradiction’, i.e. when class conflict is originated in the discrepancy between an ‘existing mode and an immanent mode of industrial control’. This means that the conflict is not limited at the economic level (industrial control at the level of the company) but is elevated to the political level (Giddens, 2000: 130).

The emergence of class consciousness within the working class can be prevented, or is prevented by:

1) The dominance of the bourgeois ideology. The ideological state apparatuses promote, broaden and deepen the ideology of the dominant class.

2) The alienating effects of the labour-process (the commodification of labour-power, technical division of labour).<sup>195</sup> Labour stratification can be considered as a mechanism of capital to offset the tendency towards a unified class consciousness. As Wachtel (1974: 12) argues, “the impact of this stratification process on consciousness is to divert workers’ consciousness from a class orientation and replace it with an identification with one’s strata in society, producing status consciousness”.

3) The weakness of the revolutionary organizations and the predominance of social-democratic parties (Parkin, 1971: 143-145).

In regard to these three factors Wolpe (1970: 260) adds six more: (i) the technological changes in the character of the instruments of production lead to an ‘assimilating’ trend in occupational stratification; (ii) the development of the managerial hierarchy removes from sight the object of hatred—the capitalist boss; (iii) the availability of consumer goods leads to an equalization of lifestyles; (iv) the growing isolation accompanying mechanization; (v) the psycho-technical rather than physical nature of work; and, (vi) the rhythm of the machines which mobilizes the workers’ mind at work, in the street and on holiday.

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<sup>195</sup> According to Giddens (2000: 134), also the labour conditions of the working class contribute to a revolutionary consciousness. However, the same labour conditions can also produce a non-revolutionary consciousness.

Class consciousness is the product of a variety of interrelated factors. These factors are not only political, economic, social and ideological, but also national, international, historical and country-specific. In this sense we agree with Ollman (1993) who states that “class consciousness is a consciousness waiting to happen. It exists in potential, not an abstract potential but one rooted in a situation unfolding before our very eyes, long before the understanding of real people catches up with it”. Callinicos (2004a: 157), in discussing Lukács’ *Historia y conciencia de clase*, tells us that “treating class-consciousness as something which can be imputed to agents simply by virtue of their objective relationship to the means of production massively understates the difficulties involved in subordinate classes actually becoming collectivities. Moreover, it mistakes the role played by class-consciousness in the process: it is not the ‘objective’ property of the class but rather a means by which the latter forms itself into a collectivity”.

### **3.4. Class struggle**

The definition of class struggle has been subject to various interpretations. Marx (1871b):

On the other hand, however, every movement in which the working class comes out as a class against the ruling classes and attempts to force them by pressure from without is a political movement. For instance, the attempt in a particular factory or even a particular industry to force a shorter working day out of the capitalists by strikes, etc., is a purely economic movement. On the other hand the movement to force an eight-hour day, etc., *law* is a *political* movement. And in this way, out of the separate economic movements of the workers there grows up everywhere a *political* movement, that is to say a movement of the *class*, with the object of achieving its interests in a general form, in a form possessing a general social force of compulsion. If these movements presuppose a certain degree of previous organisation, they are themselves equally a means of the development of this organisation.

In his work *Value, price and profit* (1898) Marx wrote:

At the same time, and quite apart from the general servitude involved in the wages system, the working class ought not to exaggerate to themselves the ultimate working of these everyday struggles. They ought not to forget that they are fighting with effects, but not with the causes of those effects; that they are retarding the downward movement, but not changing its direction; that they are applying palliatives, not curing the malady. They ought, therefore, not to be exclusively absorbed in these unavoidable guerilla fights



incessantly springing up from the never ceasing encroachments of capital or changes of the market. They ought to understand that, with all the miseries it imposes upon them, the present system simultaneously engenders the *material conditions* and the *social forms* necessary for an economic reconstruction of society. Instead of the *conservative* motto: —*A fair day's wage for a fair day's work!* they ought to inscribe on their banner the *revolutionary* watchword: —*Abolition of the wages system!*

Marx believed that only when the economic struggle was converted into a political struggle, i.e. when the struggle of the working class against capital was become a struggle for itself, the battle of the working class could be defined as a class struggle. Marx (N/Db: 134): “Economic conditions had first transformed the mass of the people of the country into workers. The combination of capital has created for this mass a common situation, common interests. This mass is thus already a class as against capital, but not yet for itself. In the struggle, of which we have noted only a few phases, this mass becomes united, and constitutes itself as a class for itself. The interests it defends become class interests. But the struggle of class against class is a political struggle.”

Lenin agreed with Marx on his definition of class struggle. Lenin (1899):

But what is this class struggle? When the workers of a single factory or of a single branch of industry engage in struggle against their employer or employers, is this class struggle? No, this is only a weak embryo of it. The struggle of the workers becomes a class struggle only when all the foremost representatives of the entire working class of the whole country are conscious of themselves as a single working class and launch a struggle that is directed, not against individual employers, but against the *entire class* of capitalists and against the government that supports that class. Only when the individual worker realises that he is a member of the entire working class, only when he recognises the fact that his petty day-to-day struggle against individual employers and individual government officials is a struggle against the entire bourgeoisie and the entire government, does his struggle become a class struggle. [...] Every class struggle is a political struggle” —these famous words of Marx are not to be understood to mean that any struggle of workers against employers must *always be a political struggle*. They must be understood to mean that the struggle of the workers against the capitalists inevitably *becomes* a political struggle *insofar as* it becomes a *class struggle*.<sup>196</sup>

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<sup>196</sup> According to Wright (1993: 89, 90), a difference can be made between immediate and fundamental interests. “Immediate class interests constitute interests within a given structure of social relations; fundamental interests centre on interests which call into question the structure of social relations itself.” While the immediate economic interests are defined by market relations, the struggle for socialism reflects “the fundamental interests of the working class”.

In his work “Liberal and Marxist conceptions of the class struggle” (1913), Lenin wrote: “It is not enough that the class struggle becomes real, consistent and developed only when it embraces the sphere of politics. In politics, too, it is possible to restrict oneself to minor matters, and it is possible to go deeper, to the very foundations. Marxism recognises a class struggle as fully developed, ‘nation-wide’, *only* if it does not merely embrace politics but takes in the most significant thing in politics—the organisation of state power.”

Ollman (1993) did not consider class struggle as a ‘consciously chosen form of class behaviour’. Everything a class does that might “affect its power vis-à-vis other classes is class struggle [...] What makes the interaction of classes a ‘struggle’, however, is not the consciousness of the actors, nor even the intensity or undisguised nature of the clash, but the incompatibility of their objective interests and paths of development, both of which are inherent in the structure of capitalism itself”.

Harnecker makes a distinction between class struggle in cell form and open class struggle. Harnecker (1970: 143-144): “In other phases of its evolution, the class struggle may appear only in cell form, as in the case of isolated struggles between the workers of some factories and their employers, or the struggles that although mobilize the whole class, do not succeed to raise the struggle to the level of their own class interests; or as a *hidden* struggle, *latent*, when there is not an open struggle but latent discontent, deaf opposition deaf.”

Wright’s conceptualization of the class struggle has been subject to changes. In 1989 he defined class struggle as “the struggle between such collectively organized actors over class interests” (Wright, 1989: 272ft2). In 1993 Wright (1993: 89) defined class interests in capitalist society as “those potential objectives which become actual objectives of struggle in the absence of the mystifications and distortions of capitalist relations”. Class interests were “hypotheses about the objectives of struggles which would occur if the actors in the struggle had a scientifically correct understanding of their situations”. In 2000, Wright (2000: 192) described class struggle as the “organized forms of antagonistic class practices, i.e. practices that are directed against each other. While in the limiting case one might refer to a class struggle involving a single worker and a single capitalist, more generally class struggles involve collectivities of various sorts”.

### 3.5. Class formation

Class formation is the process that leads individuals to consider themselves part of a class. This is called class for itself. Class in itself can be determined at the level of the economic structure of a socio-economic system. Class for itself is a political decision. As Wachtel (1974: 4) puts it, class in itself and class for itself is class in an objective and subjective sense respectively.

The process of class formation implies a process of class consciousness. Otero explains this process as the political formation of class. “The political formation of class [...] refers to the process by which groups, classes, and communities define their demands (or their fighting objects), build organizations to defend and promote their interests, and establish alliances with other organizations.” (Otero, 2004: 41)

Zeitlin (1980: 3) argues that the struggle over exploitation —class struggle— conditions the relations between and within classes, and the process of class formation. In the same line of reasoning, Przeworski (1977: 397) writes that because class struggle has effects on economic, political, and ideological relations, it indirectly affects processes of class formation.<sup>197</sup> Wright (2000: 191) tells us that class formation refers “to the formation of *collectively organized social forces within class structure in pursuit of class interests*”. Class formation “does not imply that the collectively organized social forces within a class structure have any inherent tendency to develop towards revolutionary organization around ‘fundamental’ class interests. ‘Class formation’ is thus a descriptive category which encompasses a wide range of potential variations. For any given class or group of class locations one can speak of ‘strong’ or ‘weak’ class formations; unitary or fragmented class formations, counterrevolutionary or reformist class formations.”

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<sup>197</sup> It is the class struggle itself and the experiences of the individuals in the struggle that may give rise to class consciousness. It is not, as Andrew (1983: 584) argues, that “the ‘for itself’ is imputed to workers by intellectuals rather than emerging in the course of the workers’ struggle against capital.” If this would be the case, if it solely depends on the political activities of the Left, the capitalist system would have been buried a long time ago.

### 3.6. Max Weber, social stratification and functionalism

Max Weber defined classes relationally (Wright, 1996: 694). In his work *Economía y sociedad. Esbozo de sociología comprensiva*, Weber (2008: 242-244) considered a ‘class situation’ to be derived “within a determined economic order, from the magnitude and nature of the available power (or lack of it) over goods and services and the ways of its applicability to obtain revenues or income”. Class is understood as a group of human beings in an ‘equal class situation’.<sup>198</sup> The classes that can be distinguished are:

1) The proprietary class is defined as a class in which the differences between properties determine the class situation. The ‘positively privileged property classes’ are ‘typically’ the ‘rentiers’. The ‘negatively privileged property classes’ include the ‘poor’, the ‘debtors’ and the ‘*déclassés*’. Between these two classes we can find the ‘middle classes’, “which are composed of layers of all kinds that are equipped with properties or with educational qualities” and use these ‘facilities’ to obtain income. Also the ‘lucrative classes’ can stand between the mentioned classes, but not peasants, craftsmen and clerks.

2) The lucrative class is defined as a class in which the valorization of goods and services in the market determine the class situation. The ‘positive privileged lucrative classes’ are, among others, businessoperators, ship owners, industrialists, agricultural entrepreneurs, bankers and financiers, etcetera. Also workers with monopolistic skills and the liberal professions (lawyers, medics, artists) are ‘positively privileged’. The ‘negatively privileged’ typically are workers: skilled, unskilled, etcetera. Between the positively and negatively privileged we can find the ‘middle classes’ (peasants, independent artisans) and, frequently, also ‘officials’ (public and private), ‘workers with exceptional monopolistic skills’ and the ‘liberal professions’.

3) The social class is defined as the whole of class situations in which personal exchange and the succession of generations is easy and occurs typically. These classes are composed

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<sup>198</sup> According to Lewis (1981: 108), in Weber’s opinion “classes are a function of the general calculation of the life possibilities, good or bad, unfair or sources of prestige, in the rational system of capitalism”.

of the ‘proletariat as a whole’, the ‘petitbourgeoisie’, ‘intellectuals without property and professional experts’ (‘professionals’, ‘employees in commerce or of another class’, ‘bureaucrats’), the ‘property classes’ and the ‘privileged by education’.

Weber (2008: 243) does not exclude the possibility of class struggle and “class revolutions”. However, only existing opposing classes can make class struggle ‘reality’. This means that only the struggle between the oppositional forces within the property classes, i.e. between the landowners and the ‘*déclassés*’, and between the creditors and the debtors, can lead to revolutionary struggle, “however, this does *not* necessarily suggests a transformation of the economic constitution but primarily access to the property and the distribution of the same (revolutions of property classes)”.<sup>199</sup>

Wright argues that although the Marxist and Weberian class analysis have elements in common, they are fundamentally different.<sup>200</sup> Wright (1999):

Both Marxist and Weberian class analysis differ sharply from simple gradational accounts of class in which class is itself directly identified within inequalities in income since both begin with the problem of the social relations that determine the access of people to economic resources. [...] In Weberian class analysis, just as much as in Marxist class analysis, the rights and powers individuals have over productive assets defines the material basis of class relations. But for Weberian-inspired class analysis, these rights and powers are consequential primarily because of the ways they shape *life chances*, most notably life chances within market exchanges, rather than the ways they structure patterns of exploitation and domination. Control over resources affects bargaining capacity within processes of exchange and this in turn affects the results of such exchanges, especially income. Exploitation and domination are not centerpieces of this argument. [...] Where they differ is in the theoretical elaboration and specification of the implications of this common set of criteria: the Marxist model sees two causal paths being systematically generated by these relations —one operating through market exchanges and the other through the process of production itself— whereas the Weberian model traces only one causal path, and the Marxist model elaborates the mechanisms of these causal paths in terms of exploitation and domination as well as bargaining capacity within exchange whereas the Weberian model only deals with the last of these. In a sense, then, the Weberian strategy of class analysis is contained within the Marxist model.

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<sup>199</sup> In Weber’s analysis, class consciousness and class conflict “are embedded in the social structure and represent the simple recognition of one’s destiny within this structure” (Lewis, 1981: 107).

<sup>200</sup> According to Crompton (1993: 30), “at the descriptive level, Weber’s account of the ‘class structure’ of capitalist society is not too different from that of Marx, despite the fact that their identification of the *sources* of class structuring (production relationships on the one hand, market relationships on the other) *are* very different”.

In another article, Wright (2002: 846) formulates the differences between Marx and Weber as follows: “The central difference between Marx’s and Weber’s concept of class, then, is that the Weberian account revolves exclusively around market transactions, whereas the Marxist account also emphasizes the importance of conflict over the performance and appropriation of labour effort that takes place after market exchanges are contracted.” In his book *Classes*, Wright considered the difference between Marx’s and Weber’s concept of class very subtle. Wright (1985: 107):

Both Marx and Weber adopt production-based definitions in that they define classes with respect to the effective ownership of production assets: capital, raw labour and skills in Weber; capital and labour power (for the analysis of capitalism) in Marx. The difference between them is that Weber views production from the vantage point of the market exchanges in which these assets are traded, whereas Marx views production from the vantage point of the exploitation it generates, and this in turn, as I will argue below, reflects the fundamental difference between a culturalist and a materialist theory of society.

Crompton (1993: 31-32) describes the differences between Marx and Weber as follows:

[...] first, for Marx, class relationships are grounded in exploitation and domination within *production* relations, whereas for Weber, class situations reflect differing ‘life chances’ in the *market*; second, Marx’s historical materialism gives primacy to ‘class’ in historical evolution which is at odds with Weber’s perspective on historical explanation; and finally (and following from this point), whereas for Marx, class action is seen as inevitable, for Weber, classes ‘merely represent possible, and frequent, bases for communal action’ [...].

Weber’s critique on Marx has set the basis for what is called stratification theory. This critique considered that one’s position in the relations of production was not enough to determine one’s class situation as one’s position within the relations of distribution (market, lifestyle) and the relations of authority (power) did not reflect singularly the relations of ownership. As a consequence, classes as historical elements were replaced by statistical analyses on income distribution, education and prestige. The analysis of social differentiation was separated from conflict analysis (Przeworski, N/D: 16-17).

Social stratification is not based on something that does not exist. Income criteria, academic success, type of work, place of work, functions at the work place, forms of remuneration, power, authority, etcetera, may differentiate classes and, especially, class fractions. However, as Przeworski (N/D: 19) explains, classes as historical elements do not

emerge from these positions. According to Giddens (2010: 507), social stratification is the division of society in layers or strata.

Social stratification is a hierarchical ranking of individuals of a particular social system (Bresser-Pereira, 1981). Social stratification uses a gradational concept of class. Elements of social stratification might be remuneration, occupation, age, gender, race, religion and privileges, among others. The weaknesses of social stratification can be enumerated as follows:

1) It results in a static description of society as it has an “inadequate analysis of the economic aspect in the definition of social classes” and it puts “insufficient emphasis on the political conflict inherent in antagonistic relations of production” (Bresser-Pereira, 1981).

2) Multidimensional stratification ‘obscures the systematic nature of the inequality’ (Parkin, 1971: 24).

3) The theory of social stratification implies the understanding of inequality starting from its consequence and not from its causes. This differentiates it from the theory of social classes (Plaza, 2007: 31).

Functionalists define class on the basis of the concept of occupational groupings formed in the technical division of labour. The basic grouping principle in this form of sociological analysis is based on the relation to work, rather than production or consumption. Work in this context (the occupational class structure) is understood as the fundamental social institution of modern society, establishing an individual’s socioeconomic status and associated social condition and thus determining an individual’s form of social consciousness and action. The advantage of functionalist form of analysis (grouping individuals according to their occupational status—grouping the population into occupational classes) is that the concept of occupational class is easily translated into units and data of empirical analysis in terms of official labourforce categories. The problem with this form of analysis is that people do not behave or act according to their occupational

status or class; nor is their social condition and their social consciousness, or their ideology and politics, rooted in occupational class.

A common practice today is to stratify individuals according to income. The categories of this form of analysis in the tradition of social stratification are based on a statistical rather than a social grouping of the population.

### **3.7. Class and class structure in Latin America**

Studies on class and class structure in Latin America are abundant in the sense that these discuss the relation of class to the capitalist state, examine the role of the bourgeoisie in capitalist dependent countries and refer to the class project of imperialism. Marxist scholarly work and research on Latin America class and class structure is difficult to find. However, the principal scholars that have researched the Latin American class structure are Portes, Hoffman, Petras and Veltmeyer.

The class structure of the Latin American countries is influenced by the following three factors:

1) The political and economic relations between Latin America and the ‘advanced’ and ‘emerging’ (China, India, etcetera) capitalist countries. The economic relations are expressed, among others, in Latin America’s role in the international division of labour.

2) The internal and historical political, economic and social characteristics of the Latin American countries, relatively autonomous from the political, economic and social developments in the centre of the world capitalist system.

3) The geographic structure of the Latin American countries.

In his work of 1985, Portes has intended to analyze the Latin American class structure. As adequate data was not available, he added the criterion labour remuneration to the criteria control over the means of production and control over labour-power. Another problem was the question of class boundaries. Portes distinguished five social classes: (i)



the dominant class; (ii) the bureaucratic-technical class; (iii) the formal proletariat; (iv) the informal petitbourgeoisie; and, (v) the informal proletariat (Portes, 1985: 9-30).<sup>201</sup>

In 2003 Portes & Hoffman published “Latin American class structures: their composition and change during the neoliberal era”. In this article the authors elaborated on the class structure of seven Latin American countries (Brazil, Chile, Colombia, Costa Rica, El Salvador, Mexico, Panama and Venezuela). For its elaboration they used six criteria: (i) control of the means of production; (ii) control of impersonal bureaucratically organized labourforce; (iii) control over scarce and highly valued skills; (iv) control of subsidiary, technical and administrative skills; (v) protected and regulated under law; and, (vi) mode of remuneration.

The application of these six criteria on the social reality of the seven Latin American countries yields six classes: (i) capitalists; (ii) executives; (iii) elite workers; (iv) the petitbourgeoisie; (v) non-manual and manual formal proletariat; and, (vi) informal proletariat.<sup>202</sup> These six classes were regrouped in three major classes:

1) Dominant classes. This class was composed of capitalists, executives and elite workers. Portes & Hoffman (2003: 44-45):

[...] the dominant classes in Latin America are defined by control of key power-conferring resources in the capitalist market. Owners of large-scale means of production sit atop the class structure. This group, labeled capitalists, is operationally defined as large and medium-sized employers in private firms. [...] Jointly, large and medium employers, senior executives, and professionals comprise the dominant classes in all Latin American countries.

2) Petitbourgeoisie. Portes & Hoffman (2003: 45): “The principal characteristics of this group —commonly labeled microentrepreneurs— is the possession of some monetary resources; some professional, technical, or artisanal skills; and the employment of a small number of workers supervised on a direct, face-to-face basis.”

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<sup>201</sup> It should be noted that the formal petitbourgeoisie and the peasantry were not included in Portes’ class structure.

<sup>202</sup> It must be mentioned that the peasantry was not included in the analysis of Portes & Hoffman.

3) The proletariat. This class was formed by the non-manual and manual formal proletariat and the informal proletariat. Portes & Hoffman (2003: 48-50):

The formal proletariat corresponds to workers in industry, services, and agriculture who are protected by existing labour laws and covered by legally mandated systems of health care, disability, and retirement. [...] This class can be divided, in turn, into an upper-echelon composed of salaried white-collar workers and technicians and a lower one composed of blue-collar industrial and service workers and rural laborers in modern agricultural enterprises.

The informal proletariat

is defined as the sum total of own account workers (minus professionals and technicians), unpaid family workers, domestic servants, and waged workers without social security and other legal protections in industry, services, and agriculture. The vast majority of labor in microenterprises is informal, but there are also informal workers in large and medium firms. These are mostly temporary workers hired off the books and without written contracts.

In their article, Portes & Hoffman did not describe the interrelations between the classes and class fractions that made up the ‘major classes’. They also did not elaborate on the political, ideological and social role of these classes in the production and reproduction of capitalism.

In his article “La persistente importancia de las clases: una interpretación nominalista”, Portes identified two major classes: the dominant classes and the subordinate classes. The dominant classes were differentiated on the basis of economic characteristics (property and control), political features (political influence) and on empirical indicators (income). The dominant classes were composed of big capitalists, capitalists and rentiers. The subordinated classes were classified according to skills and wealth accumulation (economic characteristics), the level of individual and/or collective political influence (political characteristics), and income and occupational recognition (empirical indicators). These classes were formed by elite workers, common workers, micro entrepreneurs and the unemployed (Portes, 2003: 36-37).

As indicated above, Portes & Hoffman are not the only scholars who have occupied themselves with the Latin American class structure. We should also mention Petras and

Veltmeyer. In the following subsections we review the literature on the bourgeoisie, the middle class, the working class and the peasantry in Latin America. With the exception of the subsection on the middle class, these subsections are mainly dedicated to the work of Petras and Veltmeyer.

### **3.7.1. The bourgeoisie**

Veltmeyer & Petras (2005: n.p.) consider the ‘core’ of the capitalist class to be composed of ‘individuals connected to the big economic groups, a complex of banking, industrial, and agroexport conglomerates’. They identify the following class fractions and strata of this class:

- 1) A core of big bankers, financiers, investors and industrialists and the directors and CEOs of the multinational corporations. [...];
- 2) A stratum of policy-makers and politicians who constitute [...] the political representatives of the capitalist class. [...];
- 3) A stratum of policy analysts, development practitioners, advisors and theoreticians who constitute an imperial intelligentsia that operates primarily in the context of academe in its elite redoubts, the project of international cooperation for security and development, and diverse policy forums and foundations such as the National Security Council (NSC) and the Heritage Foundation. [...];
- 4) A stratum of ‘service’ specialists who provide the capitalists in this dominant class with all sorts of high-level services (finance, business management, corporate and tax law, accounting, etc.)” (Petras & Veltmeyer, 2011b: 106);
- 5) A fraction of “a propertied and entrepreneurial class that is well connected to the local political establishments as well as to the international financial institutions (IFIs) and multinational corporations that dominate the global economy” (Veltmeyer & Petras, 2005, n.p.).

The increasing political and economic importance of transnational corporations in Latin America has led Robinson (2010: 166, 170) to conclude that the dominant class fraction in Latin America is the transnational class fraction. This class is tied to the global economy and became the dominant fraction within the dominant classes of Latin America in the course of the 1980s and 1990s. It is “comprised of the owners and managers of the

TNCs and the private transnational institutions that drive the global economy” (Robinson, 2010: 29).

According to Robinson (2010: 170-171), the

in-country agents of global capitalism, become integrated organically as local contingents into the transnational elite. Capitalist globalization could not have unfolded in Latin America without such agents who could undertake structural adjustments and oversee an institutional transformation. These new transnationally oriented economic groups and political elites captured state power in country after country during the 1980s and 1990s, and used that power to integrate their countries into the emerging global economy and society. They are the manifest agents of capitalist globalization in Latin America.

### **3.7.2. The middle class**

The Latin American middle class has been mainly defined on the basis of income. Hopenhayn (2010: 18-19) argues that although one might use income categories, occupational categories and the consumption level, it is still very difficult to determine and measure the middle class. To compare the middle class between countries is even harder because of Latin America’s heterogeneity regarding its income and production structure, among others. Notwithstanding these limitations, Hopenhayn (2010: 27-28) uses income categories to define the middle class (four times the urban poverty line) and concluded that the increase of national income has changed the composition of the middle class.

On the basis of knowledge differentials, Mora y Araujo (2010: 149-150) divided the middle class into a competitive and non-competitive middle class. The middle class of the 20<sup>th</sup> century had knowledge but did not have capital (non-competitive middle class). The middle class of the 21<sup>st</sup> has knowledge and this knowledge has become an asset, i.e. capital (competitive middle class). This middle class does not constitute a new proletariat “but a new class of holders of a capital resource that has become critical and essential for the logic of the current economic system” (Mora y Araujo, 2010: 155). The type of occupation is not relevant anymore to determine the class boundaries of the middle class, but income and the expectation to have a middle class lifestyle (Mora y Araujo, 2010: 156).

Arellano Cueva (2010b: 202-205) argues that class differentiations lack scientific grounding. First of all, a precise class definition does not exist. Second, there is no uniform

measure to determine classes within every country in particular. Third, a diversity of denominations is in use to define the socio-economic levels between countries. Fourth, every country uses different criteria for socioeconomic classification. Hence it is not possible to compare countries.<sup>203</sup> All these problems might be overcome and the social structures of the Latin American countries might be compared when one uses the Latin American lifestyles.<sup>204</sup> In order to proceed, Arrelano Cueva (2010b: 206-213, 221) classifies individuals in six categories: (i) the sophisticated (men and women); (ii) the progressives (men); (iii) the modern (women); (iv) the adapted (men); (v) the conservatives (women); and, (vi) the 'resigned' (men and women). On the basis of these six categories, Arellano Cueva concludes that you cannot talk about one middle class but, rather, of three middle classes: (i) the traditional emerging middle class, a social group that appeared with the economic and social growth in the 1960s ("inner-city middle-class, westernized, living in traditional neighbourhoods and fervent guardians of the status quo"); (ii) the traditional submerging middle class, a social group that appeared in the 1950s ("predominantly employees, city dwellers, westernized, living in traditional neighbourhoods near the high class to which they wanted to belong"); and, (iii) the new diverging middle class, a social group that emerged as a result of the great tide of migration to the cities that started in the 1960s ('a typical member' of this social group is a "shop-keeper or small business owner or, at its inception, an employee of these").<sup>205</sup>

In the book *Economic mobility and the rise of the Latin American middle class* edited by the World Bank, the Latin American middle class is defined on the basis of income categories. The middle class thresholds are 10 US dollar and 50 US dollar per capita per day (at Purchasing Power Parity; PPP for its acronym). The capitalist class, the working class and the peasantry were replaced by the lower class (poor), vulnerable class (not poor and not middle class) and the upper class (Ferreira, et.al, 2013: 29-37).

Castellani & Parent (2011: 14) intend to determine the size of the middle class on the basis of income. They compare four different forms of measuring the middle class: (i) a

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<sup>203</sup> See also Arellano Cueva (2010a: 23-25).

<sup>204</sup> According to Arrelano Cueva (2010a: 15, 30, 69), the poor are not completely different from the middle class and the upper classes. Given social change in Latin America in the last thirty years, Arrelano Cueva argues, life styles are a more adequate expression of the wealth of individuals than the income pyramid of the poor and the rich. Income is not the only factor that determines who or what individuals are.

<sup>205</sup> See for these 'lifestyles also, Arellano Cueva (2010a: 72-100).

PPP-based definition 2-20 US dollar (purchasing power parity of the year 2005) per capita per day; (ii) a distribution-based definition: leaving out the poorest and the richest quintiles; (iii) a median income-based definition: 50-150 per cent of median income (poverty is defined as 50-60 per cent of median income); (iv) a poverty-line-based definition: lower bound is the national poverty line (national, urban); and, the upper bound is set as a multiple (3 times) of the national poverty line.

The definitions of the Latin American middle class based on income categories are very flexible. By just changing the boundaries the size of the middle class increases or diminishes.<sup>206</sup> It seems that these definitions serve more political and ideological objectives than sociological purposes. An income definition of the middle class makes it possible to sustain that poverty has disappeared and that Latin America has converted into a middle class society. As a consequence, there is no conflict anymore over the possession of the means of production and exploitation has become an outdated concept.<sup>207</sup>

Marxists have also tried to define the Latin American middle class. Veltmeyer and Petras (2005: n/p) include professionals and the owners of small businesses and landholdings (formal and informal). Professionals are described as individuals that “provide a broad range of intellectual services, from the semiprofessional services of teachers, technicians, social workers, bureaucrats, and managers of office work to the professional and high-level management and business services provided by the legion of well-paid functionaries (of capital as well as government)”. Torres-Rivas (1988: 50) argues that the middle class in Latin America cannot be compared with the middle class in the ‘advanced’ capitalist countries. It cannot be conceptualized as a class that “oscillates between” the bourgeoisie and the proletariat, but is a “new type of mass that actively incorporates itself as a consumer of *status* that reinforces its conformism”.<sup>208</sup>

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<sup>206</sup> In the presentation of a book on the Peruvian middle class (Gamero & Zeballos, 2003: 12) it was stated that the Peruvian middle class was formed by all those families whose average monthly income ranged between 426 US dollar and 1.224 US dollar. In one of the articles included in this book, the average income of the middle class in Lima was considered to be fluctuating between 536 US dollar and 955 US dollar (Adriánzén M., 2003: 173).

<sup>207</sup> For a critique in the same line of reasoning, see Lynch (2013: 10-11).

<sup>208</sup> Torres-Rivas (1988: 50) politically divides the middle class in a small group of intellectuals that adheres to the “revolution” and the “immense majority” that follow the political parties and the behaviour of the bourgeoisie or “takes refuge in apolitical apathy”.

### **3.7.3. The working class**

The Latin American working class can be divided into workers that labour in the formal and informal sector. The labourers in the informal sector are the largest component of the working class (Veltmeyer & Petras, 2005: n.p.). The informal proletariat

is characterized by a diverse mix of production relations: irregular and nonstandard forms of wage labour for operators of small and unstable enterprises; part-time or casual labor without the benefit and protection of a legal contract; wage labour for subcontractors; self-employment (namely, the operation of unregulated micro-enterprises producing or selling goods and services from the home, in makeshift workplaces, and in the streets); domestic services to middle-class and bourgeois households; and an array of illegal activities ranging from petty thievery, burglary, and smuggling to the manufacture, distribution, and sale of drugs (Veltmeyer & Petras, 2005: n.p.).

### **3.7.4. The peasantry**

Peasants are comprised of ‘communities or household units of agricultural production’ that “do not owe their conditions of existence to the functioning of the capitalist mode of production and thus are insulated from the class relations and institutions of capitalist society” (Veltmeyer, 1983: 208). Some have considerable property, some have less and others have no property at all (Veltmeyer, 2003: 44).

The peasantry can be divided in ‘peasants’, petitbourgeoisie (small landowners incorporated in the capitalist system), the rural proletariat (rural working class) and the semiproletariat. This last category is composed of the “mass of dispossessed peasants, together with all those who combine subsistence/petty commodity production with seasonal or casual wage labour” (Veltmeyer, 1983: 209).

In his article with Petras, Veltmeyer (Veltmeyer & Petras, 2005: n.p.) divided the peasantry in:

- 1) A rural proletariat that works in capitalist agribusiness companies.
- 2) A class of smallholders “composed of individuals and households involved in farming or work under diverse relations of subsistence, independent commodity production,

sharecropping, and other forms of tenancy (including, as in the case of indigenous communities in Bolivia, Ecuador, Guatemala and Mexico, various forms of communal tenure)".

3) The semiproletariat, 'who make up the majority of direct producers in most countries'.

4) Landless workers.

### **3.8. Class and class structure in Peru**

Academic works on class and class structure in Peru written in the 1980s and 1990s and about the 1980s and 1990s are difficult to find.<sup>209</sup> Benavides (2007: 121) states that Peruvian sociology has not been very active in empirically studying the problems of social stratification in general or social classes in particular. According to Balbi Scarneo & Arámbulo Quiroz (2009: 299), no work has been done on the evolution of social stratification in Peru.

The work of one of Peru's most important sociologists, Anibal Quijano, on the emergence of what might be called the marginal strata, "'Polo marginal' y 'mano de obra marginal'", dates from the 1970s. The most famous book of the Peruvian sociologist Julio Cotler, *Clases, estado y nación en el Perú*, was published in 1978. The publication of Paredes Macedo on social classes in the countryside dates from 1976.<sup>210</sup> In her article "Las clases medias en las ciencias sociales", Fuller Osorio (1998: 453) mentioned Parker as the person who has "most thoroughly studied the urban middle class in Peru". The article of Parker, however, is about white-collar workers at the beginning of the 20th century.

In 2007 appeared *Clases sociales en el Perú. Visiones y trayectorias*. This book, edited by Plaza (2007), seems to be a new beginning or a reintroduction of the class debate in Peru (Pozo Buleje, 2009: 223).

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<sup>209</sup> According to the Peruvian revolutionary intellectual César Riso, the big debates were in the 1960s and 1970s. In the 1980s, "there are no profound studies anymore".

<sup>210</sup> For his article, Paredes Macedo used data from the beginning of the 1960s.



In Plaza's book the relative lack of studies and debate on Peruvian class and class structure are clearly demonstrated.<sup>211</sup> Balbi Scarneo & Arámbulo Quiroz (2009: 287) argue, for instance, that the evolution of the class structure in Peru from a highly structured society based on status towards a class society has been truncated (Balbi Scarneo & Arámbulo Quiroz, 2009: 287). Benavides (2007: 132) believes that Peruvian society is 'only partially organized in terms of classes'. Adrianzén M.(2011: 58) thinks that only for a short time Peruvian society was organized in classes. Castro (2007: 201) writes that classes and the state, in contrast to the Marxist concepts of class and the state, and Marxist political economy, "do not pertain to common spheres". Marx's class theory cannot be applied to current societies as a lot has changed since Marx's time (Castro, 2007: 204, 216). It seems that Castro has completely missed the development of Marxist class theory in the 'advanced' capitalist countries. In addition, it should be underlined that Weber and Giddens are also not relevant for Castro. Peru is completely different from England and Germany.

Notwithstanding the scarcity of studies on class and class structure in the 1980s and 1990s, it is possible to get an overall impression of the debate on class in Peru. In 1980 for instance, García Sayán (1980) elaborated on social classes in the Peruvian countryside.<sup>212</sup> In the context of the emergence of a rural oriented guerrilla organization, the Communist

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<sup>211</sup> Already some years before Plaza's book the consequences of the lack of studies and debate on class became crystal clear. In 1989 Jurado published an article in which it was argued that the peasantry "unlikely becomes a social class" because of its "chronic incapacity to accumulate" and its "confinement to simple mercantile reproduction" (Jurado, 1989: 71). Unfortunately Jurado did not provide a general definition of class.

<sup>212</sup> The work of García Sayán is for a part dedicated to a review of Paredes Macedo's article on social classes in the countryside. Paredes Macedo (1976: 9-11, 33-34, 37, 41, 46) differentiated between urban classes and rural classes. In the urban areas the author distinguished four classes: (i) the big intermediate bourgeoisie ("big bureaucratic capitalists, a creation of imperialism" that facilitates "the penetration of foreign monopolistic capital"); (ii) the national or middle bourgeoisie ("many of them depend on loans or the import of yankee-machines for the elaboration of their products and have contradictions with imperialism because of competition"); (iii) the petitbourgeoisie (artisans, small businessmen, professionals, students, etc.); and, (iv) the proletariat. In the rural area three classes could be distinguished: landlords, peasants and the rural proletariat. The peasants could be divided in three strata: (i) rich peasants or rural bourgeoisie; (ii) middle peasants; and, (iii) poor peasants. The rich peasants not only exploit labour-power and the extension of their land exceeds the necessities of their families, they also exploit their own labour-power. The middle peasants possess modest land extensions. Generally they do not hire labour-power, only for short periods and on a very small scale. Some of the middle peasants are forced to sell their labour-power as their land is not sufficient to satisfy their necessities. The poor peasants are the semi-proletarians of the countryside. They do not possess land or only a very small extension and are forced to sell their labour-power. These peasants are subject to feudal relations and exchange their labour-power for the possession of a small piece of land. The rural proletariat consists of all those individuals that live, exclusively, on the selling of their labour-power to middle and big farms that use capitalist production methods.

Party of Peru-Shining Path (*Partido Comunista del Perú-Sendero Luminoso*; PCP-SL for its acronym in Spanish), the García Sayán text is of considerable interest, although —and this is one of its weaknesses— the text does not provide data that might sustain the author’s arguments and help to clarify the class boundaries between the different classes, class fractions and strata in the Peruvian countryside.<sup>213</sup>

García Sayán (1980: 73) identified four classes. These classes were: the bourgeoisie, the landlords, the peasantry and the proletariat.

The bourgeoisie was divided in two class fractions: the big bourgeoisie and the rural bourgeoisie. The big bourgeoisie is active in three sectors: industry, commerce and finance. It exploits rural labour-power, it benefits from unequal exchange between agricultural and industrial products and it controls the commercialization of agricultural products. The rural bourgeoisie exploits labour-power but does not have monopolistic or oligopolistic power. It can be divided in a middle bourgeoisie and a petitbourgeoisie. The middle bourgeoisie makes a substantial profit but the size of its companies is not big. The petitbourgeoisie is smaller than the middle bourgeoisie. It has fewer workers at its disposal and the extension of its land is smaller (García Sayan, 1980: 73-77).

The peasantry was composed of several strata. According to its income and its possibility to hire labour-power, the following strata can be identified: top layer, intermediate layer and inferior layer. The top layer has the possibility to hire labour-power, it has land in sufficient extension and of sufficient quality, and it is able to buy fertilizers and farming instruments, among others. However, most of the times its products are sold below production costs. This layer does not make any profits or only very small profits. The intermediate layer is able to maintain his family but cannot save. The inferior layer does not possess land or merely of low quality land and of little extension. The agricultural activity of the inferior layer is to provide food for its family (García Sayan, 1980: 81, 83).

In 1989 Montoya published *Lucha por la tierra, reformas agrarias y capitalismo en el Perú del Siglo XX*. In order to demonstrate the complexity of class, Montoya (1989:80-81) distinguished 18 class fractions within the ‘basic classes’ that make up society.

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<sup>213</sup> García Sayán (1980: 73) admits this weakness.

Unfortunately, Montoya did not define class and did not provide data to sustain his arguments regarding the class composition of Peru.

In 1994 Iziga Núñez edited *Peru: sociología, clases sociales y sociedad*. It is a volume of various essays written by a heterogeneous set of Peruvians in different periods and previously published elsewhere. It includes essays from 1942, 1960, 1963 and 1971, among others. The introduction is written by Iziga Núñez (1994: 21).

In the introduction Iziga Núñez presents his definition of class. This definition is similar to Lenin's definition, with the exception that Iziga Núñez (1994: 21, 22-24) adds three more criteria: (i) class struggle; (ii) the development of the organization/ideology-class consciousness; and (iii) belonging to the superstructure.

Iziga Núñez distinguished class, class fractions, social layers, social strata and social categories. His definition of class fractions and social categories is the same as Poulantzas. Social layers are located outside production, for instance the labour aristocracy and certain layers of the petitbourgeoisie such as teachers, the state bureaucracy, intellectuals, professionals, etcetera Social strata are used to make distinctions within the production class (workers and peasantry) on the basis of its industrial activities and land ownership: workers in fabrics, mine workers, workers in construction, and poor, medium and accommodated peasants.

Iziga Núñez (1994: 25-28, 31-32, 67) defined four classes:

1) The bourgeoisie is defined as modern capitalists, owners of the means of production and employers of salaried workers. Three class fractions can be identified: the industrial, the commercial and the financial fraction of the bourgeoisie. The bourgeoisie can also be subdivided on the basis of capital owned/controlled and/or the size of landownership: big bourgeoisie (most important capital groups in society), emerging bourgeoisie (emerged in the 1950s, entrepreneurs, often informal and to be considered as a possible future national bourgeoisie), middle bourgeoisie (this group is located in the lower part of the emerging bourgeoisie and the higher part of the petitbourgeoisie) and the petitbourgeoisie.

2) The petitbourgeoisie can be divided in class fractions, social layers and social categories such as small industrial companies, small businessmen, shopkeepers, professionals, state bureaucracy, poets, the military, and university professors, among others.

3) The proletariat is composed of salaried workers and can be divided in a diversity of social strata such as industrial workers, mine workers, agroindustrial workers, etcetera.

4) The peasantry is divided in four classes: (i) the rural bourgeoisie (the monopolistic and oligopolistic bourgeoisie, the middle bourgeoisie and the petitbourgeoisie); (ii) the landowners (small and medium sized), (iii) the peasants; and (iv) the proletariat. The peasants can be divided in poor, medium and accommodated peasants. As the poor peasants also have to sell their labour-power, they can be called semi-peasantry or semiproletariat.

The volume edited by Izinga Núñez includes essays that discuss specific issues related to class. In “Estrato marginal”, Quijano (1994) delves into the issue of individuals that are excluded from the labour market and do not have sufficient income to fully access goods and services.<sup>214</sup>

The lumpenproletariat forms also part of the marginal stratum (Quijano, 1994: 207-208). The individuals belonging to this stratum are exploited by the bourgeoisie, the petitbourgeoisie and the state (Quijano, 1994: 219). Sinesio López argues that the Peruvian economic crisis of the 1980s led to processes of *descampesinización* without proletarianisation, deproletarianisation and informalization of the popular classes, and the pauperization of the middle classes (López, 1994: 336).

In 2003 the Peruvian nongovernmental organization Desco published *Perú Hoy. La clase media ¿existe?* The book is composed of various essays about the Peruvian middle class. Some articles are re-editions. The most interesting work is the article of Zolezzi

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<sup>214</sup> In his work ““Polo marginal” y “mano de obra marginal”, the marginalized work force is considered to be a sub-class of the proletariat (Quijano, 2014a: 163). Ipola & Tornada (1976: 170, 184, 207) call this stratum subproletariat.

Chocano (2003: 189-190) who argues that one cannot comprehend the middle class if one puts emphasis on consumption, income, access to credit, status and education, among others. Social classes should be explained as historical products, tied to productive structures, power relations and “fully defined by their cultural connotations”.

In his article, Zolezzi Chocano intends to characterize the new middle class in Peru. This class is the product of the agrarian reform implemented during the military dictatorship of Velasco and the migration to the cities in the period 1970-2000. The individuals that pertain to this class work as small businessmen, small industrialists, temporary labourers, artisans and promoters of small companies. This class is not ascending but expanding (Zolezzi Chocano, 2003: 193, 204).

### **3.9. Conclusions**

Classes can be defined economically, at the level of the production relations, at the highest level of abstraction, i.e. at the level of the mode of production. At the level of the economic structure of the capitalist socioeconomic system at the periphery of the world capitalist system, the definition should include political and ideological elements. Further down on the scale of abstraction, the analysis of classes in society may introduce social stratification. At the level of a social situation, as Dos Santos argues, the analysis is “not purely empirical but scientific because it knows the determinations that explain this immediate or ‘apparent reality’”. The analysis of class at the level of the conjuncture is the most concrete level of analysis. In this dissertation we analyse classes at the level of the economic structure.

In chapter 2 it was discussed that a social formation may be composed of several modes of production. As to a particular mode of production, to which there ‘corresponds’ particular social relations of production, class structures differ among and within social formations. In general terms, the class structure of society is derived from the whole of production relations. The class structure defines, as Wright argues, ‘the potential actors in the class struggle’ and ‘the range of potential objectives of class struggle’.

The class structure is not static but dynamic. It is the class struggle that, as outlined by Prezworski, modifies “the system of production out of which classes are formed”. The relation between class struggle and class structure is a dialectical relation.

The analysis of the evolution of the Peruvian class structure in the last thirty-five years is a challenging and enormous undertaking, not in the least because we are not able to build on previous experiences, neither analytically nor empirically. In Latin America the situation is no less bleak. Although authors such as Portes, Hoffman, Veltmeyer and Petras have empirically and analytically delved into the Latin American class structure, their analyses do not present its evolution over a certain period of time but rather a picture at a particular moment in time.

The review of the literature on class structure and, more specifically, the literature review on the Peruvian and Latin American class and class structure, has permitted me to get a general idea of the elements that should be included in my definition of the principal classes that can be located at the level of the economic structure of society: the bourgeoisie, the intermediate class, the working class and the peasantry. It has also enabled me to elaborate on my own understanding of the principal classes in Peru. Our analysis of Peruvian social reality allowed us to further develop and articulate these class definitions. For the elaboration of the principal classes and class fractions that make up the Peru at the level of economic structure, we use the ideas of Marx, Engels, Baran, Sweezy, Braverman, Poulantzas, O'Connor, Wright, Burris, Przeworski, Carchedi, Portes, Hoffman, Veltmeyer and Petras.

In Peru the bourgeoisie is not only local and transnational, but also urban and rural. The bourgeoisie is not only composed of the owners of capital, but also of individuals who control the means of production and individuals that are located at the level of the superstructure. The Peruvian middle class cannot be easily compared with the middle class in the 'advanced' capitalist countries. Although we believe that the 'old' middle class and in certain way also the 'new' middle class exist in Peru, we think that the Peruvian middle class encompasses individuals that are not included in the definitions of the 'old' and new 'middle' class, for instance street vendors and what are called independents. Hence we think it is better to use the denomination intermediate class instead of middle class. A definition of the intermediate class on the basis of income categories does not help to understand the economic, political and ideological role and functions of this class for the production and reproduction of the capitalist system.

The elaboration of Peruvian-specific class definitions at the level of the economic structure should take the following two factors into consideration:

1) The political and economic relations between Peru and the ‘advanced’ and ‘emerging’ capitalist countries. The economic relations are expressed, among others, in the country’s role in the international division of labour.

2) The internal political, economic and social developments and characteristics of Peruvian society.

The definitions of classes at the level of the economic structure are based on a general definition of class. The review of the literature on class, class consciousness and class struggle has provided us with the necessary theoretical foundations for its elaboration.

Class is a relational concept. As a guideline for the concrete elaboration of our general definition of class we consider the work of Van Parijs most adequate. A definition of class should (i) be relevant for the explanation of consciousness and action; ii) be hierarchical, in the sense that one class is ‘superior’ to another; (iii) be discrete, in the sense that ‘belonging to a class is not just a matter of degree’, i.e. there should exist a ‘non-arbitrary border’; (iv) be concerned with the distribution of material advantages and burdens (income, work, exercise and submission to power); and, (v) be rooted in the property relations that characterize the particular mode of production.

Class exists. This means that we can identify classes in the political and economic structure of society. Class struggle and class consciousness are crucial for class in itself to become class for itself, i.e. when individuals that pertain to a specific class act according to their objective political and economic interests. As Marx argued, “economic conditions had first transformed the mass of the people of the country into workers. The combination of capital has created for this mass a common situation, common interests. This mass is thus already a class as against capital, but not yet for itself. In the struggle, of which we have noted only a few phases, this mass becomes united, and constitutes itself as a class for itself”. In other words, it is only when classes act in class struggle, in class practices, that we are able to conceive classes politically.

At the level of the economic structure of a socioeconomic system class can be subdivided in class fractions. Class fractions are subdivisions of classes and can be distinguished on the basis of the political and economic role individuals play in society and by the role and place these individuals play in the social organization of labour. At the level of a social situation (or a concrete society) it is possible to differentiate social strata. Social strata are political, ideologically and economically determined and are 'located' in class and class fractions.

Apart from classes there also exist social categories. Individuals that pertain to a social category belong to various classes. This concept is useful for our purposes as it helps us, for instance, to locate individuals that are employed in the repressive apparatus. We do not think, however, as Poulantzas argues, that intellectuals and the state bureaucracy should be considered as social categories. We believe it to be possible to locate these individuals in one of the four basic classes at the level of society's economic structure. For the elaboration of our concept of class we heavily depend on the contributions of Marx, Engels, Lenin, Poulantzas, Wood, Van Parijs, Ste. Croix and Wright.

As mentioned above, we do not think that classes only exist in class struggle. A first problem with this perspective is the definition of class struggle. Definition differences determine if classes exist or not. We believe that class struggle takes place at the economic and political level. While at the economic level the struggle is mainly about direct interests, at the political level it has become a struggle for advancing class interests and, in the process, for power. Hence we do not agree with the definition of class struggle as elaborated by Marx and Lenin. A second problem is that without class struggle classes do not exist. How classes emerge cannot be explained when one argues that classes only exist when class struggle is going on. Our concept of class struggle is based on the notions developed by Ollman and, for a part, by Wright.

Class consciousness, as also class struggle, is necessary for a class in itself to become a class for itself, i.e. for class formation. Class consciousness is not a prerequisite in order to determine if classes exist or not. Ollman argued that "class consciousness is a consciousness waiting to happen. It exists in potential, not an abstract potential but one rooted in a situation unfolding before our very eyes, long before the understanding of real



people catches up with it”. Our understanding of the concept of class consciousness derives from the ideas advanced by Jakubowski, Ollman, Callinicos, Petras, Wachtel and Wolpe.

Several factors impede the proletariat to attain class consciousness such as the dominance of the bourgeois ideology, the alienating effects of the labour-process and the weakness of the revolutionary organizations. As Jakubowski argued, the position of the proletariat in society does not necessarily mean that the proletariat has a ‘non-reified proletarian class consciousness’. Ollman explained that class consciousness differs from the actual consciousness in three ways:

1) “It is a group consciousness [...] that develops through the individuals in the group interacting with each other and with opposing groups in situations that are peculiar to the class”.

2) “It is a consciousness that has its main point of reference in the situation and objective interests of a class, viewed functionally, and not in the declared subjective interests of individual class members”.

3) “It is in its essence a process, a movement from wherever a group begins in its consciousness of itself to the consciousness appropriate to its situation. In other words, the process of becoming class conscious is not external to what class consciousness is but instead is at the center of what it is all about”.

In this chapter we have mainly dedicated ourselves with the Marxist theory of class. A review of the literature on different forms and categories of class analysis led us to conclude that a Marxist theory of class would provide the best foundation and most useful analytical tools for grasping the evolution of the Peruvian class structure in the last thirty-five years.

The analysis of society’s social structure on the basis of the market, i.e. in the tradition of Weber, has the disadvantage of what is presented as society’s social structure are its particularities or manifestations of a certain reality at a particular point in time in the history of a given social formation. Thus we are not able to establish the social and

economic fundamentals of these particularities. A class analysis on the basis of solely an analysis of the income of social actors cannot be considered a class analysis as individuals experience their social conditions and act in terms of conditions experienced as members of a social group, not a statistical group. Although the distribution of income by a statistical grouping of the population (deciles or quintiles) corresponds to real differences in the social conditions, and thus it has a relative utility in the construction of development theories, income categories should be used in combination with categories such as private property.

To research and analyse the evolution of the Peruvian class structure it is important to use analytical categories that are theoretically grounded but that have empirical referents. The concept and categories of Marxist class analysis, however, are not always easy or possible to operationalise for the sake of empirical research and analysis, particularly as regards to the intermediate class and various ‘intermediate social groupings or categories—intermediate in regard to the capital-class relation at the base of the capitalist system. Hence we think that the functionalist approach might be very useful for our purposes.

The use of occupational categories might provide us with the necessary data to establish the principal classes in Peru at the economic structure level. Although we are aware that, as Przeworski explained, classes as historical elements do not emerge from occupational categories and a multiple range of occupations are presented without establishing their relationship to the means of production or labour-power, or to the reproduction of the system as a whole, we think it to be possible to use the empirical data on occupations for the transmutation of occupations in classes.

## **CHAPTER 4: CAPITALIST DEVELOPMENT: 1945-2010**

The dynamics of capitalist development are determined by the capital-labour relation. This relation can be deconstructed in terms of both the objective and subjective conditions of capitalist development.

The individual capitalist has the objective necessity to appropriate surplus value in order to accumulate. The accumulation of capital might enable the individual capitalist to establish the conditions to be more competitive than its rival capitalists. Capital as a whole has the objective necessity to increase the production of surplus value (relative or absolute) so as to offset the tendency of the rate of profit to fall. Both objective necessities cannot be disconnected from the response of the productive labourers and the non-productive labourers.

The objective conditions of capitalist development of society are the development of as well its economic and social structure (the base) as its superstructure (the state, ideology, etcetera). The subjective conditions of capitalist development refer to the class struggle. The subjective conditions are ultimately determined by the objective conditions. Both conditions should be considered as a dialectical unity. The subjective conditions not only form the conditions for the reproduction of the objective conditions but also for its supersession.

In this chapter we present a brief description of worldwide capitalist development in the period 1945-2010. It has the objective to politically and economically contextualize the chapters hereafter. A full comprehension of Peruvian capitalist development in the period 1980-2015 is only possible when we situate the country within the worldwide context of capitalist development. The specific development of capitalism in Peru is not only determined by its own political, economic, social and historical particularities, but also by worldwide tendencies and contradictions of capitalist development and, more specifically, the relations of political and economic dependency

This chapter follows Marx's (1973c: 264) general description of capitalist development. As set out in Volume III of *Capital*, capital has a

tendency to accumulate, to drive to expand and to produce surplus-value on an extended scale. This is law for capitalist production, imposed by incessant revolutions in the methods of production themselves, by the depreciation of existing capital always bound up with them, by the general competitive struggle and the need to improve production and expand its scale merely as a means of self-preservation and under penalty of ruin. The market must, therefore, be continually extended, so that its interrelations and the conditions regulating them assume more and more the form of a natural law working independently of the producer, and become ever more uncontrollable. The internal contradiction seeks to resolve itself through expansion of the outlying field of production. But the more productiveness develops, the more it finds itself at variance with the narrow basis on which the conditions of consumption rest.

This chapter is organized as four sections. In section 4.1 we delve into the matter of state-led capitalist development. This phase started in 1945 and ended around 1970. In section 4.2 the transition phase of capitalist development, i.e. between the end of state-led capitalist development (1970) and the start of the 'neoliberal version' of capitalist development (1983), is discussed. This phase is characterized by the production crisis of the 1970s. Section 4.3 is dedicated to the years between 1983 and 2000. In this phase neoliberalism experienced its heyday and capitalism reached to all pores of the world (globalization). In section 4.4 we examine characterizing issues for the period 2000-2010: the financialization of capitalism, extractivism and the economic rise of China. In section 4.5 we present our conclusions.

#### **4.1. State-led capitalist development: 1945-1970**

Capitalist development in the first 25 years after the Second World War is characterized by the definitive rise of the United States (US) as the absolute worldwide capitalist hegemon, the reconstruction of Europe and the implementation of Keynesian political economics. In the case of Latin America, this period was marked by the intentions to follow an autonomous capitalist development path under the auspices of international and local capital.

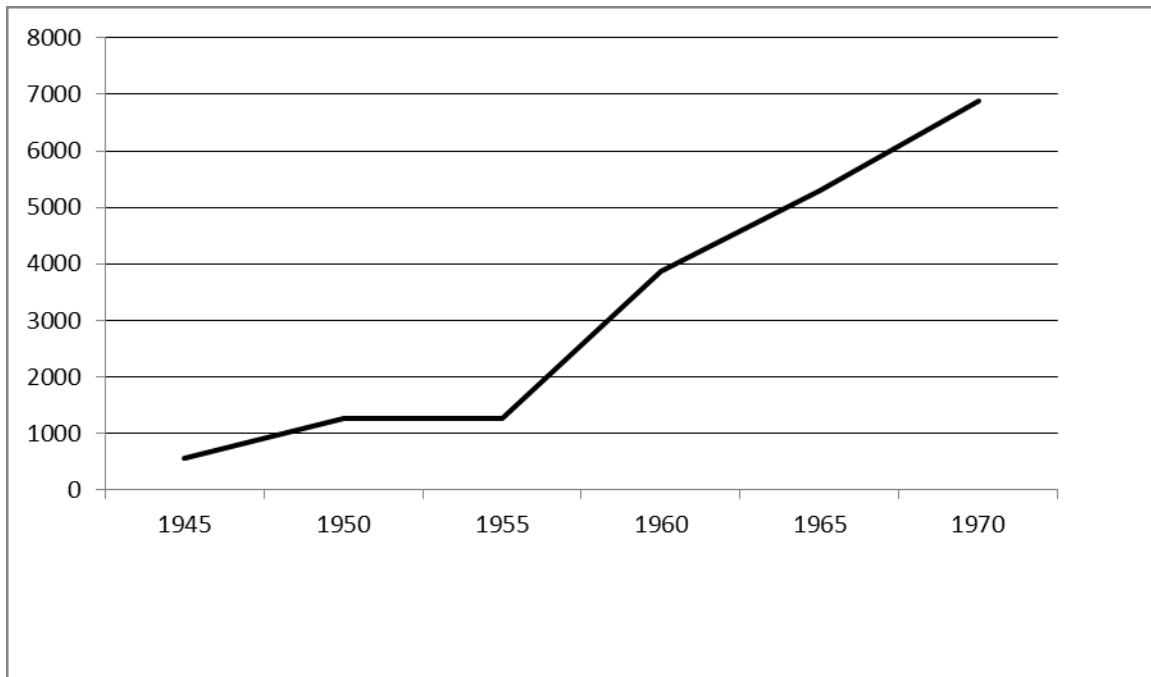
The political and economic hegemonic position of the US in the capitalist world after the Second World War is expressed in the worldwide dominance of the US dollar. This dominance made it possible to obtain the financial benefits of seigniorage. It also allowed the country to easily protect itself against the negative effects of balance of payments deficits on the exchange rate.<sup>215</sup> The dominance of the US currency in the international payments system made it very cheap to maintain and deepen the hegemonic position of the US. By granting cheap credit to capital, economic aid to capital and subsidies to capital, among others, it helped its companies to maintain themselves at the vanguard of international business.

In Graph 4.1 data is presented on total US net private capital outflows in the period 1945-1970. These flows include direct long-term investments, other long-term investments and short-term investments. The data indicate the increasing interest of US capital in value produced abroad or to be produced abroad, especially since 1955. The remarkable increase since 1955 not be of a surprise as around these years transnational corporations started to emerge (Kolko, 1988: 80).

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<sup>215</sup> Seigniorage is “the privilege enjoyed by the dominant imperialist country, whose currency is also the key international currency, of being able to appropriate wealth by simply printing paper money” (Carchedi, 1991: 276).

**Graph 4.1: Total US private net capital outflows: 1945-1970 (in millions of US dollar)**



Source: U.S. Department of Commerce: Historical statistics of the United States: Colonial times to 1970, Part 2, in [http://www.census.gov/prod/www/statistical\\_abstract.html](http://www.census.gov/prod/www/statistical_abstract.html) (consulted 06/07/2014).

US political dominance in the world was, among others, reflected in its capability to isolate and overthrow governments that did not favour its policies or were not suitable for its interests. Its military and political power not only contributed to the ‘fall’ of the government of Guatemala in 1954, the coups against president João Goulart (Brasil, 1964) and Víctor Paz Estensoro (Bolivia, 1964), and the invasion of Dominican Republic in 1965, but it is also expressed in its involvement in the Korean War (1950-1953) and its increasing participation in the Vietnam War (1959-1975). A political grounding of these interventions was given in what has been called the Kennedy doctrine in 1963 and the Mann doctrine of 1964. US interventions were approved if the interests of the United States and/or the interests of local capitalists in the Western Hemisphere were threatened (Mann, 1977: 151-152). In 1965 the Johnson doctrine was elaborated. This doctrine permitted military interventions when the capitalist status quo was endangered (Kramer-Kaske, 1977: 140-142).

The military might of the US was also shown in the Suez crisis (1956). This time the country turned against its former allies of the Second World War: the United Kingdom (UK) and France. When the Egyptian President Gamal Abdel Nasser nationalized the Suez Canal, the military forces of the UK, France and Israel attacked Egypt with the objective to regain Western control over the canal and to remove Nasser from power. The US intervention in favour of Nasser was also inspired by economic interests: it wanted stability in the Middle East as it needed the oil (Joll, 1987: 473). The US forced its wartime allies and Israel to withdraw.

The US considered the reconstruction of Europe after the Second World War an economic and political necessity. During the War, the size of the US economy had grown so big that it needed the European economies to assure the realization of the produced surplus value. The reconstruction of Europe meant the creation of a market for US products. It also implied investment possibilities for US firms. Furthermore, the economic reconstruction would help to create a political wall against what was being called the communist threat. Hence the US was not opposed to European integration processes that started to accelerate when in 1957 the European Economic Community (EEC) was founded. Data of Maddison (1982: 163) show that while in 1950 US direct investments in Europe valued 1.700 million US dollar, in 1973 it had increased to 40.000 million US dollar.

The capitalist reconstruction of Europe was not left to the free functioning of the markets but was a state-led matter. The state rebuilt the physical conditions for the reproduction and expansion of capital. Data on public expenditures show that in the mid-1950s public expenditure as a percentage of Gross National Product (GNP) was around 28 per cent in the countries that pertained to the Organisation for Economic Co-operation and Development (OECD). In the late 1960s it had grown to around 34 per cent and by the mid-1970s it reached 41 per cent (Glyn *et al.*: 1990: 61). Furthermore, the state played an “active role in wage and price determination via incomes and prices policies, welfare state provisions, and [...] as a major employer and producer” (Glyn *et al.* (1990: 57).

The active role of the state in production and distribution was accompanied by the support of the social-democratic oriented workers organisations. This created a social consensus that permitted a sustained rise in capital accumulation. According to Glyn *et al.*

(1990: 71), the extension of collective bargaining and of welfare state spending [...] reflected a degree of social consensus and secured the necessary degree of ‘informal involvement’ of workers at work”. Radice (2005: 94) argues that in the

industrial North there emerged a combination of high wages, high productivity and full employment, which successfully wooed Northern industrial labour away from socialist politics, but at the cost of removing the sanctions traditionally available for imposing capitalist discipline —pay cuts and unemployment. The Keynesian alternative of relying instead on manipulating fiscal and monetary policy depended on the existence of social consensus at home, and supportive economic institutions abroad —notably the export of capital from the USA and the timely assistance of the International Monetary Fund (IMF) in correcting balance-of-payments deficits.<sup>216</sup>

The process of reconstruction became the locomotive of worldwide capitalist progress. According to Glyn *et al.* (1990: 41), the rate of growth in the developing world between 1950 and 1975 “was historically unprecedented for these countries and in excess of that achieved by the developed countries in their period of industrialization”. In the case of the developed countries, Gross Domestic Product (GDP) per head grew almost twice as fast as in any previous period since 1820 (Glyn, *et al.*, 1990: 42).

The capitalist phase that started with the reconstruction of Europe became known as the *Golden Age* of capitalism. And this is exactly what it meant: labour productivity grew twice as fast as ever before and there was a massive acceleration in the growth rate of the capital stock.<sup>217</sup> The increased capital stock stimulated processes of concentration and centralization of capital.<sup>218</sup> In 1947 the 200 biggest US manufacturing companies counted for 30 per cent of the total aggregate value in the manufacturing industry. In 1962 this percentage reached 40 per cent. In 1962, 0.24 per cent of all legally functioning companies in the US controlled 86 per cent of all profits (Caputo & Pizarro, 1970: 265, 267). Data of Aglietta (1988: 199) show that in 1925 the 100 biggest US corporations owned 34.5 per

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<sup>216</sup> Milios (2005: 212-213): “By the same token, the post-Second World War welfare state can be seen as the product of class polarisation in the context of a balance of forces which no longer exists. In this context, policies of redistribution favouring wages, stimulation of demand among the popular strata and strengthening of social citizenship did not represent authentic democratic and social progress in general, but merely an alternative means for securing the rule of capital in a period which was relatively unfavourable for itself.”

<sup>217</sup> In the years between 1952 and 1969, the capital stock in the US, Canada, the UK, France, the Federal Republic of Germany (FRG, West-Germany), Italy and Japan had grown with 120 per cent (Armstrong, Glyn & Harrison, 1984: 168-169).

<sup>218</sup> For data on the biggest corporations in the world in the 1950s, see Mandel (1975: 30-38).



cent of all assets. In 1968 this had grown to 48.4 per cent. The 200 biggest companies in the United States owned in 1968 60.4 per cent of all assets. In Table 4.1 data is presented on merging in manufacturing and mining in the US between 1945 and 1970.

**Table 4.1: Recorded US mergers in manufacturing and mining: 1945-1970**

<b>Year</b>	<b>Recorded mergers</b>	<b>Year</b>	<b>Recorder mergers</b>
<b>1945</b>	333	<b>1958</b>	589
<b>1946</b>	419	<b>1959</b>	835
<b>1947</b>	404	<b>1960</b>	844
<b>1948</b>	223	<b>1961</b>	954
<b>1949</b>	126	<b>1962</b>	853
<b>1950</b>	219	<b>1963</b>	861
<b>1951</b>	235	<b>1964</b>	854
<b>1952</b>	288	<b>1965</b>	1008
<b>1953</b>	295	<b>1966</b>	995
<b>1954</b>	387	<b>1967</b>	1496
<b>1955</b>	683	<b>1968</b>	2407
<b>1956</b>	673	<b>1969</b>	2307
<b>1957</b>	585	<b>1970</b>	1351

Source: U.S. Department of Commerce: Historical statistics of the United States: Colonial times to 1970, Part 2, in [http://www.census.gov/prod/www/statistical\\_abstract.html](http://www.census.gov/prod/www/statistical_abstract.html) (consulted 06/07/2014).

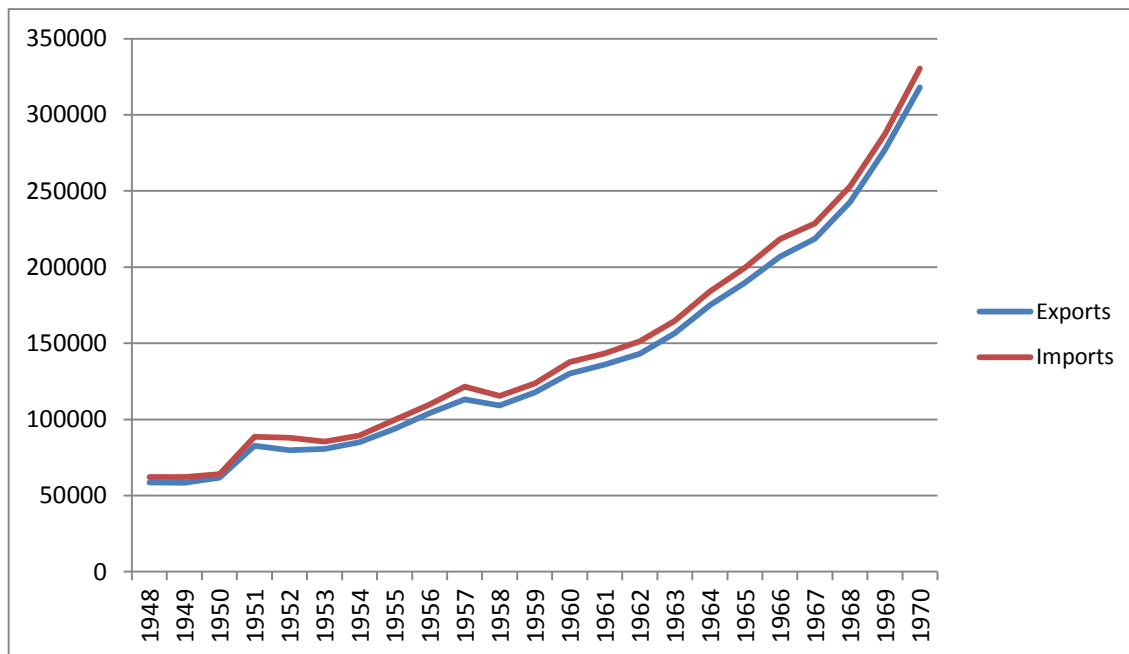
The implementation of the standardization of work practices and the separation of the conception of work (design, engineering) from its execution permitted productivity to rise. Notwithstanding these negative elements for the labouring classes, the growth of real wage rates paralleled productivity growth (Glyn, *et al.*, 1990: 55).<sup>219</sup> This regime of accumulation became known as a Fordist regime: the concentration of workers in centralized production locations, mass production and mass consumption (Robinson, 2010: 10). Aglietta (1988: 93-94) characterized this regime as a new stage of the regulation of capitalism in which the capitalist class tried to manage the global reproduction of wage

<sup>219</sup> Polanyi-Levitt (2013: 34): “In this model of regulated corporate capitalism based on an implicit social contract variously known as social democracy or embedded liberalism, productivity gains were shared by capital and labour. Rising real wages sustained effective demand for increased output of consumer goods, and capitalists had incentives to invest in increased industrial capacity. The model varied according to historic and ideological circumstances, from the most egalitarian in Scandinavia to the least in the United States.”

labour through the intimate articulation of the relations of production and consumption. The Fordist regime guaranteed a “roughly constant profit rate and roughly equal growth rates of consumption and production, thus perpetuating the initial rate of accumulation” (Glyn, *et al.*, 1990: 48).

The concentration and centralization of capital coupled with the reconstruction of Europe had positive effects on the development of world trade. In Graph 4.2 we present the development of world trade in the period 1948-1970. According to Saxe-Fernández (2001: 18), in the years 1945 to 1973 it was international trade that pushed the world economy.

**Graph 4.2: World trade in millions of US dollar at current prices: 1948-1970**



Source: <http://unctadstat.unctad.org/TableViewer/tableView.aspx> (consulted 01/06/2014).

The *Golden Age* of capitalism was not limited to the ‘advanced’ capitalist countries. In Latin America for instance, the development of local capital was stimulated by means of Import Substitution Industrialization (ISI) strategies (Robinson, 2010: 52). According to Wood (2003: 132), given the booming economy in the US “the imperial power was

interested in encouraging a kind of ‘development’ and ‘modernization’ in the third world, as a means of expanding its own markets. According to Bina & Yaghmaian (1991: 115),

the project of import-substitution industrialization contained a seemingly contradictory duality. While representing the class interest of the local capitalists of developing nations at a certain historical juncture, ISI was also international capital’s early response to the tendency for global expansion in the sphere of production, leading to the internationalisation of capital in all its essential aspects. In developing nations, ISI represents the contradictory unity of a concrete form of socioeconomic struggle by the fresh and growing capitalist forces within LDCs [Low Development Countries; JL] against the declining precapitalist classes and relations of production, as well as competition with international capital. [...] But, on the other hand, partly due to the lack of necessary capital and technology manifested in the underdevelopment of productive forces in the less developed countries, and partly due to the hegemony of international capital, the project of import substitution became operational only through the involvement of the advanced capitalist countries. Less developed countries’ demand for import-substitution industrialisation was thus promoted by the internationalization of production. ISI was the early form of the expansion of operations of transnational corporations which enabled them to exploit new resources on a global scale and to move towards a globally integrated network of capitalistic production and exchange.

In 1950, the value of total US direct investments was 4.7 billion US dollar. Ten years later this was grown to 8.3 billion US dollar and in 1965 it already amounted to 10.8 billion US dollar. The number of offices of US banks in Latin America increased from 69 in 1960 to 133 in 1967 (Breuer, Hartmann & Lederer, 1969: 27-28). In Table 4.2 data is presented on the evolution of the balance of trade of Latin America and the Caribbean in the period 1950-1970 and in Table 4.3 we present the Latin American GDP growth rates for the years between 1951 and 1970.

**Table 4.2: Balance of trade of Latin America and the Caribbean (19 countries\*) (in millions of US dollar): 1950-1970**

<b>Year</b>	<b>Balance of trade</b>	<b>Year</b>	<b>Balance of trade</b>
<b>1950</b>	903	<b>1961</b>	74
<b>1951</b>	-39	<b>1962</b>	153
<b>1952</b>	-356	<b>1963</b>	889
<b>1953</b>	995	<b>1964</b>	780
<b>1954</b>	633	<b>1965</b>	1291
<b>1955</b>	481	<b>1966</b>	922
<b>1956</b>	665	<b>1967</b>	565
<b>1957</b>	-473	<b>1968</b>	84
<b>1958</b>	-239	<b>1969</b>	217
<b>1959</b>	167	<b>1970</b>	-433
<b>1960</b>	25		

Source: Cuadernos Estadísticos de CEPAL, América Latina y el Caribe: Balance de Pagos 1950-1984, in <http://archivo.cepal.org/pdfs/cuadernosEstadisticos/S1986010.pdf> (consulted 07/07/2014).

\*Argentina, Bolivia, Brasil, Colombia, Costa, Rica, Chile, Ecuador, El Salvador, Guatemala, Haiti, Honduras, México, Nicaragua, Panamá Paraguay, Peru, República Dominicana, Uruguay and Venezuela.

**Table 4.3: Growth rate of Latin American GDP: 1951-1970 (in percentages)**

<b>Year</b>	<b>GDP growth rate</b>	<b>Year</b>	<b>GDP growth rate</b>
<b>1951</b>	5.8	<b>1961</b>	7.5
<b>1952</b>	4.7	<b>1962</b>	4.5
<b>1953</b>	3.3	<b>1963</b>	3.0
<b>1954</b>	7.7	<b>1964</b>	6.2
<b>1955</b>	6.5	<b>1965</b>	4.5
<b>1956</b>	4.0	<b>1966</b>	4.6
<b>1957</b>	7.1	<b>1967</b>	4.6
<b>1958</b>	5.5	<b>1968</b>	7.8
<b>1959</b>	2.9	<b>1969</b>	7.7
<b>1960</b>	8.1	<b>1970</b>	7.2

Source: [http://estadisticas.cepal.org/cepalstat/WEB\\_CEPALSTAT/estadisticasIndicadores.asp?idioma=e](http://estadisticas.cepal.org/cepalstat/WEB_CEPALSTAT/estadisticasIndicadores.asp?idioma=e) (consulted 07/07/2014).

The internationalization of capital was not at the whole profitable for the Latin American countries. The drain of resources was immense. Data of Ceceña Cervantes (1970: 66ft83) show that in the periods 1950-1953, 1958-1961 and 1962-1963 Latin America's accumulated loss because of diminishing export prices amounted to 16 billion US dollar. In

1960 the remittances for payments of profits and interests, i.e. capital that left Latin America as a percentage of the value of total exports of goods and services was 12.8 per cent. Five years later it amounted to 14.8 per cent and in 1970 it had grown to 16.1 per cent (ECLA, 1980: 175). According Gerassi (1969: 386), in the period 1956-1961 it was more profitable to invest in Latin America than in Western Europe. In Table 4.4 we compare Western Europe and Latin America for the relation between investments and profits returned to the US and in Table 4.5 data is presented on the profitability of foreign direct investments (FDI) in Latin America in the period 1960-1970.

**Table 4.4: Relation between investments and profits returned from Western Europe and Latin America to the United States: 1956-1961<sup>220</sup>**

<b>Year</b>	<b>Western Europe</b>	<b>Latin America</b>
<b>1956</b>	54.3 %	96.9 %
<b>1957</b>	49.3 %	114.4 %
<b>1958</b>	77 %	206 %
<b>1959</b>	52.4 %	172.9 %
<b>1960</b>	37.6 %	240 %
<b>1961</b>	35 %	154 %

Source: John Gerassi (1969), *El gran miedo de América Latina*, p. 386.

<sup>220</sup> For comparative data, see Magdoff (1969: 228). According to data of Galeano (1984: 373), in the period 1950-1967 new US investments in Latin America valued 3.9 billion US dollars, without including reinvested profits. In the same period, profits and dividends returned amounted to 12.8 billion US dollars.

**Table 4.5: Foreign direct investments and profits (net flows) in millions of Special Drawing Rights in Latin America: 1960-1970<sup>221</sup>**

<b>Year</b>	<b>Foreign direct investments</b>	<b>Profits</b>
<b>1960</b>	265.9	1003.3
<b>1965</b>	571.9	1417.1
<b>1966</b>	494.3	1733.8
<b>1967</b>	512.9	1754.5
<b>1968</b>	1033.8	2023.1
<b>1969</b>	1222.5	2174.3
<b>1970</b>	960.9	2058.3

Source: ECLA, Statistical Yearbook for Latin America 1975, in <http://archivo.cepal.org/pdfs/1976/S7600000.pdf> (consulted 06/07/2014).

ISI might be considered as the Latin American variant of Fordist-Keynesian national capitalism (Robinson, 2010: 51) as it “involved a major role for the state in organizing national development plans and a set of Keynesian and other fiscal and monetary measures and incentives for private domestic capital to invest in industry and for international capital to invest locally” (Robinson, 2010: 52). Import tariffs, foreign exchange controls, subsidies on credits and investments, direct investments by the state in strategic sectors, subsidies on mass consumption and social insurance programs had to stimulate an autonomous capitalist development path (Robinson, 2010: 52).

#### **4.2. The transition phase of capitalist development: 1970-1983**

The exact starting point of the transition phase of capitalist development, characterized by crisis and increased inter-imperialist competition, is hard to determine. Rising inflation in the period 1969-1972, the collapse of the Bretton Woods system in 1971, the devaluation of the US dollar in 1971 and 1973, and the increase of the oil prices in 1973 all contributed to the crisis. According to Maddison (1986: 121), a new phase started in 1973. Governments became lesser worried about full employment, more attention was given to price stability and the fixed exchange rate system had collapsed. However, as the worldwide economic

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<sup>221</sup> For the years 1961-1964 no data is provided by ECLAC.

situation began to change in 1970 resulting in the events just mentioned, we have chosen to start this period in 1970. This phase ends in 1983 when the Latin American debt crisis started to unfold. In what follows we outline the determining developments for this period.

The economic crisis in the 1970s was caused by the inherent contradictions of the capitalist system. The fall of the profit rate (Duménil & Lévy, 2005b: 15) manifested itself in an overproduction crisis. The objective to increase surplus value in order to offset the tendency of the profit rate to fall created the crisis. Although increased productivity and exploitation augmented the production and appropriation of surplus value, it also created a quantity of commodities that could not be sold. With less surplus value realized, less capital was accumulated and consequently economic stagnation was around the corner. The use of inflation as a mechanism to increase the transfer of produced value from the exploited and oppressed classes to capital was getting ‘inflated’ as it started to prejudice financial institutions. According to Maddison (1982: 161), in the period 1950-1973 the average annual growth rate of consumer prices of 16 capitalist countries was 4.1 per cent. In the years between 1973 and 1979 it had grown to 9.5 per cent.<sup>222</sup> As a consequence, while in the previous period, Kolko (1988: 189) explains, the real interest rate was almost zero, in the transition phases it became negative. According to Palley (2007: 21), for much of the 1970s the short-term three-month real interest rates were negative.<sup>223</sup>

Glyn, *et al.* (1990: 82-83, 92) consider the fall of the rate of profit to be triggered by a profit squeeze. Higher input costs and diminishing productivity growth reduced profits (labour productivity or the output per unit of capital decelerated in the early 1970s). Diminishing profits led to diminishing accumulation and diminishing economic growth. As Glyn *et al.* (1990: 87) argue, “had profit margins been maintained the increase in investment per unit of profit might have offset the decrease in the output/capital ratio. In the event, the failure of profitability to recover in Europe and Japan in the years up to 1979 was reflected in a further slippage in the accumulation rate”.<sup>224</sup> Also Panitch & Gindin (2012:

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<sup>222</sup> These countries are: FRG, Australia, Austria, Belgium, Canada, Denmark, Finland, France, Italy, Japan, Norway, Netherlands, UK, US, Sweden and Switzerland.

<sup>223</sup> See for comparative data on real long-term interest rates, Orr, Edey & Kennedy (1995: 78).

<sup>224</sup> The profit-squeeze theory has been criticized by Carchedi. Although we share Carchedi’s critics, the arguments of Glyn *et al.* do not ‘contradict’ our narrative. The critique of Carchedi (2011: 141-142) reads as follows: “First, profit-squeeze theory, just as the underconsumptionist conception, is a redistributive theory which, as with all similar theories, implies a constant quantity of new value produced (wages plus profits).

141) turn to the ‘profit squeeze theory’ as an explanatory tool for the crisis. Saxe Fernández & Núñez Rodríguez (2001: 100) relate the decrease of the rate of profit to the growth and broadened productive capacities. Indeed, although the economic power of the United States relatively declined as Europe and Japan recovered, the ‘return’ of European and Japanese capital caused an increase of the worldwide organic composition of capital that led to a fall of the rate of profit that could not be offset by increased profits.

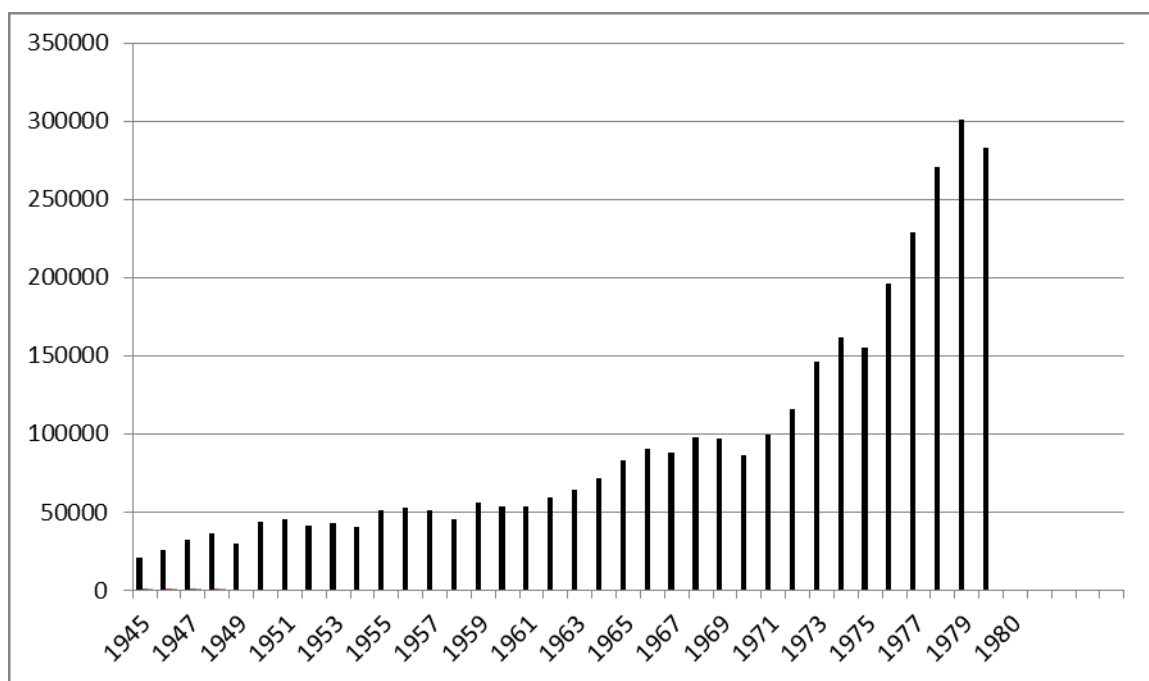
The profit rate is an excellent ‘indicator’ of economic development. The problem is, however, that, in general terms, we do not have sufficient data to exactly determine the rate of profit. As is shown in Graph 4.3 below, since the 1960s US corporate profits were structurally rising. As we explained in chapter 2, a profit rise does not necessarily mean an increase of profitability. It might even decrease as will be demonstrated below.

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Clearly, then, the rate of profit decreases because it is implicitly assumed that the total value to be redistributed remains the same (or falls). However, to explain the turning point from the high to the low phase, that is, the inception of the crisis, one has to assume the upward-phase, when the new value produced rises. To assume the downward-phase would mean to assume what has to be explained. But in the upward-phase, it is perfectly possible and it actually occurs that both profits and wages increase. If we assume that profit can only increase if wages decrease, we assume implicitly either stagnation or the downward-phase of the cycle. The profit-squeeze theory, then, cannot explain the inception of the depression and crisis because it presupposes a stagnant or decreasing production of surplus-value. Second, aside from this critique, we should consider the profit-squeeze’s class-content. It has been pointed out by many commentators that this theory ends up by giving ammunition to the employers’ claim that crises are due to excessively high wages and thus that, in order to avoid/exit the crisis, lower wages are necessary. Indeed, we have seen above that lower wages do increase the average rate of profit but also that the rise can only be a counter-tendency. Thus, what explains recoveries and booms is not an increase in the share of profits relative to that of labour within the context of an unchanged production of surplus-value, it is not an increase in the average rate of profit due to redistribution, but that increase is a consequence of an *expanded production* of value and surplus-value. For lower wages to spur a recovery, then, the extra surplus-value must be invested. But, in the downward-trend, capital eschews investments in the productive sphere where the profit-rates are falling. They resume investing vigorously only when the turning point in the cycle has been surpassed. After that point, lower wages contribute to the recovery but cannot start the recovery before that point.” For the second argument of Carchedi, see also Shaikh (1990: 292).



**Graph 4.3: US corporate profits before tax in millions of US dollar: 1945-1980**



Source: Federal Reserve Bank of St. Louis (<http://research.stlouisfed.org/fred2/series/A053RC0A144NBEA#>, consulted 01/06/2014).

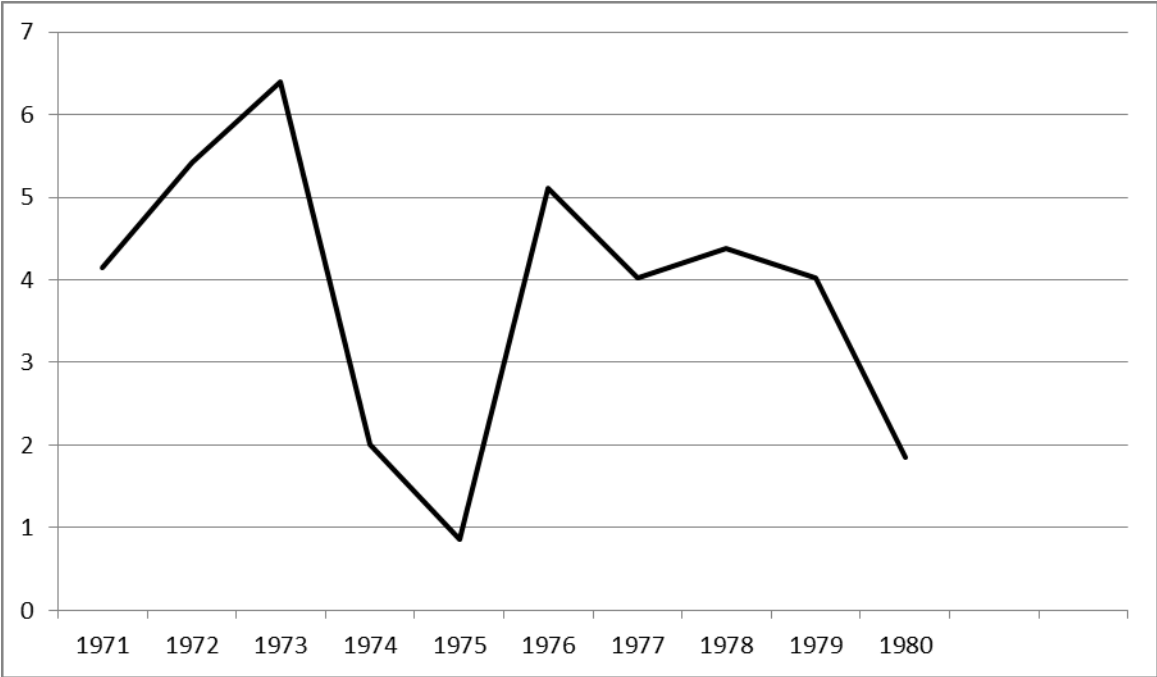
The profit rate in what have been denominated as the manufacturing and business sectors amounted in the period 1955-1968 respectively to 22.5 per cent and 18 per cent. In the years between 1968 and 1980 the profit rate in both sectors reduced dramatically. In the case of the manufacturing sector the profit rate in the years 1972, 1974 and 1980 stood respectively at 19 per cent, 11.5 per cent and 10 per cent. For the business sector these percentages were respectively 17 per cent, 10.5 per cent and 10 per cent (Armstrong, Glyn & Harrison, 1984: 171, 342-343).<sup>225</sup> Mandel (1983: 15-16) tells us that in the period 1969-1975 the profit rate in the FRG diminished with around 50 per cent. Data of Panitch & Gindin (2012: 135) show that in 1970 the profit rate of the US manufacturing sector was 40 per cent down from the level of the mid-1960s and a third below the average of the period

<sup>225</sup> The calculated profit rate is not the same as the one proposed by Marx. Armstrong, Glyn & Harrison (1984: 33) define the profit rate as “the percentage return on each \$100 invested in plant and equipment, in stocks of materials and so forth”. In other words, the profit rate is equal to the rate of return. We expect that the profit rate is quite lower than the rate of return.

mid-1950s-mid-1960s. According to Roberts (2015), since the slump of 1974-1975 the world rate of profit for the G20 countries started to fall.<sup>226</sup> Data for the G7 shows that the profit rate was falling since 1969-1970 (Roberts, 2015).<sup>227</sup>

The fall in the rate of profit rate in the 1970s was expressed in economic slowdown. In Graph 4.4 the growth rates of world GDP between 1971 and 1980 are presented.

**Graph 4.4: Growth rates of world GDP: 1971-1980**



Source: <http://unctadstat.unctad.org/TableViewer/tableView.aspx?ReportId=109> (consulted 09/10/2014).

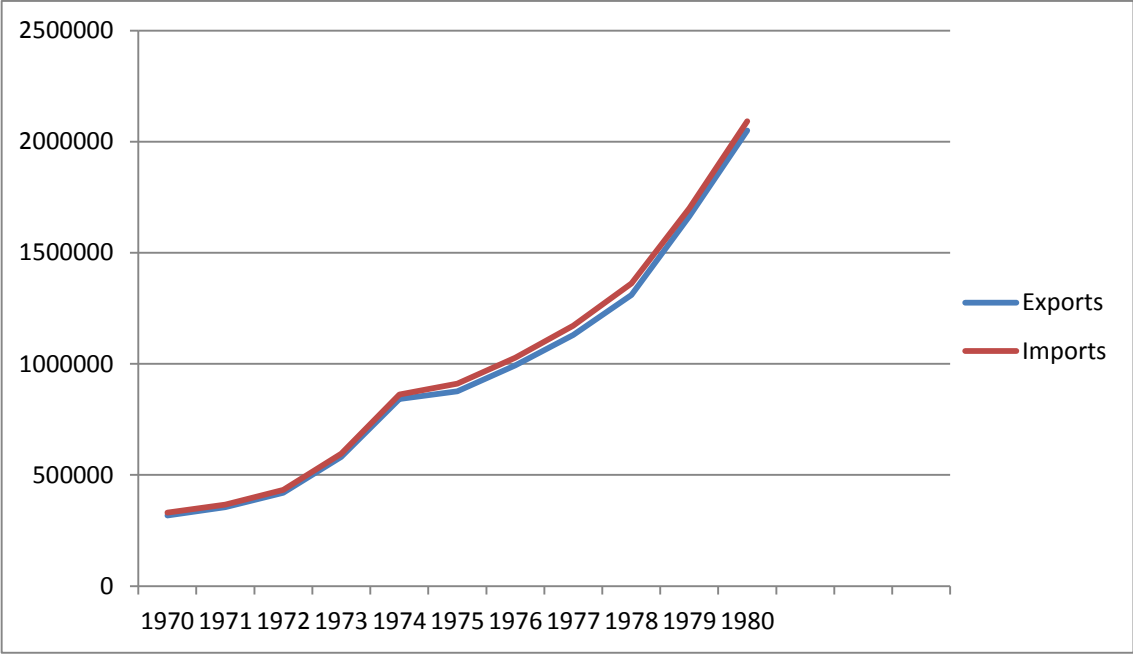
The worldwide economic slowdown caused by the fall of the profit rate did not slowdown FDI. It also did not have devastating effects on world trade. We believe this to be the ‘natural’ response of the system (counter-tendency). The diminishing profit rate

<sup>226</sup> The G20 countries are: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, South Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States, and the European Union (EU).

<sup>227</sup> The G7 countries are: Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.

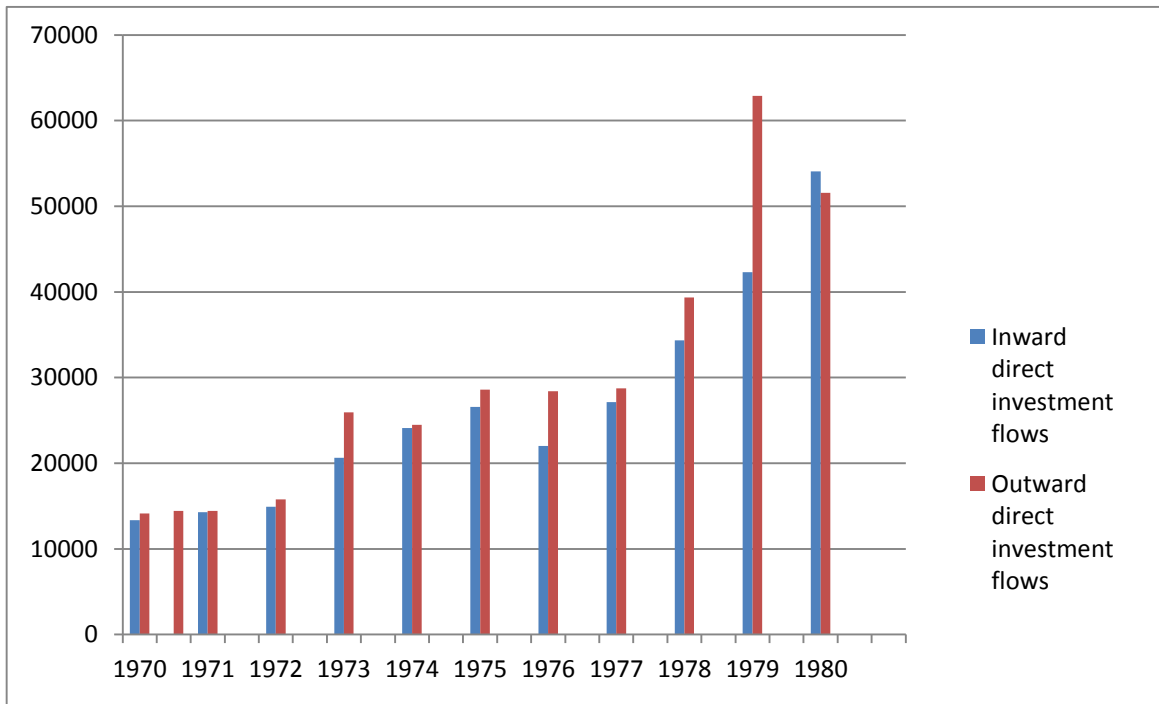
stimulated it to look for new profitable investments abroad. Economic slowdown threatened the realization of the produced value and led capital to search for new markets (see chapter 2 for the counter-tendencies of the falling profit rate). In Graph 4.5 data is presented on the evolution of world trade in the period 1970-1980. In Graph 4.6, for the same period, the development of FDI is visualized.

**Graph 4.5: World trade in millions of US dollar at current prices: 1970-1980**



Source: <http://unctadstat.unctad.org/TableView/tableView.aspx> (consulted 01/06/2014).

**Graph 4.6: Worldwide foreign direct investments inward and outward flows: 1970-1980 (in millions of US dollar at current prices and at current exchange rates)**



Source: <http://unctadstat.unctad.org/TableView/tableView.aspx> (consulted 01/06/2014).

The crisis in the 1970s cannot be disconnected from the reconstruction of the power of European capital in the decade before the outbreak of the crisis. The challenges posed by European capital were not only the result of US political and economic necessities as described above, but also of the proper dynamics of European capital. The creation of the EEC in 1957 was already a signal that European capital needed a bigger market. It wanted to profit from economies of scale and to safeguard the realization of value.

The Bretton Woods system in which the US was the absolute political and economic hegemon came under fire when European capital resurged (Glyn *et al.*, 1990: 102). Under the system, the heavily inflated US dollar caused US inflation to be exported to the European countries and enabled this country to increasingly extract produced value in Europe. According to Petras & Veltmeyer (2006: 191), increased competition between US, European (especially capital from the FRG) and Japanese capital contributed to a

diminution of the profitability of the capitalist companies and, as a consequence, led to the crisis of the whole system.<sup>228</sup>

The resurgence of European capital resulted in the political decision, taken in 1969, to proceed towards the creation of a European monetary union in 1980. Although the involved European countries did not succeed in this objective and were forced to take a step back, in 1979 the European Monetary System was created. This system enabled European capital, in general terms, to start determining its own monetary policies instead of being dependent on the decisions of the Federal Reserve of the US. In 1999 the European Economic and Monetary Union started to operate. As it was not accompanied by a political union, European capital was not able to become a real threat to US' political and military hegemony, apart from being a 'natural' competitor of US businesses.<sup>229</sup>

The economic crisis of the 1970s was multiform. Although it was caused by the decline of the profit rate and was expressed in an overproduction crisis, it was also a fiscal crisis and a debt crisis (Kolko, 1988: 19, 26-27, 29, 34-35). Economic slowdown caused an increase of unemployment (and diminishing governmental income. Governments had to resort to the financial sector to cover their expenses. In addition, it might be argued that the Fordist regime of accumulation started to become exhausted.

The crisis helped to release political and economic forces and put into operation processes which significance would become evident in the 1980s and 1990s.<sup>230</sup> The dominant classes of the 'advanced' capitalist countries started to massively expand credit in order to trigger economic growth (Mandel, 1983: 65-67). This expansion, however, did not structurally solve the overproduction crisis as it only helped to alleviate the immediate

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<sup>228</sup> In their work, Petras & Veltmeyer (2006: 192) connect overproduction with under-consumption. We consider this wrong. While overproduction is an inherent result of the capitalist mode of production, under-consumption is a typically Keynesian concept that is related to the sphere of distribution.

<sup>229</sup> In 1993, US direct investments in Latin America were 8 times higher than investments of European capital (Lara Cortés & Silva Flores, 2010: 180-181). In 1997, direct investments flows of European capital to Latin America, principally due to privatizations, was equal to direct investments flows that originated in the United States. In the next two years, European capital dominated worldwide direct investments flows to Latin America (Lara Cortés & Silva Flores, 2010: 180-181; Higginbottom, 2013: 190-192). According to Higginbottom (2013: 191-192), since 2000 European transnational capital is holding more assets in Latin America than its US counterparts. By 2010, EU-based multinationals had nearly doubled the direct investment stock of US transnational capital. One of the masked objectives of the US intent to implement a Free Trade Area of the Americas in the 1990s-2000s was to limit European capitals' entrance in Latin America, protecting the 'natural' United States markets (Veltmeyer, 2011: 103).

<sup>230</sup> We refer to what is called neoliberalism, globalization and financialization. These were the strategic responses of capital to the crisis. See on this, section 4.3.

problems of unsold commodities. In order for the profit rate to rise again, it was necessary that structural measures were taken. These measures would have to imply an increase of the rate of exploitation, an increase of profits and an increase of lucrative investment possibilities within and outside the nation-states, i.e. investment possibilities that would generate a profit rate higher than the socially average rate of profit. Capital started to search for a new system of production (Glyn, *et al.*, 1990: 89). Kolko (1988: 32) argues that at the end of the 1970s capital answered to the problem of profitability by building new industrial capacity outside the OECD countries, rationalized existing capacity, “shuffled assets with mergers and acquisitions” and expanded in the service sector.

The necessity to accumulate and the reduced possibilities to invest in the productive sectors of the economy led capital to turn its eye to the non-productive sectors (Ornelas Delgado, 2012: 122; referring to Wallerstein).<sup>231</sup> Dos Santos (2010: 174): “Originally, financial speculation is the consequence of the lack of profitable productive investments. With the fall of the rate of profit, as happened in the second half of the sixties, powerful mechanisms for *income transfer*, starting from the productive sector to finance, are created.” Bellamy Foster, McChesney & Jonna (2011b) argue that

with the slowing down of economic growth beginning in the 1970s, corporations, unable to find outlets in productive investment for the enormous surplus they generated, increasingly turned to mergers and acquisitions and the associated speculation in the financial superstructure of the economy. The financial realm responded with a host of financial innovations, encouraging still further speculation leading to an economy that, while increasingly stagnant—i.e., prone to slow growth at its base—was being continually lifted by the growth of credit/debt. This phase in the development of monopoly capital is, we believe, best described as a shift to *monopoly-finance capital*”.

According to Gandásegui, Hijo (2012: 141), under the economic crisis of the 1970s the US economy was transformed from an economy based on production into an economy based on finance.

The ‘turn’ to finance meant an increase of the importance of financial institutions in the world economy. According to Kolko (1988: 19), in the 1970s we can witness a shift of

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<sup>231</sup> “[...] the structural crisis, beginning in the 1970s, created the conditions for the reassertion of the hegemony of finance. This crisis was caused by trends similar to those prevailing during the 19<sup>th</sup> century, notably the decline of the profit rate within major capitalist countries” (Duménil & Lévy, 2005a: 25).

international lending from “individual holdings of government bonds and government-to-government loans” to “commercial banks as the major lenders to sovereign states”. In the 1970s, and until the Mexican debt crisis of 1982, lending to LDCs yearly increased approximately with 20 per cent to 25 per cent, (Kolko, 1988: 116). The increasing role of financial institutions in the world economy can also be demonstrated when we review the evolution of currency trading. While in 1969 daily foreign-exchange trading in the US valued 1 billion US dollar, in 1980 it had grown to 23 billion US dollar (Kolko, 1988: 193).

### **4.3. Neoliberalism and globalization: 1983-2000**

The crisis in the 1970s led capital in the ‘advanced’ capitalist countries to take measures that might enable it (i) to restore profitability, i.e. to stop the profit rate from falling; (ii) to increase its markets in order to ‘solve’ the overproduction crisis; and, (iii) to expand investment possibilities around the globe. These measures were later resumed in what came to be known as neoliberalism and globalization. Regarding the response of capital on the crisis, Petras & Veltmeyer (2013: 9) argue that in

1973, at the height of an apparent crisis of overproduction, characterized by cutthroat competition, saturated markets for manufactured goods, stagflation, sluggish productivity and falling profits, the capitalist class in the most advanced countries in the imperial world order, including the CEOs of its capitalist enterprises and the States in their service, abandoned the Bretton Woods system that had served them so well. To be more precise, they sought to renovate it, to resolve the systemic crisis of capitalist production by (1) modifying the relationship of capital to labour, advancing the former and weakening the latter; (2) incorporation of new production technologies and a new regime of accumulation / labour regulation [postfordism]; (3) relocating overseas labour-intensive lines of industrial production, creating, a new international division of labour; and, above all (4) a policy of structural adjustment and neoliberal globalization, in the construction of a ‘new world order’ in which the forces of capitalist development would be released from the regulatory constraints of the welfare-development state.

Neoliberal globalization received its biggest push at the end of the 1980s with the ‘fall’ of what has been called real existing socialism in Eastern Europe and the break-up of

the Soviet Union at the beginning of the 1990s.<sup>232</sup> The ideological benefits that were obtained by imperialism helped to de-articulate labour organizations as it was ‘demonstrated’ that a collectivized economy did not provide welfare for all. In other words, it was not only the power of capital that enabled a change in the correlation of class forces at the international level, it was also the weakening of the labour organizations in the context of the ‘downfall’ of an ideology based on collective interests. According to Petras & Veltmeyer (2006: 24), the ‘fall’ of the Soviet-Union gave an impulse to the dismantling of the European welfare state. The ‘reform’ of the capital-labour relations signified a weakening of the labour organizations as it meant that workers had lesser possibilities to stand-up against capital as the threat of unemployment became permanent.

Neoliberalism, according to Harvey (2007a: 22), “is a theory of political and economic practices that focuses on the maximization of entrepreneurial freedoms within an institutional framework characterized by private property rights, individual liberty, unencumbered markets, and free trade. The role of the state is to create and preserve an institutional framework appropriate to such practices”. Bellamy Foster, McChesney & Jonna (2011b) argue that neoliberalism responded “to the changes in accumulation and competition associated with a new phase of stagnant accumulation in the capitalist core, and to the associated financialization of the global economy”.

Neoliberalism could, indeed, be considered as a political and economic answer to the decreasing rates of profit that started to manifest themselves in the 1970s. Governments that were tightly related to national and international business tried to revert its downward slope by (i) increasing the rates of exploitation; (ii) transferring produced collective wealth—within a specific country and between countries, especially from the dominated countries to the imperialist centre—to the owners of the means of production; (iii) removing the barriers to free the movement of goods, services and capital; (iv) opening new production and distribution spheres for capitalist accumulation (education, healthcare, etcetera); (v) privatizing state-owned companies and public services; and, (vi) liberalizing and deregulating prices (Kotz, 2011: 3, 11; Mora Jiménez, 2008: 47; Harvey, 2007a: 34).

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<sup>232</sup> According to Kotz (2011: 12), the disappearance of the socialist threat was one of the conditions for the emergence of neoliberalism.



In the neoliberal conception of how the world ‘works’, the role of the state is not reduced to an absolute minimum, nor is it considered to be solely an organism that guides and regulates economic activity. As a matter of fact, the state maintains its key functions for enlarged capitalist reproduction as described in chapter 2. However, given the changed correlation of class forces within capitalist societies, the state has become a clearer and more open defender of the interests of capital. The state is a central agent to expand neoliberalism (Márquez Covarrubias, 2010: 12). It is important to create a “good business or investment climate” (Harvey, 2007b: 70).<sup>233</sup>

Globalization is the result of the incessant search of capital for higher rates of profits, facilitated by the neoliberal prescription of abolishing capital controls, the opening of the markets and favourable tax regimes. According to Bello (2006: 1355), globalization was one of the mechanisms to escape the pressures of over-accumulation and overproduction. Caputo Leiva (2012: 87) tells us that globalization is an answer to low profit levels and profit rates in the 1970s until mid-1980s. Robinson (2010: 15) explains that “globalization became a viable strategy as capitalists and state-managers searched for new modes of accumulation”. It allowed capital “to shake off the constraints that nation-state capitalism had placed on accumulation and to break free of the class compromises and concessions that had been imposed by working and popular classes and by national governments in the preceding epoch”. Nayyar (2006: 72-84) argues that globalization is not a new phenomenon as this, indeed, started in the last quarter of the nineteenth century.

The fact that capital spreads its tentacles all over the globe does not necessarily mean that capital cannot be profitably employed within ‘its’ nation-state, but it is just that abroad it can obtain higher profit rates (Marx, 1974: 253). Capital has a tendency to

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<sup>233</sup> Munck (2005: 63): “So in terms of reconfiguring the state we can say that neoliberalism has transformed the state rather than driven it back as Hayek would have liked. The much-vaunted policies of ‘deregulation’ (removal of state regulatory systems) have, in fact, been creating new forms of regulation with new market-oriented rules and policies to facilitate the development of the ‘new’ capitalism. Society is transformed in the image of the market and the state itself is now ‘marketised’ [...]” See for the same arguments, Saxe-Fernández & Núñez Rodríguez (2001: 109-110). Harvey (2007b: 7) defines the neoliberal state as “a state apparatus whose fundamental mission [is] to facilitate conditions for profitable capital accumulation on the part of both domestic and foreign capital”. We do not agree with this definition as it does not really demonstrate a difference between the ‘normal’ capitalist state and the neoliberal state. The definition of Harvey falls within the description of the capitalist state as provided in chapter 2.

accumulate, to expand and to produce surplus value on an extended scale. According to Marx (1974: 243-244),

this is law for capitalist production, imposed by incessant revolutions in the methods of production themselves, by the depreciation of existing capital always bound up with them, by the general competitive struggle and the need to improve production and expand its scale merely as a means of self-preservation and under penalty of ruin. The market must, therefore, be continually extended, so that its interrelations and the conditions regulating them assume more and more the form of a natural law working independently of the producer, and become ever more uncontrollable”.

The trade flows that are inherent to globalization might increase the profit rate when it cheapens the elements that make up constant capital and/or lowers the reproduction costs of labour-power. According to Delgado Wise and Covarrubias (2011: 32), the internationalization of capital through globalized networks seeks to diminish labour costs, including those of highly skilled labour-power, and to maximize the transfer of surplus between the countries of the ‘North’ and the ‘South’ by making use of wage differentials. In this sense, we consider globalization not only structural but also intentional.<sup>234</sup>

Neoliberalism and globalization cannot be considered as class-neutral phenomena or, in other words, as the result of the development of humankind in general, as inevitable, as the result of forces beyond anyone’s control (Petras & Veltmeyer, 2010: 63) and/or as a product of technological progress. Neoliberal globalization, the particular mixture of neoliberalism and globalization, is a ‘logical’ outcome of the worldwide political, economic and military geopolitical structure that began to unfold after the disintegration of the ‘socialist block’ at the end of the 1980s beginning of the 1990s. According to Berberoglu (2010: 128), “surface manifestations of contemporary capitalism, no matter how pervasive they are, do not change the fundamental nature of capitalism and capitalist relations, or the nature of the capitalist/imperialist state and the class contradictions generated by these relations, which are inherent characteristics of the system itself. They cannot change the nature of capitalism in any qualitative sense to warrant globalization a distinct status [...]”<sup>235</sup> Even though multilateral organizations such as the World Trade Organization

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<sup>234</sup> Globalization is intentional and not inevitable (Petras & Veltmeyer, 2003: 12-13).

<sup>235</sup> Globalization is not a new qualitative phase in the development of capitalism (Petras & Veltmeyer, 2003: 14).

(WTO), the IMF and the World Bank (WB) are, as Bello (2006: 1349) writes, “key pillars of the system of global governance of the neoliberal global order” and serve the interests of the United States and its allies in the ‘North’, it is, nonetheless, in the last instance the relation between capital and labour, embodying contradictory class interests, that determines developments within and between nation-states.

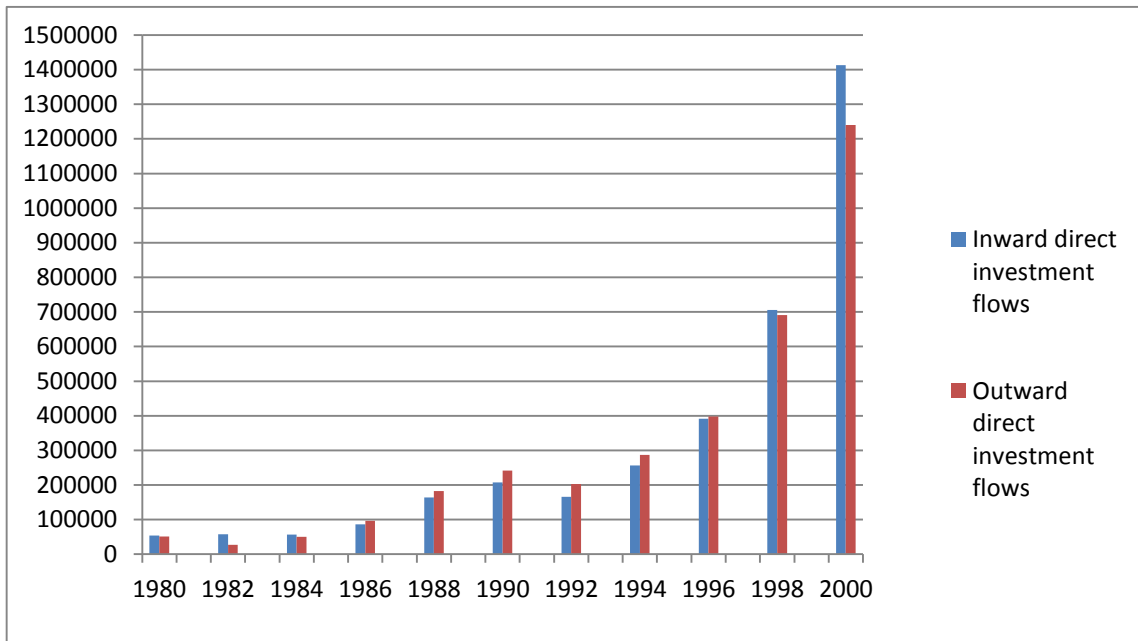
The use of the term globalization by policy-makers and mainstream economists has the intent to mask its class-nature, the class realities behind it (Petras & Veltmeyer, 2010: 65). While its direct relation with neoliberalism shows that it needs to be considered as an attack on the welfare of the majority of the population, on the other hand, its institutionalization on a worldwide scale under the leadership of the US at the service of the corporations makes it a deliberate project of world domination. The interests of these corporations are military defended by the capitalist centre under the flag of multilateral institutions, such as the United Nations (UN) and the North Atlantic Treaty Organization (NATO). It is for these reasons that the term imperialism is more suitable to define what is been known as globalization (Petras & Veltmeyer, 2006: 14).

Capital tends to concentrate and centralize as a consequence of the tendency of the profit rate to fall (Marx, 1974: 240). Global expansion of transnational capital is not only imperative for accumulation and their survival (Bellamy Foster *et al.*, 2011b), but it also further expands and deepens the centralization and concentration of capital. Although the bourgeoisie wants to make believe under the banner of globalization that open and free markets might increase competition, leading to lower prices and welfare for all, the real issue is that globalization might create more opportunities for monopolistic powers (Harvey, 2004: 109). In the period 1973-2000, worldwide FDI increased tremendously. According to Engel (2003: 176), in 1973 these investments were valued around 208.3 billion US dollar. In 1990 these investments had grown to 1721.5 billion US dollar and in 1995 they were lifted to 2854.9 billion US dollar. In 2000 they tripled to 6086.4 billion US dollar.<sup>236</sup> In Graph 4.7 we present worldwide inward and outward direct investment flows for the period 1980-2000.

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<sup>236</sup> See for data that confirm the trend, Bellamy Foster *et al.* (2011a).

**Graph 4.7: Worldwide foreign direct investments inward and outward flows: 1980-2000 (in millions US dollar at current prices and at current exchange rates)**



Source: <http://unctadstat.unctad.org/TableView/tableView.aspx> (consulted 01/06/2014).

Neoliberal globalization has been a suitable manner to discipline the labourforce as it enabled capital to transfer whole factory systems to countries with more ‘adequate’ labour regulations, i.e. with lower levels of labour rights. As such, neoliberal globalization effectively gave a push to further the power of transnational corporations in the world economy. According to Robinson (2010: 15), neoliberal globalization “opened the floodgate to massive transnational capital movements and the meteoric spread of transnational corporations”. Engel (2003: 28) writes that in 2000 transnational corporations occupied 70 per cent of world trade and 80 per cent of world investments. By comparing previous epochs of capitalist development, Robinson (2010: 25) states that in the period of neoliberal globalization nation-states were not only externally linked by markets but also started to be integrated at the production level. Nayyar (2006: 84-85) argues that the

first phase of globalization in the late nineteenth century was characterized by an integration of markets through an exchange of goods which was facilitated by the movement of capital and labour across national boundaries. This was associated with a

simple vertical division of labour between countries in the world economy. The second phase of globalization is characterized by an integration of production with linkages that are wider and deeper, except for the near absence of labour movements. It is reflected not only in the movement of goods, services, capital, technology, information, and ideas, but also in the organization of economic activities across national boundaries. This is associated with a more complex —part horizontal and part vertical— division of labour between the industrialized countries and a few developing countries in the world economy.

The restructuring of production processes in especially the ‘advanced’ capitalist countries helped to reconfigure the structure of the labourforce. While jobs in the manufacturing sectors started to disappear, occupations in the fast-growing service sector began to increase (Kolko, 1988: 309-311). According to data of Maddison (1982: 148), in 1950 24.7 per cent of the labourforce of 16 capitalist countries worked in agriculture (including forestry and fishing), 36.6 per cent in industry (including construction) and 38.7 per cent in services (including military personnel). In 1979 these percentages were respectively 7.5 per cent, 34.5 per cent and 58.0 per cent.<sup>237</sup>

The changes in employment between sectors were accompanied by a boom in part-time and temporary work. Data of Kolko (1988: 313) demonstrate that in the period 1980-1987 part-time workers in the US has grown by 58 per cent (one-fourth of total employed). Changes in the labourforce and the labour process helped to bring about cuts in real wage income and even decreased nominal wages (Kolko, 1988: 318).

The renewed power of capital in the 1980s and 1990s helped to bring about a change in the correlation of class forces.<sup>238</sup> As capital was free to move, “a new capital-labor relation based on deunionization, flexible workers, and deregulated work conditions replaced the Fordist class compromise” of the previous decades (Robinson, 2010: 15). Subcontracting, outsourcing and flexibilization, among others, were new forms of how the labour-capital relation was expressed. Although the increase of productivity and lower wage costs meant that profitability might be re-established, it also implied the renewal of the cycle towards economic crisis.

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<sup>237</sup> These countries are: FRG, Australia, Austria, Belgium, Canada, Denmark, Finland, France, Italy, Japan, Norway, Netherlands, UK, US, Sweden and Switzerland.

<sup>238</sup> According to Polanyi (2013: 36), “the objective of the neoliberal counter-revolution was to restore the discipline of capital over labour, and the principal means of achieving it were deregulation, liberalization, privatization, and explicit attacks on trade unions”.

The measures that had been implemented to solve the overproduction and profitability crisis seemed to have sorted their effects. According to data of Caputo Leiva (2012: 100), the rate of return for domestic non-financial corporations in the United States before taxes started to rise in the 1990s and continued until 2008. The rate of return after taxes stopped falling in the 1980s and rose again around 1987.<sup>239</sup> Panitch and Gindin (2012: 183) tell that the rate of return of US domestic non-financial corporations after tax began to rise again in 1982.<sup>240</sup> Duménil and Lévy (2005b: 15) state that in the 1980s the profit rate showed a renewed increase in the main capitalist countries after the decline in the 1960s until the early 1980s.<sup>241</sup> Roberts (2015) shows that the world profit rate, i.e. the profit rate of the G7 countries and the BRIC countries, was stabilized and even rose somewhat in the “neoliberal period” of the mid 1980s until the end of the 1990s.<sup>242</sup> In the case of the G20 countries, in the period 1980-2000 the profit rate went up and down.

The ‘implementation’ of neoliberal globalization condemned the countries at the periphery of the world capitalist system, such as the majority of the Latin-American countries, to be providers of raw materials and cheap labour for global production networks (Márquez Covarrubias, 2010: 10). As explained by Delgado Wise & Márquez Covarrubias, 2011: 22), transnational capital configures global capital networks that articulate various regions of the world under one operational command. The practice of outsourcing by transnational capital converted the ‘South’ into the factory of the ‘North’. Having abundant cheap labour-power to its disposal, it assured ‘adequate’ rates of exploitation (Bellamy Foster, *et al.*, 2011a).<sup>243</sup> The structural adjustment programs that were introduced created the conditions for the “free operation of capital within and across borders and the harmonization of accumulation conditions worldwide” (Robinson, 2010: 16).

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<sup>239</sup> The rate of return of investments is not the same as the Marxist profit rate. Instead of surplus value, profits are considered the ‘return’ of investments.

<sup>240</sup> The other side of the return to growth of the US profit rate: in 1999, real private-sector wages were lower than in 1968. Real hourly compensation (which includes benefits) rose between 1983 and 1999 at a yearly average of 0.6 per cent. The annual average growth in productivity was 2 per cent (Panitch & Gindin, 2012: 184).

<sup>241</sup> The solution of the crisis formed the condition for a new crisis. The tendency of the profit rate to fall caused by the tendency of the organic composition of capital to rise was not definitively reversed.

<sup>242</sup> The BRIC countries are: Brazil, Russia, India, and China.

<sup>243</sup> According to Bellamy Foster *et al.* (2011a), “a large part of world trade is now dominated by the outsourcing of multinational corporations. One crude estimate is that at least 40 percent of world trade is linked to outsourcing”.

The structural adjustment programs became known as the Washington consensus. These programs included the liberalization of trade and finance, deregulation and the privatization of state-owned companies (Robinson, 2010: 19).<sup>244</sup> In the years between 1988 and 2003, 1300 privatization transactions took place in Latin America (Robinson, 2010: 187). In the 1990s, according to Engel (2003: 191), 16 countries of Latin America and Asia counted for 75.9 per cent of total buying and 87.2 per cent of total selling of all companies in 'neocolonial dependent countries'. Not surprisingly, while in 1990 transnational corporations invested 700 million US dollar in Latin America (new investments), in 1998 this was already 61.000 million US dollar. And whereas in 1980 direct investments flows from the global north to the global south made up 6 per cent of total international resource flows, in 2000 this had increased to 60 per cent (Petras & Veltmeyer, 2006: 87, 88ft3).

In the 1980s and 1990s projects of state-led growth in Latin America were converted in economic programs based on export-led growth. The developmental state was transformed into a neoliberal state. The debt crisis in the 1980s in Latin America, the Japanese economic stagnation in the 1990s and the 1997 financial crisis in East Asia, questioned the suitability of the developmental state for capitalist development in Latin America. Government intervention began to be associated with high rates of inflation, an impending macroeconomic disequilibria, and inefficient and wasteful government policies (Pérez Caldentey, 2008: 43). The new economic programs implemented in Latin America suited the interests of transnational capital as it productively chained the development of Latin America to the growth of the countries of the 'North' (Robinson, 2010: 56-57). The reorientation of Latin American economic policies towards export-led growth meant its re-colonization.

Latin America was a very lucrative investment possibility for transnational capital, although Latin America's share of worldwide direct investments in Latin America has been relatively small. While in 1990 it was 4.4 per cent and grew to 9.8 per cent in 1995, in 2000

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<sup>244</sup> Wood (2003: 134): "Actually existing globalization [...] means the opening of subordinate economies and their vulnerability to imperial capital, while the imperial economy remains sheltered as much as possible from the obverse effects."

it was diminished to 6.4 per cent.<sup>245</sup> In the years between 1990 and 2001, “Latin America absorbed US\$ 1.0 trillion in foreign financial resources (net debt flows, FDI, bonds and equity capital). However, as Saad-Filho (2005: 227) shows, capital outflows (debt service, interest payments and profit remittances) also rose, reducing the net inflows to only US\$108.3 billion”. Saxe-Fernández & Núñez Rodríguez (2001: 111) conclude that in the two decades of neoliberalism (1980-2000), 2 trillion US dollar has been transferred out of Latin America. In Table 4.6 we present data on capital flows and investment income in Latin America between 1980 and 2000.

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<sup>245</sup> See also Colás (2005: 71) and Petras & Veltmeyer (2003: 17).



**Table 4.6: Capital flows and investment income in Latin America: 1980-2000 (in million US dollar)**

<b>Year</b>	<b>Direct investment inflows (1)</b>	<b>Portfolio investment inflows (2)</b>	<b>Other investments inflows (3)*</b>	<b>Total investments (1) + (2) + (3)</b>	<b>Investment income outflows on (1) + (2) + (3)</b>
<b>1980</b>	6112.4	2263.7	29649.3	38025.4	-31032.7
<b>1981</b>	8260.0	2353.2	58434.9	69048.1	-43983.0
<b>1982</b>	6738.9	2574.7	17411.5	26725.1	-52459.9
<b>1983</b>	5221.8	49.4	-23784.0	-18512.8	-44099.5
<b>1984</b>	4127.4	-300.2	-9180.4	-5353.2	-48137.4
<b>1985</b>	5942.0	-1289.4	-12612.3	-7959.7	-45443.1
<b>1986</b>	4380.2	-1514.0	-13443.9	-10577.7	-40959.3
<b>1987</b>	3667.4	-1836.2	-18495.3	-16664.1	-38477.8
<b>1988</b>	7486.5	-441.0	-33703.7	-26658.2	-41955.9
<b>1989</b>	7637.6	-1376.2	-23497.7	-17236.3	-47447.1
<b>1990</b>	7781.2	21152.1	-15181.8	13751.5	-45943.3
<b>1991</b>	12368.8	25466.2	988.3	38823.3	-42635.7
<b>1992</b>	14208.4	30245.5	3017.0	47470.9	-40851.2
<b>1993</b>	13226.7	79837.3	-3746.0	89318	-45568.5
<b>1994</b>	27867.7	70805.6	-18051.4	80621.9	-50131.4
<b>1995</b>	29811.5	6458.9	26454.0	62724.4	-59573.2
<b>1996</b>	43389.8	50487.2	7446.2	101323.2	-62411.1
<b>1997</b>	65228.2	33679.6	13324.6	112232.4	-69826.3
<b>1998</b>	72983.1	32595.8	-3776.8	101802.1	-74671.6
<b>1999</b>	87211.9	16475.3	-26002.4	77684.8	-73335.6
<b>2000</b>	78437.0	-175.6	-4735.0	73526.4	-80603.1
<b>Total</b>	<b>512088.5</b>	<b>367511.9</b>	<b>-49484.9</b>	<b>830115.5</b>	<b>-1079546.7</b>

Source: <http://interwp.cepal.org/sisgen/ConsultaIntegrada.asp?idIndicador=2050&idioma=e> (consulted 02/07/2014).

\* Investments of monetary authorities, “general government”, banks and investments of other economic sectors.

Data in Table 4.6 show that in the period 1980-2000 investment income that has been repatriated was higher than investment flows. Foreign investors received a rate of return higher than 100 per cent. The worldwide restructuring of national economies in the interest of transnational capital has created the basis for sustained capitalist exploitation and oppression. Nation-states have been made fit to serve transnational capital. This has been a prerequisite for global capitalist development.

#### 4.4. The financialization of capitalism, extractivism and the rise of China: 2000-2010

In the period 2000-2010 capitalist development was defined by three trends.<sup>246</sup> First of all, finance has phenomenally increased its role in society. Second, the development of the extractivist sectors of the economy of countries heavily dependent on the exports of their mineral resources have been the main triggers for considerable economic growth in the dependent capitalist countries in the first decade of the 21<sup>st</sup> century. Third, China has become the second capitalist (economic) world power. According to data from the UNCTAD, in 2010 it became the second exporting country of the world, after the United States.<sup>247</sup> It also occupied the second place in the worldwide GDP ranking, again after the US.<sup>248</sup> Fourth,

Financialization, Epstein (2005: 3) explains, “means the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies”. The principal impacts of financialization are: (i) the elevation of the significance of the financial sector relative to the real sector; (ii) the transfer of income from the real sector to the financial sector; and, (iii) increased income inequality and wage stagnation (Palley, 2007: 3). According to Bellamy Foster & Holleman (2010: 169), “the diversion of surplus investment-seeking capital into speculation on asset prices—and the creation by the financial services industries of seemingly endless new products to absorb this inflow capital while leveraging it upward with ever larger amounts of debt—constituted the new phenomenon of financialization, viewed as a long-term and global process”. Between 1979 and 1984, worldwide daily foreign-exchange trading doubled from 75 billion US dollar to 150 billion US dollar. In 1986, it rose to 200 billion US dollar (Kolko, 1988: 193). According to data of Bellamy Foster *et al.* (2011b), in 1995 the six largest bank holding companies in the United States had assets equal to 17 per cent of US GDP. In 2005 this had risen to 55 per cent and in 2010 it had grown to 64 per cent.

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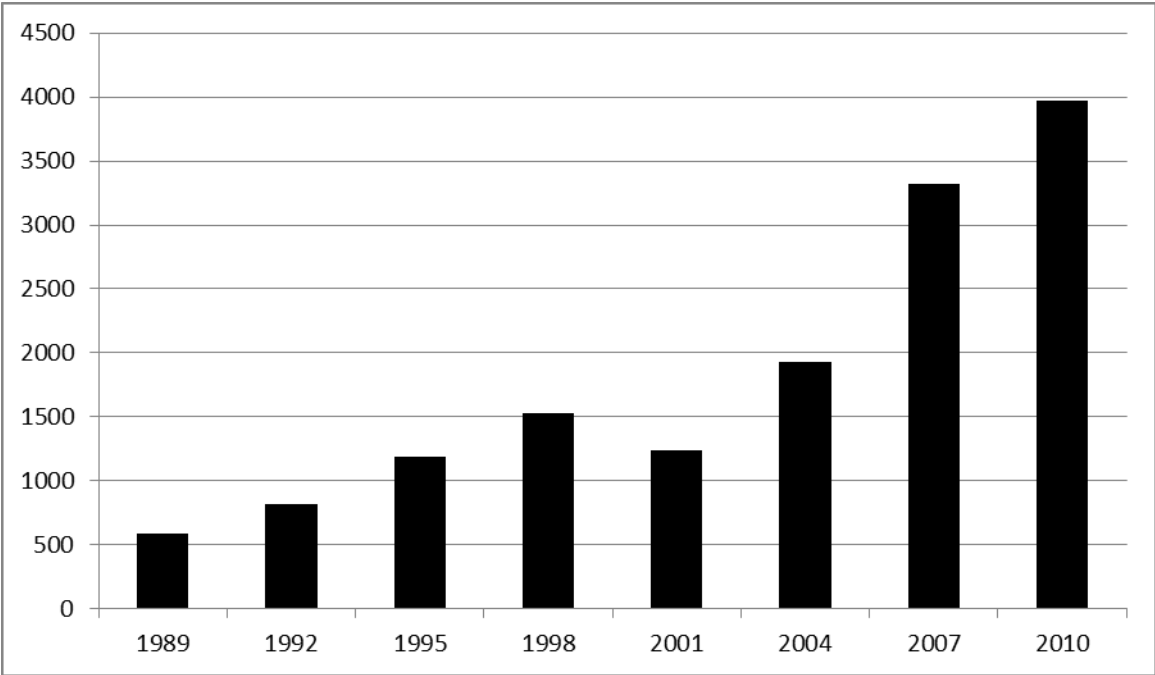
<sup>246</sup> It must be underlined that although in the third millennium the use of information technologies started to become an integral part of the operations of capital, the logic of the mode of capitalist development has not been changed.

<sup>247</sup> Source: <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=25116> (consulted 16/09/2014).

<sup>248</sup> Source: <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx> (consulted 16/09/2014).

In Graph 4.8 we present the daily averages of global foreign exchange market turnover in billions of US dollar in the period 1989-2010.

**Graph 4.8: Global foreign exchange market turnover in billions of US dollar: 1989-2010 (daily averages)**



Sources: Bank for International Settlements (<http://www.bis.org/publ/rpfx13.htm>) and Bank for International Settlements (1996), “Central Bank Survey of Foreign Exchange and Derivatives markets Activity”, in [http://www.bis.org/publ/r\\_fx96.pdf](http://www.bis.org/publ/r_fx96.pdf) (consulted 14/09/2014).

The financialization of the world economy took off in the period that neoliberalism was implemented. “Since 1980 or so”, Harvey (2007b: 32) writes, “it has not been uncommon for corporations to report losses in production offset by gains from financial operations (everything from credit and insurance operations to speculating in volatile currency and futures markets). Mergers across sectors conjoined production, merchanting, real estate, and financial interests in new ways to produce diversified conglomerates”. Caputo Leiva (2012: 93) argues that production corporations had such elevated profits that a significant part of it was placed in the financial system, converting these corporations into

lenders of the financial sector. According to Duménil & Lévy (2005a: 39), “capitals ‘rushed’ toward the financial corporations when the profit rate in this sector soared”. Bello (2006: 1355) explains that financialization and globalization “were mechanisms designed to escape the inexorable pressures of over-accumulation and overproduction”.<sup>249</sup> Engel (2003: 137) demonstrates that in the 1990s investment banks and investment departments of banks presented the fastest growth rates and the highest profits. Lapavistas (2013: 794) considers financialization hinting ‘at an epochal change of capitalism’ and suggesting a systemic ‘transformation of the economy and society’. Authors such as Bellamy Foster *et al.* (2011a) and Duménil & Lévy (2005a: 17) consider finance capital predominant in society.<sup>250</sup> Bellamy Foster & Holleman (2010: 63) claim to see a “shift in the primary sources of wealth accumulation at the very top of society from production to finance”. Robinson (2010: 187) even thinks “transnational finance capital [...] the most mobile fraction of capital and is the hegemonic fraction on a world scale”.

Finance capital ‘appropriate the fruits of social production’ (Hilferding, 1971: 255). So, what appears as a financial crisis is essentially a production crisis. Caputo Leiva (2012: 95) argues that the financial crisis that started to unfold in 2008 in the United States and affected the whole world economy was a production crisis expressed in a financial crisis.<sup>251</sup> Profits in the production sector were already going down for a while before the outbreak of the same crisis. Carchedi (2011: 153) argues that the prime cause of the crisis was the ‘shrinking production of surplus-value’. Carchedi (2011: 149-150):

The basic point is that financial crises are caused by the shrinking productive basis of the economy. A point is thus reached at which there has to be a sudden and massive deflation

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<sup>249</sup> Bello (2006: 1350) seems to uphold the same point of view: “The centrality of finance capital was a result of the declining profitability of industry brought about by the crisis of overproduction. By 1997 profits in US industry had stopped growing. Financial speculation, or what one might conceptualise as the squeezing of value from already created value, became the most dynamic source of profitability.”

<sup>250</sup> Duménil & Lévy (2005a: 17, 45): “It is finance that dictates its forms and contents in the new stage of internationalization; it is not internationalization or globalization that create the insuperable necessary for the present evolution of capitalism. [...] Neoliberalism is the expression of the new hegemony of finance.”

<sup>251</sup> The financial crisis hit Latin America in the sense that net financial flows (net direct investments, net portfolio investments, net private flows, net official flows and other net investments) to the ‘emerging’ markets diminished considerably. Portfolio investments became even negative in 2008 and 2009. Not only the GDP growth rate for Latin America became negative in 2009, but also Latin America’s current account turned negative (Parodi Trece, 2014: 278, 282).

in the financial and speculative sectors. Even though it looks as if the crisis has been generated in these sectors, the ultimate cause resides in the productive (of surplus-value) sphere, that is, in the shrinking productive basis of the economy and in the attendant falling profit-rate *in this sphere*, even though this downward movement manifests itself at first in the financial and speculative sectors. It is not the case that decades of low wages have led to realisation-problems and, finally, to the bursting of the financial bubble (at present, the dominant view also within the Left). Rather, decades of shrinking production of new value have forced capitalists (1) to lower salaries (something that is mistakenly seen by some as the cause of the crisis) and (2) to shift to highly profitable financial and speculative investments which, however, being based on fictitious capital, could only conceal the true state of the productive basis of the economy (something that is mistakenly seen by others as the cause of crisis). The reduction of both classes' purchasing power is *revealed* in a *gradual* way, and the collapse of the financial and speculative sectors *reveals* in a *sudden* and abrupt way, the continuously shrinking productive basis of the economy that had been concealed through increasing levels of debts. [...] Second, it is usually held that financial capital is dominant *vis-à-vis* industrial (and more generally productive) capital. This should be properly understood. Since financial capital lives off the surplus value produced by productive capital, it is the latter which is the condition of existence (the determinant) of the former. Financial capital, in its turn, is the condition of reproduction of (determined by) industrial capital. This can, and does, imply that financial capital sets its own rules, including the destruction of units of industrial capitals, in order to ensure the reproduction of the latter and thus of the system as a whole. The conspicuous way in which financial capital does this is wrongly perceived as dominance *vis-à-vis* industrial capital. The size of financial and speculative capitals moving around daily on the world market lends further credence to this illusion. Nevertheless, the dominant fraction within the world bourgeoisie is the productive (including the industrial) one, even if under specific circumstances it might delegate the task of its own (and of the system's) reproduction to other fractions.<sup>252</sup>

The boom of the extractivist industries in the first decade of the 21<sup>st</sup> century fits exactly within the nature of capitalism. The objective of the system is the accumulation of capital, the capitalization of surplus value. The necessity of capital to expand increases the demand placed on nature which generates “ecological degradation and pollution in a finite world” (Clark & Bellamy Foster, 2010: 145). It is precisely this nature of capital that produces disastrous effects on the environment.

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<sup>252</sup> “But in fact, the financialisation was profitable to all the oligopolies, and 40 per cent of their profits came solely from their financial operations. And these oligopolies control simultaneously the dominant sectors of the real productive economy and the financial institutions. Why, therefore, did the oligopolies deliberately choose the route of the financialisation of the system in its totality? The reason is that doing so allowed them simply to concentrate, for their benefit, a growing proportion of the mass of profits realised in the real economy. The apparently insignificant rates of return for each financial operation produce, taking into account the gigantic number of these operations, considerable volumes of profits. These profits are the products of a redistribution of the surplus mass generated in the real economy and are the rents of the monopolies.” (Amin, 2010b: 6)

The commodification of nature is intrinsically related to this objective because in capitalism what matters is not the production of use-values but exchange-values. In the last instance, it does not matter what is produced, but if it can be sold. Marx (N/Da: 313) noted:

Hence the great civilizing influence of capital; its production of a stage of society in comparison to which all earlier ones appear as mere local developments of humanity and as nature-idolatry. For the first time, nature becomes purely an object for humankind, purely a matter of utility; ceases to be recognized as a power for itself; and the theoretical discovery of its autonomous laws appears merely as a ruse so as to subjugate it under human needs, whether as an object of consumption or as a means of production. In accord with this tendency, capital drives beyond national barriers and prejudices as much as beyond nature worship, as well as all traditional, confined, complacent, encrusted satisfactions of present needs, and reproductions of old ways of life. It is destructive towards all of this, and constantly revolutionizes it, tearing down all the barriers which hem in the development of the forces of production, the expansion of needs, the all-sided development of production, and the exploitation and exchange of natural and mental forces.

The capitalist productive apparatus is not, by nature and structure, neutral. It serves the accumulation of capital and unlimited expansion of the market (Löwy, 2007). It leads inevitably to the destruction of the ecological equilibriums of the planet “which are completely incompatible with the infernal cycles of capital” (Löwy & González, 2011). According to Löwy (2004), capitalism has two general contradictions. The first, as pointed out by Marx, is between the productive forces and the relations of production. In other words, the development and the socialization of the productive forces contradict the private ownership of the means of production. The second contradiction is between the productive forces and the conditions of production (including the workforce, urban space and nature). As capital is ‘obliged’ to develop its productive forces in order to be able to compete in the world market, it tends to destroy the conditions for its own reproduction. For instance, by pushing up the rates of exploitation, capital might ‘kill’ labour and by using more and more energy it contributes to the depletion of the very natural reserves that it desperately needs.<sup>253</sup>

The debate on the commodification of life and the boom of the extractivist industries has been stimulated by Harvey’s concept of accumulation by dispossession.

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<sup>253</sup> See on the second contradiction also O’ Connor (2001: 200-203).

## Accumulation by dispossession means

the continuation and proliferation of accretion practices that Marx had designated as “primitive” or “original” during the rise of capitalism. These include (1) the commodification and privatization of land and the forceful expulsion of peasant populations (as in Mexico and India in recent times); (2) conversion of various forms of property rights (common, collective, state, etcetera) into exclusively private property rights; (3) suppression of rights to the commons; (4) commodification of labour power and the suppression of alternative (indigenous) forms of production and consumption; (5) colonial, neocolonial, and imperial processes of appropriation of assets (including natural resources); (6) monetization of exchange and taxation, particularly of land; (7) the slave trade (which continues, particularly in the sex industry); and (8) usury, the national debt, and, most devastating of all, the use of the credit system as radical means of primitive accumulation (Harvey, 2007a: 34-35).

In the period 2000-2010, South America has been object of large investments by international extractive capital. In 2007, 149 transnational mining corporations counted for 60 per cent of the “total value at the mining state of all non-energy minerals produced” (UNCTAD, 2007: 108-109).

Since 1994, Latin America has received the largest investments in mining exploration. It attracts a yearly average of around 26 per cent of the worldwide budget (Metals Economics Group, 2011: 4-5). At the beginning of the 1990s, it received approximately 12 per cent of global investment in mining. Five years later this grew to 28 per cent and in 2009 this was raised to approximately 30 per cent (Bebbington, 2009a: 15; De Echave, 2009a: 105). The share of extractive industries in world inward FDI was on the rise since 2000 (UNCTAD, 2007: 100).

Since 2005 the extractive sector started to be, worldwide, one of the most profitable sectors to invest in (UNCTAD, 2007: 89). The terms of trade of the minerals exporting countries dramatically improved during the commodities boom that lasted from 2005 to 2011. The boom was caused by economic growth in China and India, and the credit boom in Europe and the United States (Parodi Trece, 2014: 221, 255-256).<sup>254</sup> In Tables 4.7 and

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<sup>254</sup> “At least thirty years of economic development provided credence to the notion of deteriorating terms of trade as a structural source of Latin America’s dependent and failed development. [...] Whereas the strategy of exporting primary commodities, adding no or little value to the product in the process, in previous decades was a virtual disaster because of the established deterioration in the terms of north-south trade, the same strategy in recent years have resulted in record growth rates and a bonanza of resource rents and windfall profits on sales” (Petras & Veltmeyer, 2009: 11).

4.8 data is presented regards the boom of extractive industries in Latin America. In Table 4.7 the net FDI flows in natural resources over the period 2005-2010 to selected countries are presented. In Table 4.8 we demonstrate the effects of the primary commodities boom on the real GDP to selected countries.

**Table 4.7: Net foreign direct investment inflows in natural resources, selected countries (in millions of US dollar)**

Countries	2005	2006	2007	2008	2009	2010	Total: 2005-2010
Argentina	1.960	3.123	2.130	1.278	1.264	xxx	9.755
Bolivia	363	146	441	862	xxx	xxx	1.812
Brasil	1722	1.835	4.806	1.5085	7.503	1.9879	50.830
Chile	595	3.384	6.607	4.625	7.013	6.203	28.427
Colombia	3.288	3.786	4.474	5.231	5.742	4.969	27.490
Ecuador	222	-69	-77	263	45	168	552
Mexico	233	414	1.883	4.373	464	594	7.961
Nicaragua	0	15	11	38	12	184	260
Peru	283	735	3.923	3.783	3.965	xxx	12.689

Source: ECLAC (2010), "Foreign direct investment in Latin America and the Caribbean", in [http://www.eclac.org/publicaciones/xml/0/43290/2011-138-LIEI\\_2010-WEB\\_INGLES.pdf](http://www.eclac.org/publicaciones/xml/0/43290/2011-138-LIEI_2010-WEB_INGLES.pdf) (consulted 06/07/2014).

xxx = No information.

**Table 4.8: Real GDP growth rates, selected countries: 2000-2010 (in percentages)**

Countries	2000	2002	2004	2006	2008	2009	2010
Argentina	-0.8 %	-10.9 %	9 %	8.5 %	6.8 %	0.9 %	9.2 %
Bolivia	2.5 %	2.5 %	4.2 %	4.8 %	6.1 %	3.4 %	4.1 %
Brazil	4.3 %	2.7 %	5.7 %	4 %	5.2 %	-0.3 %	7.5 %
Chile	4.5 %	2.2 %	7 %	5.7 %	3.3 %	-1 %	5.8 %
Colombia	2.9 %	2.5 %	5.3 %	6.7 %	3.5 %	1.7 %	4 %
Ecuador	4.2 %	4.1 %	8.2 %	4.4 %	6.4 %	0.6 %	3.5 %
Mexico	5.3 %	0.1 %	4.3 %	5 %	1.4 %	-4.7 %	5.1 %
Nicaragua	4.1 %	0.8 %	5.3 %	4.2 %	4 %	-2.2 %	3.6 %
Peru	3 %	5 %	5 %	7.7 %	9.8 %	0.9 %	8.8 %

Source: <http://unctadstat.unctad.org/TableViewer/tableView.aspx> (consulted 06/07/2014).



The commodities boom in the first decade of the 21<sup>st</sup> century is reinforcing the role of Latin America as principally an exporter of raw materials and is consolidating, as well as intensifying, its historical role in the international division of labour.<sup>255</sup> As the prices of primary commodities are determined by international markets, in the offices of transnational capital in the imperialist countries, Latin America is condemned to the visible hand of economic shocks, fluctuations and speculative capital flows. Pegg (2006: 378) argues that the cyclical nature of the commodity prices and the lack of diversification make Latin America ‘unusually vulnerable to economic shocks’.

The commodities boom in the first 10 years of the new millennium was for an important part due to the demand of China (World Bank, 2011a: 8-9).<sup>256</sup> As a matter of fact, according to the World Bank (2011b: 22), the robust growth in Latin America is an “important measure of its connections to China, both directly (via trade and increasingly also Foreign Direct Investment [FDI] channels) and indirectly (mainly via China’s impact on the international prices of commodities)”.

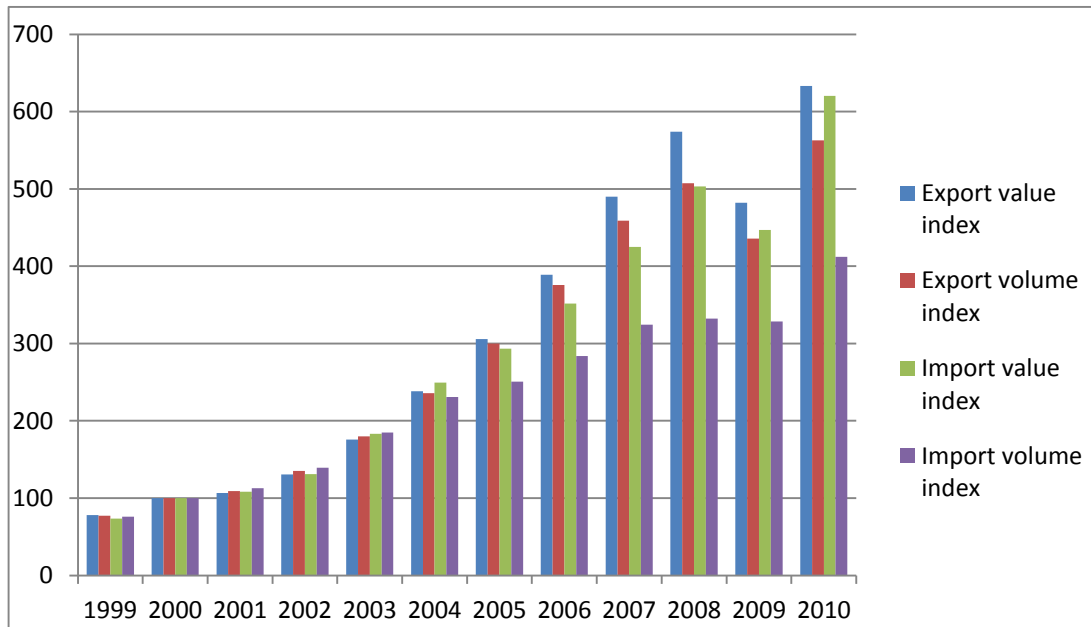
China’s economic take-off in the capitalist world economy started in 1978 when the country decided to install a capitalist system adapted to the particular interests of the leaders of the communist party and their (future) capitalist allies. In 2001 it became a member of the WTO. Economic growth soared, mainly the result of a formidable increase of trade (Li, 2013: 157-158). In Graphs 4.9 data is presented on China’s export and import growth (value and volume) in the period 1999-2010. Graph 4.10 shows the country’s annual GDP growth rates in the years between 1999 and 2010. Not only the correlation between the growth of GDP and trade becomes clear, but also China’s booming trade after its membership of the WTO.

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<sup>255</sup> Latin American “dependence is reinforced by those upstream economic actors that control processing and marketing of final products derived from the minerals in question” (Bebbington, *et al.*, 2008: 6).

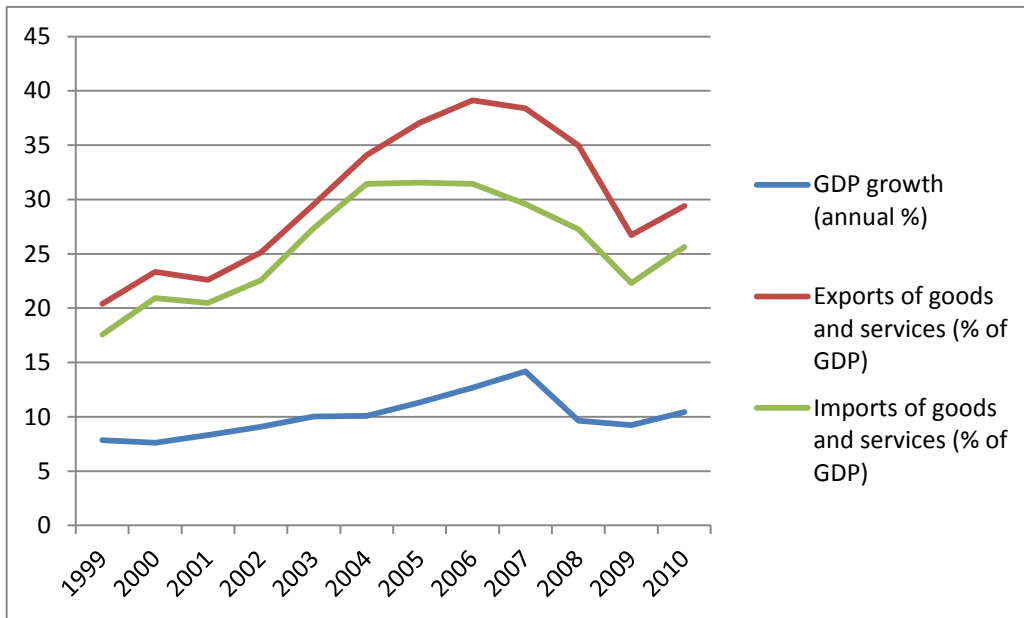
<sup>256</sup> “China’s demand for commodities has been pivotal in commodity markets. In 2009, China overtook the OECD as the world’s largest metals consumer and Chinese metal demand now accounts for 40 percent of global use. The country’s metal demand growth has boosted the metals intensity of global GDP (metal consumption per unit of GDP) to such an extent that in 2004 it reversed a 30-year trend of declining metal content of global GDP. While its energy demand was only half that of the US a decade ago, China’s energy use overtook that of the US in 2010. [...] China is now the largest consumer of many commodities, including bauxite, iron ore, coal, copper, and nickel. For several major minerals it has also become the primary producer or processor, including of aluminum (41 percent of world production in 2010, up from 11 percent in 2000), iron ore (38 and 21 percent, respectively over the same period), phosphate rock (37 and 16 percent) and zinc (29 and 18 percent).” (World Bank, 2011a: 8-9)

**Graph 4.9: Export and import value and volume index of China: 1999-2010 (2000 = base year)**



Source: World Data Bank, in <http://databank.worldbank.org/data/views/reports/tableview.aspx> (consulted 16/09/2014).

**Graph 4.10: GDP growth and growth of export and import of goods and services (as a percentage of GDP) of China: 1999-2010**



Source: World Data Bank, in <http://databank.worldbank.org/data/views/reports/tableview.aspx> (consulted 16/09/2014).

Trade and GDP growth are not the only indicators that evidence the economic rise of China. In the third millennium, China also became a major receiver of FDI. While in 1992 FDI valued 11 billion US dollar, in 2002 it had grown to 55 billion US dollar and in 2010 it amounted to 105.7 billion US dollar (Li, 2013: 167).<sup>257</sup> Apart from receiving FDI, China heavily invested abroad. In Table 4.9 we show FDI flows from China to the rest of the world in the period 2003-2010.

<sup>257</sup> In 2009, China became the second largest recipient of FDI in the world (Li, 2013: 176).

**Table 4.9: FDI flows from China according to geographical destination: 2003-2010 (in millions of US dollar)**

<b>Year</b>	<b>Total FDI</b>	<b>FDI to developed countries</b>	<b>FDI to developing countries</b>	<b>FDI to transition economies*</b>
<b>2003</b>	2855	211	2605	39
<b>2004</b>	5498	336	5065	97
<b>2005</b>	12261	731	11216	315
<b>2006</b>	17634	520	16565	549
<b>2007</b>	26506	2747	22891	868
<b>2008</b>	55907	2787	52055	1065
<b>2009</b>	56529	7043	48780	706
<b>2010</b>	68811	10864	56736	1211

Source: [http://unctad.org/Sections/dite\\_fdistat/docs/webdiaeia2014d3\\_CHN.pdf](http://unctad.org/Sections/dite_fdistat/docs/webdiaeia2014d3_CHN.pdf) (consulted 16/09/2014).

\* Bosnia and Herzegovina, Serbia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Russian Federation, Tajikistan, Ukraine, Uzbekistan and Georgia.

China's interest in 'developing' countries is motivated by the natural resources that are located in these countries. As López-Villafañe (2011: 23) explains, "Chinese economic relations with Latin America are concentrated on obtaining natural resources and sending manufactured goods to the region".

#### **4.5. Conclusions**

The general laws of capitalist development discovered by Marx were evidently at work in Peru in the 1945-2010 period of capitalist development. Thus, we found that the organic composition of capital had a tendency to rise, that the average rate of profit had a tendency to fall, and that the capitalist economy tended to overproduce.

The necessity of capital to accumulate forces it to increase the appropriation of absolute and/or relative surplus value. It also obliges it to increase its markets and to search for new possible investment outlets. The fact that capital spreads its tentacles all over the globe does not necessarily mean, as Marx pointed out, that capital cannot be profitably employed within 'its' nation-state, but it is just that abroad it can obtain higher profit rates.

The reconstruction of Europe and the incorporation of the 'Third World' in capitalist accumulation processes in the first 25 years after the Second World War provided capital, especially US capital, with the necessary markets and investments opportunities. It also helped to create a political and economic wall against the 'communist threat' and set the conditions for what Bina and Yaghmaian call 'a globally integrated network of capitalistic production and exchange'. The origins of transnational capital, the result of the national and international concentration and centralization of capital, date from the *Golden Age* of capitalism.

The accumulation of capital is the motor of capitalist development. Capital is only interested in the production of use values when these use values have an exchange value. The implementation of neoliberalism and globalization in the 1980s and 1990s contributed to stabilize the profit rates after the crisis in the 1970s.

The overproduction crisis in the 1970s showed the structural weakness of capitalism. The crisis was not caused by a lack of effective demand as Keynes would argue, but it was the result of the falling rate of profit. As a matter of fact, the conditions for capitalist growth in the *Golden Age* were at the same time the conditions for crisis. The increase of the organic composition of capital not only helped to bring about productivity increases and an increase of the relative surplus value, but also lowered the rate of profit and caused overproduction.

Neoliberal globalization has been the result of the 'creative' powers of capital to unleash the political forces to restore profitability. It increased the national and international appropriation of absolute and/or relative surplus value, it augmented the transfer of wealth from the 'South' to the 'North', it facilitated the broadening of the scope of investments possibilities, and it enlarged the markets for capital.

The increasing role of finance in the capitalist world economy is a clear demonstration of capital's drive to accumulate. It shows that capital is not interested in the rate of exploitation or the rate of economic oppression, but in the rate of profit. If production in the real economy does not yield the average rate of profit, capital moves to the non-value sectors of the economy such as finance. However, as finance only appropriates value produced elsewhere, what appears as a financial crisis is fundamentally a production crisis. Although in the third millennium finance plays a prominent role in the

capitalist world economy, it has not changed the essence of the capitalist mode of operation.

The importance of extractive capital is next to finance another characterizing feature of capitalist development in the third millennium. The increased investments in the extractive sector not only shows the nature of capital to expand, to turn all aspects of social life in commodities, to capitalize life, but also demonstrates the necessity of capital to assure the free flow of natural resources and the profit drive of capital caused by its objective compulsion to accumulate.

In the era of neoliberal globalization, countries at the periphery of the world capitalist system have returned to their historical role in the international division of labour, i.e. to provide the raw materials for capitalist development in the 'North'. In the context of the overwhelming power of transnational extractive capital and the increased economic and financial interrelations between countries, economic projects based on the export of natural resources condemn these countries to the visible hand of economic shocks, fluctuations and speculative capital flows. Although in the first 25 years after the Second World War Latin America has tried to walk an 'autonomous capitalist development path', the relations of dependence between Latin America and the countries at the centre of world capitalist development were never abolished as evidenced by the drain of wealth by the 'North'. Neoliberal globalization increased the transfer of wealth out of Latin America.

Since 1945 the US has been the world's political and economic capitalist hegemon. In the 1970s it saw its political power reduced by the economic crisis and the resurgence of European and Japanese capital. However, after the collapse of real existing socialism in Eastern Europe, the break-up of the Soviet-Union and the introduction of neoliberal globalization it was able to regain its lost political power. As the European Economic and Monetary Union in 1999 was not accompanied by a political union, European capital was not able to become a real threat to US' political and military hegemony.

China's capitalist conversion and its rise to second place in the list of world economic powers in the third millennium might challenge US world hegemony if it is able to transform this strength into political and military power. The bipolar world that might emerge from China's ascension to world power will not be characterized by the existence of two antagonistic political, economic and social systems such as in the period

1945-1991, but rather as a world marked by a class war and a life and death struggle over natural resources.

In the years between 1945 and 2010 the role of the state in the capitalist economies has changed according to the necessities of capital and the strength of left-wing oriented political forces. The reconstruction of Europe was a state-led matter. The political strength of the Left and capital's necessities for sustained accumulation was expressed in productivity growth coupled with wage rises and social benefits for the labouring classes.

The crisis in the 1970s helped to bring about a change in the correlation of class forces. These changes got their full meaning in the 1980s and 1990s with the implementation of neoliberal globalization. It was considered that the social consensus between capital and labour began to function as a barrier for the enlarged reproduction of capital. The principal function of the state became to provide the conditions for the free and unhampered development of capital.

The role of the state in the *Golden Age* of capitalism and its function in the current era of neoliberal globalization are not essentially different. The capitalist state primarily defends the global interests of capital. It hinges on the correlation of class forces within and outside the state, on the class struggle, if the balance of state policies is in favour of capital or labour. However, as Poulantzas has pointed out, "in agreement with the hegemonic dominance of the dominant classes, i.e. with the political constitution of the dominant classes in relation to this state, as representatives of the general interest of the people [...] compatible with its political interests, with its hegemonic domination".

## CHAPTER 5: CAPITALIST DEVELOPMENT IN PERU: 1980-2015

Peru is a country on the periphery of world capitalism. Its development is conditioned by the development of capitalism in the global ‘North’. Capitalist development in Peru is a particular capitalist development. Although, in general terms, the general laws and contradictions of capitalist development apply to Peru, the particular development of the country in the last thirty-five years and its role in the international division of labour show that these laws and contradictions cannot be used as a mechanical explanatory framework for understanding Peruvian political, economic and social reality.

I argue that for a proper understanding of capitalist development in Peru it is necessary to combine Marxist political economy and the Marxist variant of dependency theory. While the first provides us with the tools to understand how the laws of capitalist development can be ‘applied’ on Peru and how the particularities of capitalist development in Peru relate to these general laws, the latter helps us to comprehend the political and economic relations between Peru and the ‘North’.

In this chapter I analyse capitalist economic development in Peru over the years 1980-2015. I do not delve into the details of capitalist development during the governments of Fernando Belaúnde (1980-1985), Alan García (1985-1990), Alberto Fujimori (1990-2000), Alejandro Toledo (2001-2006), Alan García (2006-2011) and Ollanta Humala (2011), but it will concentrate on the characteristic features of capitalist development during these regimes. This chapter serves as a political, economic and historical framework for the analysis of the evolution of the Peruvian class structure in the period 1980-2015 (chapter 6) and the development of the class struggle and the Left in the last thirty-five years (chapter 7). In order to politically and economically contextualize the regime of Belaúnde, this chapter starts with a description of capitalist development during the military dictatorship (1968-1980).

This chapter is organized as eight sections. In section 5.1, capitalist development during the military dictatorship is described. Section 5.2 analyses capitalist development under the regime of Belaúnde and in section 5.3 we delve into capitalist development during the first government of the *Alianza Popular Revolucionaria Americana* (APRA) in



Peruvian history. In section 5.4 we turn to the government of Fujimori and in 5.5 we examine how capitalism developed under the government of Toledo. Sections 5.6 and 5.7 are dedicated to the second term of the APRA leader Alan Garcia and the nationalist government of Humala. In section 5.8 we present our conclusions.

### **5.1. The military dictatorship: 1968-1980**

On the 3<sup>rd</sup> of October 1968 the military staged a coup against President Belaúnde. The new regime led by General Juan Velasco initiated reforms that had the purpose to develop capitalism in Peru.<sup>258</sup> According to Deniz (1978: 71) it was not a simple modernization of what existed, but a “new phase of capitalist development”.<sup>259</sup> Héctor Minguillo, a former cadre of the *Partido Socialista Revolucionario* (PSR) and currently working with communities in the Amazon region, argues that the reforms of the Velasco regime contributed to the development of capitalism in the countryside.<sup>260</sup> According to Dante Castro (interview, 2015), writer and cadre of the political organization *Movimiento de Liberación 19 de Julio* (ML-19), “capitalism inserted itself in countryside”.

The regime implemented a land reform that eliminated the land-owning class and it set the country on an industrialization course. In line with the points of view of ECLAC in the 1950s and the 1960s, it was thought that lasting progress was only possible with the industrialization of the country (Jaquette, 1972: 650-651; Bamat, 1983: 130; Parodi Trece, 2010: 101). A land reform was considered key for capitalist development (Weeks, 1985: 232). The reform would contribute to an increase of peasant income and, as a consequence, might stimulate the domestic industry (Phillip, 1978: 118; Parodi Trece, 2010: 120).

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<sup>258</sup> Carlos Bernales, a former leader and member of the Executive Committee of the *Partido Revolucionario de Trabajadores* (PRT), says: “With Velasco an attempt is made to deepen capitalism in Peru. To get rid of the feudal elements that were present in Peru until that moment.”

<sup>259</sup> “The overall effect of their years of authoritarian military rule has been the reproduction, expansion, and “modernization” of capitalism in Peru. The interests of monopoly capital, transnational and local, were favored far above the interests of the “less favored sectors of the population” who were promised so much in the 1968 Statute of the Revolutionary Government. But this is because the populist reform project of the military never broke with the logic of capitalist accumulation and never was based on the independent organization of the popular masses; [...]” (Bamat, 1983: 134).

<sup>260</sup> Lenin (1918) writes that in the case of Russia at the end of the 19<sup>th</sup> century, “nationalisation [of the land; JL] would hasten the death of serfdom and the development of purely bourgeois farming on land free of all medieval lumber. That is the real historical significance of nationalisation in Russia—what it has come to mean by the end of the nineteenth century.”

During the Velasco government the development of a national industrial bourgeoisie was stimulated. The interests of foreign capital were not really threatened. Foreign and local corporations were considered keys for the industrialization of the country (Bamat, 1983: 146).

The military dictatorship can be divided in two periods. In the years between 1968 and 1975 Peru was governed by General Velasco. It was during this government that the major capitalist reforms were implemented. In 1975 Velasco was replaced by General Morales who returned the country to the pre-1968 development model. This development model was based on the free market and the export of the country's mineral resources.

The economic policies pursued by the government under the leadership of General Velasco were radically different from those of other military regimes in Latin America that in years before had overthrown democratically elected governments. The nationalization of the US-owned International Petroleum Company (IPC) on October 9 took many by surprise.<sup>261</sup> One month after the coup, the government nationalized the US-owned mining corporation Cerro de Pasco Corporation (Deniz, 1978: 42).

The land reform has not really contributed to a change of the agricultural structure, i.e. to the emergence of large agricultural units that enable to profit from economies of scale.<sup>262</sup> Although the land of big landowners were converted into cooperatives called Agricultural Society of Social Interest (*Sociedad Agrícola de Interés Social*, SAIS for its acronym in Spanish) and in Agrarian Production Cooperatives (*Cooperativa Agraria de Producción*, CAP for its acronym in Spanish),<sup>263</sup> in 1972 80 per cent of the agricultural units occupied 6.6 per cent. In 1961, 83.2 per cent of the agriculture and livestock units concentrated 5.5 per cent of the land (González Gómez, 1986: 233). As a matter of fact, the land reform contributed to the emergence of a *mini-latifundio* system. In Table 5.1 we present the implications of the land reform.

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<sup>261</sup> According to Stephens (1983: 57), "the Peruvian military government of 1968-80 defied the expectations and categorizations derived from academic work on the character and performance of its counterparts, past and present, in other Latin American countries".

<sup>262</sup> FitzGerald (1981: 151) argues that the land reform was more politically than economically. It eliminated a sector of the Peruvian oligarchy but did not transfer the surplus agrarian population to industry.

<sup>263</sup> For the differences between the SAIS and CAP's, see Matos Mar & Mejía (1984: 52-53).

**Table 5.1: The implications of the land reform (data for 1979)**

<b>Agricultural units</b>	<b>Quantity of agricultural units</b>	<b>Benefitted peasant families</b>	<b>Possession of land as a percentage of total disposable hectares</b>
<b>Cooperatives</b>	581	79.568	25.5 %
<b>Agro industrial sugar complexes</b>	12	27.783	1.5 %
<b>SAIS</b>	60	60.954	32.6 %
<b>Companies of Social Property</b>	11	1.375	2.7 %
<b>Groups of farmers<sup>264</sup></b>	834	45.561	19.6 %
<b>Communities</b>	448	117.710	10.3 %
<b>Independent farmers</b>		42.295	7.7 %
<b>Total</b>	1946	375.246	100 %

Source: Fernando Eguren (2014), “De la reforma agraria neolatifundio: el crecimiento capitalista del campo peruano”, p. 167.

The expropriation of the land of the big landowners did not benefit all peasants as only 39 per cent of the land was subject to the land reform (Parodi Trece, 2010: 124).<sup>265</sup> According to Fitzgerald (1981: 152), 25 per cent of all the peasant families benefitted from the land reform. Half of the “productive potential of the agriculture” was handed over to 80.000 workers, benefiting 275.000 peasant families. Lynch (2014: 159) writes that about 30 per cent of the peasant families were favoured by the land reform. Data presented by González Gómez (1986: 233) show that 340.000 peasant families were benefitted by the agrarian reform. The rest, 72 per cent of all peasant families, were just bystanders. Matos & Mejía (1984: 68) write that the reform had only benefitted 17 per cent of the workers (370.073 workers) who in 1977 were considered part of the labour force in the agricultural and livestock sector.

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<sup>264</sup> In these groups, the property is collective but the possession is individual.

<sup>265</sup> According to Lynch (2014: 159), 50 per cent of the disposable agricultural land had been subject to the land reform. Gonzales de Olarte (1994: 45) writes that 28.5 per cent of the cultivable land that pertained to big and medium-size landowners was redistributed.

The land reform has not resulted in a structural increase of agricultural production. In Table 5.2 data is presented on the growth rates of agricultural production and the annual growth rate of the Peruvian population. It is demonstrated that agricultural production does not always keep up with the population growth.

**Table 5.2: Annual growth rates of agricultural production (value) and population: 1966-1975**

Year	Annual growth of agricultural production	Annual growth of Peruvian population
1966	5.4 %	2.9 %
1967	3.9 %	2.9 %
1968	-3.4 %	2.8 %
1969	6.6 %	2.8 %
1970	7.8 %	2.8 %
1971	2.0 %	2.8 %
1972	-2.4 %	2.8 %
1973	0.4 %	2.8 %
1974	3.7 %	2.8 %
1975	0.0 %	2.8 %

Sources: <http://www.bcrp.gob.pe/estadisticas/cuadros-anuales-historicos.html> (consulted 06/10/2014) and <http://series.inei.gob.pe:8080/sirtod-series/> (consulted 06/10/2014).

The necessity to have control over the economic course of the country induced the government to nationalize and/or to control key industries.<sup>266</sup> In the period 1968-1975 the role of the State in the economy increased considerably. While in 1968 state-owned companies controlled 11 per cent of total GDP, in 1975 this had increased to 21 per cent. And whereas in 1968 cooperatives did not exist, in 1975 its participation in GDP was 8 per cent. The participation of foreign companies in GDP diminished from 22 per cent to 11 per cent (Fitzgerald, 1981: 167).

<sup>266</sup> It should be noted, however, that in October 1969 the Velasco government signed an agreement with the US-owned Southern Peru Copper corporation to exploit one of the largest copper deposits in the country (Quijano, 2014b: 465).

The nationalizations in the manufacturing and banking sector and the establishment of cooperatives in the agricultural sector were accompanied by the creation of what were called Social Property Companies (*Empresas de Propiedad Social*; EPS for its acronym in Spanish). These companies were a kind of socialist productive units as its management was in the hands of the workers (they even determined their own salaries). None of the “workers associates” had individual ownership rights as the ownership corresponded to the whole of the EPS (Deniz, 1978: 136-137). The importance of the EPS in the Peruvian economy has been incipient. Only six EPS have existed. They provided a total of 40.000 jobs (FitzGerald, 1981: 173).<sup>267</sup>

The Velasco government has stimulated the development of a national industrial bourgeoisie (Bamat, 1983: 128-129).<sup>268</sup> According to FitzGerald (1981: 165), it was precisely the State that assumed the economic role of the national bourgeoisie. Deniz (1978: 72) argues that during the regime of Velasco it was tried to strengthen the capitalist role of the State in basic industries and to control international trade. In line with this argument, González Gómez (1986: 236) explains that the State, more than in previous years, took on its role as the representative of capital as a whole, imposing its program on the distinct fractions of the bourgeoisie. Cabieses & Otero (1978: 73-74) argue that the diminution of foreign capital in the economy was at the benefit of state-capital. The participation of private local capital was maintained approximately at the same level with a slight reduction in comparison with its participation before the military coup of 1968.

During the first phase of the military government Peru became increasingly dependent on foreign capital. While in 1972 97 per cent of gross internal investment was financed by savings and national capital, in 1975 foreign capital provided 88 per cent of finance and 12 per cent came from national resources (Deniz, 1978: 76). This dependence was principally caused by the objective of the government to industrialize the country. The country needed to import industrial supplies and capital goods. In Table 5.3 data is presented on the import for agricultural and industrial purposes in the period 1966-1975.

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<sup>267</sup> Lajo (1996: 37) writes that around 30 EPS have existed or were in process to be erected. About 120.517 individuals were employed in the EPS.

<sup>268</sup> According to Weeks (1985: 88) the military regime was put in place by the Peruvian national bourgeoisie. On the same, see Dore & Weeks (1977: 6). FitzGerald (1981: 164-165) argues that no national bourgeoisie existed in Peru as it was foreign capital that was in control of what this author calls the “modern” sectors of the economy.

**Table 5.3: Import for agricultural and industrial purposes: 1966-1975 (in millions of US dollar)**

Import categories	Products	1966	1967	1968	1969	1970
<b>Supplies</b>		280	281	239	231	237
	<b>Raw materials for agriculture</b>	9	10	13	9	10
	<b>Raw materials for industry</b>	280	281	239	231	237
<b>Capital goods</b>		188	186	139	126	131
	<b>Construction materials</b>	24	22	13	11	11
	<b>For agriculture</b>	21	14	7	5	7
	<b>For industry</b>	143	150	119	110	113
<b>Total</b>		757	758	630	597	615

Import categories	Products	1971	1972	1973	1974	1975
<b>Supplies</b>		322	322	324	691	811
	<b>Raw materials for agriculture</b>	11	13	16	41	99
	<b>Raw materials for industry</b>	322	322	324	691	811
<b>Capital goods</b>		164	175	266	520	543
	<b>Construction materials</b>	15	16	18	72	14
	<b>For agriculture</b>	12	10	15	14	20
	<b>For industry</b>	137	149	233	434	509
<b>Total</b>		819	832	930	1943	2264

Source: <http://www.bcrp.gob.pe/estadisticas/cuadros-anales-historicos.html> (consulted 28/09/2014).

In spite of Velasco's nationalism, foreign capital maintained its importance and presence in the Peruvian economy (Cabieses & Otero, 1978: 61-69). For instance, total US FDI in the years between 1966 and 1971 kept growing, especially in the mining sector. While in 1966 US capital invested 548 million US dollar, in the years 1967, 1968, 1969, 1970 and 1971 this was 660, 692, 721, 688 and 674 million US dollar respectively (Anaya Franco, 1975: 23-24). In 1973, foreign capital controlled 52.7 per cent of the gross value produced by the 200 major industrial companies in the country, although down from 67.4 per cent in 1969 (González Gómez, 1986: 244).

Investments by foreign capital in the Peruvian economy were highly profitable. The rate of return of FDI was more than 100 per cent. In table 5.8 we present data on FDI and utilities flows for the period 1966-1975. The minus sign indicates an outflow.

**Table 5.4: Foreign direct investments and utilities flows: 1966-1975 (in millions of US dollar)**

<b>Year</b>	<b>Foreign direct investments</b>	<b>Utilities</b>
<b>1966</b>	18	-95
<b>1967</b>	-18	-98
<b>1968</b>	-20	-76
<b>1969</b>	6	-113
<b>1970</b>	-70	-73
<b>1971</b>	-58	-50
<b>1972</b>	24	-47
<b>1973</b>	70	-80
<b>1974</b>	58	-42
<b>1975</b>	316	-15
<b>Total</b>	326	-689

Source: Cuadernos Estadísticos de CEPAL, América Latina y el Caribe: Balance de Pagos 1950-1984, in <http://archivo.cepal.org/pdfs/cuadernosEstadisticos/S1986010.pdf> (consulted 07/07/2014).

The promotion of capitalism in Peru was accompanied by policies of class conciliation. On September 1, 1970, the first labour community was created in the manufacturing sector (industrial community). The objective that lay behind their creation

was to increase productivity. By assuring the participation of the proletariat in the management of the companies (not all) and, depending on the economic sector, by giving workers a share in the utilities, it was hoped that labour would work harder and more efficiently. The labour communities as such would receive a percentage of the net profits of the corporations. By purchasing the stocks of the companies, a limit was set at 50 per cent, the communities would become co-owners.

The labour communities were neither a success for the government nor for the working population. In 1975 only 5 per cent of the labourforce in the manufacturing sector was organized in industrial communities (FitzGerald, 1981: 171).<sup>269</sup> Data of Deniz (1978: 124) show that in 1975 only 12 out of 3.500 labour communities in industry possessed, or almost possessed, 50 per cent of company capital.<sup>270</sup>

The companies with labour communities never changed the capitalist organization of production. The workers still had to sell their labour-power and capital continued to expropriate surplus value (Manrique, 2009: 387). According to data of FitzGerald (1981: 176), local utilities as a percentage of Net National Income increased from 16.1 per cent in 1965 to 19.5 per cent in 1970 and from 22 per cent in 1973 to 24.5 per cent in 1976. The weight of the wages and salaries of the workers reduced in the period 1965-1976 from 23.4 per cent to 22.1 per cent. The weight of the employees was slightly increased, i.e. from 23.8 per cent to 23.9 per cent.<sup>271</sup>

The cooperatives in the agricultural sector also maintained their capitalist organization (FitzGerald, 1981: 175; Deniz, 1978: 112; Matos Mar & Mejía, 1984: 71; Manrique, 2009: 387). The workers did not decide over the “use of surplus production, salary scales, the division of labour, or the orientation or distribution of production; these decisions are made by the state through its agencies. [...] The real social relations established here are between state capital and wage labour” (Quijano, 1982: 52-53). In addition, the different production relations within the cooperatives (permanent workers,

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<sup>269</sup> According to data of McClintock (1989: 139), some 288.000 workers in 4.000 enterprises, about 6 per cent of the Peruvian labour force, were organized in industrial communities.

<sup>270</sup> Capitalist companies have a range of methods to reduce their profits or even to cause losses. These methods have been applied to prevent an increase of the power of the labour communities within the companies (Parodi Trece, 2010: 127). See for an interesting example, Deniz (1978: 126-127).

<sup>271</sup> On utilities, see also González Gómez (1986: 286) and Weeks (1985: 178-179).



associates, non-associates, contracted workers, etcetera) caused tensions between the workers.<sup>272</sup>

The supposed industrialization of the Peruvian economy did not drastically change the economic structure of Peru. As a matter of fact, a significant increase of the participation of the manufacturing sector in GDP cannot be observed.<sup>273</sup> In Table 5.5 data is presented on the participation of the economic sectors in GDP for the period 1966-1975.

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<sup>272</sup> See on these issues also Montoya (1989: 150-151,

<sup>273</sup> It should be mentioned that in previous years (1955-1965) the participation of the manufacturing sector had already started to grow (FitzGerald, 1981: 159).

**Table 5.5: Participation of economic sectors in GDP: 1966-1975 (in percentages and in prices of 2007)**

<b>Economic sectors</b>	<b>1966</b>	<b>1967</b>	<b>1968</b>	<b>1969</b>	<b>1970</b>
<b>Agriculture</b>	6.5 %	6.5 %	6.2 %	6.4 %	6.7 %
<b>Fishing</b>	0.7 %	0.8 %	0.8 %	0.7 %	0.9 %
<b>Extraction of petroleum and minerals</b>	12.3 %	12.0 %	12.7 %	12.2 %	12.7 %
<b>Manufacturing</b>	17.5 %	17.6 %	17.9 %	17.4 %	18.3 %
<b>Electricity and water</b>	0.5 %	0.5 %	0.5 %	0.5 %	0.5 %
<b>Construction</b>	3.7 %	3.5 %	3.0 %	3.1 %	3.4 %
<b>Trade</b>	9.9 %	9.9 %	9.9 %	9.8 %	10.3 %
<b>Governmental services</b>	4.5 %	4.5 %	4.6 %	4.6 %	4.6 %
<b>Other services*</b>	44.4 %	44.8 %	44.3 %	45.2 %	42.6 %

<b>Economic sectors</b>	<b>1971</b>	<b>1972</b>	<b>1973</b>	<b>1974</b>	<b>1975</b>
<b>Agriculture</b>	6.5 %	6.2 %	5.8 %	5.5 %	5.3 %
<b>Fishing</b>	0.6 %	0.3 %	0.2 %	0.3 %	0.2 %
<b>Extraction of petroleum and minerals</b>	11.4 %	11.7 %	11.4 %	11.0 %	9.7 %
<b>Manufacturing</b>	18.5 %	18.3 %	18.3 %	18.2 %	17.9 %
<b>Electricity and water</b>	0.6 %	0.6 %	0.6 %	0.6 %	0.7 %
<b>Construction</b>	3.6 %	3.8 %	3.9 %	4.3 %	4.2 %
<b>Trade</b>	10.9 %	11.0 %	11.0 %	11.1 %	11.7 %
<b>Governmental services</b>	4.6 %	4.8 %	4.7 %	4.5 %	4.6 %
<b>Other services*</b>	43.4 %	43.4 %	44.0 %	44.5 %	45.6 %

Source: <http://www.inei.gob.pe/estadisticas/indice-tematico/economia/> (consulted 28/09/2014).

\*Includes taxes

The Velasco government has not succeeded in convincing the local capitalists to increase investments. According to data presented by Deniz (1978: 84), whereas in 1968 the non-public sphere represented 66 per cent of total investment, in 1975 this was diminished to 51 per cent. Investments of the public sector were 28 per cent and 44 per cent

respectively. Data of the INEI show that gross capital formation in 1972 was still lower than in 1966.<sup>274</sup>

Increased workers participation in company decision-making instead of decreased utilities contributed to a decrease of private investments (FitzGerald, 1981: 171).<sup>275</sup> On this matter, Thorp (1987a: 367) argues that the private sector “was badly shaken by the industrial community legislation and by the increased level of economic intervention. The result was that until 1974 private investment continued falling as a percentage of GDP in spite of the almost total protection available”. In the first phase of the military dictatorship it did not grow.

The reduction of private investments in the period 1968-1975, although with the exception of 1974 still higher than public investments (Parodi Trece, 2010: 112; Kisic, 1999: 77), seems to be in accordance with the general development of the organic composition of capital in the period 1968-1975 (see appendix 2B).<sup>276</sup>

The profit rate during the Velasco regime increased until 1974.<sup>277</sup> This corresponds with the real GDP growth rates in the same years.<sup>278</sup> In 1974 the profit rate began its downward trend. In Graph 5.1 the development of the profit rate during the government of Velasco is presented.

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<sup>274</sup> Source: <http://www.inei.gob.pe/estadisticas/indice-tematico/economia/> (consulted 29/09/2014).

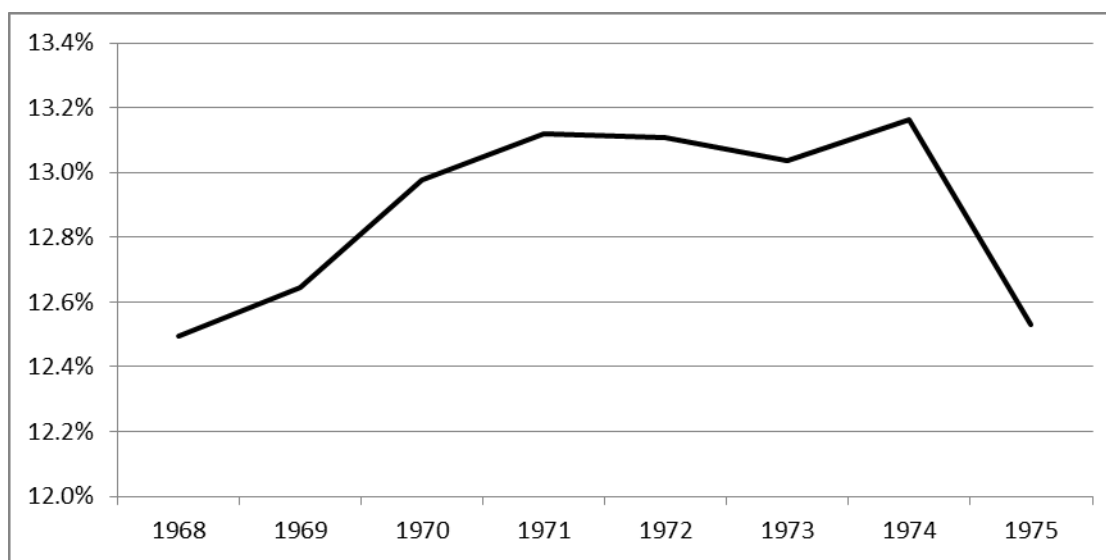
<sup>275</sup> According to FitzGerald (1981: 215-216), a part of the profits was unproductively consumed by the “native elite” and/ or fled the country. Data of Deniz (1978: 84) shows that the surplus of the private sector, composed of utilities and depreciations, dramatically increased in the years between 1968 and 1974. The index of the utilities after taxes only increased after the military coup, i.e. from 106 in 1968 to 250 in 1974 (Cabieses & Otero, 1978: 108). Salaries, wages and profits increased in the period 1968-1974 (Cabieses & Otero, 1978: 174, 211, 213

<sup>276</sup> For the calculation of the organic composition of capital, see appendix 2A.

<sup>277</sup> For the calculation of the profit rate, see appendix 1A.

<sup>278</sup> In the years between 1968 and 1974 real GDP growth rates were 0.2 per cent, 3.5 per cent, 3.4 per cent, 4.6 per cent, 3.5 per cent, 6.3 per cent and 9.4 per cent respectively, in in <http://www.bcrp.gob.pe/estadisticas/cuadros-anales-historicos.html> (consulted 18/02/2016). The profit rates in the same years amounted to 12.5 per cent, 12.6 per cent, 13.0 per cent, 13.1 per cent, 13.1 per cent, 13.0 per cent and 13.2 per cent.

**Graph 5.1: Profit rate during the government of Velasco: 1968-1975**



Source: Penn World Table 8.1, in <http://febpuw.webhosting.rug.nl/Dmn/AggregateXs/VariableCodeSelect#> (consulted 18/02/2016).

In 1975 a right-wing coup by General Morales enabled capital to start undoing the social reforms implemented by Velasco and to avoid a radicalization of the ‘revolution of the military’.<sup>279</sup> The weakness of left-wing oriented currents within the military government to pursue policies that should have meant an advancement of a process towards socialism helped the right-wing fraction in the military leadership to successfully take power (Bamat, 1983: 148; Matos Mar & Mejía, 1984: 45).

The participation of the labour communities in the utilities of the companies was diminished and a law was promulgated that prevented the installation of labour communities in small companies. A spectacular growth of small companies followed. In June 1976, 70 per cent of all the companies in the country were small companies (Deniz, 1978: 125). Labour stability was abolished.

During the Velasco regime private local investments growth had diminished. Although the profits of the companies in the private sector had increased, it seems that

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<sup>279</sup> In 1975 the industrial communities started to press for transforming the 200 principal manufacturing companies in EPS (FitzGerald, 1981: 174). According to Bamat (1983: 138), in 1974 the government started to propose the “predominance of collectively owned social property over state and private sectors of enterprise”.

capital lacked profitable investment possibilities as is evidenced by the growth of the non-productive use of the utilities. According to González Gómez (1986: 290), falling investment growth rates in fixed capital prevented the increase of surplus value. The economic crisis that started to unfold in 1975 was, principally,<sup>280</sup> the consequence of the reduction of local private investments.<sup>281</sup>

The Morales government has not been able to keep the profit rate from falling. It was only in 1979 that it started to rise again. Increased rates of exploitation and the short commodities boom of 1979-1980 helped to increase profitability (see appendices 3A and 3B).<sup>282</sup> In Graph 5.2 we present the evolution of the rate of profit during the Morales regime.

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<sup>280</sup> The crisis in the 'advanced' capitalist countries had definitively negative effects on Peruvian exports. However, it cannot be counted as the cause of the crisis.<sup>280</sup> According to Weeks (1985: 94), the crisis was not caused by external factors. "The deficit on the commercial account in 1974 of \$400 million coincided with a near all-time high in the value of exports, both in absolute terms and relatively to the secular growth in exports [...]. Indeed, the current value of exports for 1974-1976 was almost 25 percent above the value of 1971-1973, and in these earlier years the commercial balance had been positive by almost \$400 million. [...] Capitalist accumulation in Peru in the 1970s was riding an export boom in terms of foreign exchange earnings, and the balance of payments deficits reflected an unsustainable growth in the demand for imports". See for data on the development of the exports, imports, current account balance and capital account balance in the period 1968-1979, Cepal (1986).

<sup>281</sup> Real GDP growth rates in the years 1974 to 1979 were 9.4 per cent, 4.3 per cent, 1.4 per cent, 0.3 per cent, -2.6 per cent and 4.1 per cent respectively, in <http://www.bcrp.gob.pe/estadisticas/cuadros-anales-historicos.html> (consulted 06/10/2014).

<sup>282</sup> See for the prices of Peru's principal commodities in the period 1978-1980, Banco Central de Reserva del Perú (1988: 164).

**Graph 5.2: Profit rate during the government of Morales: 1975-1980**



Source: Penn World Table 8.1, in <http://febpwt.webhosting.rug.nl/Dmn/AggregateXs/VariableCodeSelect#> (consulted 18/02/2016).

In the years between 1975 and 1979 utilities and wages were inversely related. While profits as a percentage of National Income increased, wages decreased. When we compare the development of the profit rate and the annual growth rate of the utilities in the period 1975-1978, it is striking to see that although utilities increased the profit rate diminished. We believe that the increase of the profits is offset by the increase of the organic composition of capital (see appendices 2A and 2B), causing a reduction of the profit rate. In Table 5.6 we present data on utilities and wages of workers and employees in the period 1974-1979.

**Table 5.6: Utilities and wages of workers and employees: 1974-1979**

<b>Year</b>	<b>Utilities (x million Soles)</b>	<b>Annual growth of utilities in percentages</b>	<b>Utilities as a percentage of National Income</b>	<b>Wages of workers and employees as a percentage of National Income</b>
<b>1974</b>	91.193		23.6 %	47 %
<b>1975*</b>	107.850	18.3 %	22.6 %	47.5 %
<b>1976*</b>	156.398	45.0 %	23.9 %	46.8 %
<b>1977*</b>	218.398	39.6 %	24.7 %	46.6 %
<b>1978*</b>	374.426	71.4 %	27.7 %	43 %
<b>1979*</b>	813.704	117.3 %	33.3 %	37.9 %

Source: Banco Central de Reserva del Perú (1981), *Memoria del Banco Central de Reserva del Perú 1980*, p. 132.

\* Estimates

The Morales government handled the economic crisis by implementing IMF-designed policies of adjustment. The deficit of the public sector was ‘attacked’ by austerity measures.<sup>283</sup> Most of the subsidies were eliminated, public expenditures were diminished and a program was announced that gradually increased the prices of basic goods and services (Parodi Trece, 2010: 147; World Bank, 1985: 8). The deficit on the trade balance was dealt with by a devaluation of the currency (in the period 1968 to August 1975 the Sol was pegged to the US dollar). It was hoped that this would increase exports and reduce imports. In addition, many import restrictions were abolished (Parodi Trece, 2010: 147; World Bank, 1985: 8).

The adjustment program caused an increase of inflation and led to a decrease of internal demand. GDP maintained its negative growth rate. It was only in 1979 when the prices of the Peruvian export products started to rise again (Parodi Trece, 2010: 147-148; World Bank, 1985: 8) and the rate of exploitation was increased (see appendices 3A and 3B) that GDP resumed its growth.<sup>284</sup>

<sup>283</sup> In the period 1974-1979 the yearly deficit of the public sector was 7.0 per cent, 9.8 per cent, 10.5 per cent, 10.2 per cent, 6.4 per cent and 1.1 per cent respectively, in <http://www.bcrp.gob.pe/estadisticas/cuadros-anales-historicos.html> (consulted 06/10/2014).

<sup>284</sup> For the calculation of the rate of exploitation, see appendix 3A.

## 5.2. The government of Fernando Belaúnde: 1980-1985

In 1980 Fernando Belaúnde became President after 12 years of military dictatorship. Curiously, Belaúnde was the same President whose government was overthrown by the military in 1968. Before his election, in 1978 a Constituent Assembly had elaborated a new constitution that was approved in 1979. With Belaúnde the same persons that had managed the State before the military coup returned (Gorriti, 2008: 37, 75-76; Wise, 1986: 25). According to Pease García (1981a: 25), Belaúnde's victory expressed the triumph of the local liberal bourgeoisie, intimately tied to the financial fractions of transnational capital.

In line with its class position, the Belaúnde regime continued the dismantling of the reforms implemented by the government of Velasco, already initiated by General Morales (interview, Minguillo, 2015; interview, Hurtado, 2015, interview, Benza, 2015,<sup>285</sup> Petras, Morley & Havens, 1983: 33).<sup>286</sup> Its economic policies not only pointed to the transformation of the country into an economy based on the export of commodities (Wise, 2010: 173; Burt, 2011: 70; Crabtree, 2005: 49, Petras, Morley & Havens, 1983: 30), but also to the liberalization of the economy. The role of the State in the economy was radically reduced. Just six months after coming to power, Belaúnde promulgated a law that formalized the individualization of the land of the cooperatives. This process, it must be remembered, was already started, however informally, during the government of Morales (Eguren, 2014: 171; Wise, 2010: 176; Crabtree, 2002: 136). According to the general secretary of the *Partido Comunista Peruano – Unidad* (PCP-U) Roberto de la Cruz (interview, 2015), "the counter-reform was the individualization of the land of the cooperatives, 4 hectares per farmer".

Development based on the export of the country's mineral resources was not successful. In the years 1981 and 1982 the prices of Peru's commodities started to fall,<sup>287</sup> causing negative effects on the current account balance and urged the country to resort to international finance. To stop the negative trend, import tariffs that were previously

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<sup>285</sup> According to Manuel Benza, one of the founders of the PSR, the government not only "physically dismantled" the Velasco reforms, but it also intended to eradicate Velasco from the consciousness of the Peruvian population.

<sup>286</sup> The regime of Belaúnde continued the economic model of General Morales (interview, Castro, 2015).

<sup>287</sup> For data on the evolution of the commodities in the period 1980-1984, see Banco Central de Reserva del Perú (1988: 164).



diminished to force local capital to produce more efficiently (Wise, 2010: 185; Crabtree, 2005: 80) were increased again.<sup>288</sup> According to the World Bank (1985: 10), “by October 1984, the average import tariff level was back to where it had been prior to the start of the liberalization drive, although quantitative restrictions had been reintroduced for only a very small number of products until early 1985, when broad import prohibitions were re-imposed”.

The government considered that economic progress would be achieved when the economy was liberalized. The interest rates should be determined by the market. Trade liberalization negatively affected local industry as imports increased. Foreign penetration, according to Wise (1986: 27), caused industry to operate only at 40 per cent of its capacity at the end of the Belaúnde government. To attract FDI, foreign capital was allowed to repatriate a bigger part of its utilities (Wise, 2010: 179). The international debt crisis and the reduction of the country’s commodity prices at the beginning of the 1980s, however, made the country less attractive for FDI. In Table 5.7, the evolution of FDI in the period 1980-1984 is presented. The decreasing interest of foreign capital to invest in Peru is demonstrated in diminishing FDI.

**Table 5.7: FDI flows: 1980-1984 (in millions of US dollar)**

<b>Year</b>	<b>FDI</b>
<b>1980</b>	27
<b>1981</b>	125
<b>1982</b>	48
<b>1983</b>	38
<b>1984</b>	-88

Source: Cuadernos Estadísticos de CEPAL, América Latina y el Caribe: Balance de Pagos 1950-1984, in <http://archivo.cepal.org/pdfs/cuadernosEstadisticos/S1986010.pdf> (consulted 05/10/2014).

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<sup>288</sup> Through the reduction of the import tariffs it was also thought that inflation would decrease. This point of view was in accordance with the IMF. Webb (1988: 19): “The Fund’s 1979 appraisal states that ‘A major element in the anti-inflation drive is the reduction in the very high level of protection of local industry.’ There were two reasons. One was the lack of competition from imports as a check on local price increases. The second was that monetary expansion was being driven by the accumulation of reserves.”

In order to diminish the role of the State in the economy a privatization program of state-owned companies was elaborated. Although its results were limited (Wise, 2010: 178), while in the period 1968-1980 public investments in industry averaged 11 per cent, after 1980 this was reduced to 2 per cent (Wise, 2010: 181). However, public investments in the physical infrastructure increased (World Bank, 1985: 30), an important condition for the enlarged reproduction of capital. According to the World Bank (1985: 9), gross public sector expenditures rose from 38 per cent of GDP in 1979 to 51 per cent in 1983.

The Belaúnde government has not been able to assure sustained economic growth. External shocks such as the international debt crisis and diminishing commodity prices ‘interrupted’ the program of the government.<sup>289</sup> These shocks not only made the country less attractive for foreign capital, but also made the financing of the fiscal and external deficit more difficult: international interest rates increased and foreign capital sought refuge in their home countries. In Table 5.8 data on real GDP growth in the period 1980-1984 is presented.

**Table 5.8: Real GDP growth rate: 1980-1984**

<b>Year</b>	<b>GDP growth</b>
<b>1980</b>	5.9 %
<b>1981</b>	5.2 %
<b>1982</b>	-0.2 %
<b>1983</b>	-10.4 %
<b>1984</b>	3.6 %

Source: <http://www.bcrp.gob.pe/estadisticas/cuadros-anuales-historicos.html> (consulted 06/10/2014).

The liberalization of the economy not only negatively affected the local industry as imports increased, but also because local interest rates started to rise. This increase was the consequence, in the context of the international crisis at the beginning of the 1980s, of the rise of the international interest rates. Increased interest rates discouraged private

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<sup>289</sup> For the evolution of the prices of Peru’s principal commodities in the years 1978 to 1984, see Banco Central de Reserva del Perú (1988: 164).

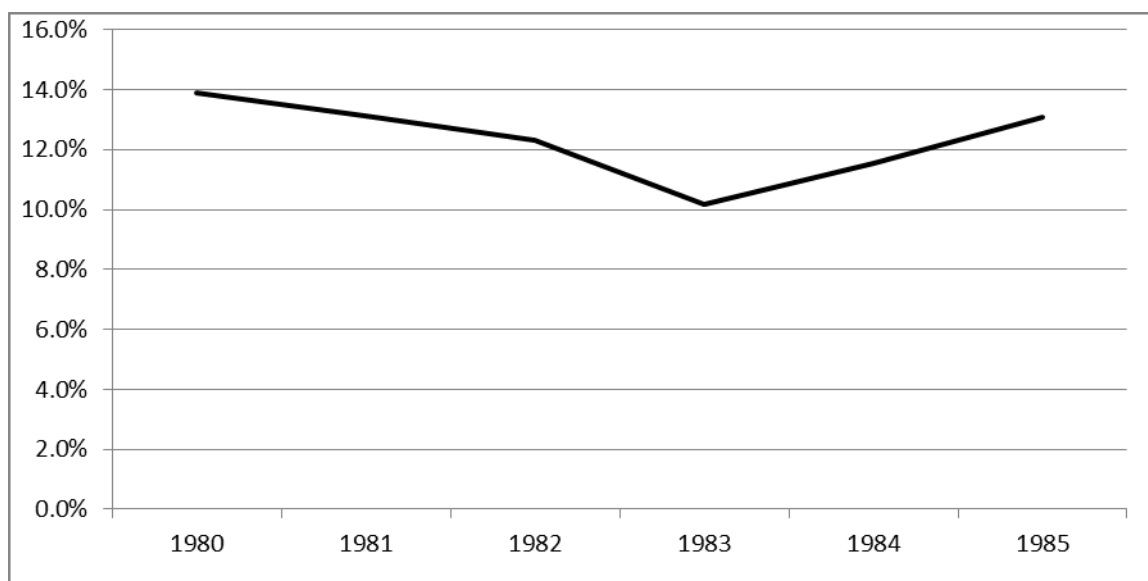
investments. Data of Parodi Trece (2010: 162) show that while in 1980 total investments (public and private) grew with 44.6 per cent and in 1981 increased with 24.1 per cent, in the years 1982, 1983 and 1984 its growth became negative: -8.8 per cent, -39.1 per cent and -8.1 per cent respectively. According to Wise (2010: 180), in the period 1980-1984 private investments as a percentage of GDP was 21.5 per cent, 20.8 per cent, 15.1 per cent and 12.1 per cent respectively.<sup>290</sup>

In the period 1980-1983 the profit rate started to fall again. While in 1980 it amounted to 13.9 per cent, in the years 1981, 1982 and 1983 it was 13.1 per cent, 12.3 per cent and 10.2 per cent respectively. The international debt crisis, the reduction of the prices of the country's principal commodities, the diminution of the rate of exploitation (see appendices 3A and 3B) caused by class struggle and the increase of the organic composition of capital (see appendices 2A and 2B), caused the profit rate to fall. It seems that as a consequence of the increase of the rate of exploitation, in 1984 and 1985 the profit rate started to rise again. In Graph 5.3 the development of the profit rate during the regime of Belaúnde is presented. In Table 5.9 the evolution of the utilities and the wages of workers and employees as a percentage of National Income are presented. The development of the weight of the utilities shows resemblance with the development of the profit rate.

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<sup>290</sup> According to Kusic (1999: 77), in the years 1980, 1981, 1982, 1983 and 1984, private investments as a percentage of nominal GDP were 18.8 per cent, 21.5 per cent, 21.3 per cent, 15.0 per cent and 12.2 per cent respectively.

**Graph 5.3: Profit rate during the government of Belaúnde: 1980-1985**



Source: Penn World Table 8.1, in <http://febpwt.webhosting.rug.nl/Dmn/AggregateXs/VariableCodeSelect#> (consulted 18/02/2016).

**Table 5.9: Utilities and wages of workers and employees: 1980-1984**

Year	Utilities as a percentage of National Income	Wages of workers and employees as a percentage of National Income
<b>1980</b>	32.9 %	38.6 %
<b>1981</b>	29.7 %	39.7 %
<b>1982</b>	30.0 %	39.5 %
<b>1983</b>	29.9 %	39.4 %
<b>1984</b>	35.9 %	33.9 %
<b>1985</b>	42.6 %	31.2 %

Sources: Banco Central de Reserva del Perú (1985), *Memoria del Banco Central de Reserva del Perú 1984*, p. 125; Banco Central de Reserva del Perú (1990), *Memoria del Banco Central de Reserva del Perú 1989*, p. 137.

### **5.3. The government of Alan García: 1985-1990**

The first APRA government in Peruvian history returned the State its principal role in the economy. However, as Paus (1991: 425) explains, “the economic role of the government was explicitly limited to influencing private sector allocative decisions by providing differential incentives through tax, subsidy, and selective price control policies”. The State meant to protect local industry against foreign competition and policies were elaborated and implemented that increased the size of the internal market (Parodi Trece, 2010: 195).

The economic policies pursued by García were, in some sense, a reaction to the market-oriented policies of the Belaúnde regime, the failure of IMF-induced policies of stabilization, and the generalized left-wing oriented popular atmosphere in Peru (see chapter 7). The APRA government considered that the State should not only assume a leading role in the elaboration and implementation of policies that pointed to stabilization, but also had to stimulate economic growth (Reyna, 2000: 34).

Directly at the outset of his government, García presented a political program that foresaw a reduction of inflation by fixing the prices of the exchange rate, the interest rate, public goods and services, basic foodstuff and house rents, among others. Also a general increase of salaries (of 18 per cent) was proposed and it was decided to use only 10 per cent of the value of the exports for external debt payments.<sup>291</sup> The idea behind the reduction of external debt payments was that international reserves would be set free to finance the import of raw materials and supplies, necessary for local industrial production. A new currency (Inti) would be introduced and pegged to the US dollar, after an initial devaluation of 12 per cent (Crabtree, 2005: 57-58, Wise, 2010: 211; Parodi Trece, 2010: 207-208; Reyna, 2000: 36; Cáceres & Paredes, 1991: 113).

The regime’s intent to stimulate internal demand was not reduced to a one-time salary increase. During 1986, for instance, salaries were periodically increased, employment emergency programs were implemented and the agricultural sector was

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<sup>291</sup> The proposal to only dedicate 10 per cent of the value of the exports to external debt payments was not accomplished (Crabtree, 2005: 66; Reyna, 2000: 57).

subsidized (Wise, 2010: 212; Reyna, 2000: 37).<sup>292</sup> The companies were not really affected by the increase of the salaries as the government compensated them through a reduction of their tax payments and by lowering the interest rates (Burt, 2011: 76; Pastor Jr. & Wise, 1992: 104).

At the start of the García government, Peru had a massive unutilized production capacity (Crabtree, 2005: 59; Parodi Trece, 2010: 206; Wise, 2010: 11; Thorp, 1987b: 165; Abugattas, 1999: 127). Hence the regime thought that a reactivation of the economy through an increase of internal demand might not have to lead to inflation (Parodi Trece, 2010: 206), as was supposed in circles around the IMF (Paus, 1991: 414). Furthermore, inflation was considered to be the result of increased costs such as interest costs (Parodi Trece, 2010: 207; Cáceres & Paredes, 1991: 113; Paus, 1991: 415). Increased production triggered by increased demand might even reduce unit costs (Crabtree, 2005: 59, Parodi Trece, 2010: 206).

In the context of an enormous unutilized production capacity, policies that pointed to an increase of internal demand to restore economic growth might result very effective. The increase of internal demand could lead to production and income growth. It was supposed that production and income increases would help to raise tax income and this might enable the government to finance its expenditures without having to resort to monetary expansion. Although increased production and income could also lead to more imports and this might create balance of payments problems, in the case of an insufficient increase of exports these problems were supposed to be tackled by the reduction of external debt payments (Crabtree, 2005: 60) and import restrictions (Parodi Trece, 2010: 209; Reyna, 2000: 38, 42). How economic growth would be sustained after full capacity was reached was not answered.

The measures taken by the government resulted immediately effective. In Table 5.11 we present data on annual inflation and GDP growth for the period 1985-1987. GDP growth was mainly due to an increase of internal demand (Cáceres and Paredes, 1991: 113).

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<sup>292</sup> Reyna (2000: 42) rightly observes a contradiction in the agricultural policies of the García regime. While on the one hand it provided subsidies to the sector, on the other hand it fixed the prices. According Reyna, the government was more worried about urban consumption than agricultural production. We think, however, that the government was preoccupied about the production of surplus value. By subsidizing agricultural production and fixing its prices, the regime assured, for a part, that the costs for the reproduction of labour-power would not increase.

**Table 5.10: Rate of inflation and real GDP growth rate: 1985-1987**

<b>Year</b>	<b>Inflation</b>	<b>Real GDP growth</b>
<b>1985</b>	163.4 %	2.1 %
<b>1986</b>	77.9 %	9.4 %
<b>1987</b>	85.9 %	9.7 %

Source: <http://www.bcrp.gob.pe/estadisticas/cuadros-anuales-historicos.html> (consulted 06/10/2014).

The euphoria of the García regime did not last very long. Although the economic policies of the government to stimulate internal demand resulted in an increase of local production, as profitability was not restored capital did not increase its production capacity.<sup>293</sup> According to data of Parodi Trece (2010: 205), in the years 1986, 1987, 1988 and 1989 the annual growth rates of gross private investments as a percentage of GDP were 39.3 per cent, 27.1 per cent, -8.8 per cent and -22.9 per cent respectively. The economic policies did not lead to sustained economic growth but only resulted in what might be called a temporary push. In Table 5.12 data is presented on real GDP growth rates for the years 1988-1989.

**Table 5.11: Real GDP growth rate: 1988-1989**

<b>Year</b>	<b>Real GDP growth</b>
<b>1988</b>	-9.4 %
<b>1989</b>	-12.3 %

Source: <http://www.bcrp.gob.pe/estadisticas/cuadros-anuales-historicos.html> (consulted 06/10/2014).

As already indicated above, during the García regime the profit rate did not increase. While in 1985 it was 13.1 per cent, in 1990 it had reduced to 11.3 per cent. The particular development of the profit rate can be explained by the evolution of the class struggle, inflation and economic crisis. The development of the class struggle in 1985-1987

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<sup>293</sup> According to Reyna (2000: 104), in the period 1985-1986 capital did not increase its investments as profitability did not grow much.

(see chapter 7) helped to reduce the rate of exploitation. Inflation, crisis and the weakening of the class struggle in the years between 1988 and 1990 contributed to an increase of the rate of exploitation. The reduction of the value of variable capital helped to increase the organic composition of capital in the period 1988-1990 (see appendices 2A and 2B). In Graph 5.4 we present the evolution of the profit rate during the government of García.

**Graph 5.4: Profit rate during the government of García: 1985-1990**



Source: Penn World Table 8.1, in <http://febpwt.webhosting.rug.nl/Dmn/AggregateXs/VariableCodeSelect#> (consulted 18/02/2016).

In the period 1988-1989 the weight of the wages in National Income fell in benefit of the profits. This indicates an increase of the rate of exploitation and/or the rate of economic oppression. Of course, inflation has definitively played its part in the transfer of value from the working population to capital. In 1988 annual inflation amounted to 667 per cent and in 1989 it grew to 3398.6 per cent.<sup>294</sup> In Table 5.13 data is presented on the development of the utilities and wages of workers and employees in the period 1985-1989.

<sup>294</sup> Source: <http://www.bcrp.gob.pe/estadisticas/cuadros-anales-historicos.html> (consulted 06/10/2014).



**Table 5.12: Utilities and wages of workers and employees: 1985-1989**<sup>295</sup>

Year	Utilities as a percentage of National Income	Wages of workers and employees as a percentage of National Income
1985	42.6 %	31.2 %
1986	40.3 %	33.0 %
1987	42.8 %	32.0 %
1988	48.4 %	28.4 %
1989	60.6 %	19.8 %

Source: Banco Central de Reserva del Perú (1990), *Memoria del Banco Central de Reserva del Perú 1989*, p. 137.

In various ways the APRA government has intended to stimulate the private sector to do investments. In 1987, for instance, the government created a National Council of Investments (*Consejo Nacional de Inversiones*) in which representatives of the State, the companies and the trade unions participated (Reyna, 2000: 100). It also wanted to oblige the companies to use 20 per cent of their utilities to buy governmental bonds (Reyna, 2000: 102). This money the government hoped to reinvest in the economy.<sup>296</sup> In a desperate intent to force capital to invest in the Peruvian economy, to reduce the interest rates for medium and small companies and to prevent capital flight,<sup>297</sup> in 1987 the regime even proposed to nationalize the private bank sector (Crabtree, 2005: 69; Wise, 2011: 16; Burt, 2011: 76; Vásquez Huamán, 2000: 73; Pastor Jr. & Wise, 1992: 104).<sup>298</sup>

The policies to encourage private local and foreign capital to invest in the Peruvian economy did not bear fruit. This had not only to do with the ambiguous policies of the regime with regard to capital and labour (Wise, 2011: 214-215), but also with the evolution

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<sup>295</sup> For alternative data that confirm the trend, see Pastor Jr. & Wise (1992: 101).

<sup>296</sup> The proposal to oblige the companies to use 20 per cent of their profits to buy governmental bonds was not implemented.

<sup>297</sup> In the years 1985 to 1990, income outflows on investment increased with 62 per cent, i.e. from 1200 million US dollar to 1938 million US dollar, in <http://www.cepal.org/deype/cuaderno33/esp/index.htm> (consulted 16/10/2014).

<sup>298</sup> The proposal to nationalize the private bank sector was not realized. However, thanks to this proposal the right-wing opposition to the García government revived under the leadership of the Peruvian writer Mario Vargas Llosa (Burt, 2011: 76).

of the correlation of class forces. In the period 1985-1990, the working class and their allies, armed and unarmed, put heavy pressure on the government (see chapter 7).

In the period 1988-1989, negative gross private investment growth rates contributed to negative real GDP growth rates. Gross public investments did not compensate for the decrease of gross private investments. As a matter of fact, in 1988 public investments even decreased with 32 per cent (Parodi Trece, 2010: 205).

The idea that increased production and income caused by internal demand stimuli would help to finance governmental expenditures started to work as a boomerang. Diminishing production led to a reduction of income. The contraction of income growth reduced internal demand and diminished tax income. As a consequence, the regime was forced to reduce its expenditures, which in turn further contracted income growth.

The diminution of governmental expenditures was not sufficient to eliminate the fiscal deficit or to diminish its growth (Banco Central de Reserva del Perú, 1991: 81, 87; 1990: 72, 78; 1988 72, 79). In the years 1985, 1986, 1987, 1988 and 1989, the deficit of the public sector as a percentage of GDP was 3.7 per cent, 7.8 per cent, 10.1 per cent, 11.5 per cent and 11.3 per cent.<sup>299</sup> The increase of the deficit, however, was not been caused by increased governmental expenditures but by the contraction of tax income. In the period 1985-1989 tax income as a percentage of GDP reduced from 16.8 per cent to 6.5 per cent (Banco Central de Reserva del Perú, 1988: 73-74; 1990: 73-74; 1991: 82-84).

In the years 1988, 1989 and 1990 Peru faced one of the most severe economic crisis in its contemporary history. Data on underemployment and inflation might tell us the whole story. While in the period 1986-1987 the rate of underemployment in Lima reduced from 42.9 per cent to 41.4 per cent, in 1989 it had increased to 73.5 per cent (INEI, 1995: 448). In 1998 inflation stood at 666.7 per cent. In 1989 it was 3398.6 per cent and in 1990 had grown to 7481.7 per cent.<sup>300</sup>

The García regime confronted the crisis by implementing austerity measures and the devaluation of the Peruvian currency. The fixed price system was de facto abolished as regularly adjustments were implemented. Subsidies on basic foodstuff were reduced, tariffs of public services were increased, the V.A.T. was raised, interest rates were augmented and

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<sup>299</sup> Source: <http://www.bcrp.gob.pe/estadisticas/cuadros-anales-historicos.html> (consulted 19/10/2014).

<sup>300</sup> Source: <http://www.bcrp.gob.pe/estadisticas/cuadros-anales-historicos.html> (consulted 06/10/2014).

a restrictive credit policy was put in place to control the money supply, among others (Crabtree, 2005: 201, 203, 207, 210, 212; Cáceres & Paredes, 1991: 118, 124, 125, 127).

The economic disaster helped to spread the idea that state intervention in the economy was not beneficial for the population. The Peruvian population started to favour market-oriented economic policies (Crabtree, 1999: 58; Gonzales de Olarte, 2007: 13; Parodi Trece, 2010: 271-272; Álvarez Rodrich, 1995: 70, 82). As Crabtree (1997: 105) argues, “the disaster of the García government eliminated the political obstacles for the rapid implementation of neoliberalism in the 1990s”.<sup>301</sup>

#### **5.4. The government of Alberto Fujimori: 1990-2000**

The presidential elections in 1990 marked a turning point in the political, economic and social history of Peru. After ten years of being ‘harassed’ by the working class and their left-wing representatives, armed and unarmed, electoral and non-electoral, a ferocious class struggle from above was initiated. During the 1990s the correlation of class forces changed in favour of capital.

The Fujimori regime, according to opinion polls, counted on broad popular support (Murakami, 2007: 252-243, 267, 455, 524). Beginning from 1997, however, this support started to diminish, mainly caused by the country’s economic situation and unemployment. Only starting from 1999, issues regarding corruption and Fujimori’s authoritarian style were getting more important as factors that determined popular disapproval of the regime (Murakami, 2007: 454, 456, 524).

During the government of Fujimori a radical form of neoliberalism was introduced. Private national and foreign investments became the motors for economic development (Parodi Trece, 2010: 298; Ruiz Caro, 2002: 22). Just eleven days after been sworn in as president, the first neoliberal measures were announced.<sup>302</sup> Price controls on basic products

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<sup>301</sup> It has been argued that especially in countries in which the “leading class has lost its credibility before the public”, only an “enormous decisive political shock” can teach the public the hard lesson of inflationary politics (Klein, 2007: 117-118).

<sup>302</sup> This seems to be a normal political practice of the managers of shock therapy. Economic or political shocks prepare the terrain of other economic and political shocks. The economic crises of the 1980s prepared what has been called the ‘Fujishock’, i.e. drastic austerity measures to cut inflation and deficits. See on shock

were eliminated, the prices for public services were to be revised, trade was liberalized, the monetary supply was controlled, and the exchange rate was ‘controlled’ through a system of managed floating (Parodi Trece, 2010: 262-264; Murakami, 2007: 245). The development model that was introduced by the regime was based on the export of the country’s abundant mineral resources and a free and (relatively) unregulated functioning of the markets.

In March 1991 new reforms were announced. In contrast with the measures taken in the first seven months of the regime, these reforms had a more structural character. Trade tariffs were diminished; instruments to stimulate exports were abolished; the free movement of capital was guaranteed; the financial markets were liberalized; public monopolies were abolished, all state banks, including the Agrarian Bank (Crabtree, 2002: 141), with the exception of the National Bank (*Banco de la Nación*), were closed; all subsidies would be eliminated; the land of the indigenous communities could be bought and held as private property;<sup>303</sup> and, labour stability was eliminated, among others (Parodi Trece, 2010: 276-277; Murakami, 2007: 254; McClintock & Vallas, 2005: 164-165; Bowen, 2000: 84-85, 106-107; Kistic, 1999: 88).

In October 1991 the Commission for the Promotion of Private Investment was installed. This organism was in charge of the privatization of state-owned companies. A stable fiscal regime would be guaranteed to transnational capital. The government offered legal stability pacts and special legal mechanisms such as accelerated depreciation, the possibility of deducting investment in public infrastructure of tax payments, the exemption from taxation until the initial investment had been recovered or if income generated was used to do reinvestments in order to increase production with more than 10 per cent, and

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therapy, psychological effects of the shocks and the political possibility to implement these shocks, Klein (2007: 23-33, 41, 189). Williamson, one of the architects of the Washington Consensus, writes: “If it indeed proves difficult to identify cases of the sort of extensive policy reform needed to make the transition to an open, competitive, market economy that were not a response to a fundamental crisis, then one will have to ask whether it could conceivably make sense to think of deliberately provoking a crisis so as to remove the political logjam to reform. [...] Is it possible to conceive of a pseudo-crisis that could serve the same positive function without the costs of a real crisis?” (Williamson, 1994: 20)

<sup>303</sup> According to Gonzales de Olarte (1994: 58) the development of capitalism in the countryside is delayed when, among others, the land of the communities is “inalienable”. Also the inexistence of a rural land market has a delaying effect, i.e. it makes the accumulation process going slowly.

the deduction of the costs of research and mining exploration of tax payments (Campodónico, 1999: 17-24).<sup>304</sup>

In April 1992 Fujimori perpetrated an auto-coup. According to Bowen (2000: 105-115), the opposition of Congress against the proposed neoliberal measures and the difficulties to implement the economic restructuring process induced the regime to suspend parliamentary democracy. We believe, however, that a strong state is necessary to implement radical economic and social changes that negatively affect the absolute majority of the population and contributes to a drastic modification of the correlation of class forces.<sup>305</sup>

In the nine months after the coup, Fujimori promulgated 746 decree-laws, basically related to the acceleration of the structural reforms and economic liberalization (Murakami, 2007: 304). When in 1993 a new constitution was accepted, replacing the more progressive one of 1979, the victory of neoliberalism was complete. Laws and judicial norms were submitted to the market and the business activities of the State were being reduced to those areas in which the market had not set its foot (Ruiz Caro, 2002: 24).

One of the key elements of the neoliberal program was the privatization of state-owned companies. The regime considered that these companies would become more efficient if it had to face competition (Ruiz Caro, 2002: 13). Between 1990 and 1998 more than 180 state-owned companies were privatized, i.e. sold to local and foreign capital. If this was not enough, before putting these companies on the auction market their debts were assumed by the State (Glave & Kuramoto, 2007: 139; Campodónico Sánchez, 1999: 25; Ruiz Caro, 2002: 32). At the end of 2000, the sale of the companies valued 9.100 million US dollar (Wise, 2010: 248). In the period 1991-1998 the privatization caused the loss of 120.000 jobs (Paliza, 1999: 26-27).

Privatization was the principal motor behind the general increase of FDI.<sup>306</sup> In the years 1994 to 1997 direct investments by United States' companies were the highest in the

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<sup>304</sup> Stability pacts were also signed in the 1950s. During the dictatorship of Manuel Odría (1948-1956) a mining law was passed that granted foreign mining companies 'special contracts' during 10 'grace years' (Brundenius, 1972: 200). On the mining law of Odría and national mining capital, see Torres Cuzcano (2013: 37-38).

<sup>305</sup> See on this Evers (1987: 124-127).

<sup>306</sup> The large-scale privatization processes implemented under Fujimori not only served capital in the sense that it was able to rapidly acquire an economic presence in the country, but through accompanying measures

whole of South America (McClintock & Vallas, 2005: 172-173). Although it was thought that privatization would lead to competition, more production and lower prices, however, in the case of for instance telecommunications and electricity the population had to pay monopoly prices (Jiménez, 2000: 15).<sup>307</sup> This confirms the argument of Petras & Veltmeyer (2003: 130) that, in general, competition does not follow privatization but it simply re-concentrates ownership in private hands. The public monopolies were sold to private monopolies. Table 5.13 presents data on FDI flows for the period 1990-2000. The effects of the privatization of the state-owned companies in 1994 on FDI are clearly demonstrated.

**Table 5.13: FDI flows: 1990-2000 (in millions of USD)**

<b>Year</b>	<b>FDI</b>
<b>1990</b>	41.0
<b>1991</b>	-7.0
<b>1992</b>	-79.0
<b>1993</b>	760.6
<b>1994</b>	3 289.2
<b>1995</b>	2 557.0
<b>1996</b>	3 471.2
<b>1997</b>	2 139.3
<b>1998</b>	1 644.0
<b>1999</b>	1 940.0
<b>2000</b>	809.7

Source: <http://www.cepal.org/deype/cuaderno33/esp/index.htm> (consulted 21/10/2014).

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of labour market deregulation and rationalization of the privatized companies it also got rid of the powerful trade unions (Wise, 2010: 270; Althaus, 2009: 306). The privatization of state-owned companies eliminated the trade unions of workers in the state apparatus. These trade unions were very important in the main workers federation, the General Confederation of the Workers of Peru (*Confederación General de Trabajadores del Perú*; CGTP) (interview, Castro, 2015). According to Tito Prado, a former cadre of the *Partido Socialista de los Trabajadores* (PST), the privatization of state-owned companies weakened the trade unions. Many wage labourers became informal workers. Antonio Zapata (interview, 2015), a former member of the PRT and the PUM, tells that the privatizations reduced the national industry and the working class. In addition, “the weight of the national trade union organizations such as the CGTP diminishes radically”. On the effects of the privatizations on the trade unions, see also Militant 1 Pueblo Unido (interview, 2015).

<sup>307</sup> See for other negative results of the privatization process, Ruiz Caro (2002: 45-46).

A close look at FDI according to economic sectors reveals that transnational capital has been mainly interested in the extractive sectors of the economy, industry and finance. The privatized state-owned companies with the highest investment projections were those active in the mining, hydrocarbon and telecommunication sectors (Ruiz Caro, 2002: 28-29). This confirms our argument as advanced in chapter 2 that capital crosses the border of its' native country because (i) it needs to find an outlet for capital that cannot be properly invested in its country of origin as it does not generate the average rate of profit (investment in finance); (ii) it needs to be invested to accumulate (investment in communication); (iii) it has to assure the free flow of natural resources and the provision of a cheap labourforce (investments in mining, industry and energy); (iv) it has the urgent and structural need to reduce the value of constant and variable capital in the 'developed' countries in order to increase the relative surplus value and to stop the tendency of the profit rate in the centre countries from falling (investments in mining, industry and energy); and, (v) it must enlarge the market for its goods and services in order to assure the realization of the produced value and surplus value on an expanded scale. Table 5.14 presents data on the FDI balance according to economic sectors in the period 1990-2000.

**Table 5.14: FDI balance by economic sector: 1990-2000 (in millions of USD)**

Year	M	F	C	I	E	T	P
1990	428.6	102.1	0.0	422.5	0.6	216.1	58.8
1991	437.3	106.3	0.0	432.7	0.6	224.5	58.8
1992	556.5	129.2	0.0	442.5	3.2	228.9	58.9
1993	565.4	185.9	0.1	492.4	3.4	243.6	59.0
1994	875.7	229.6	2.003.1	544.7	364.8	272.6	59.0
1995	1,047.1	496.3	2.005.1	685.4	364.8	281.4	60.8
1996	1,145.4	684.3	2.006.7	1,014.7	739.0	400.0	94.5
1997	1,230.8	789.5	2.024.8	1,220.0	1,267.8	470.0	97.9
1998	1,374.3	920.9	2.098.7	1,350.9	1,374.2	576.1	97.9
1999	1,663.1	1,506.0	2,354.1	1,484.1	1,540.6	587.2	97.9
2000	1,698.0	1,764.1	4,587.6	1,556.8	1,537.1	625.2	97.9

Year	S	TR	CO	FI	TU	A	H	FO
1990	37.9	5.3	2.1	3.3	10.3	4.2	5.8	1.2
1991	39.0	5.5	2.1	3.2	10.3	4.2	5.8	1.2
1992	39.2	5.0	2.4	3.2	12.4	4.8	5.8	1.2
1993	39.7	8.4	3.7	4.2	12.4	4.8	6.8	1.2
1994	41.5	8.9	4.5	4.7	18.6	4.8	7.0	1.2
1995	44.7	10.3	14.4	4.7	25.6	7.7	7.2	1.2
1996	57.4	10.6	30.6	5.5	35.6	7.2	7.3	1.2
1997	73.3	16.9	32.5	5.5	36.2	7.7	10.5	1.2
1998	97.8	81.6	44.5	5.5	41.8	26.2	10.9	1.2
1999	132.5	16.8	55.9	5.5	58.4	42.1	13.2	1.2
2000	155.7	27.8	60.2	5.5	58.4	44.4	13.4	1.2

M = mining                      T = Trade                      FI = Fishing  
 F = Finance                      P = Petroleum                      TU = Tourism  
 C = Communication              S = Services                      A = Agriculture  
 I = Industry                      TR = Transport                      H = Housing  
 E = Energy                      CO = Construction                      FO = Forestry

Source:

<http://www.proinversion.gob.pe/modulos/LAN/landing.aspx?are=0&pfl=1&lan=10&tit=proinversi%C3%B3n-institucional> (consulted 23/10/2014).

The development of the investments by the public sector was in accordance with the economic model of the regime. The role of the State in the economy had to be reduced. Instead of transferring produced value from the State to capital through the tax system and subsidies, private companies should be enabled to directly extract surplus value. With the exception of the years 1987, 1988 and 1989, public investments were never that low as during the government of Fujimori. And although in different years during the 1970s and



1980s private investments were higher than in the period 1991-1998, it never showed an upward trend (Kisic, 1999: 77). Table 5.15 provides data on the evolution of private investments in the period 1991-1998.

**Table 5.15: Private investments as a percentage of GDP: 1991-1998**

<b>Year</b>	<b>Private investments</b>
<b>1991</b>	11.7 %
<b>1992</b>	12.0 %
<b>1993</b>	13.4 %
<b>1994</b>	16.8 %
<b>1995</b>	19.6 %
<b>1996</b>	18.8 %
<b>1997</b>	20.8 %
<b>1998</b>	20.7 %

Source: Carol Wise (2010), *Reinventando el Estado: estrategia económica y cambio institucional en el Perú*, p. 240.

National industry was not protected anymore. The liberalization of the exchange rate, the increase of the interest rates, the abolition of price controls on supplies for the industrial sector, the reduction of import tariffs and the elimination of quantitative import restrictions caused a considerable weakening of Peruvian industry. While in 1990 the imports of consumer goods valued 338.3 million US dollar, in 1996 it had increased to 1.850 million dollar, an annual increase of 27.4 per cent. This increase was considerably higher than the increase of local production (Abugattas, 1999: 121).

The development of agriculture was also negatively influenced by trade liberalization. Coupled with an over-valuated Peruvian currency (Crabtree, 2002: 143),

“although agricultural exports have increased in value terms since the mid-1980s, they have been overtaken by the increase in imports. Imports of agricultural goods averaged 488 million dollar in the period between 1986–90, rising to 687 million dollar in 1991–95, and reaching US\$1,035 million in 1996–99. In volume terms (eliminating the effect of price variations) food imports rose from 1.6 million tonnes (1986–90) to 2.1 million tonnes (1991–95) and 2.8 million tonnes (1996–99). Peru’s average annual agricultural trade

balance, which until 1980 had been consistently in surplus, registered deficits of 216 million dollar in 1986–90, US\$383 million in 1991–95 and 346 million dollar in 1996–99 (Crabtree, 2002: 143-144).

The liberalization of the economy by the Fujimori regime was accompanied by policies that firmly set the country on an export-oriented development course (Kisic, 1999: 84-86), i.e. the export of its primary commodities. The government prioritized agriculture,<sup>308</sup> fishing, mining and tourism (Abugattas, 1999: 115). Data on the structure of the Peruvian exports in the period 1990-2000, however, do not reveal a radical change when these data is compared with the export structure of the previous governments of Belaúnde and García. In Table 5.16 we present data on the development of the exports and imports in the period 1990-2000.

**Table 5.16: Exports and imports: 1990-2000 (in millions of USD)**

<b>Year</b>	<b>Exports</b>	<b>Imports</b>
<b>1990</b>	3.322.0	2.923.0
<b>1991</b>	3.408.0	3.597.0
<b>1992</b>	3.662.0	4.002.0
<b>1993</b>	3.384.7	4.160.4
<b>1994</b>	4.424.1	5.499.2
<b>1995</b>	5.491.4	7.732.9
<b>1996</b>	5.877.6	7.868.6
<b>1997</b>	6.824.6	8.503.0
<b>1998</b>	5.756.8	8.194.1
<b>1999</b>	6.088.2	6.743.0
<b>2000</b>	6.954.9	7.365.9

Source: <http://www.cepal.org/deype/cuaderno33/esp/index.htm> (consulted 21/10/2014)

The focus on the export of the country's commodities was translated into policies that benefitted large-scale agricultural producers (Crabtree, 2002: 143). The deregulation of the land market and the promotion of private investments in rural areas were key elements

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<sup>308</sup> To be more precise, the Fujimori regime tended to benefit large-scale agricultural producers that were oriented towards agro-industry and foreign markets (Crabtree, 2002: 143).

of Fujimori's agricultural policy. The Land Law that was implemented in 1995 "provided property guarantees to titleholders, abolished the previous upper limits on personal landholding and allowed the State to sell land currently in public ownership" (Crabtree, 2002: 142).<sup>309</sup> The consequence of these policies was the re-concentration of land in few hands (Eguren, 2014: 177-178).<sup>310</sup>

During the Fujimori regime far-reaching labour reforms were implemented. These reforms put an end to labour stability.

The objective of the labour reforms was to subordinate labour to the necessities of capital, i.e. the labour market should be regulated by the requirements of capital (Bernedo, 1999: 171). This meant the liberalization of the labour market. Capital should be given the complete freedom to hire and fire labourers. Sectorial or branch negotiations were to be eliminated and collective bargaining was only allowed at company level (Verdera, 2000: 31-32; Chacaltana & García, 2001: 14). Salary increases started solely to depend on production increases and wage and salary inflation indexation was eliminated (Verdera, 2000: 20-21).

In November 1991 a Decree Law was enacted that permitted capital to make work hours flexible, i.e. to adapt these to the necessities of capital. In the same month the Law of Employment Promotion was promulgated. This law created the possibility to sub-contract labour, allowed capital to maintain the labourforce for up to five years on temporary contracts and to increase, without limit, the amount of labourers on probation, among others (Bernedo, 1999: 175-176; Chacaltana & García, 2001: 14-15). According to data of Thomas (1999: 276), while in 1985 38 per cent of the labourforce worked on temporary

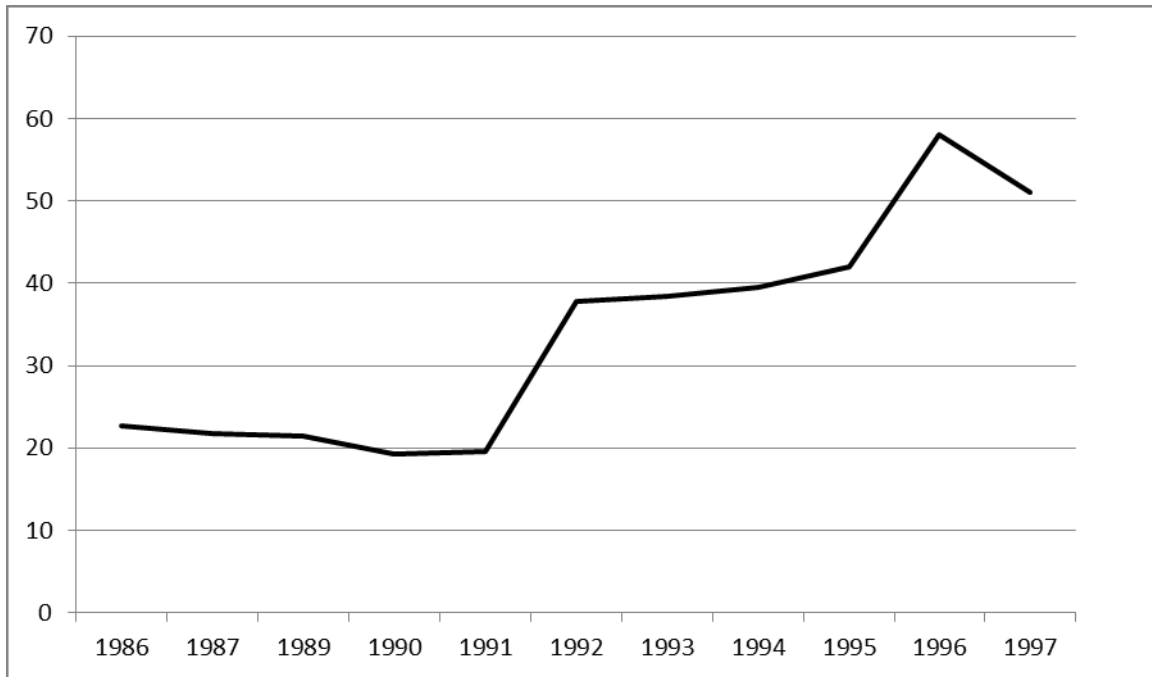
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<sup>309</sup> Petras & Veltmeyer (2007: 20): "At the behest of the World Bank and within the framework of a neoliberal policy reform agenda, therefore, between 1991 and 1994 the governments of Mexico, Ecuador, Bolivia, Peru, as well as a number of other countries in South and Central America, not to mention the Philippines and other Asian countries, all turned towards a market-assisted approach to agrarian reform [...]. The approach was based on implementing laws abolishing not only the protection of community property legally enshrined in the constitution, but also an entitlement to land worked by smallholding peasants. Simply put, the object was to push them into the land market by compelling the rural poor to buy and sell their land, in the process commodifying both this resource and its product: that is, building a land market as well as increasing the 'efficiency' of production."

<sup>310</sup> In his work *Formaciones económicas precapitalistas*, Marx (1973d: 36) wrote the following regarding the urban communities and the emergence of private property over the means of production: "Where the members of the community have already acquired separate existence as private proprietors from their collective existence as an urban community and owners of the urban territory, conditions already arise which allow the individual to *lose* his property, i.e. the double relationship which makes him both a citizen with equal status, a member of the community, and a *proprietor*."

contracts, in 1990 this had increased to 41 per cent and in 1995 this had already grown to 50 per cent. According to data for Metropolitan Lima show in 1986 22.7 per cent of the formal salaried workers in the private sector were on a temporary contract. Four years later this had been reduced to 19.2 per cent. Between 1992 and 1997 this percentage has not been below 37.8 per cent but rather climbed almost continuously (Gamero & Humala, 2002: 57). In Graph 5.1 we present data on the evolution of temporary contracts in the private sector in Lima in the period 1986-1997.

**Graph 5.5: Individuals working on temporary contracts in the private sector in Lima: 1986-1997 (as a percentage of total salaried formal workers in Lima)**



Source: Jaime Saavedra Chanduvi (1999), “La dinámica del mercado de trabajo en el Perú antes y después de las reformas estructurales”, p. 41.

In 1996 a Decree Law lowered the compensation for overtime from 50 per cent to 25 per cent. Furthermore, it became a lot easier for capital to fire personnel. Economic reasons were sufficient to be allowed to fire 90 per cent of total personnel without having to pay any compensation to the workers (Bernedo, 1999: 174, 177).

The assault on labour stability was combined with a direct attack on the unions. Workers that went on strike did not receive salaries or wages anymore (Gil Piedra & Grompone Velásquez, 2014: 12). In July 1992 a Decree Law was promulgated that enabled the State to dissolve trade unions and to end strikes (Confederación General de Trabajadores del Perú, 2005: 11-12).

The introduction of temporary contracts coupled with the deregulation of the labour market and increased underemployment is extremely favourable for capital as it would make it very easy to raise the rate of exploitation and the production of relative surplus value. The fear of unprotected unemployment might contribute to even lower the salaries and wages under the value of labour-power.<sup>311</sup>

In the period 1990-1995 economic growth was mainly caused by the increase of FDI. The liberalization of the economy and the privatization of state-owned companies were the principal drivers for FDI growth (Parodi Trece, 2010: 258, 299; Kisic, 1999: 92; Murakami, 2007: 375; Ruiz Caro, 2002: 37). In Table 5.17 data is presented on real GDP growth between 1990 and 2000.

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<sup>311</sup> Martínez and Tokman (1999: 15) calculated for the manufacturing sector in 1996 the difference between the labour costs of a permanent salaried worker and a worker on a temporary contract. A temporary worker was 65 per cent cheaper.

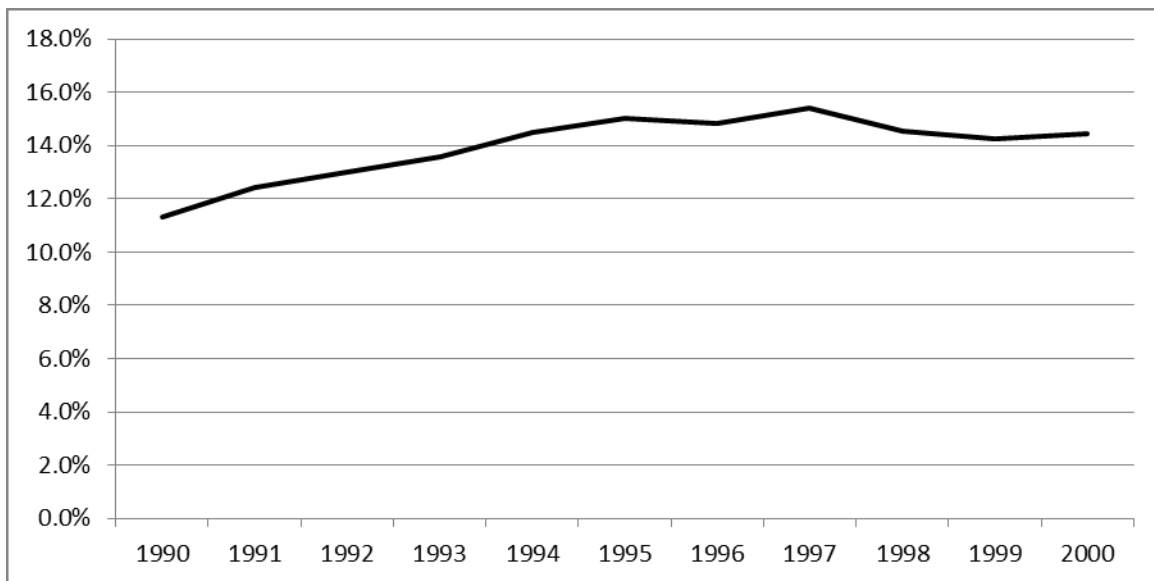
**Table 5.17: Real GDP growth rate: 1990-2000**

<b>Year</b>	<b>Real GDP growth</b>
<b>1990</b>	-5.0 %
<b>1991</b>	2.2 %
<b>1992</b>	-0.5 %
<b>1993</b>	5.2 %
<b>1994</b>	12.3 %
<b>1995</b>	7.4 %
<b>1996</b>	2.8 %
<b>1997</b>	6.5 %
<b>1998</b>	-0.4 %
<b>1999</b>	1.5 %
<b>2000</b>	2.7 %

Source: <http://www.bcrp.gob.pe/estadisticas/cuadros-anuales-historicos.html> (consulted 21/10/2014).

The Fujimori regime has been very favourable to capital. It is during this government that the profit rate began to rise again. While in 1990 the profit rate stood at 11.3 per cent, in 2000 it had grown to 14.5 per cent (see appendix 1B). Especially the years between 1990 and 1995 were most profitable for capital. In 1995 the profit rate reached 15 per cent. Starting from 1998 the profit rate began to diminish. In the period 1998-2000 the regime had increasing difficulties to help augment profitability. In Graph 5.6 we present the evolution of the profit rate in the period 1990-2000.

**Graph 5.6: Profit rate during the government of Fujimori: 1990-2000**



Source: Penn World Table 8.1, in <http://febpwt.webhosting.rug.nl/Dmn/AggregateXs/VariableCodeSelect#> (consulted 18/02/2016).

The development of the exploitation surplus<sup>312</sup> shows that its evolution is inversely related to the development of the weight of remuneration in GDP.<sup>313</sup> It seems that the increase of the profits is paid by the working population. However, in 1998 and 1999 the exploitation surplus as a percentage of GDP is lower than in 1997 and the weight of remuneration rises. In the same years not only the profit rate diminished but also the rate of exploitation decreased (see appendices 3A and 3B). In Table 5.18 data is presented on remuneration and the exploitation surplus for the years between 1991 and 2000.

<sup>312</sup> The exploitation surplus not only includes the profits of the corporations and other company income such as leasing and renting, but also the salaries of what are called independent workers (INEI, N/D: 6; Alarco T., 2011: 135). Although the exploitation surplus is not the same as utilities, it surely is an indicator for the expropriation of value by non-labour. According to Cuadros Luque (2015: 27ft32), 90 per cent of the exploitation surplus is composed of the profits of the companies.

<sup>313</sup> On the negative evolution of the salaries during the Fujimori regime, see also Jiménez (2012: 69).

**Table 5.18: Remuneration and exploitation surplus: 1990-2000 (as a percentage of GDP)<sup>314</sup>**

<b>Year</b>	<b>Remuneration</b>	<b>Exploitation surplus</b>
<b>1991</b>	30.1 %	52.7 %
<b>1992</b>	26.4 %	56.4 %
<b>1993</b>	25.0 %	58.4 %
<b>1994</b>	25.1 %	58.1 %
<b>1995</b>	25.2 %	57.6 %
<b>1996</b>	24.9 %	58.0 %
<b>1997</b>	24.2 %	58.9 %
<b>1998</b>	24.5 %	58.2 %
<b>1999</b>	24.9 %	58.6 %
<b>2000</b>	24.4 %	59.1 %

Source: INEI.<sup>315</sup>

Unemployment rates did not diminish remarkably during the Fujimori regime. In the period 1990-1994 the rate of underemployment even increased. Until 1994, still less than 19 per cent was considered adequately employed. Labour deregulation did not have ‘positive’ results on unemployment and underemployment. This might not have been of major concern to the majority of the population as the liberalization of the economy made it very easy to start a small business to provide in the necessary additional income. That is what nowadays is called entrepreneurship. In Table 5.19 data are presented on the evolution of unemployment and underemployment in the period 1990-2000.

<sup>314</sup> See for comparative data: Alarco T (2011: 139) and Mendoza Bellido (2012:14).

<sup>315</sup> The information has been found on the Internet and is confirmed by Alarco T. (2011), Mendoza Bellido (2012) and Lynch (2014). It is, however, not visibly available on the proper website of the Peruvian Institute of Statistics and Informatics. Until the moment of writing the information can still be traced. See the following long link:

[http://www.google.com.mx/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0CBsQFjAA&url=http%3A%2F%2Fwww.inei.gob.pe%2Fmedia%2FMenuRecursivo%2Findices\\_tematicos%2Fpbi-por-tipo-de-ingreso-1991-2012-corrientes.xlsx&ei=FTJYVIneJYi4iQKEkoGwAg&usg=AFQjCNFytFvgRncB3bpmcoW8cjNkA0ywQ&bv m=bv.78677474,d.cGE](http://www.google.com.mx/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0CBsQFjAA&url=http%3A%2F%2Fwww.inei.gob.pe%2Fmedia%2FMenuRecursivo%2Findices_tematicos%2Fpbi-por-tipo-de-ingreso-1991-2012-corrientes.xlsx&ei=FTJYVIneJYi4iQKEkoGwAg&usg=AFQjCNFytFvgRncB3bpmcoW8cjNkA0ywQ&bv m=bv.78677474,d.cGE) (consulted 18/02/2016).



**Table 5.19: Unemployment and underemployment: 1990-2000 (as a percentage of EAP)**

<b>Year</b>	<b>Unemployment</b>	<b>Underemployment</b>
<b>1990</b>	8.3 %	73.1 %
<b>1991</b>	5.9 %	78.5 %
<b>1992</b>	9.4 %	75.9 %
<b>1993</b>	9.9 %	77.4 %
<b>1994</b>	8.8 %	74.3 %
<b>1995</b>	7.6 %	42.4 %
<b>1996</b>	7.0 %	42.7 %
<b>1997</b>	7.7 %	41.8 %
<b>1998</b>	7.8 %	44.3 %
<b>1999</b>	8.0 %	43.5 %
<b>2000</b>	7.4 %	42.9 %

Source: INEI (2001), *Perú: Compendio Estadístico 2001*, p.235; Yusuke Murakami (2007), *Perú en la era del Chino. La política no institucionalizada y el pueblo en busca de un salvador*, pp.374, 430.

In November 2000 President Fujimori fled the country, a few months after having won the presidential elections. It has been argued that Fujimori won these elections through electoral fraud (Gonzales de Olarte, 2007: 19).

The ‘fall’ of Fujimori has been orchestrated by the ruling class itself instead of being caused by the accumulation of popular struggles during the 1990s as Lynch (2014: 193-194) argues. Fujimori had to leave office for the following six reasons. First, starting from 1998 the regime was not able anymore to increase profitability. Second, in 1997 the privatization processes came to a halt, in part the result of the financial crisis in South-East Asia in 1997 (Ruiz Caro, 2002: 14).<sup>316</sup> Third, the mechanism of concessions, implemented in 1996, did not start working as a replacement of the privatizations in the years before. According to Ruiz Caro (2002: 24), the international context of 1998 and 1999 did not provide the conditions to fulfill the previously established plan of concessions. Fourth, at the end of the 1990s the government started to prefer intervening directly in the markets instead of using regulative mechanisms. Some privatizations and concessions were suspended (Ruiz Caro, 2002: 38-39). Fifth, political insecurity caused by the electoral

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<sup>316</sup> For the critique of business on the Fujimori government regarding its ‘stop’ on privatizations, see Cotler (1998:21).

process of 2000 negatively influenced private investments, i.e. the accumulation process (Parodi Trece, 2014: 140). Sixth, Fujimori was not able to deepen the capitalist development process in Peru, i.e. to institutionalize the reforms he himself had implemented (the so-called second generation reforms). His authoritarian style of government and corruption made this impossible.<sup>317</sup> The president that was elected in 2001 was 'assigned the task' (i) to reinitiate the privatization processes; (ii) to elaborate a legal framework for future concessions; (iii) to restart the concession processes; and, (iv) to institutionalize the reforms of the 1990s.

### **5.5. The government of Alejandro Toledo: 2001-2006**

The regime of Toledo was preceded by an interim government led by Valentín Paniagua who became President after Fujimori had fled the country. He was President in the period November 2000-July 2001. Paniagua was a member of the political party *Acción Popular* whose leader was former President Belaúnde.

The Toledo regime had the intention to combine market-oriented policies with projects that pointed to social inclusion that should increase the welfare of the least benefitted such as poverty reduction programs and the improvement of the healthcare system. The appointment of neoliberals as Premier, Minister of Economics and Finance and President of the Central Bank of Peru, however, was a strong signal that social projects would be of secondary importance. It depended on economic development and the fiscal situation if these projects would be implemented (Gonzales de Olarte, 2007: 21). In order to comply with the rules of the IMF the reduction of the deficits of the public sector was considered more important.<sup>318</sup> As a matter of fact, the government applied fiscal restrictive

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<sup>317</sup> According to Parodi Trece (2014: 79-80), the financial crises in South-East Asia (1997), Russia (1998), Brazil (1999) and Argentina (2000), coupled with the climatological phenomenon *El Niño* of 1998, caused a recession at the end of the 1990s that interrupted second generation structural reforms. We do not think these factors to have significantly influenced the 'decision' of the regime to not institutionalize the reforms. First, one might ask, for instance, why these reforms were not institutionalized at the outset of the regime. Second, the analysis abstracts from the political history of the Fujimori regime. Third, the analysis does not take the contradictory class interests of the local bourgeoisie in consideration. Fourth, the analysis does not include the interests of transnational capital.

<sup>318</sup> In Peru these rules are law. As a matter of fact, in 1999 the Act of transparency and fiscal prudence was promulgated (in 2003 this law changed its name in Act of responsibility and fiscal transparency). In this law it

policies and did not support economic reactivation (Parodi Trece, 2014: 194; Gonzales de Olarte, 2007: 23).

The government maintained the development model of the 1990s. In September 2001 the Private Investment Promotion Agency (*Proinversion*) was installed. The objective of this agency was to vigorously reinstate privatization and concession processes. Public investments had to be reduced in favour of private investments. In Tables 5.20 and 5.21 data is presented on the development of public investment, private investment and FDI in the period 2000-2005.

**Table 5.20: Public and private investment flows as a percentage of GDP: 2000-2005**

<b>Year</b>	<b>Public investment</b>	<b>Private investment</b>
<b>2000</b>	4.0 %	16.2 %
<b>2001</b>	3.1 %	15.6 %
<b>2002</b>	2.8 %	16.1 %
<b>2003</b>	2.8 %	15.6 %
<b>2004</b>	2.8 %	15.6 %
<b>2005</b>	3.1 %	13.2 %

Sources: Banco Central de Reserva del Perú (2007), *Memoria del Banco Central de Reserva del Perú 2006*, p.195; Banco Central de Reserva del Perú (2012), *Memoria del Banco Central de Reserva del Perú 2011*, p.243; Banco Central de Reserva del Perú (2015), *Memoria del Banco Central de Reserva del Perú 2014*, p.196.

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is dictated that the State must assure fiscal equilibrium or a fiscal surplus in medium term. Annually, the fiscal deficit of the public sector may not be higher than 1 per cent of Gross Domestic Product (GDP) (Parodi Trece, 2014: 194).

**Table 5.21: Total foreign investments stock (in millions of US dollar) and foreign investment growth rate: 2000-2005**

<b>Year</b>	<b>Foreign investment stock</b>	<b>Foreign investment growth rate</b>
<b>2000</b>	12233.40	28 %
<b>2001</b>	13018.76	6.4 %
<b>2002</b>	14031.36	7.8 %
<b>2003</b>	14158.27	0.9 %
<b>2004</b>	14042.67	-0.8 %
<b>2005</b>	13753.01	-2.1 %

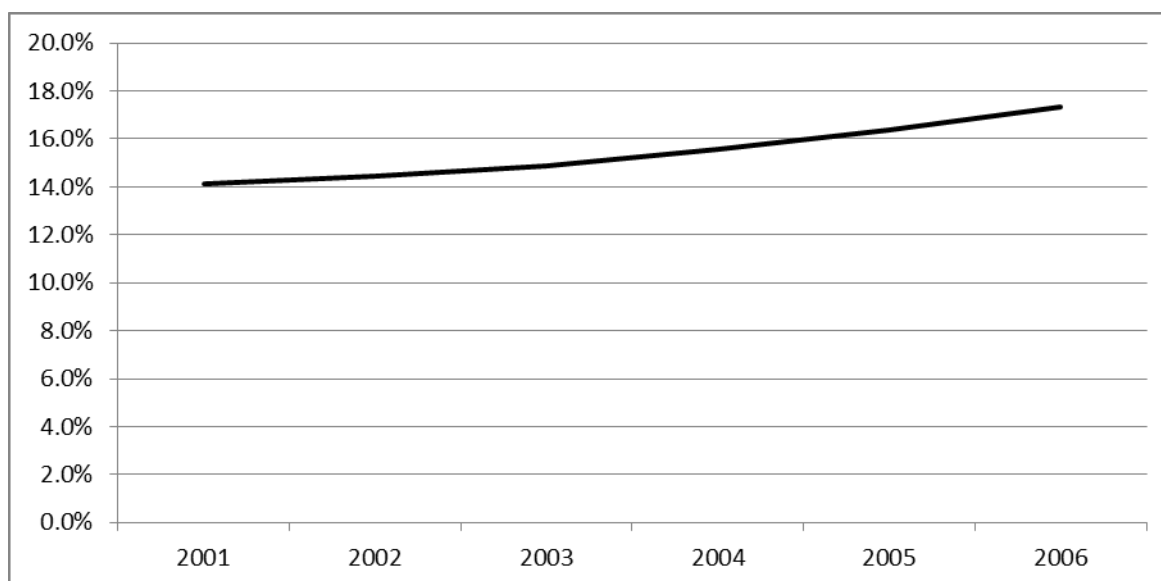
Source: <http://series.inei.gob.pe:8080/sirtod-series/> (consulted 02/11/2014).

The reduction of private investments and FDI growth seemed to be caused by economic insecurity and the revival of the class struggle (see chapter 7). Notwithstanding this reduction, after four years (1998-2001) of a decreasing or stagnating profit rate, the profit rate started to rise again. In 2001 the rate of profit stood at 14.1 per cent and in 2006 it had grown to 17.3 per cent (see appendix 1B). This has been caused by increasing profits, a consequence of the increase of the rate of exploitation and economic oppression (see appendices 3A and 3B).<sup>319</sup> In Graph 5.7 we present the evolution of the profit rate during the government of Toledo. In Table 5.22 the evolution of remuneration and the exploitation surplus as percentages of GDP are presented.

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<sup>319</sup> It is interesting to observe that in the period 2000-2005 unemployment as percentage of total EAP increased from 5.0 per cent to 5.4 per cent. Underemployment augmented from 65.2 per cent to 73.3 per cent, in <http://series.inei.gob.pe:8080/sirtod-series/> (consulted 02/11/2014).

**Graph 5.7: Profit rate during the government of Toledo: 2001-2006**



Source: Penn World Table 8.1, in <http://febpwt.webhosting.rug.nl/Dmn/AggregateXs/VariableCodeSelect#> (consulted 18/02/2016).

**Table 5.22: Remuneration and exploitation surplus: 2001-2006 (as a percentage of GDP)**

Year	Remuneration	Exploitation surplus
2001	25.1 %	58.3 %
2002	25.0 %	58.7 %
2003	25.0 %	58.7 %
2004	23.9 %	59.6 %
2005	23.1 %	60.4 %
2006	21.9 %	61.9 %

Source: INEI.<sup>320</sup>

<sup>320</sup> The information has been found on the Internet. It is, however, not visibly available on the proper website of the Peruvian Institute of Statistics and Informatics. Until the moment of writing the information can still be traced. See the following long link:

[http://www.google.com.mx/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0CBsQFjAA&url=http%3A%2F%2Fwww.inei.gob.pe%2Fmedia%2FMenuRecursivo%2Findices\\_tematicos%2Fpbi-por-tipo-de-ingreso-1991-2012-corrientes.xlsx&ei=FTJYVIneJYi4iQKEkoGwAg&usg=AFQjCNFytFvgRncB3bpmcoW8cjNkA0ywQ&bv m=bv.78677474,d.cGE](http://www.google.com.mx/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0CBsQFjAA&url=http%3A%2F%2Fwww.inei.gob.pe%2Fmedia%2FMenuRecursivo%2Findices_tematicos%2Fpbi-por-tipo-de-ingreso-1991-2012-corrientes.xlsx&ei=FTJYVIneJYi4iQKEkoGwAg&usg=AFQjCNFytFvgRncB3bpmcoW8cjNkA0ywQ&bv m=bv.78677474,d.cGE) (consulted 03/11/2014).

The focus on export-led growth induced the government to increase its intentions to sign free trade agreements with as much countries and/or economic and trade blocks as possible. In November 2005 a free trade was signed with Mercosur (*Mercado Común del Sur*) and in April 2006 with the United States. Peruvian export growth in the period 2001-2006 has been led by traditional products, mainly mining products.<sup>321</sup> In Table 5.23 we present the growth rate of the export value of traditional products, non-traditional products and mining products, and the development of the index of the terms of trade in the years between 2000 and 2005.

**Table 5.23: Growth of the export value of traditional products, non-traditional products, mining products (in percentages) and the development of the index of the terms of trade (base year, 2007, = 100): 2000-2005**

Year	Yearly growth rate of the export value of traditional products	Yearly growth rate of the export value of non-traditional products	Yearly growth rate of the value of the exports of mining products	Terms of terms trade
2000	16.0 %	9.0 %	7.0 %	57.6
2001	-1.5 %	6.8 %	-0.5 %	57.1
2002	13.5 %	3.3 %	18.8 %	61.0
2003	18.4 %	16.1 %	23.1 %	62.0
2004	44.7 %	32.8 %	51.9 %	70.6
2005	40.8 %	22.9 %	37.4 %	74.9

Sources: <http://www.bcrp.gob.pe/estadisticas/cuadros-anales-historicos.html> (consulted 01/11/2014) and <http://series.inei.gob.pe:8080/sirtod-series/> (consulted 01/11/2014).

As may be observed from Table 5.24, in 2001 we not only witness diminishing growth rates of the export value of traditional and non-traditional products, but also a fall in the terms of trade. Starting from 2002, the value of the exports as well as the terms of trade started to rise again. As the mining sector is Peru's principal export sector, the evolution of the prices of its minerals and its export value had a dominant influence on the development

<sup>321</sup> In the years 2000 to 2005 the weight of mining products in Peruvian total exports were 45.6 per cent, 49.4 per cent, 51.6 per cent, 55.6 per cent an 56.4 per cent respectively, in <http://www.bcrp.gob.pe/estadisticas/cuadros-anales-historicos.html> (consulted 26/10/2014).

of real GDP growth rates and a positive influence on the country's terms of trade.<sup>322</sup> In Table 5.24 we present the evolution of GDP in the period 2001-2005.

**Table 5.24: Real GDP growth rate: 2001-2005**

Year	Real GDP growth rate
2001	0.6 %
2002	5.5 %
2003	4.2 %
2004	5.0 %
2005	6.3 %

Source: <http://www.bcrp.gob.pe/estadisticas/cuadros-anales-historicos.html> (consulted 31/10/2014).

During the Toledo government there had been frequently talk about *chorreo* ('trickle down'). Toledo had promised that economic progress would 'trickle down' to the population, i.e. their disposable income would increase. As *chorreo* did not occur and the economy started to grow, protests were nothing but a 'natural' consequence. The economic boom that started to unfold in 2005, mainly caused by the international demand for the country's mineral resources and their subsequent price increases, was also not translated in considerable wage and income increases for the working population.

## **5.6. The government of Alan García: 2006-2011**

In 2006, Alan García became for the second time President of Peru. The fact that the Peruvian population voted again for the leader of the APRA party might have caused surprises as his first government ended in an economic and social disaster. In Peru, the image of this disaster is still very vivid.

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<sup>322</sup> For data on the export volume and price increases of copper, gold, zinc and silver, among others, see Banco Central de Reserva del Perú (2007: 233), <http://www.inei.gob.pe/estadisticas/indice-tematico/economia/#url> (consulted 02/11/2014), <http://www.indexmundi.com/commodities/?commodity=iron-ore&months=300> (consulted 03/11/2014) and <http://www.cochilco.cl/descargas/estadisticas/anuarios/anuario2009.pdf> (consulted 03/11/2014).

The victory of García in the second round of the presidential elections of 2006 is not very strange if we take into consideration that his adversary was the former anti-neoliberal and current President of Peru Ollanta Humala. The first round of the elections was won by Humala. About 30.6 per cent of the electorate had voted for the ‘anti-system candidate and 24.3 per cent for García. The traditional right embodied by the candidate Lourdes Flores accumulated 23.8 per cent of the votes (Parodi Trece, 2014: 237).

During the election campaign Humala was continuously attacked by the right-wing press, led by the most important newspaper of the country *El Comercio* (Wiener, 2012: 92; Revesz, 2006: 92). Humala was considered a follower of the former president of Venezuela Hugo Chávez (Parodi Trece, 2014: 237-238).

Alan García’s second term cannot be compared with his first government. While in the period 1985-1990 the APRA regime intended to follow an independent capitalist development path, in the years between 2006 and 2011 the APRA government continued the policies of the former Toledo regime.

The economic course of the second Alan García regime might not be of surprise if we take the liberal and market-oriented policies of the European social democracy in consideration. As a matter of fact, the APRA party is the Peruvian member of the Socialist International.

The second García regime is characterized by its policies that stimulated the development of the extractive sector of the economy and attacked the rights of the indigenous and peasant communities. It tried to break the communities by making use of the legislative powers that were granted to implement the Free Trade Agreement with the United States. About 100 Decree Laws were proposed by the Garcia administration. These included laws that had the objective to increase the possibilities to parcel up the land of the communities;<sup>323</sup> to appropriate supposedly uncultivated land, mainly belonging to the communities; to break the democratic decision-making in the communities; and to broaden the legal possibilities for the police to repress social protests against these laws. While in 2004 13 per cent of indigenous communities’ territory was given in concession to gas and petroleum companies, by the end of 2008 this had been increased to 70 per cent

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<sup>323</sup> The individualization of the land of the communities weakens the strength of the communities. It breaks the unity of the communities (interview, Céspedes, 2015).



(Bebbington, 2009a: 14; Pinto, 2009: 86). In 2010, more than 70 per cent of the Amazon region was parceled out (Huertas, 2011: 217) and approximately 16 per cent of the national territory was given in concession (De Echave, 2012: 72; Urteaga, 2011: 40).<sup>324</sup>

Economic development in the period 2006-2011 fully benefitted from the commodities boom that started to unfold in 2005. This boom was caused by economic growth in China and India and the credit boom in Europe and the United States (Parodi Trece, 2014: 221, 255-256).<sup>325</sup> The prices and export volumes of Peruvian minerals increased. In Table 5.25 we present data on the growth rate of the value of Peruvian exports of traditional and non-traditional goods, the growth rate of the value of the exports of mining products and the development of the terms of trade in the years 2006 to 2011.

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<sup>324</sup> In 2013 this had increased to 20 per cent (De Echave & Diez, 2013: 20).

<sup>325</sup> It is important to note that in 2010 China became Peru's most important export partner (Parodi Trece, 2014: 271-272). In the period 2004-2012, the mining sector was the biggest contributor to total exports to China. In the years between 1990 and 2012 ranked second only to Brasil in regard to China's investments in Latin America. In 2014 it had captured nearly half of the projected Chinese investments in the region (Sanborn & Chonn, 2015: 10). According to the IMF (2014: 60-62), "cross-country comparison shows that over a third of Peru's copper exports, 64 percent of gold exports, and 22 percent of other mineral commodities went to China during 2008-12 in real terms". In addition, it writes that Peru's "terms of trade (TOT) (not mineral export volumes) seem to co-move with China's growth, suggesting that the spillovers of China's growth to Peru's growth are likely to take place mainly through the price effect instead of quantity effect" and "one percentage-point decline in China's real GDP growth in one year is likely to reduce Peru's real GDP growth by about 0.4 percentage points over the year, mainly through its impact on Peru's TOT".

**Table 5.25: Growth rate of the export value of traditional products, non-traditional products, mining products (in percentages) and the development of the terms of trade (base year = 2007): 2005-2011**

Year	Yearly growth rate of the export value of traditional products	Yearly growth rate of the export value of non-traditional products	Yearly growth rate of the value of the exports of mining products	Terms of terms trade
2005	40.8 %	22.9 %	37.4 %	74.9
2006	42.6 %	23.4 %	50.5 %	95.9
2007	17.4 %	19.6 %	18.4 %	100.0
2008	7.4 %	19.8 %	3.8 %	89.1
2009	-10.9 %	-18.1 %	-8.9 %	86.9
2010	34.4 %	24.3 %	32.9 %	105.2
2011	28.9 %	32.2 %	25.7 %	112.8

Source: <http://www.bcrp.gob.pe/estadisticas/cuadros-anuales-historicos.html> (consulted 15/04/2016).

In the years 2005 to 2007 Peruvian exports show sustained growth. In 2008 the growth rates of the export of traditional goods diminished considerably, especially the mining products. In 2009 growth turned negative. These negative growth rates were not the result of internal factors but were primarily caused by the international financial crisis of 2008-2009. ‘After’ the crisis, export volumes and prices of Peruvian minerals were going up again (Torres Cuzcano, 2013:63-64).<sup>326</sup> The effect of mining exports, the country’s principal export product,<sup>327</sup> on real GDP growth is demonstrated in Table 5.26.

<sup>326</sup> For the development of the prices and export volumes of Peruvian minerals in the period 2006-2011, see Banco Central de Reserva del Perú (2013), *Memoria del Banco Central de Reserva del Perú 2012*, p. 280; <http://www.inei.gob.pe/estadisticas/indice-tematico/economia/#url> (consulted 02/11/2014); <http://www.indexmundi.com/commodities/?commodity=iron-ore&months=300> (consulted 03/11/2014); <http://www.cochilco.cl/descargas/estadisticas/anuarios/AE2014.pdf> (consulted 11/11/2014).

<sup>327</sup> In the years 2006 to 2011 the weight of mining products in total exports was 61.8 per cent, 62.1 per cent, 58.4 per cent, 60.9 per cent, 61.2 per cent and 59.4 per cent respectively, in <http://www.bcrp.gob.pe/estadisticas/cuadros-anuales-historicos.html> (consulted 26/10/2014).

**Table 5.26: Real GDP growth rate: 2005-2011**

Year	Real GDP growth rate
2005	6.3 %
2006	7.5 %
2007	8.5 %
2008	9.1 %
2009	1.0 %
2010	8.5 %
2011	6.5 %

Source: <http://www.bcrp.gob.pe/estadisticas/cuadros-anuales-historicos.html> (consulted 31/10/2014).

The commodities boom increased Peru's attractiveness for transnational capital. In 2010, of all Latin-American countries, Peru received the most investments in mining exploration and was third worldwide, after Canada and Australia (Panfichi & Coronel, 2011: 395). In Table 5.27 data is presented on the contribution of the mining sector to total FDI in the period 2005-2011.

**Table 5.27: Contribution of the mining sector to total FDI: 2000-2014<sup>328</sup>**

Year	Contribution to total FDI
2005	15.0 %
2006	17.4 %
2007	17.6 %
2008	18.2 %
2009	21.3 %
2010	23.6 %
2011	24.5 %

Source: Proinversión, "Inversión extranjera", in <http://www.investinperu.pe/default.aspx> (consulted 24/02/2015).

<sup>328</sup> It is important to mention that the development course of FDI in mining evolves parallel with the growth rate of total foreign investment stock. In the years 2006 to 2011 the growth rate was 10.7 per cent, 2.6 per cent, 12.6 per cent, 10.2 per cent, 9.9 per cent and 3.3 per cent respectively, in <http://series.inei.gob.pe:8080/sirtod-series/> (consulted 20/02/2016).

A second economic characteristic of García's second term was its drive to increase free trade agreements. These were signed with Chile, Canada, Singapore, Japan, South Korea, Costa Rica, Panama, Mexico, China, and with the European Free-Trade Association, composed of Norway, Switzerland, Iceland and Liechtenstein.<sup>329</sup>

More important than following the example of Toledo's regime regards the signing of free trade agreements, was García's willingness to bow for the interests of capital. The economic growth caused by the commodities boom had no structural effect on the welfare of the majority of the population. In general terms, the weight of the wages and salaries in GDP did not increase but even diminished a bit. The development of the exploitation surplus diminished as a consequence of the international financial crisis but in 2009 started to grow again. In Table 5.28 data is presented on remuneration and the exploitation surplus in years 2007 to 2011.<sup>330</sup>

**Table 5.28: Remuneration and exploitation surplus: 2007-2011 (as a percentage of GDP, current prices)**

Year	Remuneration	Exploitation surplus
2007	30.7 %	40.1 %
2008	30.8 %	39.5 %
2009	31.4 %	37.5 %
2010	30.2 %	39.6 %
2011	30.0 %	41.1 %

Source: <http://series.inei.gob.pe:8080/sirtod-series/> (consulted 18/11/2014).

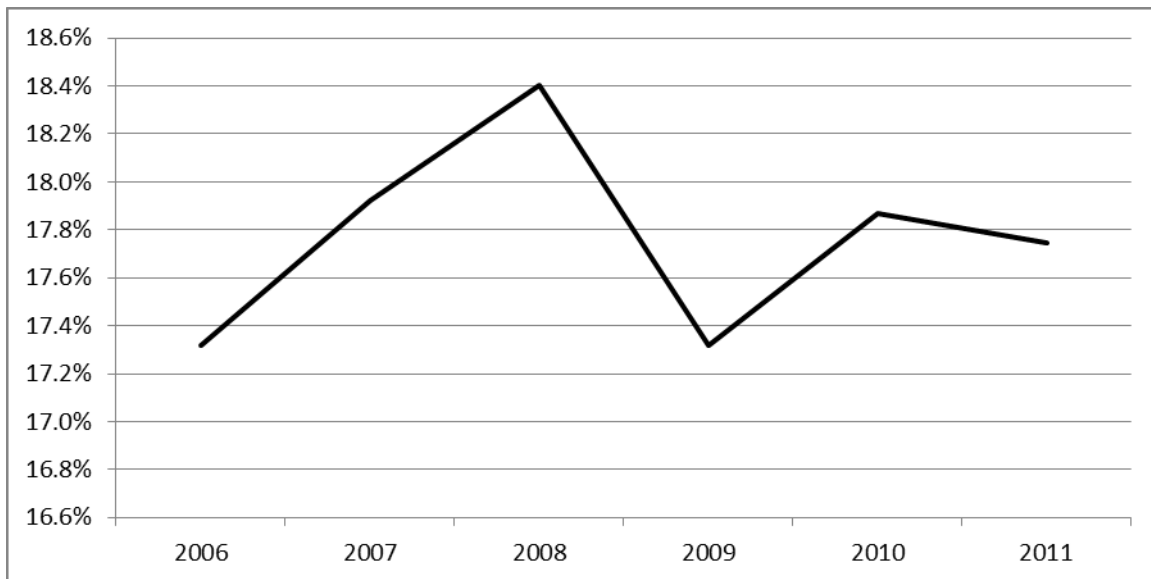
The profit rate continued the sustained development of the Toledo years. While in 2005 the profit rate amounted to 16.4 per cent, in 2008 it had grown to 18.4 per cent. At the end of the second García regime the profit rate stood at 17.7 per cent. The reduction of the

<sup>329</sup> According to Hernando de Soto, personal representative of García to get the free trade agreement with the United States through the congress of this country, only 2 per cent of Peruvian companies would benefit from a free trade agreement as the majority of Peruvian enterprises are informal companies ("TLC sólo para el 2 %", in [http://www.diariolaprimeraperu.com/online/economia/tlc-solo-para-el-2\\_8505.html](http://www.diariolaprimeraperu.com/online/economia/tlc-solo-para-el-2_8505.html); consulted 16/11/2014).

<sup>330</sup> For 2006 no data was available.

profit rate in 2008-2009, i.e. from 18.4 per cent to 17.3 per cent (see appendix 1B), seemed to be caused by the international financial crisis and the reduction of the rate of exploitation (see also that the exploitation surplus as a percentage of GDP diminished and the weight of remuneration increased). In 2011, the profit rate started to decrease again as the commodities boom came to an end and profits diminished. The rate of exploitation maintained at the 2011 level. In Graph 5.8 we present the evolution of the profit rate in the period 2006-2011.

**Graph 5.8: Profit rate during the government of García: 2006-2011**



Source: Penn World Table 8.1, in <http://febpwt.webhosting.rug.nl/Dmn/AggregateXs/VariableCodeSelect#> (consulted 18/02/2016).

### **5.7. The government of Ollanta Humala: 2011-2015**

The 2011 presidential elections were a struggle between two concepts of development. The nationalist and former Army captain Ollanta Humala centred his election program on ECLAC related concepts regarding the return of the state in production and distribution

processes. The neoliberal points of view were embodied by Keiko Fujimori, the daughter of former and now imprisoned president Fujimori, and other mainstream political parties such as *Peru Posible*, the party of former president Toledo.

The elections were won by Humala who was supported by a variety of progressive and left-wing organizations, groups and intellectuals. He was also able to count on a large popular base in the countryside. There is no question that his election gave rise to many expectations, although in order to win what might be called the centre of the Peruvian electorate his election program of the first round, The Great Transformation (*La Gran Transformacion*), was put aside in favour of the Route Sheet (*Hoja de la Ruta*).

The Route Sheet was a document of 5 pages. The election program The Great Transformation had 197 pages. In the Route Sheet it was stated that the transformation of Peru would be a gradual process. Macroeconomic stability would be guaranteed, the monetary policies would not be changed (inflation targeting), exports would be expanded and the State would be reformed (Parodi Trece, 2014: 335).

The Route Sheet implied the continuation of the economic strategy based on the free market and openness to foreign capital (Parodi Trece, 2014: 336). The interests of (transnational) capital, especially mining capital, were not going to be attacked. It was argued that mining capital was fundamental for economic growth. As the government would not affect the interests of (transnational) capital, already before his inauguration Humala looked for other ways to finance his supposed social inclusion and infrastructural projects.<sup>331</sup> As a matter of fact, just before the beginning of his presidency, Humala closed a deal with the mining corporations that, supposedly, permitted the government to obtain more resources.<sup>332</sup>

The agreement with the corporations was acclaimed by broad sectors of society as Humala had been able to ‘extract’ more taxes than his predecessor Alan García, who only

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<sup>331</sup> Governmental social programs help to create political stability by weakening the objective conditions to deepen and spread protests against the presence and activities of extractive industries. Social benefits that arise from tax income generated by mining operations (scholarships for students or pensions for retired people, for example) help to maintain the popular balance in favor of mining capital. Infrastructural projects might enable extractive capital to broaden the scope of resource exploitation and to create the proper conditions to efficiently transport the resources out of the country.

<sup>332</sup> The Humala agreement envisions a new tax regime for mining corporations that should structurally increase the State budget. However, because these tax payments can be considered as costs they are deductible from the taxes the corporations pay on income generated by their economic activities.

had been able to persuade the corporations to donate a small portion of their super profits to a private fund, one in large part managed by the corporations themselves. The Garcia ‘mining tax’ determined that those corporations that signed a ‘tax contract’ with the government had to pay, after income tax and before dividend payments, two per cent of their profits (De Echave, 2008: 373–374).

Also the global mining corporations applauded the tax agreements and the continuation of policies that favoured capital. In its 2011–2012 survey of mining corporations, the right-wing Canadian based Fraser Institute evaluated the policies of the regime and the country’s attractiveness for mining investments as most favourable (Fraser Institute, 2012). According to *Forbes Magazine*, in 2012, just as in the previous year, Peru was considered the second best country for business in Latin America.<sup>333</sup>

The replacement of The Great Transformation for the Route Sheet did not change the perception that the Humala government would put an end to neoliberal policies. The first nationalist cabinet was a mix of neoliberal technocrats and professionals with a progressive orientation. This unnatural marriage lasted only five months. In December 2011, the government fell over the issue of how to manage the protests in the department of Cajamarca against a 4.8 billion US dollar mining concession. The progressive ministers and governmental advisors were replaced by neoliberal hawks.

The Humala government modified the development model in the sense that it put more emphasis on the redistribution of wealth than his predecessors. The current model is based on the export of the country’s abundant mineral resources, a free and (relatively) unregulated functioning of the markets, and is accompanied by, among others, projects to provide infrastructure for a more efficient flow of these resources,<sup>334</sup> and the fiscal redistribution of wealth to social layers that are affected the most by this model. As such, the political practice of the Humala government can be situated within the framework of what is called the Post Washington Consensus (Petras & Veltmeyer, 2011a: 54). In Table

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<sup>333</sup> Until June 2004 the companies did not pay any royalties on the extraction of Peruvian minerals.

<sup>334</sup> According to Gudynas (2011: 399), infrastructural projects that facilitate the activities of extractive capital could be considered, just like tax exonerations, as state-subsidies. Dammert Ego Aguirre (2014: 438) writes that the increase of tax income during the second term of García and the government of Humala was principally used to finance public investments at the “service of the extractivist economy”.

5.29 we present the social expenditures of prioritized social programs in the period 2011-2014.<sup>335</sup>

**Table 5.29: Social expenditures of prioritized social programs in millions of nuevo soles and yearly increase in percentages: 2011-2014\***

<b>Year</b>	<b>Total social expenditures</b>	<b>Percentage increase of social expenditures</b>
<b>2011</b>	16.515	9.4 %
<b>2012</b>	19.617	18.8 %
<b>2013</b>	23.690	20.8 %
<b>2014**</b>	38.153	61.1 %

Source: <http://www.inei.gov.pe/estadisticas/indice-tematico/sociales/> (consulted 18/04/2016).

\* These programs are pre-school education, primary education, secondary education, promotion and social and community care, collective health and individual health.

\*\* Preliminary data.

Capitalist development during the government of Humala has been characterized by the economic consequences of the end of the commodities boom.<sup>336</sup> Since 2011-2012 the commodities boom has been starting to flaw: commodity prices declined and the export volumes of the country's minerals diminished.<sup>337</sup> This is expressed in the worsening of the country's terms of trade, the negative growth rates of the export value of the mining products, reducing FDI growth rates and economic slowdown.

<sup>335</sup> In July 2015 the Peruvian Minister of Economics and Finance explained that the reduction of poverty in the years 2011 to 2014 was for 87 per cent the consequence of the implemented social programs and only 13 per cent was caused by economic growth, in "Las 'tibias' cifras de la economía en las voces de los peruanos" (<http://larepublica.pe/impresia/economia/17961-las-tibias-cifras-de-la-economia-en-las-vozes-de-los-peruanos>); consulted 24/09/2015).

<sup>336</sup> See for the development of the prices and export volumes of Peru's minerals in the period 2011-2014, Banco Central de Reserva del Perú (2015: 61-62, 207); Banco Central de Reserva del Perú (2014: 279); CooperAcción (2016: 10-12).

<sup>337</sup> "¿Cómo revertir la balanza comercial negativa de Perú", in <http://gestion.pe/economia/como-revertir-balanza-comercial-negativa-peru-2091412> (consulted 24/09/2014).



Slow economic growth in the advanced capitalist countries and India was the main cause for Peruvian exports to diminish (Parodi Trece, 2014: 337-338). As a consequence, in 2013 Peru had its first trade deficit since 2001. A year later the situation became worse: the country faced its highest trade deficit since 1998.<sup>338</sup> In the same year, Peru had its first fiscal deficit since 2010.<sup>339</sup> In Table 5.30 we present data on the growth rate of the value of Peruvian exports of traditional and non-traditional goods, the growth rate of the value of the exports of mining products and the development of the terms of trade in the years 2011 to 2014. Table 5.31 shows the contribution of mining in total FDI and Table 5.32 provides data on the real GDP growth rate in the period 2011-2015.

**Table 5.30: Growth rate of the export value of traditional products, non-traditional products, mining products (in percentages) and the development of the terms of trade (base year = 2007): 2011-2014**

Year	Yearly growth rate of the export value of traditional products	Yearly growth rate of the export value of non-traditional products	Yearly growth rate of the value of the exports of mining products	Terms of terms trade
2011	28.9 %	32.2 %	25.7 %	112.8
2012	0.0 %	10.0 %	-0.2 %	110.5
2013	-12.0 %	-1.1 %	-13.4 %	104.2
2014	-12.3 %	5.5 %	-13.6 %	98.5

Source: <http://www.bcrp.gob.pe/estadisticas/cuadros-anuales-historicos.html> (consulted 15/04/2016).

<sup>338</sup>“Perú registra en 2014 mayor déficit comercial de su historia”, in <http://www.informador.com.mx/economia/2015/575116/6/peru-registra-en-2014-mayor-deficit-comercial-de-su-historia.htm> (consulted 08/02/2015).

<sup>339</sup> “Perú reporta déficit fiscal de 0,1% del PIB en 2014”, in <http://www.americaeconomia.com/economia-mercados/finanzas/peru-reporta-deficit-fiscal-de-01-del-pib-en-2014> (consulted 21/02/2015). See also the statistics of Central Bank of Peru at <http://www.bcrp.gob.pe/estadisticas/cuadros-anuales-historicos.html> (consulted 19/03/2016)

**Table 5.31: Contribution of the mining sector to total FDI: 2011-2015**

Year	Contribution to total FDI
2011	24.5 %
2012	24.7 %
2013	23.4 %
2014	23.3 %
2015	23.3 %

Source: Proinversión, “Inversión extranjera”, in <http://www.investinperu.pe/default.aspx> (consulted 18/04/2016).

**Table 5.32: Real GDP growth rate: 2011-2015**

Year	Real GDP growth rate
2011	6.5 %
2012	6.0 %
2013	5.8 %
2014	2.4 %
2015	3.3 %

Source: <http://www.bcrp.gob.pe/estadisticas/cuadros-anuales-historicos.html> (consulted 15/04/2016).

In 2015 the contribution of mining to GDP began to grow again. This was mainly caused by increased copper production of existing and new mining endeavors. However, data show that total mining investments in 2015 was less than investments in 2014. In 2014, mining investments were less than in 2013. Since 2010, investments in mining exploration as a percentage of total mining investments are falling (Cooperación, 2016: 8-9).

The Humala regime inserted the fiscal contribution of extractive industries into the cornerstone of its social policies and ‘mortgaged’ its social policies on expected tax income of the mining corporations. In the context of diminishing export values for the country’s minerals and economic slowdown this is becoming a problem for the government as tax income is reducing. In Table 5.33 data is presented on the contribution of the mining sector to total income tax revenue in the period 2011-2015.

**Table 5.33: Contribution of the mining sector to total income tax revenue: 2011-2014 (in percentages)**

<b>Year</b>	<b>Percentage of total income tax revenue</b>
<b>2011</b>	33.3 %
<b>2012</b>	25.7 %
<b>2013</b>	14.7 %
<b>2014</b>	10.1 %
<b>2015</b>	6.2 %

Source: Cooperación (2016), “Actualidad Minera del Perú”, p.16.

The development model based on the export of the country’s minerals urged the Humala government to implement policies that would maintain Peru’s attractiveness for transnational extractive capital.<sup>340</sup> In March 2014, the government began to discuss the possibility of eliminating the request to submit an environmental impact report for oil companies in the case of exploration through seismic testing. In June 2014 measures were announced that should help to increase investments in the mining sector. For example, new tax stability pacts to protect mining companies for changes in the tax regime were approved. These pacts are signed for a period of ten to 15 years. Also measures that should accelerate the approval process of mining concessions were introduced and the Ministry of Environment was stripped of its jurisdiction over air, soil and water quality standards, as well as of its ability to set limits for harmful substances and to eliminate its power to establish nature reserves exempt from mining and oil-drilling. In January 2015, and precisely in the style of the policies introduced by Alan García just before the massacre in Bagua in 2010, the government enacted a Supreme Decree Law that might lead to the division of the communities.<sup>341</sup> In April measures were proclaimed to make it easier for companies in the extractive sector to obtain an environmental certificate and to acquire land

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<sup>340</sup> The export-orientation of the government is also expressed, just as in the case of the previous government of García, in its drive to increase free trade agreements. During the Humala regime, Peru signed free trade agreements with the Guatemala, Thailand (2011), Venezuela, the European Union (2012), the Pacific Alliance (2014) and Honduras (2015). In February 2016 the Trans Pacific Partnership Agreement was signed. The Pacific Alliance is composed of Chile, Mexico, Colombia and Peru.

<sup>341</sup> “Pacto de Unidad exige derogar decreto que vulnera derechos de comunidades campesinas”, in <http://servindi.org/actualidad/121762> (consulted 15/02/2015).

that was not in use by the State (but could be the property of the communities, although these communities do not have the ‘adequate’ property titles).<sup>342</sup> In this sense, the observation of Seoane (2012: 12) was very appropriate when he wrote that economic problems could lead to a “new justification for deepening the extractivist export model”.

Economic development during the Humala government did not result in a structural improvement of the situation of the working population. Although in the period 2011-2014 unemployment diminished from 4.1 per cent to 3.7 per cent and underemployment decreased from 51.1 per cent to 46.3 per cent, the weight of remuneration in GDP did not increase. Table 5.34 presents data on remuneration and the exploitation surplus in the years between 2011 and 2014.<sup>343</sup>

**Table 5.34: Remuneration and exploitation surplus: 2011-2014 (as a percentage of GDP, current prices)**

<b>Year</b>	<b>Remuneration</b>	<b>Exploitation surplus</b>
<b>2011</b>	30.0 %	41.1 %
<b>2012</b>	29.8 %	40.6 %
<b>2013</b>	29.9 %	41.0 %
<b>2014</b>	29.9 %	41.0 %

Source: <http://series.inei.gob.pe:8080/sirtod-series/> (consulted 16/02/2015).

Humala’s electoral program The Great Transformation was finally Humala’s proper transformation. Instead of changing the country’s development path, Humala succeeded in maintaining the development model in a period of worldwide economic slowdown. Humala has been an excellent manager of the interests of the corporations.

<sup>342</sup> “Congreso decide hoy nuevo “paquetazo” antiambiental y anticomunidades”, in <http://servindi.org/actualidad/127925> (consulted 24/09/2015).

<sup>343</sup> No data has been available to calculate the evolution of the profit rate in the period 2011-2014.

## 5.8. Conclusions

Peru is a country on the periphery of world capitalism. Its development is conditioned by the development of capitalism in the global 'North'.

Economic development in Peru is a particular form of capitalist development. The general laws of capitalist development do not fully apply to Peru. In the last 45 years the organic composition of capital has increased. This increase, however, has not caused the profit rate to fall. While, generally, the profit rate in the global 'North' tends to fall as a consequence of the rise of the organic composition of capital, in Peru this relation cannot be established. Data shows that in the last 45 years the profit rate tends to rise. Economic crises were not caused by overproduction.

The fact that the general laws of capitalist development do not fully apply to Peru, does not mean that its economic development is not directed by the necessity of capital to accumulate. Economic growth and economic crises are the consequences of capitalist accumulation processes. However, capitalist development in Peru does not follow the 'natural' development path of capitalism as described by Marx.

The role of Peru in the international division of labour can explain the particular development of capitalism in Peru. The country is a main provider of raw materials for economic development in the global 'North'. Its fundamental task is to enable transnational capital to extract potential value. Although the rise of the organic composition of capital might indicate that productivity has increased due to technological improvements, however, in general terms, its rise is primarily the consequence of the reduction of variable capital (not in 'man-hours' but in salaries and wages).<sup>344</sup>

The development of the Peruvian internal market is of secondary interest to national and foreign capital. Capital in Peru is mainly producing for the international market and not for the national market. The sustained increase of the rate of exploitation not only explains why the profit rate does not tend to decline, but also evidences the focus of capital on the international markets.

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<sup>344</sup> It can be argued that the rise of the organic composition of capital is sector-dependent. That is, it is not an overall increase of the organic composition of capital but only an increase in the dominant sectors of the Peruvian economy such as the extractive sectors, finance and telecommunication.

Peruvian economic crises are not overproduction crises. As production is primarily concentrated on the international markets, overproduction crises do not tend to occur.<sup>345</sup> Crises in the global 'North' have direct effects on Peru in the sense that it reduces investments by transnational capital, diminishes the demand for the country's mineral resources and decreases the realization of value and surplus value of local Peruvian capital in Peru and abroad.

The focus of the country on political and economic developments in the global 'North' does not mean that the local markets are neglected. Capital not only invests with the objective to realize surplus value abroad, but it also intends to make a profit within the country. However, the development of the internal market is conditioned by the production side of the country's economy that, for its turn, is chiefly determined by the development of the world economy.

Investment decisions by private local capital have been determined by the possibility to make a profit or to increase profitability. Transnational capital invested in Peru because it was more profitable than in their home countries. Although the profitability of investments in the country's non-extractive sectors has mainly been determined by the rate of exploitation, these investment decisions were conditioned by the general economic development of the country. This development is heavily dependent on the political and economic developments in the global 'North' and the country's political and economic relations with the 'advanced' capitalist countries. The development of the profit rate not only conditions and expresses specific national economic developments, but its movement also manifests the translation of world economic shocks to the national economy.

In the last 45 years the function of the Peruvian State has principally been to increase the economic attractiveness of the country for transnational capital and to help maintain profitability by providing the conditions to augment the rate of exploitation. The relation of dependency between the centre and peripheral countries finds expression in the role of the state and the local bourgeoisie of the 'underdeveloped' countries in maintaining this relation.

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<sup>345</sup> We should remember Marini's (1985: 50) observation that "Latin American production does not depend for its realization on the internal capacity to consume".

The government of Velasco has enabled capitalism to spread to all corners of society. Notwithstanding the implementation of an agrarian reform and the installation of labour communities, the government never had the intention to socialize the means of production. In line with the points of view of ECLAC in the 1950s and the 1960s, it was thought that lasting progress was only possible with the capitalist industrialization of the country. Foreign and local corporations were considered keys for this objective. The Velasco regime stimulated the development of an industrial bourgeoisie.

The replacement of Velasco by Morales was the consequence of economic and political factors. While the diminution of private investments (in the period 1968-1975 the development of the organic composition of capital stagnated) and the reduction of the profit rate weakened the possibilities for an independent capitalist development path, the weakness of left-wing oriented currents within the military government made a radicalization of the 'revolution of the military' impossible.

During the government of Morales the restoration of profitability was the consequence of increasing prices and export volumes of the country's minerals and the increase of the rate of exploitation. It is also in these years that the organic composition of capital started to rise again. The Morales regime implemented the first neoliberal measures in the country.

The return of parliamentary democracy in 1980 did not really change the policies in favour of capital. The elaboration of a privatization program, the strengthening of the physical infrastructure for the enlarged reproduction of capital and the attack on labour stability clearly revealed the class position of the Belaúnde regime. The international debt crisis at the beginning of the 1980s and the strength of the working class organizations reduced real GDP growth, diminished profitability and forced the government to abandon its neoliberal economic orientation.

The first APRA government in Peruvian history returned the State its role in the economy. Local industry would be protected and the internal market was to be increased. In general terms, capital did not have a lot to worry about the government. The stimulation of internal demand helped to reduce its unutilized production capacity.

The García regime has not been able to structurally restore profitability that was already diminishing at the outset of the Belaúnde government. Although the profit rate

recuperated in 1988, in 1989 and 1990 it fell again. The increase of the rate of exploitation in 1989 and 1990 was not sufficient to reduce the adverse effects of negative economic growth rates and enormous inflation. The economic crisis in the period 1988-1990 was principally caused by the reduction of private investments.

The government of Fujimori set the country on a neoliberal course. Private national and foreign investments became the motors for economic development. The markets were liberalized and deregulated, state-owned companies were privatized and labour stability was eliminated. The role of the State was reduced to caretaker of the interests of capital. The regime could count on popular support as the economic disaster of the previous government had eliminated all trust in state-led development.

The anti-labour measures of the regime helped to restore profitability as it increased the rate of exploitation. Although real GDP started to grow again, it was not based on sustainable economic fundamentals. The increase of private investments was mainly the consequence of the privatization process. Development based on the export of mineral resources made the country increasingly dependent on international political and economic developments.

In 2000 Fujimori had to leave office because the development of the profit rate stagnated and the investment possibilities for capital started to fall. The regime was also not able anymore to provide stable political conditions for the furthering of the capitalist development process.

The governments after Fujimori did not change the development model implemented in the 1990s. Although Toledo declared that it was his intention to combine market-oriented policies with projects that pointed to social inclusion and he pledged that economic progress would trickle down, the real objective was to deepen and broaden the scope of the model. The signing of free trade agreements and the renewed push to privatization and concession processes were the main 'achievements' of this government. The profit rate and the rate of exploitation increased.

The second term of García was focused on the development of the extractive sector. The commodities boom increased Peru's attractiveness for transnational capital. The profit rate and real GDP growth augmented as the prices and export volumes of the country's minerals boosted.



Capitalist development during the Humala regime was characterized by the end of the commodities boom and the intentions of the government to maintain the country's attractiveness for transnational extractive capital. The fact that the government put more emphasis on the redistribution of wealth than its predecessors was inspired by the idea that this might eliminate the social conditions for protests against the model. However, in the context of diminishing commodity prices and export volumes of the country's minerals, in the nearby future this will become more difficult. A structural improvement of the economic situation of the majority of the working population did not occur.

## **CHAPTER 6: THE CHANGING CLASS STRUCTURE OF PERU: 1980-2014**

The evolution of the Peruvian class structure in the last thirty-five years has not been subject to empirical and analytical studies. Although Peruvian social sciences have studied the bourgeoisie, the proletariat, the peasantry and, especially, what is called the middle class, an analysis that encompasses all these classes in their proper evolution does not exist. This chapter is dedicated to the analysis of the evolution of the Peruvian class structure at the level of the economic structure in the period 1980-2014.

This chapter connects Chapter 5 on Peruvian capitalist development with Chapter 7 on the development of the class struggle and the Peruvian Left in the period 1980-2014, and links Chapter 7 to Chapter 8 that delves into the responses of the Peruvian socialist Left to the evolving class structure. In other words, this chapter is the core of this dissertation.

The data we use in this chapter do not exactly cover the period 1980-2014. Unfortunately, information on the years 1980 to 1985 is very scarce. Most of the data comprises the period 1986-2014. However, some important data will be presented for the years 1979, 1980, 1981 and 1983. We have excluded 2015 as data is only available for the first three trimesters.

This chapter is organized as eleven sections. In section 6.1 we present our definition of class and class fractions, and determine our level of class analysis. Section 6.2 discusses the sources of our data and the usefulness and the limitations of the international standard classification of occupations to elaborate on the evolution of the Peruvian class structure. In section 6.3 we describe our methodological approach. Sections 6.4, 6.5 and 6.6 present the characteristics of the Peruvian bourgeoisie, the intermediate class and the proletariat. Section 6.7 is dedicated to the peasantry and the rural bourgeoisie. Although the rural bourgeoisie forms part of the dominant class, for reasons of clarity and narration we have considered it opportune to include these classes in one single section. In section 6.8 the evolution of the Peruvian class structure in the period 1980-2014 is presented. Section 6.9 delves into the distribution of employment by enterprise size groups and section 6.10 is dedicated to informal workers. In section 6.11 we present our conclusions.

## **6.1. Class, class fractions and class structure**

Classes are formed within the structure of economic production and thus can, partially, be defined in economic terms. Classes are groups of people differing from each other by their relationship to the means of production and labour-power, and by their political, ideological, economic and social role in the production and the reproduction of a historically political, economic and social system.

Classes are not homogeneous and can be subdivided in class fractions. Class fractions can be distinguished on the basis of the political and/or economic role individuals play in society and by the role they play and the place they have in the social organization of labour.

The analysis of the class structure that is presented in this chapter is at the level of the economic structure of a capitalist socio-economic system. Hence the classes and class structure presented below is only an approximation of the Peruvian class structure.

At some places our analysis passes, for a part, this frontier and discusses classes at the level of a concrete society, for instance in the case of the Peruvian indigenous and peasants communities, the urban and rural semiproletariat, and the workers and employees in the state apparatus.

The definition of classes at the level of the Peruvian socio-economic system cannot be reduced to an economic definition of class as is the case in a pure capitalist mode of production. At the level of the socio-economic system a definition of class must “encompass also the political and ideological instances” (Carchedi, 1977: 82). However, according to Carchedi (1977: 167), “the economic definition [...] I call economic identification, is determinant. In turn, within the economic identification, the identification in terms of production relations is determinant”.

The study of a capitalist socio-economic system includes the economic structure, the superstructure and the class struggle. The economic structure determines the political and ideological structures within a capitalist socio-economic system. The superstructure and the class struggle bring about changes in the economic structure. This causes changes in the definition of class when we compare class in a pure capitalist mode of production with class at the level of the capitalist socioeconomic system (Carchedi, 1977: 82).

## 6.2. Class, household surveys and the classification of occupations

The elaboration of the Peruvian class structure on the basis of the available statistical data is a very complicated matter. According to Portes and Hoffman (2003: 42, 51) “the concept of class is commonly excluded from these official publications because of its Marxist origin and consequent evocation of notions of conflict, privilege, and exploitation. [...] official statistics neither use the term *social class*, nor report figures based on it. For this reason, it is not possible to arrive at precise estimates of the size and evolution of the different classes on the basis of census figures”.

In this dissertation we primarily use household surveys to estimate the different classes and class fractions of Peru. Until 1995 household surveys formed the basis of the Ministry of Labour to determine the country’s occupational structure. Since 1997 the INEI is in charge of this work.

One of the main limitations of household surveys is that it is based on questionnaires. This means that, in the end, their results depend on how the respondents have answered or, maybe more important, what the respondents did not tell. This limitation does not withhold us to use these surveys. As a matter of fact, it is the principal source on which the Ministry of Labour and the INEI provide information on a range of questions.

The household surveys use the International Standard Classification of Occupations to determine the Peruvian occupational structure. This standard has changed over time. In the case of Peru, the classification of occupations in the period 1981-1992 is different from the years 1993 to 2007 and from 2008 to date.<sup>346</sup>

An important limitation of using classification standards of occupations is the fact that a complete set of different kinds of social relations that are enclosed in the occupational categories and occupational groups are hid. It seems that only a detailed

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<sup>346</sup> The differences between the classification standard used in the period 1993-2007 and the one in use since 2008 are very small. Big differences can be found when we compare the version of 1981-1992 with the standard classification of occupations that came in use afterwards. For the period 1981-1992 we have used INE (1984b), *Censos Nacionales VII de Población III de Vivienda 12 de julio 1981. Resultados definitivos de las variables investigados por muestreo. Tomo II. Nivel Nacional*, Lima, pp. b-h. For the years between 1993 and 2007, INEI (1994a), *Resultados Definitivos. Perú, Tomo V, Vivienda, Características de Hogares*, Lima, pp. 4139-4145. For the years after 2007 we have used CIUO-88. This Peruvian version of the International Standard Classification of Occupations can be found at <http://inei.inei.gob.pe/microdatos/> (consulted 18/08/2015).

work description of every occupational group would make it possible to exactly define the class location of individuals. An individual that claims to be an employer does not tell if he or she works in a nationally or internationally oriented enterprise, if he or she works on temporary contracts and if he or she is an independent professional, among others.<sup>347</sup> An individual whose occupation is being a vendor does not tell if he or she works in a nationally or internationally oriented enterprise, if he or she is self-employed, etcetera. The absolute majority of individuals in peasant occupations declare that they are independent, i.e. that they do not exploit other individuals or maybe only their family members and own some means of production. Although peasants may own a small plot of land, occupational categories and groups do not reveal if these individuals are also working on the land of other individuals or are employed in urban areas. In addition, as Crompton (1993: 51) rightly argues, the International Standard Classification of Occupations only includes the economically active population.<sup>348</sup>

### **6.3. Classes versus occupations**

The data on occupational categories and occupational groups provide us with a lot of information on the observable and confusing class reality of Peruvian society. In order to establish the interrelations, determinations and contradictions of this reality we use Marx's method of political economy.

The owners of the means of production might be proprietors or directors of transnational corporations whose income is a multiple of the income of their workers, but they also include owners of micro-businesses who might earn an income below the average salary of a mineworker. The proletariat, broadly defined as individuals who are dispossessed from any means of production and hence forced to sell their labour-power, might be working as waged and non-waged workers and even might not receive any monetary payment at all for providing labour-power. Peasants may be organized in

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<sup>347</sup> In order to determine the bourgeoisie, it would have been very helpful if we had access to information regarding profits, assets and the market orientation (internationally, nationally, locally, etc.) of the companies, among others. However, these data are not on hand and it is only possible to make an estimation of the different class fractions of the bourgeoisie. Crompton (1993: 51) argues that basing society's social structure on occupational categories "does not give any indication of capital or wealth holdings".

<sup>348</sup> On the limitations of the use of occupations for class analysis, see also Giddens (2010: 507).

peasants and/or indigenous communities, own a very small plot of land and only exploit their non-remunerated family members, but also might be working as agricultural labourers and be exploited by capital. The mix of small landownership and working in urban areas is an important characteristic of the Peruvian working class—what we have described as a semiproletariat.

The data based on household surveys do not relate to ‘class’ as we define it—i.e. as a depiction of an individual’s social relationship to production—but to the various categories of ‘occupational class’. Nevertheless, this occupational data allow for a certain approximation to class as we understand it. For one thing, there is some degree of correspondence between class and occupation and the occupational and labourforce census allows us to go beyond the classification of individuals on the basis of occupations. It is necessary to cross the data on occupations with occupational categories as for instance individuals with a proletarian occupation are not always members of the proletariat. Some individuals declare that they are also independents or even tell us that they are employers.

The capitalist production process “is always both a technical process and a process which rests on definite production relations”. Therefore, “a function has always a double content, i.e. a technical and a social content”. The social function is given by the performing of either the function of capital or of the worker (Carchedi, 1997: 6). Some functions include, at the same time, the function of the worker and the function of the capitalist, i.e. an individual can perform both functions (within an occupation), but not at the same time (Carchedi, 1997: 60).<sup>349</sup> This obliges us to find out which element is dominant in order to correctly place individuals with these functions in their corresponding class.

It might be argued that by using data on occupational categories as provided by the Peruvian Ministry of Labour and the INEI one could elaborate a profile of the class structure. But, although one would definitively get an impression of the class structure occupational categories eliminate all particularities of the class structure. Some examples:

- The Peruvian occupational categories do not include the category ‘peasant’.

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<sup>349</sup> See for a discussion on the figure of the foreman, Carchedi (1977: 115-116ft67).

- Individuals that mainly perform mental labour or “intellectual functions” and who are not independent or employers, are considered employees.
- The occupational category ‘employee’ does not make a distinction between employees who control the means of production and who do not.
- The occupational categories do not differentiate between employees that economically oppress and do not economically oppress other individuals. They also do not distinguish between employees that have a certain control over his or her own labour process and those who do not.

The heterogeneity of appearances or expressions of the Peruvian class structure can only be brought to itself, i.e. to its proper class, and may help us to explain concrete reality, ‘forming an orderly presentation of capitalist reality’ as Cámara Izquierdo puts it, when we are able to define the common denominators that characterize the interrelations, determinations and contradictions between and within the different classes that make up Peruvian society. In our analysis of the Peruvian occupational structure we have been able to distinguish eleven class denominators or, maybe better, eleven class criteria. These criteria enable us to identify the different classes of Peruvian society on the basis of the three elements of capitalist production relations, i.e. ownership, the expropriation of labour and the function performed (Carchedi, 1977: 161-162, 163, 171). The following criteria have been defined:

- 1) Ownership or non-ownership of the means of production.
- 2) Control or no control over the means of production.
- 3) Selling or not selling of labour-power.
- 4) Hiring or not hiring of labour-power.
- 5) Control or no control over labour-power, i.e. the faculty to assign or not assign labour functions to other individuals.

- 6) Control or no control over the labour process (of others or one's own), i.e. the faculty to determine or not determine how, what and when labour has to be performed by others and/or one's own.<sup>350</sup>
- 7) Exploiting or not exploiting of labour-power.
- 8) Exploited or not exploited.
- 9) Economically oppress or not economically oppress. Economic oppression takes place when surplus labour is extracted.<sup>351</sup>
- 10) Economically oppressed or not economically oppressed.
- 11) Location of main economic activities.

The Peruvian versions of the International Standard Classification of Occupations are not the only tools we have used to elaborate on the Peruvian class structure. In the case of the urban bourgeoisie and the rural bourgeoisie, we have also used data on sales and landownership to determine class fractions. Secondary literature has been reviewed to identify the hegemonic bourgeoisie fraction, to discuss the reemergence of a rural

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<sup>350</sup> The faculty to determine one's own labour process can also be described as the level of liberty one has to shape one's own labour process within the context of predetermined labour functions. It might be expected that engineers and architects, for instance, have a certain level of liberty to determine their own labour process. On the contrary, mine workers do not have this liberty. When one is able to determine what and when labour is performed, one is coordinating the labour process.

<sup>351</sup> Carchedi (1987a: 196): "Consider the formal material labour process. To begin with, we should recall that, if the unproductive enterprise does not produce value, it can appropriate its share of value and surplus value only through the redistribution of the value produced in the productive branches of the economy, i.e. where real (both material and mental) transformations determine the nature of the labour process and thus of the capitalist production process. This transfer of value to the unproductive enterprise is performed by forcing the unproductive labourers to work for longer than the time socially necessary to reproduce their labour power. Since they are expropriated of surplus labour in the form of surplus value, they cannot be said to be exploited: I refer to this type of expropriation of surplus labour as economic oppression. If the ratio between the surplus labour and the necessary labour is called the rate of economic oppression, then, other things being equal, the higher this rate the greater the value appropriated by the capitalist. In fact, the unproductive labourer in the commercial enterprise buys the commodities (at less than their value) and sells them (at their value) and thus allows the capitalist to appropriate the difference. Clearly, the longer, or the more intensively, the unproductive labourer has to work, the more transactions he or she will carry out and the more will be appropriated by the capitalist." Marx (1973c: 315): "The commercial worker produces no surplus value directly. But the price of his labour is determined by the value of his labour-power, hence by its costs of production, while the application of this labour-power, its exertion, expenditure of energy, and wear and tear, is as in the case of every other wage-labourer by no means limited by its value. His wage, therefore, is not necessarily proportionate to the mass of profit which he helps the capitalist to realise. What he costs the capitalist and what he brings in for him, are two different things. He creates no direct surplus value, but adds to the capitalist's income by helping him to reduce the cost of realizing surplus value, inasmuch as he performs partly unpaid labour."



bourgeoisie, to delve into issues related to peasants and indigenous communities, and to shed light on the question of informal workers.

The analysis of the Peruvian occupational structure coupled with data on sales and landownership, and a review of the literature regarding the country's class and social structure enabled us to make a first rough outline of the Peruvian class structure. We distinguished four classes:

Class 1 exploits and economically oppresses.

Class 2 does not exploit but economically oppresses and is economically oppressed.

Class 3 is exploited and economically oppressed and works in urban areas.

Class 4 is exploited and does not exploit other individuals and works on the land.

This rough outline is not a full expression of the eleven class criteria mentioned above. This was also not our intention. This first panorama of the class structure was succeeded by a second step. The idea was to find out if it was possible to include all eleven criteria within this rough structure of four classes. In Table 6.1 we present the results of this endeavour.

**Table 6.1: The distribution of eleven class criteria according to class**

<b>Class criteria</b>	<b>Class 1</b>	<b>Class 2</b>	<b>Class 3</b>	<b>Class 4</b>
<b>Ownership or non-ownership of the means of production</b>	Ownership	Ownership and non-ownership	Non-ownership	Ownership and non-ownership
<b>Control or no control over the means of production</b>	Control	Control and no control	No Control	Control and no Control
<b>Selling or not selling of labour-power</b>	Not selling	Selling and not selling	Selling	Selling and not selling
<b>Hiring or not hiring of labour-power</b>	Hiring	Not hiring	Not hiring	Not hiring
<b>Control or no control over labour-power</b>	Control	Control and no control	No control	Control and no Control
<b>Control or no control over the labour process</b>	Control	Control	No control	Control and no control
<b>Exploiting or not exploiting of labour-power</b>	Exploiting	Not exploiting	Not exploiting	Not exploiting
<b>Exploited or not exploited</b>	Not exploited	Exploited and not exploited	Exploited	Exploited and not exploited
<b>Economically oppress or not economically oppress</b>	Economically oppress	Economically oppress and not economically oppress	Not economically oppress	Not economically oppress
<b>Economically oppressed or not economically oppressed</b>	Not economically oppressed	Economically oppressed	Economically oppressed	Not economically oppressed
<b>Location of main economic activities</b>	Urban / rural area	Urban area	Urban area	Rural area

A review of Table 6.1 shows that the four classes have a lot in common but also a lot of differences. The differences between the classes make it possible to clearly distinguish one class from the other and to set class boundaries. The feature that distinguishes class 1 from all the other classes is the hiring of labour-power. Class 2 differs from class 3 regards its control over the labour process and the fact that it economically oppresses. It distinguishes from class 4 as individuals pertaining to class 3 are not only economically oppressed but also economically oppress other individuals and principally work in urban areas. Class 3 distinguishes from class 4 as it not only labours in urban areas but it also might be oppressed economically.

Classes 1 and 3 are clearly characterized by the eleven class criteria. Classes 2 and 4 contain important ambiguities. They own and do not own the means of production; they control and do not control the means of production; they sell and do not sell labour-power; they have control and do not have control over labour-power; they control and do not control the labour-process; they are exploited and not exploited; and, they economically oppress and do not economically oppress (only in the case of class 2).

The ambiguities of classes 2 and 4 are demonstrations of the particularity of the Peruvian class structure. A major part of the Peruvian working population is independent and does not perform wage-labour. These individuals might possess some means of production but they do not exploit or economically oppress other individuals. As they ‘work for themselves’, they have control over their own labour-power. Of course, they might exploit or economically oppress their family members but that cannot be really determined as it is hidden.<sup>352</sup> Although independents do not sell labour-power, it does not mean that they do not sell the results of their ability to use their own labour-power, i.e. use-values. Independents are strictly speaking not exploited as they do not sell labour-power, however, curiously, they might be super-exploited in the sense that the exchange-value of the use-values produced by the independents is not sufficient to reproduce their labour-power.<sup>353</sup>

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<sup>352</sup> Some individuals declare that they are “non-remunerated family members” and others, who might also be exploited by their own family members, do not.

<sup>353</sup> “Like others, they sell their labour-power and their wage is determined by the price of reproducing their labour-power, but they are exploited by the direct extortion of surplus labour, not by the production of surplus value.” (Poulantzas, 1973)

The third step of the process to elaborate on the evolution of the Peruvian class structure consisted in first to distribute the classification codes of occupations according to the class criteria and second to ‘clean’ this distribution in order to eliminate the duplication of these classification codes. An example of this ‘cleaning’ procedure is described as follows. A classification code might indicate that an individual with this code sells his or her labour-power (classes 2, 3 and 4). To distinguish class 2 from 3 we looked if this code might also include the control over the labour process, the control over labour-power and/or economically oppresses other individuals. If this code pointed to control over the labour process, the individual corresponding to this code would definitively pertained to class 2 or 4. The area of economic activities of the individual’s companies, urban or rural, determined if this person pertained to class 2 or 4. The results of step one to step three are resumed in appendices 4A and 4B.

In general terms, the ‘cleaning procedure’ encompassed the process described above. However, in some cases this was not possible. Some classification codes were not sufficiently clear to classify individuals right away. As every particular classification code embraces more than just one specific occupation and these might even contradict, taking our class criteria into consideration, we had to find another method or other methods, with all their limitations, to correctly determine which class individuals ‘with’ ambiguous classification codes pertained. The following methods were used:

- A classification code that had been specified in the majority of the cases as a class 1 occupation, although it was mixed up with some specific class 2 occupations, was classified as a class 1 occupation.
- Individuals that according to their classification codes should pertain to class 1 or to class 2 were distinguished on the basis of the size of their companies in terms of employment. If they did not tell how many individuals worked in their companies (they might be informal) and also did not indicate that they were independents, they were classified in class 2.
- Individuals that according to their classification code should be part of class 1 but had not indicated how many individuals worked in their companies (they might be informal), were

classified in class 2. Individuals who did say how many individuals were employed, were classified in class 1.

Together with the ‘cleaning procedure’ we started with a yearly calculation of individuals pertaining to one of the four classes. Before doing this, however, we first created what we call social category. In social category we locate all individuals working in the oppressive state apparatuses but perform a subordinated role in these apparatuses. Also individuals are included that work in private security companies or in firefighting organizations. In the case of Peru, a fireman or woman is not a remunerated occupation. Individuals that work in firefighting organizations are volunteers.

The International Standard Classification of Occupations does not provide information about who owns the means of production or who are independents. The household surveys of the Ministry of Labour and the INEI, however, provide this valuable information. This information has been very important and useful to us as individuals that seem to belong to class 3, for instance, sometimes also indicate that they are independents and even employers. This brings us to step four.

All individuals that according to their classification codes pertained to class 2, 3 or 4 and indicated that they were employers were eliminated from these classes and transferred to class 1. A different procedure was followed for individuals who declared that they were independents.

Persons who told to be independent are not necessarily informal workers. For different reasons, personal or depending on the decisions of the companies to which these individuals provide their services, these individuals do not perform wage labour. They receive another type of compensation, for instance a commission.

Our eleven class criteria have enabled us to distinguish independents according to class 1, class 2, class 3, and class 4 occupations. Only in the case of class 3 it was necessary to diminish these independents from the yearly totals of class 3 and to transfer them to class

2. Independents with the class characteristics of class 1, 2 and 4 could maintain their class location. These independents formed a specific class fraction within their class.<sup>354</sup>

The final phase of the process to elaborate on the evolution of the Peruvian class structure comprised the denomination and definition of classes 1, 2, 3 and 4. Before we do this, it should be noted that to pertain to a particular class it is not necessary for an individual to comply with all the eleven class criteria above but rather to what makes each individual exactly differing from others in his or her relationship to the means of production and labour-power. In what follows we present the denominations and the definitions that are used in this thesis:

- Class 1: the bourgeoisie.<sup>355</sup> Individuals that pertain to this class own or control the means of production and hire labour-power.<sup>356</sup> Although, in general terms, capitalists do not sell their labour-power, there are individuals that pertain to the bourgeoisie and sell their labour-power. However, as they perform the function of capital they are incorporated in the bourgeoisie. Class fractions may be distinguished on the basis of the size of the companies and if individuals are employed in the public or private sector. One can also make a distinction between a urban and rural bourgeoisie.

- Class 2: the intermediate class. Individuals of this class sell their labour-power, have control over their own labour process, economically oppress other individuals, are economically oppressed by the bourgeoisie and may be exploited. A part of this class may own or control the means of production but does not exploit or economically oppress other individuals, apart from their non-remunerated family members.<sup>357</sup> This class can be

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<sup>354</sup> In the subsequent sections we have only done this for classes 2 and 4. Independents that according to our class criteria pertain to class 1 are only a very small proportion of this class.

<sup>355</sup> According to Carchedi (1977: 82), as class at the level of the socio-economic system is determined by the economic structure, the superstructure and the class struggle, the capitalist class should be mentioned bourgeoisie and the working class proletariat. At the level of the capitalist socio-economic system the figure of the worker changes in a collective worker. Managers are not capitalists, but both form part of the bourgeoisie.

<sup>356</sup> It is not necessary for a capitalist to exploit in order to be a capitalist (pointed out by Guillermo Foladori, faculty member of the Doctoral Program in Development Studies at the Autonomous University of Zacatecas).

<sup>357</sup> “[...] *middle classes*, on the level of production relations, are all those agents of production who, disregarding whether they own the means of production or not, carry out both the function of the collective

fractioned in independents and non-independents. On the basis of the classification codes of occupations, independent members of the intermediate class can be divided in individuals with proletarian characteristics and persons with what might be denominated as middle class characteristics, i.e. characteristics that would make individuals pertaining to the proletariat or the dependent intermediate class in the case they would not be independents. The proletarian fraction of the independent intermediate class might be considered as an urban semiproletariat.<sup>358</sup> The urban semiproletariat is composed of individuals obliged to work on their own account (but not necessarily own means of production) rather than forced into the capital-labour relation.

- Class 3: the proletariat. Members of the proletariat sell their labour-power, do not own any means of production, have no control over their own labour process, are exploited and/or are economically oppressed. It does not depend on the particular payment of labour-power expended if an individual belongs to this class or not. Non-remunerated family members form part of this class, although they are not paid. This class can be divided in individuals that perform, *mainly*, manual or mental labour.

- Class 4: the peasantry. Individuals that pertain to the peasantry can be divided in peasants and rural proletariat. Peasants are individuals that are occupied in farming (agriculture and livestock breeding) and located in the countryside. They do not have a direct relationship to the capitalist mode of production. That is, their relations of production are fundamentally pre-capitalist, although many 'peasants' are forced into an indirect relationship to the capitalist mode of production, which allows their labour to be exploited. Peasants own some means of production but do not exploit or economically oppress other individuals, apart from their non-remunerated family members.<sup>359</sup> Individuals that pertain to the rural

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worker and the function of capital (either individually or globally), are both labourers and non-labourers, and can be either only the exploiters (oppressors) or also the exploited (oppressed)" (Carchedi, 1977: 91).

<sup>358</sup> The capitalist development of the forces production advances on the basis of a process of 'primitive accumulation' in which individuals are proletarianized, i.e. separated from their means of production and incorporated into the capitalist labour market, forced to exchange their labour-power for a living wage. However, on the periphery of the world capitalist system this proletarianization process was not completed.

<sup>359</sup> "According to Marx, the independent farmer and handicraftsman possess a twofold productive character in capitalist society. As the owners of their means of production, they are capitalists. As the owners of their labor power, they are wage-earners. Thus, they pay themselves wages as capitalists and derive profit from their

proletariat are occupied in farming but do not own the means of production. Hence they are forced to sell their labour-power. A part of the peasants might be called a rural semiproletariat. These individuals have one foot in labour (forced into a relation of wage-labour or to work for a wage or self-employed, working on their own account) and one foot in the countryside, retaining access to agriculture.

#### **6.4. The bourgeoisie**

The bourgeoisie is generally defined as the class that possesses or controls the means of production and exploits and/or economically oppresses labourers. Although this definition may include all capitalists, it does not distinguish between capitalists whose ‘market orientation’ is transnational, regional, national and/or local. Hence talking about capitalists without making a distinction between the size of capitalists in terms of assets, profits and personnel employed, not only hides antagonistic class fraction relations within the bourgeoisie and, as a consequence, makes a clear view of the particularities of this class very difficult, but also does not contribute to establishing possible alliances between some capitalist fractions and the forces that fight for revolutionary social transformation. However, by confusing quantity for quality, i.e. by making a distinction between ‘good’ and ‘bad’ capitalists—between capitalists who have a transnational or, in the case of Latin America, an American market orientation, and those that have a national or local orientation—is to confuse the political, economic and social embodiment of a capitalist with its temporary and particular expression.

To define capitalists according to market interests, assets and profits is a very complicated endeavour as most of this information is not available. Of course, one might have access to data of companies that are listed on the stock market and other major economic players, but this does not include all individuals who, according to our definition of the bourgeoisie, pertain to the bourgeoisie. This, however, does not make it impossible to determine the hegemonic fraction within the bourgeoisie. In addition, as data on

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capital. They, in other words, exploit themselves as wage-laborers and pay themselves the tribute in surplus product which capital customarily appropriates from labor.” (Harris, 1939: 340) See also Marx (1965: 382-383).



individuals that consider themselves “employer” is available, on the basis of the distribution of employment by enterprise size groups it is possible to distinguish between ‘big’ and ‘small’ capitalists.

Since 1968 the composition of the hegemonic fraction of the bourgeoisie has changed four times:

1) 1968-1980. In the first phase of the military government (1968-1975) the development of an industrial bourgeoisie was stimulated and favoured. This bourgeoisie is also called the intermediate bourgeoisie as it is dependent on transnational capital. The dominant fraction of the bourgeoisie was composed of state-owned companies, private national economic groups and foreign capital.

2) 1980-1985. During the second term of Belaúnde especially the financial fraction of multinational capital was favoured. The financial sector and the commodities exporting sector, together, formed the hegemonic fraction of capital.

3) 1985-1990. The first APRA government in contemporary Peruvian history brought national industrial capital back to the forefront. It was supposed that a strategic alliance of the State and national economic groups would increase investments, productivity and GDP.

4) 1990-2000. The Fujimori regime favoured the financial fraction of the bourgeoisie, the commodities exporting sector and foreign capital in general. The hegemonic fraction became transnational extractive capital.

5) 2000-2014. The three governments that followed the authoritarian regime of Fujimori (Toledo, García and Humala) all continued the political economy framework of Fujimori. The financial fraction of the bourgeoisie, the commodities exporting sector and foreign capital maintained their dominant position within the Peruvian bourgeoisie.

During the first phase of the military government (1968-1975) the development of an industrial bourgeoisie was stimulated (Malpica Silva Santisteban, 1989: 48). According

to Déniz (1978: 157-158), the industry that operates in Peru is essentially an importer of technology, supplies and primary goods, among others. This bourgeoisie is allied with the imperialist bourgeoisie and its productive activities are concentrated on assembling and the processing of imported inputs.<sup>360</sup> Cotler (1994: 84, 88) argues that the military dictatorship favoured multinational and local capital.

The regime's intentions to develop an industrial bourgeoisie contributed to the emergence of national economic groups (Durand, 1988b: 41).<sup>361</sup> Durand (1988a: 47-48) argues that during the 1970s the State, the national economic groups and foreign capital were the dominant fractions of the bourgeoisie. While the State built public companies in key sectors of the economy and participated in more than 160 companies (mining, petroleum, communication, electricity, cement and finance, among others), national economic groups were active in industry and banking, and foreign capital had a presence in mining, energy and manufacturing. According to a study of Campodónico, Castillo Ochea & Quispe (1993: 116), in 1989 private national companies had the biggest share in the ranking (according to income and assets) of the 500 major companies in Peru.

The Belaúnde government favoured international capital, especially international finance, and the commodities exporting sector over national industrial capital. It created obstacles to further develop public productive projects that had been initiated by the military governments; it eliminated the state-monopoly on the commercialization of minerals; it tried to reduce the participation of the State in the financial sector; it privatized state-owned companies; it authorized the splitting up of the agricultural cooperatives and the SAIS; it diminished import tariffs; it elaborated on policies that were meant to give priority to the export of primary goods; it intended to eliminate CERTEX (Certificado de Reintegro Tributario a las Exportaciones no tradicionales), a kind of export subsidies for non-traditional exports;<sup>362</sup> and, it adjusted the interest rates in function of inflation to guarantee income for the financial institutions (that is to increase the interest rates), among

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<sup>360</sup> On this feature of the Peruvian industrialization process, see also Zapata (interview, 2015).

<sup>361</sup> According to Malpica Silva Santisteban (1989: 45), private national capital used the 'nationalistic' measures of the Velasco regime in their favour, for instance by buying the companies of foreign capital that were leaving the country.

<sup>362</sup> On November 29, 1990, CERTEX was finally eliminated.

others (Pease, 1981: 56-58; Durand, 2004: 204-205, 210-211, 228-230; Malpica Silva Santisteban, 1989: 50-54; Petras, Morley & Havens, 1983: 33).

During the first term of García, the regime hoped to industrialize the country. Industrial capital and national financial capital were favoured (Durand, 1988a: 61; Durand, 2004: 260-262). In 1989, six out of nine economic groups that dominated the industrial sector (industrial groups) were Peruvian (Campodónico, Castillo Ochea & Quispe, 1993: 125).

The neoliberal policies of the Fujimori government in the 1990s negatively affected industrial capital. The regime favoured, just as the Belaúnde government did, the commodities exporting sector, finance and foreign capital (Cotler, 1998: 25). In Table 6.2 the ranking of the five largest corporations in Peru according to sales and economic sector is presented for the period 1992-2000. And while in 1992 the majority of these corporations were Peruvian, in 2000 foreign capital dominated the top five of the biggest corporations in Peru.

**Table 6.2: Ranking largest corporations in Peru according to sales and economic sector: 1992-2000**

	<b>1992</b>	<b>1994</b>	<b>1996</b>	<b>2000</b>
<b>1</b>	Petroleum	Petroleum	Petroleum	Telecommunication
<b>2</b>	Mining	Mining	Telecommunication	Mining
<b>3</b>	Mining	Mining	Mining	Mining
<b>4</b>	Mining	Telecommunication	Petroleum	Petroleum/Gas
<b>5</b>	Telecommunication	Food	Mining	Food

Sources: *America Economía. Latin America's Business Magazine*, Special Issue, December 1992, p.77; *America Economía. Latin America's Business Magazine*, Special Issue, 1994-1995, p.70; *America Economía. La Revista de Negocios de América Latina*, Edición Anual, 1996-1997, p.146; *America Economía. Los Negocios de América Latina*, 1996-1997, July 27, 2000, p.128.

The deregulation of the internal market and trade liberalization not only meant that national industrial capital had to face foreign competitors, but these measures also caused a loss of competitiveness. While in 1989 the average trade tariff was 66 per cent, in 1992 it

had reduced to 16.1 per cent. In 1997 further import tariff reductions were implemented (Abugattas, 1999: 120, 121).

The growth rate of industrial production decreased and the installed capacity of the manufacturing sector diminished. In the years between 1990 and June 1997, only in 1994 the growth rate of industrial production matched the rates of 1986 and 1987. It was not until 1995 that the installed capacity of the manufacturing sector had returned to its level of 1985 (Abugattas, 1999: 125, 127). Cordey (2005: 169) argues that according to Peruvian industrial capital “the on-going economic model did not only prevent an impulse for a national industrialisation process, but forced it into extinction.”

The privatization of state-owned companies was another factor that contributed to a change in the structure of the bourgeoisie. Although it favoured national and international capital and, according to Cordey (2005: 221), in 1997 domestic capital had acquired 2/3 of the state-held assets in the industrial sector, it was clear evidence that a major restructuring of the dominant class was under way. The process of restructuring was, furthermore, and above all, pushed by the dynamic of the internationalization of capital in the 1990s, also denominated as globalization. It allowed for what might be called the transnationalization of the dominant fractions of the Peruvian bourgeoisie.<sup>363</sup> According to Cordey (2005: 169, 183), “the globalisation process had put important national businesses in difficult positions. Some could not pay their dues, others went bankrupt or were swallowed up by foreign companies [...] the private sector was not all that Peruvian anymore, since many leading companies —among others banking conglomerates— did not have much choice but to search for alliances with foreign capital”.

The governments that came after the authoritarian regime of Fujimori, Toledo (2001-2006), García (2006-2011) and Humala (2011-2016), have not intended to remove the dominant fractions of the bourgeoisie. As these governments, with some adjustments, continued the political economy framework implemented by Fujimori, the hegemonic fraction had nothing to worry about. As proof that nothing has changed in the upper-level of the Peruvian bourgeoisie, i.e. in the hegemonic position of extractive capital, in Table

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<sup>363</sup> Robinson (2010: 166, 170) argues that in the course of the 1980s and 1990s the transnational class fraction of the dominant class in Latin America became the hegemonic fraction within the dominant classes of Latin America.

6.3 the ranking of the largest corporations in Peru according to sales and economic sector for the period 2001-2013 is presented.

**Table 6.3: Ranking largest corporations in Peru according to sales and economic sector: 2001-2013**

	<b>2001</b>	<b>2003</b>	<b>2005</b>	<b>2007</b>
<b>1</b>	Petroleum/ Gas	Petroleum/ Gas	Petroleum/ Gas	Mining
<b>2</b>	Tele- communication	Tele- communication	Petroleum/ Gas	Mining
<b>3</b>	Mining	Mining	Mining	Petroleum/ Gas
<b>4</b>	Mining	Mining	Mining	Petroleum/ Gas
<b>5</b>	Petroleum/Gas	Mining	Tele- communication	Mining

	<b>2009</b>	<b>2011</b>	<b>2013</b>
<b>1</b>	Petroleum/ Gas	Petroleum/ Gas	Petroleum/ Gas
<b>2</b>	Mining	Petroleum/ Gas	Petroleum/ Gas
<b>3</b>	Mining	Mining	Mining
<b>4</b>	Petroleum/ Gas	Mining	Tele- communication
<b>5</b>	Tele- communication	Tele- communication	Mining

Sources: *America Economía. Los Negocios de América Latina*, August 2, 2001, no. 213, p.116; *America Economía. Los Negocios de América Latina*, July 4-31, 2003, no. 257-258, p.112; *America Economía. Los Negocios de América Latina*, July 15 - August 18, 2005, no. 303-304, p.122; *America Economía. Los Negocios de América Latina*, July 9, 2007, no. 344, p.179; *America Economía. Los Negocios de América Latina*, July 2009, no. 377, p.163; *America Economía. Los Negocios de América Latina*, July 2011, no. 401, p.156; *America Economía. Los Negocios de América Latina*, 2001, July 2013, no. 425, p.128.

The description of the dominant fractions of the Peruvian bourgeoisie does not tell us the whole story of this class. The reality of the Peruvian bourgeoisie is the existence of a very small dominant fraction of the bourgeoisie and a very large subordinate fraction. In section 6.9 on distribution of employment by enterprise size groups one can see that the

absolute majority of the occupied EAP works in companies that employ between one and 19 individuals.<sup>364</sup> In the case of the proletariat and the peasantry the percentages are even higher. For instance, in 1998 more than 80 per cent of the occupied proletariat laboured in companies that employed two to 19 individuals. In 2000, 2005, 2010 and 2014 these percentages were respectively 78 per cent, 80.9 per cent, 73.9 per cent. In the case of the peasantry, in the period 1998-2015 more than 99 per cent worked in companies that employed between one and 9 individuals. The distribution of employment by enterprise size groups for Metropolitan Lima shows that that in the years between 1986 and 1994 between 30 per cent and 50 per cent of the occupied proletariat laboured in companies that employed from two to 19 individuals.

On the basis of data of the Ministry of Labour and the INEI it is possible to determine the size of the companies of all those individuals that consider themselves ‘employer’. Although this is not a good empirical descriptor of the bourgeoisie in that this class should would be much better described in terms of its ownership of the major means of production, which takes form as capital (wealth used to generate profit and more wealth) it can be used as a rough empirical indicator in an analysis of the evolution of the structure of the bourgeoisie. However, another major limitation of these data is that only native Peruvians are included in the inquiries of the mentioned institutions, and no other individuals that according to their classification codes of occupation should be incorporated as members of the bourgeoisie. In Tables 6.4 and 6.5 we present data on the occupational category “employer” according to company size for Lima (1986-1994) and for the country as a whole (1998-2014). Rounding differences cause that the percentages do not add up to or are slightly above 100 per cent.

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<sup>364</sup> The EAP is composed of all individuals of 14 years and older, and (i) who were working in the period under investigation; (ii) who previously worked but are currently unemployed; or, (iii) who were actively looking for work. Individuals that are not occupied are called the non-occupied EAP. It should be clarified here that while today (2016) the EAP ‘starts’ at the age of 14, in the 1980s the EAP was calculated starting from the age of 15 years and sometimes even of 14 years.<sup>364</sup> In addition, it should be mentioned, however, that even individuals younger than 14 years old are employed. Hence they should also be considered as part of the EAP (Verdera, 1983: 47).

**Table 6.4: The distribution of the occupational category by enterprise size groups: Metropolitan Lima, 1986-1994 (in percentage of total employers of companies with 2 and more individuals)**

Year	2-9 individuals employed	10-19 individuals employed	More than 20 individuals employed	Total
1986	90.7 %	4.3 %	4.9 %	99.9 %
1987	88.8 %	7.1 %	4.1 %	100 %
1988*	xxx	xxx	xxx	xxx
1989	87.2 %	11.1 %	1.7 %	100 %
1990	88.8 %	5.6 %	5.6 %	100 %
1991	87.2 %	5.6 %	7.3 %	100.1 %
1992	89.9 %	5.6 %	4.5 %	100 %
1993	88.7 %	8.0 %	3.3 %	100 %
1994	88.8 %	6.3 %	4.9 %	100 %

Source: Ministerio de Trabajo, Encuesta de Hogares, Lima Metropolitana, 1986, 1987, 1989-1994.

\* No data is available for 1988.

**Table 6.5: The distribution of the occupational category by enterprise size groups: Peru, 1998-2014 (in percentage of total employers of companies with 2 and more individuals)**

Year	2-9 individuals employed	10-19 individuals employed	More than 20 individuals employed	Total
1998	93.0 %	5.2 %	1.8 %	100 %
1999	92.9 %	5.2 %	1.9 %	100 %
2000	94.1 %	4.0 %	1.9 %	100 %
2001	94.1 %	4.4 %	1.6 %	100.1 %
2002	93.7 %	4.9 %	1.4 %	100 %
2003	94.4 %	4.3 %	1.2 %	99.9 %
2004	92.7 %	5.9 %	1.4 %	100 %
2005	92.7 %	6.1 %	1.2 %	100 %
2006	93.6 %	5.1 %	1.3 %	100 %
2007	94.0 %	4.5 %	1.5 %	100 %
2008	92.0 %	6.1 %	1.9 %	100 %
2009	93.5 %	5.0 %	1.4 %	99.9 %
2010	93.7 %	4.8 %	1.5 %	100 %
2011	93.5 %	5.0 %	1.4 %	99.9 %
2012	93.1 %	5.2 %	1.7 %	100 %
2013	94.1 %	4.2 %	1.6 %	99.9 %
2014	93.3 %	5.1 %	1.6 %	100 %

Source: Instituto Nacional de Estadística e Informática, Encuesta Nacional de Hogares, 1998-2014.

## 6.5. The intermediate class

The intermediate class consists of a variety of individuals whose relations to production clearly differ. Although it might seem that we created a class definition that enabled us to gather all those individuals that we are not able to classify as bourgeoisie, proletariat or as peasants, the reality of the Peruvian social structure, as explained above, has allowed and obliged us to do this.

The intermediate class cannot be compared with what has been defined as the middle class as it includes more *and* includes less. By including all independents in the intermediate class this class might be bigger than what ‘normally’ is considered to be middle class. Although independents may own some means of production but do not exploit other individuals, not all independents own means of production. The first group of independents might be considered pertaining to the petitbourgeoisie. Depending on the definition of the ‘new’ middle class,<sup>365</sup> the intermediate class might diminish in relation to the ‘new’ middle class as we have qualified an important group of professionals as proletariat. However, independents that do not own the means of production might be considered part of the ‘new’ middle class. In what follows we present the major characteristics of the intermediate class. The intermediate class encompasses not only the centre between the bourgeoisie and the proletariat, but all extremities between these two classes.

The intermediate class is primarily composed of those individuals that are frequently called “independents”. Often, these individuals are also informal workers. Within the fraction of individuals considered as independents, the main body is composed of individuals whose occupations have proletarian characteristics. This is mainly the consequence of the accumulation of economic crises in 1980s, the result of the privatization of state-owned companies in the 1980s and 1990s, and caused by the implementation measures that eliminated labour stability in the 1990s (for this and the responses of the proletariat, see chapter 7).

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<sup>365</sup> We agree with Carchedi (1977: 113-114ft 61) who argues that not all managers belong to the bourgeoisie. They can also pertain to the intermediate class (new middle class) “when the social content of his function is double, i.e. when he performs both the global function of capital and the function of the collective worker”.



The proletarian fraction of the independent intermediate class can be called an urban semiproletariat as they are obliged to work on their own account rather than forced into the capital-labour relation. The urban semiproletariat may perform the same functions in production as the proletariat, but as these individuals work on their own account their production relations are different from the proletariat. The urban semiproletariat might own some means of production to exploit themselves or their non-remunerated family members.

The urban semiproletariat cannot be defined as a proper class as it has elements of the proletariat and the intermediate class. It is not possible to clearly locate these individuals outside the proletariat or the intermediate class, i.e. as something qualitatively different. We have chosen to locate these individuals in the intermediate class as their objective determining characteristics are the ownership of capital and the exploitation of themselves and/or their non-remunerated family members. They can be distinguished as a fraction of the independent intermediate class.

In the tables below we present the division of the intermediate class in dependents and independents, and the divisions of independents in those with a middle class and a proletarian occupational character (urban semiproletariat). In Tables 6.6 and 6.7 data is provided for Lima in the period 1986-1994 and in Tables 6.8 and 6.9 data is presented for the country as whole for the years between 1997 and 2014.

**Table 6.6: Dependent and independent intermediate class in Metropolitan Lima: 1986-1994 (as a percentage of the intermediate class)**

Year	Dependent intermediate class	Independent intermediate class
1986	43.4 %	57.6 %
1987	46.5 %	54.5 %
1988*	xxx	xxx
1989	39.5 %	60.5 %
1990	43.2 %	56.8 %
1991	46.2 %	53.8 %
1992	45.3 %	54.7 %
1993	40.5 %	59.5 %
1994	42.5 %	57.5 %

Source: Ministerio de Trabajo, Encuesta de Hogares, Lima Metropolitana, 1986, 1987, 1989-1994.

\* No data is available for 1988.

**Table 6.7: Middle class and proletarian fractions of the independent intermediate class in Metropolitan Lima: 1986-1994 (as a percentage of the independent intermediate class)**

Year	Middle class fraction of independent intermediate class	Proletarian fraction of independent intermediate class
1986	47.5 %	52.5 %
1987	51.8 %	48.2 %
1988*	xxx	xxx
1989	58.5 %	41.5 %
1990	63.4 %	36.6 %
1991	57.9 %	42.1 %
1992	61.0 %	39.0 %
1993	41.8 %	58.2 %
1994	47.8 %	52.2 %

Source: Ministerio de Trabajo, Encuesta de Hogares, Lima Metropolitana, 1986, 1987, 1989-1995.

\* No data is available for 1988.

**Table 6.8: Dependent and independent intermediate class in Peru: 1997-2014 (as a percentage of the intermediate class)**

<b>Year</b>	<b>Dependent intermediate class</b>	<b>Independent intermediate class</b>
<b>1997</b>	24.8 %	75.2 %
<b>1998</b>	24.3 %	75.7 %
<b>1999</b>	25.1 %	74.9 %
<b>2000</b>	25.9 %	74.1 %
<b>2001</b>	23.0 %	77.0 %
<b>2002</b>	26.2 %	73.8 %
<b>2003</b>	24.7 %	75.3 %
<b>2004</b>	24.2 %	75.8 %
<b>2005</b>	23.8 %	76.2 %
<b>2006</b>	25.5 %	74.5 %
<b>2007</b>	25.5 %	74.5 %
<b>2008</b>	25.9 %	74.1 %
<b>2009</b>	25.8 %	74.2 %
<b>2010</b>	24.7 %	75.3 %
<b>2011</b>	24.8 %	75.2 %
<b>2012</b>	26.3 %	73.7 %
<b>2013</b>	27.2 %	72.8 %
<b>2014</b>	27.3 %	72.7 %

Source: Instituto Nacional de Estadística e Informática, Encuesta Nacional de Hogares, 1997-2014.

**Table 6.9: Middle class and proletarian fractions of the independent intermediate class in Peru: 1997-2014 (as a percentage of the independent intermediate class)**

<b>Year</b>	<b>Middle class fraction of independent intermediate class</b>	<b>Proletarian fraction of independent intermediate class</b>
<b>1997</b>	29.5 %	69.5 %
<b>1998</b>	29.0 %	71.0 %
<b>1999</b>	25.7 %	74.3 %
<b>2000</b>	26.5 %	73.5 %
<b>2001</b>	26.5 %	73.5 %
<b>2002</b>	29.6 %	71.4 %
<b>2003</b>	31.9 %	68.1 %
<b>2004</b>	31.1 %	68.9 %
<b>2005</b>	31.4 %	86.6 %
<b>2006</b>	29.8 %	70.2 %
<b>2007</b>	30.8 %	69.2 %
<b>2008</b>	30.7 %	69.3 %
<b>2009</b>	26.7 %	73.3 %
<b>2010</b>	25.8 %	74.2 %
<b>2011</b>	25.1 %	74.9 %
<b>2012</b>	24.8 %	75.2 %
<b>2013</b>	24.5 %	75.5 %
<b>2014</b>	24.9 %	75.1 %

Source: Instituto Nacional de Estadística e Informática, Encuesta Nacional de Hogares, 1997-2014.

The importance of the urban semiproletariat within the Peruvian class structure can be demonstrated when we determine its weight within the total class structure. In Table 6.10 and 6.11 we have calculated the urban semiproletariat as a percentage of the total occupied EAP for Lima in the period 1986-1994 and for Peru in the years between 1997 and 2014.

**Table 6.10: Urban semiproletariat as a percentage of total occupied Economic Active Population (EAP) in Lima: 1986-1994**

Year	Urban semiproletariat as a percentage of the occupied EAP in Lima
1986	10.6 %
1987	7.6 %
1988*	Xxx
1989	8.2 %
1990	7.3 %
1991	8.4 %
1992	8.0 %
1993	11.2 %
1994	10.3 %

Source: Ministerio de Trabajo, Encuesta de Hogares, Lima Metropolitana, 1986, 1987, 1989-1995.

\* No data is available for 1988.

**Table 6.11: Urban semiproletariat as a percentage of total occupied Economic Active Population (EAP) in Peru: 1997-2014**

Year	Urban semiproletariat as a percentage of the occupied EAP in Peru
1997	16.5 %
1998	16.0 %
1999	17.3 %
2000	17.4 %
2001	16.1 %
2002	14.7 %
2003	14.6 %
2004	14.5 %
2005	13.5 %
2006	13.6 %
2007	14.6 %
2008	14.8 %
2009	15.6 %
2010	15.9 %
2011	16.2 %
2012	15.9 %
2013	16.0 %
2014	15.7 %

Source: Instituto Nacional de Estadística e Informática, Encuesta Nacional de Hogares, 1997-2014.

Street vendors, mainly informal, form an important part of the intermediate class.<sup>366</sup> Generally they are classified as independents but in some occasions they employ other individuals. In the following Tables we present the intermediate class fraction of street vendors as a percentage of the intermediate class. Individuals that considered themselves “employers” but also street vendors are excluded. In Table 6.12 data is presented for Lima in the period 1986-1994 and in Table 6.13 we provide data for Peru in the years between 1997 and 2014.<sup>367</sup>

**Table 6.12: Street vendors in Metropolitan Lima: 1986-1994 (as a percentage of the intermediate class)**

<b>Year</b>	<b>Street Vendors</b>
<b>1986</b>	32.5 %
<b>1987</b>	29.8 %
<b>1988*</b>	xxx
<b>1989</b>	39.7 %
<b>1990</b>	38.8 %
<b>1991</b>	33.6 %
<b>1992</b>	37.1 %
<b>1993</b>	32.3 %
<b>1994</b>	33.5 %

Source: Ministerio de Trabajo, Encuesta de Hogares, Lima Metropolitana, 1986, 1987, 1989-1994.

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<sup>366</sup> In accordance with our point of view, although we use the denomination intermediate class, Letts (2014: 121) believes that street vendors pertain to the petitbourgeoisie.

<sup>367</sup> In the years between 1970 and 1990, the number of street vendors increased from 20.000 to 300.000, an annual increase of about 14.000 (Verdera, 2000: 39ft54).

**Table 6.13: Street vendors in Peru: 1997-2014 (as a percentage of the intermediate class)**

<b>Year</b>	<b>Street Vendors</b>
<b>1997</b>	20.2 %
<b>1998</b>	20.6 %
<b>1999</b>	18.8 %
<b>2000</b>	18.0 %
<b>2001</b>	19.3 %
<b>2002</b>	20.1 %
<b>2003</b>	21.9 %
<b>2004</b>	22.1 %
<b>2005</b>	22.5 %
<b>2006</b>	20.9 %
<b>2007</b>	21.0 %
<b>2008</b>	21.4 %
<b>2009</b>	14.5 %
<b>2010</b>	13.7 %
<b>2011</b>	13.0 %
<b>2012</b>	12.4 %
<b>2013</b>	11.7 %
<b>2014</b>	11.5 %

Source: Instituto Nacional de Estadística e Informática, Encuesta Nacional de Hogares, 1997-2014.

## **6.6. The proletariat**

The Peruvian proletariat is composed of surplus value and non-surplus value producing individuals. The last group is economically oppressed, for instance salespeople, persons that work as cashiers in banks and personnel of supermarkets, among others. We can also make a difference between highly skilled individuals such as technicians and persons that can be considered as unskilled. The Peruvian proletariat can furthermore be divided in individuals that *primarily* perform manual labour ('classic' working class, salespeople, individuals who are working in restaurants, among others)<sup>368</sup> and persons whose function is *mainly* to execute mental labour such as technicians and what are called professionals. In

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<sup>368</sup> Salespeople are not included in the mental labour performing individuals as in Peru a salesperson means in most of the cases the selling of whatever kind merchandise in micro companies. As we have seen above, salespeople also include individuals that sell merchandise in the streets (street vendors, intermediate class).

Tables 6.14 and 6.15 below we present this division for Metropolitan Lima in the period 1986-1994 and for Peru in the years 1997 to 2014.

**Table 6.14: Division of the proletariat in manual and mental labour performing individuals: Metropolitan Lima, 1986-1994 (as a percentage of total proletariat)**

<b>Year</b>	<b>Manual labour</b>	<b>Mental labour</b>
<b>1986</b>	67.2 %	32.8 %
<b>1987</b>	71.9 %	28.1 %
<b>1988*</b>	xxx	xxx
<b>1989</b>	69.6 %	30.4 %
<b>1990</b>	72.0 %	28.0 %
<b>1991</b>	71.2 %	28.8 %
<b>1992</b>	68.1 %	31.9 %
<b>1993</b>	60.7 %	39.3 %
<b>1994</b>	58.4 %	41.6 %

Source: Ministerio de Trabajo, Encuesta de Hogares, Lima Metropolitana, 1986, 1987, 1989-1994.

\* No data is available for 1988.



**Table 6.15: Division of the proletariat in manual and mental labour performing individuals: Peru, 1997-2014 (as a percentage of total proletariat)**

<b>Year</b>	<b>Manual labour</b>	<b>Mental labour</b>
<b>1997</b>	85.1 %	14.9 %
<b>1998</b>	91.1 %	8.9 %
<b>1999</b>	91.0 %	9.0 %
<b>2000</b>	87.6 %	12.4 %
<b>2001</b>	91.2 %	8.8 %
<b>2002</b>	90.8 %	19.2 %
<b>2003</b>	88.7 %	11.3 %
<b>2004</b>	90.9 %	9.1 %
<b>2005</b>	90.8 %	9.2 %
<b>2006</b>	90.5 %	9.5 %
<b>2007</b>	90.4 %	9.6 %
<b>2008</b>	88.5 %	11.5 %
<b>2009</b>	88.6 %	11.4 %
<b>2010</b>	88.5 %	11.5 %
<b>2011</b>	87.5 %	12.5 %
<b>2012</b>	86.5 %	13.5 %
<b>2013</b>	86.0 %	14.0 %
<b>2014</b>	86.4 %	13.6 %

Source: Instituto Nacional de Estadística e Informática, Encuesta Nacional de Hogares, 1997-2014.

Tables 6.14 and 6.15 show remarkable differences and similarities. Within the Peruvian proletariat manual labour is crucial. The important differences in the weight of manual labour in the proletariat between the two periods are the consequence of the area in which the household surveys have been held. In Metropolitan Lima, Peru's capital, the financial and economic centre of the country, the labour force is higher skilled than in the rest of the country.

Another important characteristic of the Peruvian working population, and not only of the proletariat, is the problem of underemployment.<sup>369</sup> Although during crises underemployment rises, however, as can one see below, underemployment is a structural characteristic of the Peruvian working population. In addition, despite the measures introduced in the 1990s to make the workforce more flexible, in general terms unemployment has been higher in the 1990s than in the 1980s. In Table 6.16 we show the

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<sup>369</sup> For a definition of underemployment, see chapter 1.

rates of unemployment, underemployment and adequately employed in the period 1980-2014.

**Table 6.16: Rates of unemployment, underemployment and adequately employed:  
1980-2014 (as a percentage of EAP)**

<b>Year</b>	<b>Unemployment</b>	<b>Underemployment</b>	<b>Adequately Employed</b>
1980	7.0 %	51.2 %	41.8 %
1981	6.8 %	47.9 %	45.3 %
1982	6.6 %	28.0 %	65.4 %
1983	9.0 %	33.3 %	57.7 %
1984	8.9 %	36.8 %	54.3 %
1985*	xxx	xxx	xxx
1986	5.3 %	42.6 %	52.1 %
1987	4.8 %	34.9 %	60.3 %
1988*	xxx	xxx	xxx
1989	7.9 %	73.5 %	18.6 %
1990	8.3 %	73.1 %	18.6 %
1991	5.9 %	78.5 %	15.6 %
1992	9.4 %	75.9 %	14.7 %
1993	9.9 %	77.4 %	12.7 %
1994	8.8 %	74.3 %	16.9 %
1995	7.9 %	40.3 %	51.8 %
1996	7.1 %	41.9 %	51.0 %
1997	7.0 %	42.7 %	50.3 %
1998	7.8 %	44.3 %	47.9 %
1999	8.0 %	43.5 %	48.5 %
2000	7.4 %	42.9 %	49.7 %
2001	5.0 %	65.2 %	29.8 %
2002	5.7 %	64.2 %	30.1 %
2003	5.2 %	64.4 %	30.4 %
2004	5.3 %	72.5 %	22.2 %
2005	5.4 %	73.3 %	21.3 %
2006	4.7 %	67.9 %	27.4 %
2007	4.7 %	62.6 %	32.7 %
2008	4.6 %	58.5 %	36.9 %
2009	4.5 %	55.5 %	40.0 %
2010	4.1 %	53.6 %	42.3 %
2011	4.1 %	51.1 %	44.8 %
2012	3.9 %	48.1 %	48.1 %
2013	4.0 %	47.0 %	49.1 %
2014	3.7 %	46.3 %	50.0 %

Sources: INE (1987), *Perú, Compendio Estadístico 1986*, p.150; INE (1984a), *Perú, Compendio Estadístico 1983*, p.102; INEI (1995); *Perú: Series Estadísticas 1970-1994*, p.448; INEI (1997), *Perú: Compendio Estadístico 1996-1997*, p.440; INEI (2001), *Perú: Compendio Estadístico*, p.235; [http://www.inei.gob.pe/media/MenuRecursivo/publicaciones\\_digitales/Est/Lib1253/cap07/ind07.htm](http://www.inei.gob.pe/media/MenuRecursivo/publicaciones_digitales/Est/Lib1253/cap07/ind07.htm) (consulted 31/07/2015); <http://series.inei.gob.pe:8080/sirtod-series/> (consulted 31/07/2015).

\* No data is available for 1985 and 1988.

Since only a very small part of the Peruvian working population is salaried or receives a wage, the majority of the Peruvian working population does not have social security in the form of unemployment insurance or a pension. According to data of Balbi and Gamero (1990: 91), while in 1972 around 67 per cent of the EAP in Lima received a salary, in 1989 this was about 57 per cent.<sup>370</sup> For the years between 1990 and 1995, household surveys of the Ministry of Labour and the INEI show that this percentage was maintained at around 54 per cent. Data on Peru present a similar trend. In 1989 about 37 per cent were salaried individuals, down from 40 per cent in 1977 (Balbi & Gamero, 1990: 91). In 2014, the household survey of the INEI indicated that 37 per cent of the Peruvian occupied EAP received a salary or a wage.<sup>371</sup>

The almost permanent situation of underemployment to which the Peruvian working population is submitted obliges many to have more than one job, apart from being self-employed.<sup>372</sup> In the Tables below we present the percentages of the occupied EAP that indicated to have more than one job. In Table 6.17 data is provided for Metropolitan Lima in the period 1986-1995 and in Table 6.18 one can find the data for Peru in the period 1997-2014.

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<sup>370</sup> According to Gonzales de Olarte (1986: 30), in the period 1970-1980 30 per cent of the EAP received a salary.

<sup>371</sup> According to data of Verdera (1983: 118), in the period 1972-1980 the weight of the salaried working population in total EAP increased with economic progress and diminished in periods of crisis.

<sup>372</sup> Self-employment and the fact that many people have more than one occupation can explain why the rates of unemployment are not very high. According to Saavedra (1999: 15), self-employment has been an “important adjustment variable to balance the labour market”. Gamero and Humala (2002: 72) argue that economic crisis is not so much expressed in unemployment but, rather, in the worsening of work conditions and decreasing salaries.

**Table 6.17: Percentages of the occupied EAP in Metropolitan Lima that manifested to have a secondary occupation: 1986-1995 (as a percentage of the occupied EAP of Metropolitan Lima)**

<b>Year</b>	<b>Secondary Occupation</b>
<b>1986</b>	12.2 %
<b>1987</b>	9.8 %
<b>1988*</b>	xxx
<b>1989</b>	9.9 %
<b>1990</b>	7.7 %
<b>1991</b>	10. %
<b>1992</b>	8.4 %
<b>1993</b>	8.2 %
<b>1994*</b>	xxx
<b>1995</b>	10.9 %

Source: Ministerio de Trabajo, Encuesta de Hogares, Lima Metropolitana, 1986, 1987, 1989, 1990, 1992, 1993, 1995.

\* No data is available for 1988 and 1994.

**Table 6.18: Percentages of the occupied EAP in Peru that manifested to have a secondary occupation: 1997-2014 (as a percentage of the occupied EAP)**

<b>Year</b>	<b>Secondary Occupation</b>
<b>1997</b>	14.3 %
<b>1998</b>	14.5 %
<b>1999</b>	14.7 %
<b>2000</b>	14.6 %
<b>2001</b>	12.9 %
<b>2002</b>	12.4 %
<b>2003</b>	14.0 %
<b>2004</b>	14.6 %
<b>2005</b>	14.7 %
<b>2006</b>	14.1 %
<b>2007</b>	16.1 %
<b>2008</b>	17.7 %
<b>2009</b>	18.2 %
<b>2010</b>	18.2 %
<b>2011</b>	20.4 %
<b>2012</b>	19.3 %
<b>2013</b>	18.7 %
<b>2014</b>	18.6 %

Source: Instituto Nacional de Estadística e Informática, Encuesta Nacional de Hogares, 1997-2014.

A last characteristic of the Peruvian proletariat is that it includes all non-remunerated family workers.<sup>373</sup> These workers are especially of importance for what are called independent workers. In other words, the non-remunerated family workers find themselves in relations of exploitation or economic oppression in regards to the independent workers. Unfortunately, these relations are hidden and cannot be registered in the accounting books. Tables 6.19 and 6.20 show the importance of the non-remunerated family workers in the occupied EAP for the periods 1986-1994 (Metropolitan Lima) and 1997-2014 (Peru).

**Table 6.19: Non-remunerated family workers in Metropolitan Lima as a percentage of the occupied EAP of Metropolitan Lima: 1986-1994**

<b>Year</b>	<b>Non-remunerated family workers</b>
<b>1986</b>	6.1 %
<b>1987</b>	6.2 %
<b>1988*</b>	xxx
<b>1989</b>	6.1 %
<b>1990</b>	4.7 %
<b>1991</b>	3.4 %
<b>1992</b>	3.8 %
<b>1993</b>	5.0 %
<b>1994</b>	5.1 %

Source: Ministerio de Trabajo, Encuesta de Hogares, Lima Metropolitana, 1986, 1987, 1989, 1990, 1992, 1993, 1994.

\* No data is available for 1988.

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<sup>373</sup> We are aware that non-remunerated family workers are not only part of the proletariat but also might form part of the peasantry. Data has not permitted us to establish this difference.

**Table 6.20: Non-remunerated family workers in Peru as a percentage of the occupied EAP of Peru: 1997-2014**

<b>Year</b>	<b>Non-remunerated family workers</b>
<b>1997</b>	22.8 %
<b>1998</b>	23.4 %
<b>1999</b>	22.5 %
<b>2000</b>	20.9 %
<b>2001</b>	21.9 %
<b>2002</b>	23.3 %
<b>2003</b>	24.8 %
<b>2004</b>	25.1 %
<b>2005</b>	25.1 %
<b>2006</b>	24.4 %
<b>2007</b>	22.0 %
<b>2008</b>	21.6 %
<b>2009</b>	21.9 %
<b>2010</b>	21.9 %
<b>2011</b>	21.6 %
<b>2012</b>	20.5 %
<b>2013</b>	20.3 %
<b>2014</b>	20.1 %

Source: Instituto Nacional de Estadística e Informática, Encuesta Nacional de Hogares, 1997-2014.

### **6.7. The peasantry and the rural bourgeoisie**

The peasantry is composed of all individuals that work in agriculture or livestock breeding and are located in the countryside. They can be divided in peasants and rural proletariat. Peasants' relations of production are fundamentally pre-capitalist, although many peasants are forced into an indirect relationship to the capitalist mode of production, which allows their labour to be exploited. Peasants own means of production but do not exploit or economically oppress other individuals, apart from their non-remunerated family members. Individuals that pertain to the rural proletariat are occupied in farming but do not own the means of production.

Individuals that employ other individuals, excluding non-remunerated family members, and perform their economic activities in the countryside are part of the rural

bourgeoisie. In Table 6.21 data is presented on the evolution of peasants and the rural proletariat in Peru for the period 1997-2014.

**Table 6.21: Peasants and rural proletariat as a percentage of total peasantry: 1997-2014**

<b>Year</b>	<b>Peasants</b>	<b>Rural proletariat</b>
<b>1997</b>	99.6 %	0.4 %
<b>1998</b>	99.4 %	0.6 %
<b>1999</b>	99.3 %	0.7 %
<b>2000</b>	100 %	0.0 %
<b>2001</b>	99.6 %	0.4 %
<b>2002</b>	99.7 %	0.3 %
<b>2003</b>	99.6 %	0.4 %
<b>2004</b>	99.6 %	0.4 %
<b>2005</b>	99.6 %	0.4 %
<b>2006</b>	99.6 %	0.4 %
<b>2007</b>	99.7 %	0.3 %
<b>2008</b>	99.4 %	0.6 %
<b>2009</b>	99.0 %	1.0 %
<b>2010</b>	99.0 %	1.0 %
<b>2011</b>	98.7 %	1.3 %
<b>2012</b>	98.7 %	1.3 %
<b>2013</b>	99.0 %	1.0 %
<b>2014</b>	98.8 %	1.2 %

Source: Instituto Nacional de Estadística e Informática, Encuesta Nacional de Hogares, 1997-2014.

A large part of the peasantry is not only working in the countryside but also in urban areas, for instance as independents. Another part is called the rural semiproletariat.

The semiproletariat is composed of individuals who work on their own plots and labour on for instance the land of other small landowners, on the lands of big agricultural companies, or in urban areas. These individuals may be employees, workers, non-remunerated family members or domestic workers.

The rural semiproletariat cannot be defined as a proper class as it has elements of the proletariat and the peasantry. It is not possible to clearly locate these individuals outside the proletariat and the peasantry, i.e. as something qualitatively different. We have chosen



to locate these individuals in the peasants as their determining characteristics are the ownership of land and the exploitation of themselves and/or their non-remunerated family members.<sup>374</sup> They can be distinguished as a fraction of the independent peasants. In Table 6.22 data is presented on peasants with a second job in the years between 1997 and 2014.

**Table 6.22: Peasants with a second job (as a percentage of total peasants) and peasants' second job in the agricultural and livestock breeding sectors, and non-agricultural sector and non-livestock breeding sectors (as a percentage of total peasants with a second job): 1997-2014**

<b>Year</b>	<b>Peasants with a second job</b>	<b>Peasants' second job in the agricultural and the livestock breeding sectors</b>	<b>Peasants' second job in the non- agricultural and livestock breeding sectors</b>
<b>1997</b>	25.9 %	37.5 %	62.5 %
<b>1998</b>	22.3 %	38.0 %	62. %
<b>1999</b>	26.2 %	46.6 %	53.4 %
<b>2000</b>	28.4 %	43.2 %	56.8 %
<b>2001</b>	19.0 %	42.3 %	57.7 %
<b>2002</b>	19.6 %	41.2 %	58.8 %
<b>2003</b>	21.2 %	40.3 %	59.7 %
<b>2004</b>	23.9 %	44.4 %	55.6 %
<b>2005</b>	22.9 %	44.9 %	55.1 %
<b>2006</b>	24.6 %	46.5 %	53.5 %
<b>2007</b>	27.8 %	47.7 %	52.3 %
<b>2008</b>	31.7 %	44.0 %	56 %
<b>2009</b>	31.9 %	44.0 %	56 %
<b>2010</b>	34.3 %	43.8 %	56.2 %
<b>2011</b>	33.8 %	42.6 %	57.4 %
<b>2012</b>	34.7 %	45.3 %	54.7 %
<b>2013</b>	32.4 %	46.3 %	53.7 %
<b>2014</b>	32.3 %	47.2 %	52.8 %

Source: Instituto Nacional de Estadística e Informática, Encuesta Nacional de Hogares, 1997-2014.

<sup>374</sup> Lenin (1974a: 464): “In the peasant mass of 97.000.000 one must distinguish three main groups: the bottom group, the proletarian and semi-proletarian strata of the population; the middle group, the poor small peasant farmers; and the top group, the well-to-do small peasant farmers.” In his work “The tasks of the proletariat in our revolution”, Lenin (1917) considered poor peasants as semi-proletarians. See also chapter 3 on the (rural) semiproletariat.

As might be observed in Table 6.22, currently around 30 per cent of peasants have a second job. In the last 18 years this percentage has increased. The majority of the peasants with a second job are employed in the non-agricultural sector.

In order to determine the proper position of the peasants with a second job in the labour market, in Table 6.23 we have subdivided for the years between 1997 and 2014 all those peasants who declared to have a second job in seven occupational categories as defined by the Peruvian National Institute for Statistics and Informatics: i) employer; ii) independent worker; iii) employee; iv) worker; v) non-remunerated family member; vi) domestic worker; vii) other.<sup>375</sup>

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<sup>375</sup> An employer is a person who owns or is in charge of a business and employs paid workers. An independent worker is a person who owns a business individually or collectively but has no paid workers. An independent worker is also a person who performs a profession on his or her own account. An employee is a worker who, principally, performs non-manual activities and is employed by a public or private entity. Generally, an employee receives a monthly remuneration. A worker is a person who performs, principally, manual tasks and is employed by a public or private entity. Generally, a worker receives a weekly remuneration. A non-remunerated family member is a person who works weekly 15 hours or more in a business whose owner is a family member and who does not receive a payment. A domestic worker is a person who provides household services in other people's homes and receives remuneration. The occupational category "other" was not defined by the INEI (INEI, 1993c: 4133; <http://www.mintra.gob.pe/mostrarResultado.php?id=165>; consulted 01/12/2015).

**Table 6.23: Peasants' second job according to occupational categories (in percentages of total independent peasants with a second job): 1997-2014**

Year	Peasants' second job according to occupational categories			
	Employer	Independent Worker	Employee	Worker
1997	0.4 %	39.3 %	1.3 %	46.4 %
1998	1.8 %	52.4 %	1.4 %	28.6 %
1999	0.8 %	34.0 %	1.5 %	45.8 %
2000	0.0 %	34.9 %	1.2 %	46.9 %
2001	1.0 %	36.9 %	3.0 %	45.3 %
2002	1.1 %	36.1 %	2.0 %	45.6 %
2003	1.0 %	33.4 %	1.9 %	45.6 %
2004	0.9 %	32.7 %	2.4 %	44.4 %
2005	1.0 %	30.9 %	1.8 %	45.6 %
2006	1.6 %	28.7 %	2.1 %	45.5 %
2007	1.7 %	28.8 %	1.4 %	47.1 %
2008	1.5 %	29.8 %	3.0 %	42.8 %
2009	1.1 %	29.3 %	2.6 %	42.4 %
2010	1.8 %	28.1 %	2.4 %	42.9 %
2011	1.4 %	31.0 %	2.7 %	40.5 %
2012	0.9 %	28.4 %	2.3 %	43.6 %
2013	0.9 %	25.2 %	3.2 %	44.8 %
2014	1.1 %	26.4 %	2.3 %	44.5 %

<b>Peasants' second job according to occupational categories</b>				
<b>Year</b>	<b>Non-Remunerated Family Member</b>	<b>Domestic Worker</b>	<b>Other</b>	<b>Total</b>
<b>1997</b>	12.3 %	0.2 %	0.0 %	100 %
<b>1998</b>	15.6 %	0.0 %	0.2 %	100 %
<b>1999</b>	16.8 %	0.0 %	1.1 %	100 %
<b>2000</b>	14.3 %	0.0 %	2.7 %	100 %
<b>2001</b>	11.3 %	0.3 %	2.1 %	100 %
<b>2002</b>	14.0 %	0.4 %	0.8 %	100 %
<b>2003</b>	15.9 %	0.0 %	2.2 %	100 %
<b>2004</b>	17.1 %	0.3 %	2.2 %	100 %
<b>2005</b>	18.1 %	0.4 %	2.2 %	100 %
<b>2006</b>	18.9 %	0.9 %	2.3 %	100 %
<b>2007</b>	18.0 %	0.5 %	2.5 %	100 %
<b>2008</b>	18.8 %	0.6 %	3.6 %	100 %
<b>2009</b>	19.4 %	0.3 %	4.8 %	100 %
<b>2010</b>	18.1 %	0.3 %	6.5 %	100 %
<b>2011</b>	17.9 %	0.4 %	6.2 %	100 %
<b>2012</b>	15.6 %	0.3 %	8.9 %	100 %
<b>2013</b>	16.4 %	0.6 %	8.9 %	100 %
<b>2014</b>	16.3 %	0.4 %	8.9 %	100 %

Source: Instituto Nacional de Estadística e Informática, Encuesta Nacional de Hogares, 1997-2014.

The data in Table 6.23 show that in the last 18 years the majority of the peasants with a second job must be considered as a semiproletariat. Besides working on their own plots, they also were employed as employees, workers, non-remunerated family members and domestic workers in urban and rural areas. It is striking that a considerable number of peasants work as independents, although the data show a diminishing trend. These peasants are not part of the (urban or rural) semiproletariat as they work on their own account and may own means of production. In Table 24 we show the rural semiproletariat as a percentage of the occupied EAP in Peru in the period 1998-2014, i.e. its role within the total class structure.

**Table 6.24: Rural semiproletariat as a percentage of occupied Economic Active Population (EAP) in Peru: 1997-2014**

<b>Year</b>	<b>Peasants with a second job</b>
<b>1997</b>	1.9 %
<b>1998</b>	1.5 %
<b>1999</b>	2.1 %
<b>2000</b>	2.0 %
<b>2001</b>	1.7 %
<b>2002</b>	1.8 %
<b>2003</b>	2.1 %
<b>2004</b>	2.2 %
<b>2005</b>	2.4 %
<b>2006</b>	2.5 %
<b>2007</b>	2.6 %
<b>2008</b>	2.9 %
<b>2009</b>	3.0 %
<b>2010</b>	3.1 %
<b>2011</b>	3.1 %
<b>2012</b>	3.2 %
<b>2013</b>	3.1 %
<b>2014</b>	3.2 %

Source: Instituto Nacional de Estadística e Informática, Encuesta Nacional de Hogares, 1997-2014.

The peasantry can be divided in individuals living in indigenous and peasant communities and those who do not. Although this specification helps to bring about a deeper understanding of the peasantry, it also mystifies the principal characteristics of the Peruvian peasantry. As a matter of fact, the production relations of peasants living in the communities are not completely different from those that do not live in these communities. According to Montoya (1989: 135), in the 1980s one could visualize the emergence of “class behaviour” of some small dominant groups within the communities. Gonzales de Olarte (1994: 110-111) explains that due to differences in the possession of resources within the communities, there exist a “labour market *sui generis* within the communities”. The ‘poor’ within the communities are obliged to look for work opportunities within, but also outside the communities. The peasant communities form a ‘vast contingent of

semiproletarians' for the labour market in the countryside and in the urban areas (Montoya, 1989: 35).

Apart from these capitalist social relations,<sup>376</sup> communities are also characterized by non-capitalist social relations, for instance, social relations of reciprocity and community work. These non-capitalist social relations are, according to Montoya (1989: 203), indispensable for the 'reproduction' of the existence of the very small plot owners when salaried work is not the 'principal form to access labour-power'. Gonzales de Olarte (1994: 201) tells us that the non-mercantile mechanisms are the basis of the community as an economic institution.

The land reform implemented by the government of Velasco intended to create big socially oriented agricultural cooperatives. The counter-reform initiated by the Belaúnde government at the beginning of the 1980s had the purpose to privatize the cooperatives and to divide the land in small plots. This process of privatization and land division conditioned the return of a big landowner class (Montoya, 1989: 236-237) as a land market was starting to emerge, an indispensable necessity for capitalism to spread to all corners of the countryside. However, it was not until 1995 that the land market was liberalized (Castillo, 2009: 290).

Small landownership in the 1980s has not been the consequence of the counter-reform as already during the military dictatorship small landownership was an important characteristic of the structure of the countryside (Montoya, 1989: 171, Jurado, 1989: 92). What surely is the consequence of the counter-reform is the return of a big landowner class connected to finance and agribusinesses. While in 1961 36.3 per cent of the agricultural companies possessed 100 hectares or more and in 1979 this had been reduced to 16.9 per cent, in 1985 again 33.5 per cent of the agricultural companies were owners of 100 or more hectares of land (Gonzales de Olarte, 1994: 46).

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<sup>376</sup> Gonzales de Olarte (1994: 111) does not consider the selling and buying of labour-power as capitalist social relations because the waged 'poor' peasants are not totally separated from their means of production" and the 'rich' peasants 'do not use their resources to make a profit'. This might theoretically be correct, but what does exploitation of labour-power mean if it is not capitalist? Is it semi-capitalist because the peasants are not completely separated from their means of production or not completely proletarianized? In order to be able to denominate these social relations correctly, we think one should determine, among others, (i) how much time the 'poor' peasant works for the 'rich' peasant in relation to the 'poor' peasants' work on their own plots; (ii) the importance of the work on the 'rich' peasants' land for the 'poor' peasants' total income; and (iii) if there exist some kind of regularity of selling labour-power by the 'poor' peasant (Foladori, 1986: 109).

The intentions to divide the land did not stop when it was the APRA party's turn to govern the destinies of the country. According to Béjar (1993: 149), during the APRA government this process was even accelerated. However, it was not until the rise to state power of Alberto Fujimori that the counter-reforms were institutionalized and a definitive push was given to hand over the land to capital.

The abolition of the constitutional or legal protection of communal property and legal entitlement to land was only a first phase of the changes implemented in the 1990s. The second stage of the reforms

involved the market mechanism of land titling—giving the direct producers secure legal title to the land so as to allow for its sale. With an opening of local economies to the world market, and under conditions of a production crisis that pushed many peasant farmers and independent small and medium-sized producers into debt, the agrarian modernization law had the predictable result of increasing the concentration of land ownership, adding to the other 'push' factors working on the peasantry, accentuating ongoing processes of dispossession, proletarianization and urbanization (Petras & Veltmeyer, 2013: 58).

The process of re-concentration of landownership is demonstrated in Table 6.25.

**Table 6.25: Agricultural and livestock units (as a percentage of total units) according to land possession in hectares (as a percentage of total hectares): 1972-2012<sup>377</sup>**

Range of hectares possessed by units	1972		1994	
	Agricultural and livestock units	Agricultural surface	Agricultural and livestock units	Agricultural surface
0 to less than 5 hectares	77.9 %	33.4 %	12.2 %*	0.2 %
			58.2 %**	6.2 %
5 to less than 10 hectares	11 %	18.2 %	14.1 %***	0.8 %
10 to less than 20 hectares	5.7 %	13.9 %	7.8 %****	0.4 %
20 to less than 50 hectares	3.4 %	11.6 %	4.8 %*****	7.5 %
50 to less than 100 hectares	0.9 %	5.3 %	3.0 %*****	84.9 %
100 to less than 500 hectares	0.8 %	9.0 %	0.0 %	0.0 %
500 and more hectares	0.3 %	8.5 %	0.0 %	0.0 %
<b>Total</b>	<b>100 %</b>	<b>99.9 %</b>	<b>100.1 %</b>	<b>100 %</b>

<sup>377</sup> Rounding differences cause that the percentages do not add up to or are slightly above 100 per cent.



Range of hectares possessed by units	2012	
	Agricultural and livestock units	Agricultural surface
0 to less than 5 hectares	22.7 %*	0.3 %
	55.8 %**	5.7 %
5 to less than 10 hectares	9.8 %***	3.7 %
10 to less than 20 hectares	5.3 %****	4.0 %
20 to less than 50 hectares	3.4 %****	4.3 %
50 to less than 100 hectares	2.0 %*****	4.0 %
100 to less than 500 hectares	0.8 %*****	8.5 %
500 and more hectares	0.3 %	69.5 %
<b>Total</b>	<b>100.1 %</b>	<b>100 %</b>

Source: INE (1983), *Perú: Compendio Estadístico 1982*, p.54; INEI (1996), *III Censo Nacional Agropecuario 1994. Resultados Definitivos. Perú, Tomo II*, p.1401; <http://censos.inei.gob.pe/cenagro/tabulados/?id=CensosNacionales> (consulted 10/05/2015).

- \* Less than 0.5 hectares.
- \*\* Between 0.5 and 4.9 hectares.
- \*\*\* Between 5.0 and 9.9 hectares.
- \*\*\*\* Between 10.0 and 19.9 hectares.
- \*\*\*\*\* Between 20.0 and 49.9 hectares.
- \*\*\*\*\* 50 and more hectares.
- \*\*\*\*\* Between 50 and 99.9 hectares.
- \*\*\*\*\* Between 100 and 499.9 hectares.

The data in Table 6.25 show that a kind of capitalist revolution has taken place in the countryside, as to paraphrase the title of the book of the right-wing oriented journalist De Althaus (2009). Although in 2012, just as in 1972, the absolute majority of the agricultural and livestock units possess between 0 and 5 hectares, the total agriculture

surface these units possess has diminished drastically. Although the quantity of agricultural units that own 500 or more hectares is very small, they possess the absolute majority of the land. The privatization of land and the parceling up of the cooperatives initiated by the government of Belaúnde, accelerated by the first government of García and completed by the Fujimori regime have produced marvelous results for capital. It seems that since the 1980s, to speak with Kautsky (1984: 6), a process has been put in place in order for capital to really take control of agriculture, to transform it and to destroy all old forms of production and property.

On the basis of the data in Table 6.25, we can distinguish four land-owner class fractions within the rural bourgeoisie. The majority is composed of subsistence landowners that possess between 0 and less than 5 hectares. The second class fraction is what might be called small landowners. They own between 5 and 20 hectares. The third class fraction consists of the medium landowners. They possess between 20 and 100 hectares. The dominant class fraction within the rural bourgeoisie is composed of big landowners. They possess more than 100 hectares. In Table 6.26 data is provided on the distribution of the peasantry by enterprise size groups for the years 1998 to 2014.

**Table 6.26: The distribution of the peasantry by enterprise size groups: 1998-2014 (as a percentage of total peasantry occupied in companies that employ 1 and more individuals)**

<b>Year</b>	<b>1 employed</b>	<b>2-9 employed</b>	<b>10-19 employed</b>	<b>20-99 employed</b>	<b>100 and more employed</b>	<b>Total</b>
<b>1998</b>	26.3 %	73.5 %	0.0 %	0.1 %	0.0 %	100 %
<b>1999</b>	24.1 %	75.7 %	0.1 %	0.0 %	0.1 %	100 %
<b>2000</b>	29.3 %	70.7 %	0.0 %	0.0 %	0.0 %	100 %
<b>2001</b>	22.9 %	77.0 %	0.0 %	0.0 %	0.1 %	100 %
<b>2002</b>	24.4 %	75.5 %	0.0 %	0.1 %	0.1 %	100 %
<b>2003</b>	25.7 %	74.1 %	0.0 %	0.0 %	0.2 %	100 %
<b>2004</b>	23.8 %	76.0 %	0.0 %	0.1 %	0.1 %	100 %
<b>2005</b>	23.6 %	76.2 %	0.1 %	0.0 %	0.1 %	100 %
<b>2006</b>	23.7 %	76.0 %	0.1 %	0.1 %	0.1 %	100 %
<b>2007</b>	21.2 %	78.4 %	0.2 %	0.1 %	0.1 %	100 %
<b>2008</b>	21.1 %	78.3 %	0.3 %	0.1 %	0.1 %	100 %
<b>2009</b>	21.1 %	78.1 %	0.4 %	0.1 %	0.2 %	100 %
<b>2010</b>	19.4 %	80.1 %	0.2 %	0.1 %	0.3 %	100 %
<b>2011</b>	20.5 %	78.8 %	0.1 %	0.2 %	0.3 %	100 %
<b>2012</b>	20.7 %	78.6 %	0.2 %	0.1 %	0.4 %	100 %
<b>2013</b>	22.2 %	77.2 %	0.1 %	0.1 %	0.3 %	100 %
<b>2014</b>	22.5 %	76.9 %	0.2 %	0.1 %	0.3 %	100 %

Source: Instituto Nacional de Estadística e Informática, Encuesta Nacional de Hogares, 1998-2014.

The data in Table 6.26 shows a certain coincidence with the data on agricultural and livestock units according to land possession (Table 6.25). The Peruvian agricultural and livestock breeding sector is composed, in majority, of very small landowners. These small landowners, or small companies, employ the majority of the peasants and rural proletariat. It must be expected that labour productivity is low. As we will see in Table 6.34 below, the distribution of the peasantry by enterprise size groups is similar to the distribution of the total occupied EAP by enterprise size groups.

## **6.8. The class structure of Peru: 1980-2014**

In the previous sections we have discussed four classes on which the class structure of Peruvian society at the economic structure level is based. We also presented the main class fractions of these classes. With the objective to complete this picture and to get an overall view of the class structure, what follows is a general analysis of the evolution of the country's class structure in the period 1980-2014.

As mentioned in the introduction of this chapter, data on class in the years 1980 until 1985 is scarce. The only existing information is related to occupational groups for Metropolitan Lima for the years 1979, 1980 and 1983 (Table 6.27), and the principal occupations of the occupied EAP in 1981 (Tables 6.28). Of course, this information cannot be fully compared with our data on the bourgeoisie, intermediate class, proletariat and the peasantry for the years between 1986 and 2014 (Tables 6.29 and 6.30). However, it is certainly possible to make an approximation. In what follows, the mentioned Tables are presented.

**Table 6.27: Occupational groups for Metropolitan Lima: 1979, 1980 and 1983 (as a percentage of the occupied EAP of Metropolitan Lima)**

Year	Professionals and technicians	Managers and administrators	Office employees	Salesmen	Workers in agriculture, stockbreeding and fishery	Mine and quarry workers, and related workers
1979	10.5 %	5.7 %	15.9 %	19.5 %	1.0 %	0.0 %
1980	11.3 %	5.6 %	15.2 %	19.0 %	1.0 %	0.1 %
1983	12.5 %	5.6 %	16.4 %	20.7 %	1.1 %	0.0 %

Year	Craftsmen and workers in diverse production processes	Non-classified workers and day labourers	Drivers	Service workers	Domestic workers
1979	25.5 %	2.5 %	4.6 %	7.9 %	6.9 %
1980	27.0 %	3.1 %	4.7 %	6.4 %	6.6 %
1983	23.2 %	2.6 %	4.5 %	6.9 %	6.6 %

Sources: Dirección General del Empleo: *Empleo – Ingresos Población*, no.6, octubre 1980, p.11; INEI (1992), *Perú: Estadísticas del sector informal*, p.199.

**Table 6.28: Principal occupations of occupied Economic Active Population (EAP) in Peru: 1981 (as a percentage of the occupied EAP)**

Year	Technicians and assimilated workers	Public functionaries and managers	Administrative personnel	Businessmen and salesmen
1981	8.1 %	0.5 %	11.3 %	10.6 %

Year	Service workers	Agricultural workers	Non-agricultural workers	Not-specified
1981	7.5 %	37.2 %	20.3 %	4.6 %

Source: INE (1984), *Perú: Compendio Estadístico 1983*, p.106.

**Table 6.29: Evolution of the class structure of Metropolitan Lima according to principal occupations: 1986-1994 (as a percentage of the occupied EAP of Metropolitan Lima)<sup>378</sup>**

Year	Bourgeoisie	Intermediate class	Proletariat
1986	7.4 %	35.2 %	52.8 %
1987	7.5 %	29.8 %	58.7 %
1988*	xxx	xxx	xxx
1989	5.9 %	32.9 %	56.8 %
1990	6.5 %	34.9 %	54.6 %
1991	7.0 %	36.9 %	52.0 %
1992	7.1 %	37.7 %	51.4 %
1993	5.9 %	32.5 %	58.7 %
1994	5.8 %	34.3 %	56.9 %
1995*	xxx	xxx	xxx

Year	Peasantry	Social category	Total
1986	2.2 %	2.4 %	100 %
1987	1.8 %	2.2 %	100 %
1988*	xxx	xxx	xxxx
1989	2.2 %	2.2 %	100 %
1990	1.7 %	2.4 %	100.1 %
1991	1.5 %	2.6 %	100 %
1992	1.2 %	2.6 %	100 %
1993	0.4 %	2.5 %	100 %
1994	0.3 %	2.7 %	100 %
1995*	xxx	xxx	xxx

Source: Ministerio de Trabajo, Encuesta de Hogares, Lima Metropolitana 1986, 1987, 1989-1994.

\* No data is available for 1988. In the case of 1995 data is available, although not regarding the independents. We have decided to leave this year open as independents are crucial for our understanding of the evolution of the Peruvian class structure.

<sup>378</sup> Rounding differences cause that the percentages do not add up to or are slightly above 100 per cent.

**Table 6.30: Evolution of the class structure of Peru according to principal occupations: 1997-2014 (as a percentage of the occupied EAP)**

Year	Bourgeoisie	Intermediate class	Proletariat
1997	6.6 %	31.0 %	47.4 %
1998	5.5 %	29.8 %	49.3 %
1999	5.9 %	31.1 %	49.3 %
2000	5.6 %	32.0 %	48.6 %
2001	5.5 %	28.6 %	50.0 %
2002	5.9 %	28.2 %	50.2 %
2003	5.4 %	28.4 %	49.9 %
2004	5.6 %	27.7 %	50.9 %
2005	5.6 %	25.9 %	51.9 %
2006	6.0 %	26.0 %	52.0 %
2007	6.0 %	28.4 %	50.4 %
2008	5.7 %	29.0 %	50.0 %
2009	5.9 %	28.6 %	49.8 %
2010	6.2 %	28.4 %	50.2 %
2011	5.8 %	28.8 %	49.7 %
2012	5.8 %	28.8 %	49.6 %
2013	5.2 %	29.0 %	49.7 %
2014	4.9 %	28.7 %	49.7 %

Year	Peasantry	Social Category	Total
1997	14.1 %	0.8 %	99.9 %
1998	14.6 %	0.8 %	100 %
1999	12.7 %	0.9 %	99.9 %
2000	12.8 %	1.0 %	100 %
2001	14.8 %	1.0 %	99.9 %
2002	14.9 %	1.1 %	100.3 %
2003	15.5 %	0.9 %	100.1 %
2004	14.9 %	0.8 %	99.9 %
2005	15.8 %	0.8 %	100 %
2006	15.4 %	0.6 %	100 %
2007	14.2 %	1.0 %	100 %
2008	14.4 %	0.9 %	100 %
2009	14.6 %	1.0 %	99.9 %
2010	14.3 %	0.9 %	100 %
2011	14.9 %	0.7 %	99.9 %
2012	15.0 %	0.9 %	100.1 %
2013	15.1 %	1.0 %	100 %
2014	15.7 %	1.0 %	100 %

Source: Instituto Nacional de Estadística e Informática, Encuesta Nacional de Hogares, 1997-2014.

Table 6.30 shows a remarkable stability in the evolution of the bourgeoisie, the intermediate class, the proletariat, and the peasantry. This stability of the overall Peruvian class structure in the years 1997 to 2014 might not be of a surprise as in this period no fundamental changes have been introduced in the Peruvian economic structure. Also no worldwide economic and political shocks have taken place that drastically changed the mode of operation of international capital, causing a modification of Peru's role in the international division of labour.

A comparison of Table 6.29 with Table 6.27 regarding the class structure of Metropolitan Lima in the period 1986-1994 shows a similar stability as in the case of Peru in the years between 1997 and 2014. If we consider (i) the bourgeoisie the same as managers and administrators; (ii) professionals, technicians and salesmen and a part of office employees similar to the intermediate class; and, (iii) the proletariat composed of mine and quarry workers, craftsmen and workers in diverse production processes, no classified workers and day labourers, drivers, service workers, domestic workers and a part of office employees, it seems that the evolution of the Metropolitan Lima class structure is characterized by stability.

The 1981 data is extracted from the National Census of 1981. A comparison of these data with our data based on the national household surveys appears to be an impossible endeavour. It seems that the occupation agricultural worker is bigger than the class of the peasantry. The data of the Census may even include individuals that pertain to the intermediate class or even the bourgeoisie. In general terms, however, the difference between the data of 1981 and data on the years 1997 to 2014 are caused by the decreasing significance of agriculture for employment (INEI, 1995: 445).

In the 1981 National Census technicians and assimilated workers, administrative personnel, businessmen and salesmen might be similar to our intermediate class. When we sum up the percentages of these occupational categories we get 30 per cent. The proletariat might be composed of service workers, non-agricultural workers and the non-specified. This would make up 32.4 per cent. Definitely, this percentage clearly differentiates from our data on the period 1997-2014.



## 6.9. Employment by enterprise size groups

The distribution of employment by enterprise size groups has been influenced by national and international factors. Although the changes in this distribution evolved seemingly slowly, it surely is possible to visualize qualitative changes. In Table 6.31 and graph 6.1 data is presented on the evolution the distribution of the occupied Economic Active Population (EAP) by enterprise size groups (principal occupation) in Metropolitan Lima for the period 1986-1995.<sup>379</sup> Unfortunately, only data is available for Metropolitan Lima. As one can observe, starting from 1989 the importance of micro companies for employment is only going up. In the case of companies that employ 20 or more individuals, the tendency is the other way around.

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<sup>379</sup> According to data of Thomas (1999: 268) for Lima, in 1984 30.2 per cent of the salaried individuals worked in companies with nine or less workers and 37.1 per cent of the labour force in Lima was employed in companies with 100 or more workers.

**Table 6.31: The distribution of the occupied Economic Active Population (EAP) by enterprise size groups (principal occupation) in Metropolitan Lima: 1986-1995 (as a percentage of total occupied EAP in Metropolitan Lima)<sup>380</sup>**

<b>Size of company according to individuals employed</b>	<b>1986</b>	<b>1987</b>	<b>1988*</b>	<b>1989</b>	<b>1990</b>
<b>1 individual</b>	23.3 %	21.6 %	xxx	22.5 %	24.0 %
<b>2-4 individuals</b>	25.0 %	24.2 %	xxx	23.4 %	25.4 %
<b>5-9 individuals</b>	9.0 %	8.5 %	xxx	7.8 %	8.1 %
<b>10-19 individuals</b>	5.9 %	5.6 %	xxx	4.8 %	5.7 %
<b>20-49 individuals</b>	6.6 %	6.1 %	xxx	7.0 %	6.9 %
<b>50-99 individuals</b>	4.6 %	3.7 %	xxx	4.3 %	4.2 %
<b>100-499 individuals</b>	8.0 %	8.7 %	xxx	7.4 %	6.4 %
<b>500 and more individuals</b>	17.6 %	21.6 %	xxx	22.8 %	19.3 %
<b>Total</b>	<b>100 %</b>	<b>100 %</b>	<b>xxx</b>	<b>100 %</b>	<b>100 %</b>

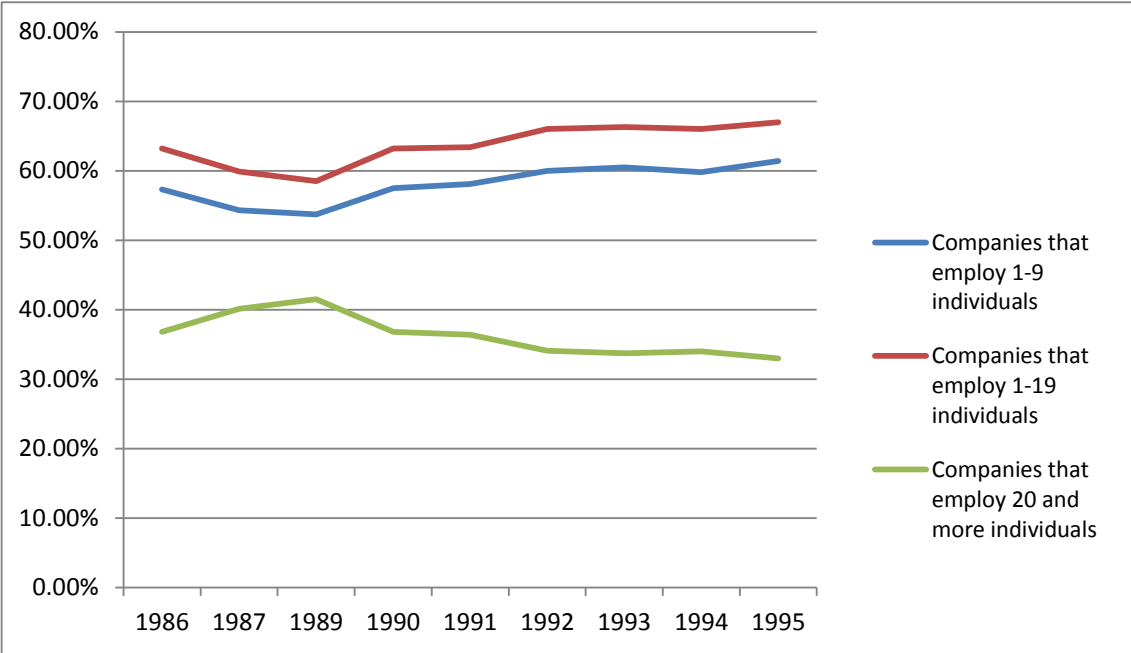
<sup>380</sup> Rounding differences cause that the percentages do not add up to or are slightly above 100 per cent.

<b>Size of company according to individuals employed</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>
<b>1 individual</b>	27.9 %	27.5 %	25.8 %	25.2 %	24.3 %
<b>2-4 individuals</b>	23.1 %	25.0 %	26.3 %	26.7 %	27.3 %
<b>5-9 individuals</b>	7.1 %	7.5 %	8.4 %	7.9 %	9.8 %
<b>10-19 individuals</b>	5.3 %	6.0 %	5.8 %	6.2 %	5.6 %
<b>20-49 individuals</b>	5.9 %	6.7 %	6.4 %	6.7 %	6.1 %
<b>50-99 individuals</b>	4.4 %	4.1 %	4.1 %	4.6 %	3.9 %
<b>100-499 individuals</b>	7.7 %	7.5 %	7.3 %	7.2 %	8.6 %
<b>500 and more individuals</b>	18.6 %	15.8 %	15.9 %	15.5 %	14.3 %
<b>Total</b>	<b>99.8 %</b>	<b>100.1 %</b>	<b>100 %</b>	<b>100 %</b>	<b>100.1 %</b>

Source: Ministerio de Trabajo, Encuesta de Hogares, Lima Metropolitana, 1986, 1987, 1989-1995.

\* No data is available for 1988.

**Graph 6.1: The evolution of the distribution of the occupied Economic Active Population (EAP) by enterprise size groups (principal occupation) in Metropolitan Lima: 1986-1995 (as a percentage of total occupied EAP in Metropolitan Lima)**



Source: Ministerio de Trabajo, Encuesta de Hogares, Lima Metropolitana, 1986, 1987, 1989-1995.

Graph 6.1 shows a clear reversal of the trend in 1989. At national level, data on the evolution of the distribution of the occupied EAP shows a similar trend. In 1991, 41.9 per cent of the occupied EAP worked in companies that employed one to four individuals. When we add the companies that employed five to nine individuals we get a total of 61 per cent. For companies that employed 20 and more individuals the percentage was 38.9 per cent (INEI, 1993a: 627). According to data of the National Census of 1993, in 1993 58.7 per cent of the occupied EAP (six years and older!) worked in companies (defined as ‘work centres’) that employed fewer than five individuals and 65.2 per cent in companies with one to 10 individuals (INEI, 1993b: 1561). In Table 6.32 and graph 6.2 data is presented on

the distribution of the occupied EAP by enterprise size groups for the years 1998 to 2014.<sup>381</sup>

**Table 6.32: The distribution of the occupied Economic Active Population (EAP) by enterprise size groups (principal occupation) in Peru: 1998-2014 (as a percentage of total occupied EAP in Peru)<sup>382</sup>**

Size of company according to individuals employed	1998	1999	2000	2001	2002	2003	2004	2005
<b>1 individual</b>	23.5 %	22.9 %	23.8 %	21.2 %	21.5 %	21.4 %	20.3 %	19.5 %
<b>2-4 individuals</b>	46.7 %	45.5 %	45.0 %	48 %	46.8 %	46.9 %	46.6 %	47.2 %
<b>5-9 individuals</b>	11.5 %	12.7 %	10.9 %	11.7 %	12.2 %	13.9 %	14.9 %	14.8 %
<b>10-19 individuals</b>	3.2 %	3.3 %	3.3 %	3.6 %	3.1 %	3.1 %	3.5 %	3.9 %
<b>20-49 individuals</b>	2.2 %	2.6 %	2.7 %	2.6 %	2.5 %	2.5 %	2.4 %	2.3 %
<b>50-99 individuals</b>	1.2 %	1.3 %	1.4 %	1.3 %	1.4 %	1.2 %	1.2 %	1.2 %
<b>100-499 individuals</b>	2.1 %	1.9 %	1.7 %	2.1 %	2.0 %	1.8 %	2.0 %	1.9 %
<b>500 and more individuals</b>	9.6 %	9.8 %	11.2 %	9.4 %	10.4 %	9.1 %	9.2 %	9.1 %
<b>Total</b>	<b>100 %</b>	<b>100 %</b>	<b>100 %</b>	<b>99.9 %</b>	<b>99.9 %</b>	<b>99.9 %</b>	<b>100.1 %</b>	<b>99.9 %</b>

<sup>381</sup> In 1961 63.9 per cent of the individuals that were employed in the manufacturing sector worked in companies that employed between 1 and 4 individuals. In 1971 this had increased to 65.2 per cent (Angell, 1980: 6). Apparently, in regards to this issue, not much has changed in the last forty to fifty years.

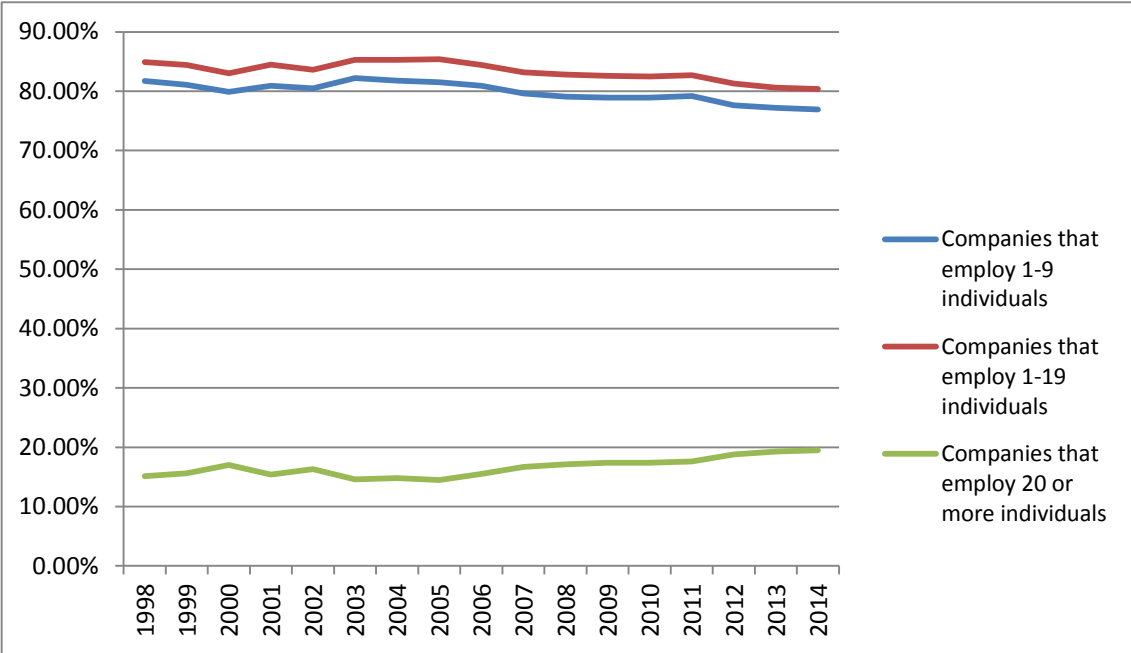
<sup>382</sup> Rounding differences cause that the percentages do not add up to or are slightly above 100 per cent.

<b>Size of company according to individuals employed</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>1 individual</b>	19.3 %	20.0 %	19.8 %	19.4 %	19.2 %	19.6 %	19.2 %
<b>2-4 individuals</b>	46.5 %	45.5 %	44.7 %	45.1 %	45.1 %	45.8 %	44.9 %
<b>5-9 individuals</b>	15.1 %	14.1 %	14.6 %	14.4 %	14.6 %	13.8 %	13.5 %
<b>10-19 individuals</b>	3.5 %	3.6 %	3.7 %	3.7 %	3.6 %	3.5 %	3.7 %
<b>20-49 individuals</b>	2.6 %	2.6 %	2.7 %	2.8 %	2.8 %	2.6 %	2.8 %
<b>50-99 individuals</b>	1.3 %	1.3 %	1.2 %	1.3 %	1.3 %	1.3 %	1.5 %
<b>100-499 individuals</b>	2.0 %	2.2 %	2.3 %	2.4 %	2.4 %	2.6 %	2.5 %
<b>500 and more individuals</b>	9.6 %	10.6 %	10.9 %	10.9 %	10.9 %	11.1 %	12.0 %
<b>Total</b>	<b>99.9 %</b>	<b>99.9 %</b>	<b>99.9 %</b>	<b>100 %</b>	<b>99.9 %</b>	<b>100.3 %</b>	<b>100.1 %</b>

<b>Size of company according to individuals employed</b>	<b>2013</b>	<b>2014</b>
<b>1 individual</b>	19.7 %	19.7 %
<b>2-4 individuals</b>	44.5 %	45.0 %
<b>5-9 individuals</b>	13.0 %	12.2 %
<b>10-19 individuals</b>	3.4 %	3.5 %
<b>20-49 individuals</b>	2.8 %	2.7 %
<b>50-99 individuals</b>	1.6 %	1.6 %
<b>100-499 individuals</b>	2.7 %	2.6 %
<b>500 and more individuals</b>	12.2 %	12.6 %
<b>Total</b>	<b>99.9 %</b>	<b>99.9 %</b>

Source: Instituto Nacional de Estadística e Informática, Encuesta Nacional de Hogares, 1998-2014.

**Graph 6.2: The evolution of the distribution of the occupied Economic Active Population (EAP) by enterprise size groups (principal occupation) in Peru: 1998-2014 (as a percentage of total occupied EAP in Peru)**



Source: Instituto Nacional de Estadística e Informática, Encuesta Nacional de Hogares, 1998-2014.

The emergence of small companies is not the result of the introduction of neoliberalism in the 1990s.<sup>383</sup> As a matter of fact, it was during the military regime of Bermúdez that the first Law on small companies in the private sector was promulgated (Villarán, 1992: 55).

Although the governments of Belaúnde, García and Fujimori were not decisive for the emergence of micro-companies, it cannot be denied that these governments have importantly contributed to the growth of small companies in the Peruvian economy. The simplification of legal procedures to establish a small firm, tax exonerations for small

<sup>383</sup> According to Conger, Inga & Webb (2009: 20-21), apart from the work of ILO’s Regional Employment Programme for Latin America and the Caribbean to “create a climate of opinion that stimulated a search for credit and training projects to develop small enterprise in Peru”, the “new focus on small enterprise was also encouraged by the resurgence of conservative politics that occurred at the turn of the decade, led by Margaret Thatcher, Ronald Reagan and Helmut Kohl. For government officials charged with the design of anti-poverty policies, the message was, top-down is out, bottom-up is the way to go”.



companies, fiscal incentives to buy machinery and equipment (Villarán, 1992: 56-57, 61), the widespread implementation of temporary contracts,<sup>384</sup> the elimination of labour stability, and the liberalization of the economy in general, have definitively pushed its growth (Cuadros Luque, 2015: 25; Bernedo, 1999: 177-178; interview, Raffo, 2015).<sup>385</sup>

The increasing importance of small companies for employment is primarily caused by the accumulation of economic crises in the periods 1982-1983 and 1987-1989,<sup>386</sup> the strategies of the companies to diminish costs and to eliminate trade union power in the 1980s, and the role of Peru in the international division of labour. The lack of employment opportunities in relatively big companies, and salaries and wages that were not sufficient for the reproduction of labour-power have forced individuals to set up their own (micro) companies. In the 1980s strategies of outsourcing and subcontracting were introduced and corporations started to split up to benefit from tax exonerations and to make use of the possibility to hire temporary labour-power (Actualidad Económica, 1990: 27, 29 30).<sup>387</sup>

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<sup>384</sup> Already during the military dictatorship of the 1970s it was possible to hire individuals on temporary contracts. In 1978 the Law of Non Traditional Exports gave a decisive impulse to this work modality (Actualidad Económica, 1984: 6; Sulmont, 1981: 141ft2).

<sup>385</sup> According to Manuel Dammert (interview, 2015), former general secretary of the *Partido Comunista Revolucionario* (PCR), when neoliberalism was implemented the whole productive apparatus collapsed. People started to be employed in small and micro businesses. Although it was in years before the Fujimori regime that small and micro companies emerged, it was during this government that it was “consolidated”. During the second term of García, new anti-labour laws were implemented that had the objective to stimulate the development of micro businesses (Dammert Ego Aguirre, 2014: 516-518).

<sup>386</sup> Villarán, Álvarez & Mendoza (1988: 14) argue that during the recessions in the years between 1971 and 1985 small industry (five to nine individual employed) grew particularly strong. In periods of economic expansion (1970-1976), small industry saw its participation in the economy slightly diminished. According to Dammert (interview, 2015), “paradoxically, the workers, the union leaders, who managed the national strike and the defeated the dictatorship, were fired and were the beginning of the micro and small enterprises in Peru”. They started these companies to survive. Also migration to the cities in the 1970s contributed to the emerging importance of small and micro businesses in the 1980s. Carlos Enrique Fernández Chacon (interview, 2015), a former cadre of the *Partido Socialista de los Trabajadores* and currently editor of the paper *Lucha Indígena* that was founded by the Peruvian peasants leader Hugo Blanco and informs about the struggles of the communities and peasant against the Peruvian State and capital, among others, tells that the fired workers became informal workers. Olmedo Auris (interview, 2015), a cadre of the *Partido Comunista del Perú – Patria Roja* (PCP-PR) and Vice-President of the *Movimiento de Afirmación Social* (MAS), says that the agrarian reform of the 1970s, the economic development of the country in the 1970s, and the crisis and inflation in the 1980s, induced the peasantry to migrate to the cities. A part of the peasantry entered the informal sector and another part started to work on their own account; they became “entrepreneurs”.

<sup>387</sup> For 2012, Cuadros Luque (2015: 32) has elaborated a very illuminating table on non-salaried labour costs according to the ‘employment size’ of the company. For micro (1-10 individuals employed) and small companies (10 to 20 individuals employed) these were 5 per cent and 29.1 per cent respectively. For companies and organizations that fall under the normal labour regime these costs amounted to 54.0 per cent. Why these differences? Micro companies do not pay, for instance, unemployment insurance, end year bonuses, life insurance, etc.

The function of Peru in the international division of labour is to provide the natural resources for the enlarged reproduction of capitalism abroad. This means that an enormous amount of individuals in the working age (16-65 years) is superfluous. Peruvian micro and small companies serve as a safety net for all those individuals who have not been able to find adequate employment.

In the period 1971-1985 small industry (industrial companies that employ between 5 and 19 individuals) had been growing annually with about 6.2 per cent in terms of establishments and 4.9 per cent in employment. These growth rates were a lot higher than those of medium-sized and big companies (Villarán, Álvarez & Mendoza, 1988: 13).<sup>388</sup> And while in 1971 small industrial companies provided 19.1 per cent of total industrial employment, in 1980 this had grown to 22.7 per cent and in 1987 reached 31.7 per cent. In the same period, medium-sized industrial companies (20 to 199 individuals employed) saw their participation in total industrial employment structurally diminished and big industry (more than 199 individuals employed) maintained its participation at around 30 per cent, although in 1976 it had grown to 38.8 per cent, up from 29.6 per cent in 1971, and decreased to 35.5 per cent in 1980 (Villarán, 1993: 86).

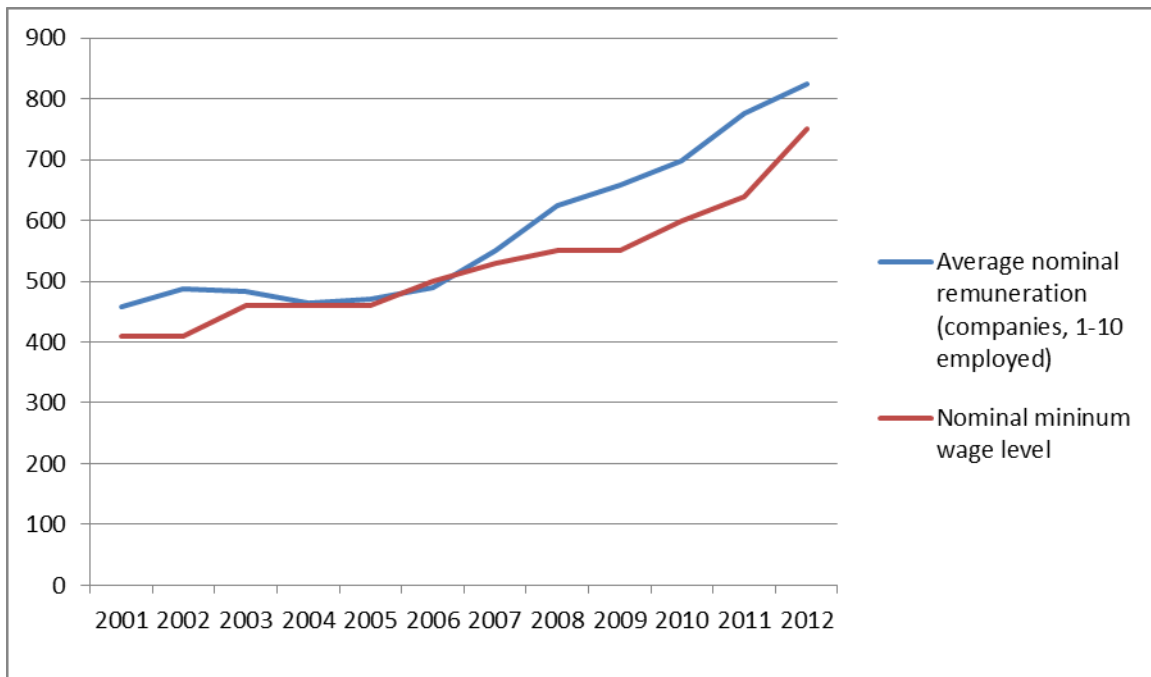
Individuals that work in small companies earn a wage or salary close to the minimum wage level. In Graph 6.3, for the period 2001-2012 the nominal minimum wage level is compared with the average nominal remuneration of individuals working in companies that employ one to 10 individuals.<sup>389</sup>

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<sup>388</sup> See also the data in *Actualidad Económica* (1990: 26).

<sup>389</sup> Only data until 2012 are available.

**Graph 6.3: Nominal minimum wage and average nominal remuneration of individuals working in companies that employ 1-10 individuals: 2001-2012 (in nuevo soles)<sup>390</sup>**



Sources: <http://series.inei.gob.pe:8080/sirtod-series/> and [www.mintra.gob.pe](http://www.mintra.gob.pe) (consulted 14/10/2015).

The fact that the absolute majority of the Peruvian working population labours in micro-businesses and receives a wage or salary near or just above the nominal minimum wage level might indicate, in general terms, low levels of value adding production (Postigo, 2010: 215) and a very small size of the internal market. It also expresses the country's focus on the export of its abundant natural resources. Hence a classic overproduction crisis is unable to unfold. Although Peru-based corporations produce industrial commodities and manufactured goods, the internal market is not the orientation of these companies. This is understandable as the absolute majority of the EAP is working at subsistence levels.

The Peruvian economy might be divided into an economy at the service of the major private corporations, especially transnational capital in the extractive sector, and an economy of small businesses and micro-enterprises characterized by low levels of

<sup>390</sup> See for comparative data, Cuadros Luque (2015: 23).

productivity and expressed in remuneration rates and wages at or near the minimum wage level.<sup>391</sup> I term this economy a capitalist subsistence economy.<sup>392</sup>

In 2013, 96.2 per cent of the companies in Peru were micro businesses. To be counted as a micro company in 2013, the sales of this company was not allowed to pass the value of 547.500 nuevo soles (202.778 US dollar) annually.<sup>393</sup> The weight of these companies in total sales in and outside Peru was 5.6 per cent. The big companies, 0.4 per cent of total companies in Peru in 2013 with annual sales of at least 8.395.000 nuevo soles (3.109.259 US dollar), represented 79.3 per cent of total sales in and outside Peru.<sup>394</sup> The negligible importance of micro and small companies in the economy for the production of value does not mean that they do not play a role in the appropriation of produced value. Through the price mechanism, inflation for instance, and super-exploitation, these companies appropriate value. The structurally high levels of underemployment are an indication of super-exploitation.

The capitalist subsistence economy is similar to what has commonly been called a subsistence economy in the sense that the economic surplus is minimal and the economic activities employed are meant for the reproduction of survival, i.e. the companies in the capitalist subsistence economy do not tend to reproduce themselves at enlarged scale and no more is produced than what is used up in production. Companies in the capitalist

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<sup>391</sup> According to Fernández Chacon (interview, 2015), the current economic model is based on “the precarity of labour”.

<sup>392</sup> Dammert Ego Aguirre (2014: 413): “The Peruvian version of neoliberalism and accumulation by dispossession do not have as a centre of accumulation the enlarged reproduction through relative surplus value and the proletarianization of labour, but maintains and amplifies precarious, temporary, unstable labour regimes, subject to business cycles.” See on this also, PUM (1993: 164). It is interesting to observe that in the documents for their third national congress in 1993, the Peruvian socialist organization the Partido Unificado Mariateguista (PUM) talked about a dual society. According to the PUM, the neoliberal proposal of the future society is the division of society in one modern sector integrated in the “dynamics of the First World” and another sector of “chronic under-consumption and informality”. Furthermore, the organization stated that capitalism in Peru does not create necessarily a market but segments it into a “pauperized and informal market” and a market of “sumptuary consumption” (PUM, 1993: 214). Dammert (interview, 2015) argues that in the third millennium there is no typical structure anymore of a leading working class, a peasantry and popular sectors. People struggle to survive and there is a “sea of micro and small enterprises”. Zapata (interview, 2015): “In general, starting from 1990s there is a sector that produces a lot of value and they are few, and there is a large majority that produces little.”

<sup>393</sup> The Exchange rate Dollar versus the Peruvian currency Nuevo Sol was 1: 2.70 (Source: <http://www.bcrp.gob.pe/estadisticas/cuadros-anuales-historicos.html>; consulted 07/03/2016).

<sup>394</sup> “Más del 99% de las empresas de Perú son pymes”, in <http://americaeconomia.com/economia-mercados/finanzas/mas-del-99-de-las-empresas-del-peru-son-pequenas-y-medianas> (consulted 07/03/2016).

subsistence economy do not invest in technical improvements. The level of surplus value appropriated seems to be too low to expand constant capital.

The companies in the capitalist subsistence economy do not produce use values for proper consumption but for the market. However, individuals employed in these companies receive a wage at subsistence level or just sufficient to reproduce their labour-power. The products that are produced by these companies are commodities.

The capitalist subsistence economy is the product of a variety of factors. Although the struggle for survival caused by economic crises and the reduction of personnel by the corporations in the context of a complete absence of a social security system have been important, however, its structural character is given by the country's role in the international division of labour.<sup>395</sup> The fact that the country is producing for foreign markets at the service of capital, i.e. it is mainly a provider of natural resources, makes the development of an internal market superfluous as the realization of value and surplus value principally takes place abroad. In the end, it is only necessary that sufficient (skilled) labour-power at a 'competitive wage level' is available for the extraction of the raw materials of the country.

The existence of a capitalist subsistence economy in Peru finds its expression in the particular development of the class system. Not only the majority of the working class performs manual labour, but also an important part of the intermediate class has a proletarian character. The main part of the peasantry works on very small plots and is also employed in proletarian occupations.

In Tables 6.31, 6.32 and graphs 6.1 and 6.2 we presented data on total occupied EAP, i.e. including employers and individuals pertaining to the intermediate class. In the following two tables data is provided on the distribution of the occupied proletariat by enterprise size groups.

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<sup>395</sup> "As the modern capitalist system was exclusively based on the export of raw materials, the capitalist system was only able to absorb a small amount of labour. It left such a large number of workers aside that was impossible to be called an industrial reserve army." (interview, Zapata, 2015) See on the debate regarding the characteristics of the industrial reserve army, Quijano (2014a: 156-161).

**Table 6.33: The distribution of the occupied proletariat by enterprise size groups in Metropolitan Lima: 1986-1994 (as a percentage of total proletariat occupied in companies that employ 2 and more individuals in Metropolitan Lima)**

	2-9 employed	10-19 employed	20-99 employed	100 and more employed	Total
<b>1986</b>	33.6 %	19.5 %	15.1 %	31.8 %	100 %
<b>1987</b>	36.3 %	8.4 %	14.9 %	40.4 %	100 %
<b>1988*</b>	xxx	xxx	xxx	xxx	xxx
<b>1989</b>	32.1 %	7.9 %	18.9 %	41.0 %	100 %
<b>1990</b>	38.2 %	9.4 %	16.9 %	35.5 %	100 %
<b>1991</b>	36.4 %	8.9 %	17.1 %	37.6 %	100 %
<b>1992</b>	38.7 %	10.3 %	17.6 %	33.4 %	100 %
<b>1993</b>	38.5 %	9.5 %	17.2 %	34.7 %	100 %
<b>1994</b>	38.1 %	10.5 %	19.6 %	31.8 %	100 %

Source: Ministerio de Trabajo, Encuesta de Hogares, Lima Metropolitana ,1986, 1987, 1989-1994.

\* No data is available for 1988.

**Table 6.34: The distribution of the occupied proletariat by enterprise size groups in Peru: 1998-2014 (as a percentage of total proletariat occupied in companies that employ 2 and more individuals)**

	2-9 employed	10-19 employed	20-99 employed	100 and more employed	Total
<b>1998</b>	74.6 %	5.7 %	6.0 %	13.7 %	100 %
<b>1999</b>	74.3 %	5.7 %	6.4 %	13.6 %	100 %
<b>2000</b>	72.1 %	5.9 %	7.4 %	14.6 %	100 %
<b>2001</b>	74.0 %	6.3 %	6.8 %	12.9 %	100 %
<b>2002</b>	74.1 %	5.2 %	6.5 %	14.2 %	100 %
<b>2003</b>	75.7 %	5.4 %	6.2 %	12.7 %	100 %
<b>2004</b>	75.3 %	6.0 %	5.8 %	12.8 %	100 %
<b>2005</b>	74.4 %	6.5 %	5.7 %	13.4 %	100 %
<b>2006</b>	76.4 %	2.4 %	6.8 %	14.4 %	100 %
<b>2007</b>	71.4 %	6.1 %	6.5 %	16.0 %	100 %
<b>2008</b>	70.6 %	6.2 %	6.5 %	16.7 %	100 %
<b>2009</b>	70.2 %	6.2 %	6.9 %	16.7 %	100 %
<b>2010</b>	69.8 %	6.1 %	6.9 %	17.3 %	100 %
<b>2011</b>	70.0 %	5.9 %	6.4 %	17.7 %	100 %
<b>2012</b>	67.8 %	6.3 %	6.9 %	19.0 %	100 %
<b>2013</b>	68.0 %	5.8 %	7.1 %	19.1 %	100 %
<b>2014</b>	68.1 %	5.8 %	6.9 %	19.2 %	100 %

Source: Instituto Nacional de Estadística e Informática, Encuesta Nacional de Hogares, 1998-2014.

The data presented makes it clear why it is so difficult for the Peruvian socialist Left and the trade unions to make a fist against capital. Around 30 per cent to 50 per cent of the occupied proletariat in the case of Lima in the years 1986 to 1994 was employed in small and micro companies. In the period 1998-2014 for Peru it was the absolute majority. Individuals working in these companies are very hard to organize (see chapter 7). As they lack labour stability, among others it is not to be expected that they even think to rise up against their bosses.

### **6.10. Informal workers**

Informal workers are not the same as unskilled workers. Informal workers can be found in the peasantry, the proletariat and in the intermediate class. Independents can be informal and formal workers. Informal workers are used by small and big companies (Saavedra Chanduvi, 1999: 26).

The Peruvian economy can be divided in an informal and formal sector (Chacaltana & García, 2001: 18; Gamero & Humala, 2002: 53; Balbi & Gamero, 1990: 100). This division is not useful for the purpose to determine the weight of informal workers in the total occupied EAP. Informal workers labour in the formal and informal sector. In his study on the informal sector in Peru, Machado (2014: 221) provides estimates on the size of the informal sector as a percentage of GDP. For the years 1990 until 2000 these were 45.2 per cent, 39.6 per cent, 29.7 per cent, 39.4 per cent, 38.2 per cent, 37.4 per cent, 37.4 per cent, 36.8 per cent, 37.1 per cent, 37.1 per cent and 37.0 per cent respectively.

Informality is not a recent phenomenon but dates from before 1980. According to Wise (2010: 158), during the military dictatorship around 75 per cent of the labour force worked in the informal sector.<sup>396</sup> Data of Parodi (2010: 174) show that in the years between 1980 and 1985 about 40 per cent of the labour force was considered informal.<sup>397</sup> According to Palma (1988: 37), the particular role of countries at the periphery of the world capitalist system in the international division of labour does not permit 'sufficient' accumulation to

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<sup>396</sup> According to Gonzales de Olarte (1986: 30), during the military dictatorships only 30 per cent of the EAP were salaried labourers.

<sup>397</sup> Data of Yepez del Castillo & Bernedo Alvarado (1985: 49) show that in the first half of the 1980s 12 per cent of the workers and employees in the private sector were salaried labourers.

provide employment for all. Only those production sectors are stimulated that serve the interests of accumulation in the countries at the centre of the capitalist world system.

Informal workers are the product of the logic of the capitalist system and of the limitations for structural economic progress at the periphery of the system.<sup>398</sup> The use of informal workers is very profitable for companies in the formal and informal sector. Informal workers can be used to reduce the wage demands of formal workers, to increase the rates of exploitation and economic oppression of formal workers, and to introduce measures to increase the productivity and the work intensity of formal workers. Informal workers themselves are also sources of profitability as (i) the wages in the informal sector are lower than the gross wages in the formal sector; (ii) due to the absence of labour rights and union representatives, the rates of exploitation and/or economic oppression in the informal sector might be higher than in the formal sector; and, (iii) economic insecurity of the workers in the informal sector makes it much easier to increase the work intensity.

The existence of a whole range of small informal companies is functional to formal corporations as these businesses not only supply formal companies at lower costs than other formal companies do,<sup>399</sup> perform tasks at the service of formally established companies at lower costs than other formal corporations (in terms of labour costs, costs of maintaining machinery and equipment, etcetera),<sup>400</sup> but also because informal companies are part of the 'market' of formal corporations.<sup>401</sup> The horizontal and vertical integration of formal and informal companies is demonstrated by the whole set of subcontracting relationships that exist between these companies (Semana Económica, 1982: 6-7; Grompone, 1991: 81-82;

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<sup>398</sup> Thomas (199: 263) argues that the main causes of informality were the reduction of economic activity and hyperinflation. Although these factors surely 'stimulate' informality, they cannot be considered as its cause. As a matter of fact, the increase of GDP in the first decade of the new millennium and the diminishing inflation rates did not 'eliminate' informality.

<sup>399</sup> Gamero & Humala (2002: 72) point out that as a result of lower total production costs caused by informal labour, the salaries and wages of the formal workers might go down as the costs of reproduction of these formal workers have been reduced. Of course, this only may happen if informal workers are basically located in those economic sectors that produce the prime elements for the reproduction of labour-power and if their production is sufficient to induce an overall reduction of the average reproduction costs of labour-power.

<sup>400</sup> The transnational companies "require micro and small businesses that provide them with inputs for the elaboration of a product produced by an agroindustrial factory, an export-oriented factory or a manufacturing factory" (interview, De la Cruz, 2015).

<sup>401</sup> According to Quijano (2014a: 166), the segmentation of the labour market caused by various rates of exploitation is accompanied by the segmentation of the consumption markets. Super-exploited workers do not only contribute to an increase of the surplus value and is a mechanism against the tendency of the profit rate to fall, but they also contribute to the realization of surplus value of 'cheap' commodities.



Kolko, 1988: 316-317).<sup>402</sup> Small (informal) businesses are connected as productive chains along various spaces (interview, Dammert, 2015).

Palma (1988: 37) explains that countries at the periphery of the world capitalist system have a permanent surplus of workers that does not have other possibilities than to start small businesses. These business undertakings are characterized by a scarcity of capital and a high level of work intensity.

Data on informal workers as a percentage of the occupied EAP is scarce. Information on the informal sector, however, is increasing. Notwithstanding the limited information available, it is possible to get an idea of the importance of informal workers in the Peruvian occupied EAP. According to the National Census of 1981, 47.4 per cent of the occupied EAP were informal workers (INEI, 1992: 71). The national survey on the standard of living (*Encuesta Nacional sobre Niveles de Vida*, ENNIV for its acronym in Spanish) of 1985-1986 indicated that informal employment had increased with more than 50 per cent, i.e. to 73.7 per cent of the occupied EAP (INEI, 1992: 79). Murakami (2007: 374) shows that in the first five years of the Fujimori regime around 50 per cent of the EAP were considered informal workers. In the years between 1990 and 2000 around 60 per cent of the occupied EAP in Metropolitan Lima was informal (Ministerio de Trabajo y Promoción del Empleo, 2004: 38). Table 6.35 shows the evolution of the rate of informality (informal workers as a percentage of the occupied EAP) in Metropolitan Lima in the years between 1996 and 2007.

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<sup>402</sup> In his book *El desarrollo del capitalismo en Rusia*, Lenin (1974a: 366) describes the emergence of the capitalist manufacture in Russia at the end of 20<sup>th</sup> century. The organisation of production has a remarkable resemblance with the current organisation of production in Peru. The most typical example of capitalist manufacture was the chest-making industry. Lenin explained that “this industry is organised as follows: a few big proprietors, owning workshops that employ wage-workers, purchase materials, partly make the wares on their own premises, but mainly give out material to small workshops making parts, and in their own shops assemble them and, after finishing, send the ready article to the market. Division of labour...is employed on the job extensively: the making of the entire chest is divided into ten or twelve operations, each separately performed by handicraftsmen. The organisation of the industry consists in the combination of workers performing one operation under the command of *capital*.” See also Lenin (1974a: 377-378, 391, 404-407).

**Table 6.35: Rate of informality in Metropolitan Lima: 1996-2007<sup>403</sup>**

<b>Year</b>	<b>Rate of informality</b>
<b>1996</b>	63 %
<b>1997</b>	63 %
<b>1998</b>	59 %
<b>1999</b>	61 %
<b>2000</b>	63 %
<b>2001</b>	64 %
<b>2002</b>	62 %
<b>2003</b>	61 %
<b>2004</b>	62 %
<b>2005</b>	59 %
<b>2006</b>	59 %
<b>2007</b>	59 %

Sources: Edwin Poquioma (N/D), “Desempeño del mercado laboral en el Perú”, p.12; <http://www.bcrp.gob.pe/estadisticas/cuadros-anales-historicos.html> (consulted 22/08/2015).

In their paper “Trabajo informal y políticas de protección social”, Gamero Requena & Carrasco (N/D: n.p) calculated informal employment in the period 2002-2009. The results of this study are presented in Table 6.36.

**Table 6.36: Informal employment as a percentage of total employment in Peru: 2002-2009**

<b>Year</b>	<b>Informal employment</b>
<b>2002</b>	85.3 %
<b>2005</b>	83.9 %
<b>2008</b>	79.8 %
<b>2009</b>	79.4 %

Source: Gamero Requena & Carrasco (N/D: n.p), “Trabajo informal y políticas de protección social”, Proyecto WIEGO-CIES Perú.

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<sup>403</sup> See also Consejo Nacional de Trabajo y Promoción del Empleo / Comisión Especial de Economía Informal (2008: 5). According to CEPLAN (2011: 24), the informality rates for the years 2006, 2007, 2008 and 2009 were 58.9 per cent, 58.9 per cent, 55.8 per cent, 59.4 per cent respectively.

In the first ten years of the third millennium informal employment increased from 53 per cent to 63 per cent (Aramburú, 2012: 101).

In a study of Díaz (2014: 228) titled “Formalización empresarial y laboral”, the trend of diminishing informal employment as demonstrated by the data of Gamero Requena & Carrasco is confirmed. By using a definition of the International Labour Organization (ILO), this author calculated that in 2011 informal employment as a percentage of the occupied EAP amounted to 76 per cent.

The data presented above make it appear if informality has come to stay. Although in the third millennium the rate of informality looks like to be going down, it also seems that there is something like a bottom-line, below which it does not diminish. In 2015, still around 70 per cent to 75 per cent of the EAP were informal workers.<sup>404</sup>

### **6.11. Conclusions**

The Peruvian economy can be divided into an economy at the service of the major private corporations and a capitalist subsistence economy. The majority of the Peruvian companies are small and micro corporations. The capitalist subsistence economy is principally the result of Peru’s role in the international division of labour, i.e. the country is primarily a provider of natural resources.

The majority of the Peruvian working population labours in the capitalist subsistence economy. Companies that perform their economic activities in the capitalist subsistence economy employ between 2 and 19 individuals and pay wages at or near the minimum wage level. Productivity is low and investments in technical improvements are negligible. These companies do not tend to reproduce themselves at enlarged scale. Non-remunerated family members seem to be of key importance for the subsistence of small businesses.

The existence of a capitalist subsistence economy is expressed in the fact that (i) most of the individuals pertaining to the proletariat perform manual labour; (ii) an important sector of the intermediate class has a proletarian character; and, (iii) the majority of the peasantry works on very small plots and is also employed in proletarian occupations.

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<sup>404</sup> “Empleo informal afecta a 3 de cada 4 peruanos”, in <http://diariouno.pe/2015/11/27/empleo-informal-afecta-a-3-de-cada-4-peruanos/> (consulted 02/03/2016). See also “Informalidad laboral en el país llega hasta el 72,8%”, en <http://larepublica.pe/impresa/politica/708987-informalidad-laboral-en-el-pais-llega-hasta-el-728> (consulted 02/03/2016).

The structural character of underemployment and informality is a natural consequence of the existence of a capitalist subsistence economy.

The majority of the EAP, especially the proletariat and the peasantry, is employed in the capitalist subsistence economy. Individuals working in the capitalist subsistence economy do not have trade union representation. They are ‘liberated’ from whatever labour stability and have no protection against unemployment. In other words, the proletariat and the peasantry are completely subjugated to the wills of capital, small, medium-sized or big.

Underemployment and informality seem to be structural features of the Peruvian economy. The reserve army of labour might be considered as the sum of the rate of unemployment, underemployment and the urban semiproletariat.<sup>405</sup>

Underemployment and the weight of informal workers in the occupied EAP have not structurally diminished over time. In 1980 around 50 per cent of the EAP was underemployed. In 2014 this percentage was only reduced with 4 percent points. With regard to the rate of informality, one can even witness an upward trend since 1981. While in 1981 around 47 per cent of the occupied EAP were informal workers, in 1997 this was 63 per cent and in 2007 it amounted to 59 per cent.

Underemployment and informality suit capital’s objective to accumulate. It helps to put downward pressure on the wage demands of the working population in the formal sector, to increase productivity, and to curtail the power of the trade unions in the formal sector.

The bourgeoisie is composed of a small fraction of big companies and a very large fraction of micro business undertakings. The Peruvian bourgeoisie is not only dominated by international capital, but is also a partner of the international bourgeoisie. A national bourgeoisie exists but its project is intertwined with international capital.

The particularities of the bourgeoisie are a reflection of the particularities of capitalism in Peru. The hegemonic fraction of the bourgeoisie is a product of national and international developments.

In the last thirty-five years the intermediate class has occupied around 30 per cent of the class structure. The independents form the principal part of the intermediate class. The

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<sup>405</sup> According to Militant 4 Pueblo Unido (interview, 2015), the reserve army of labour consists in the non-remunerated family members, the independent workers and the workers on temporary contracts.

proletarian fraction of the independents (urban semiproletariat) is dominant within the independent fraction of the intermediate class. This brings us to conclude that the ‘old’ and ‘new’ middle class, excluding small owners of the means of production, is very small. Street vendors are a major component of the intermediate class, although, in last years, their participation has been diminished by about 50 per cent.

The Peruvian proletariat has remained stable over the last three decades. The fact that manual labour is dominant within the proletariat is not a surprise. It is completely in accordance with the country’s role in the international division of labour.<sup>406</sup>

The structure of the Peruvian proletariat is not only determined by the international division of labour. Also national economic developments are influencing the composition of the proletariat. However, as argued in chapter 5, local economic developments are determined by international developments.

An important part of the Peruvian class structure is occupied by the semiproletariat, especially the urban semiproletariat. This not only illustrates the poor social and economic conditions of the proletariat and the peasants, but also demonstrates the lack of capitalist integration of Peruvian society.<sup>407</sup>

The return of parliamentary democracy in 1980 meant also the return of a big landowner class. The peasantry is concentrated in small and micro companies and own small plots of land. Their economic situation urges the majority to not only work on their own land, but also on the land of others and in urban areas. A considerable number of peasants can be characterized as a rural semiproletariat.

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<sup>406</sup> Bebbington (2013: 7) argues that in mineral dependent countries, education “under-invest in broad-based human capital formation because the extractive model of development does not need this form of labour”. Dammert Ego Aguirre (2014: 313-314) writes that the demand for highly skilled labour forms a reduced percentage of the occupied EAP.

<sup>407</sup> According to Alberto Moreno (interview, 2015), President of the PCP-PR, Peru has no modern capitalism because capitalism integrates. The country is not integrated but fragmented. Jorge Bernedo (interview, 2015), a former cadre of the Inter-sectorial Committee of Public Sector Workers (*Comité Intersectorial de Trabajadores Estatales*; CITE for its acronym in Spanish), tells that the country is fragmented: 80 per cent is produced by 20 per cent of the companies and 80 per cent produces 20 per cent.

## **CHAPTER 7: THE CLASS STRUGGLE AND THE LEFT: 1980-2015**

The last thirty-five years of Peruvian contemporary political history is the history of the demise of class struggle positions of the socialist Peruvian Left. The objective of the socialist Left to transform Peru's capitalist society into a society based on socialist principles seems to have worked as a boomerang in the sense that the socialist Left itself has been transformed. Its revolutionary positions of the 1980s have made way for its adherence to reformist positions.

This chapter describes the history of the Peruvian Left since 1980, i.e. of the major left-wing oriented political organizations. It includes the socialist Left, armed and unarmed, and the non-socialist Left or, maybe better described as the social-democratic Left.

The history of the Peruvian Left can be divided into three phases. The first runs from 1980 to 1990. This period is definitively its strongest years and is expressed in its electoral power, the development of the guerrilla struggle and the ability of the trade unions to organize massive strikes and demonstrations, among others. The second period comprises the years between 1990 and 2000. The class struggle from above managed to significantly reduce the strength of the political Left and the trade unions. The attack on labour stability and the trade unions coupled with the repression against whatever movement that questioned the development model in place, helped to structurally reverse the progressive tide of the 1980s. The 'fall' of Fujimori in 2000, orchestrated by the ruling class itself instead of being caused by the accumulation of popular struggles during the 1990s, initiated the third phase. This period encompasses the years 2000 to 2015. Under the pretext of the accumulation of forces and by arguing that the world and Peru have changed, the class struggle positions of the socialist Left were replaced by positions of class collaboration.

The demise of class struggle positions of the Peruvian socialist Left does not mean that no class struggle is going on in Peru. Class struggle can take place on different levels. While at the economic level the struggle is mainly about direct interests, at the political level it has become a struggle for advancing class interests, and in the process, for power.

This chapter is organized as five sections.<sup>408</sup> In section 7.1 we describe the struggle of the proletariat against capital in the years 1980 to 1990. As it includes references to the class struggle in the 1970s and a narrative of the armed and unarmed expressions of the class struggle, section 1 is also the biggest section of this chapter. Section 7.2 is dedicated to the class struggle from above, i.e. the struggle of capital to reduce the power of the working class and its representatives, mainly the trade unions. This part covers the period 1990-2000. Sections 7.3 and 7.4 are dedicated to the Left and the class struggle in the countryside in the years 2000 to 2015. In section 7.5 we present our conclusions.

### **7.1. The proletariat versus capital: 1980-1990**

The struggle of the Peruvian proletariat and their armed and unarmed political representatives and social organizations in the 1980s put capital in a defensive position. The neoliberal and anti-labour measures taken by the Belaúnde government (1980-1985) were not only turned back by the economic crisis that started to unfold in 1982, triggered by the Mexican debt crisis and diminishing commodity prices, but also by the strength of the working class (Durand, 2004: 246).

The policies implemented in the first two years of the first APRA (*Alianza Popular Revolucionaria Americana*) government in Peruvian history (1985-1990) also demonstrated the power of the proletariat. Although the government led by García did not have the purpose to install a socialist economy, in comparison with the Belaúnde regime the role of the state in the economy was clearly increased. The APRA government considered that the state not only had to assume a leading role in the elaboration and implementation of policies that pointed to stabilization, but also had to stimulate economic growth (Reyna, 2000: 34).

Directly at the outset of his government, García presented a political program that foresaw a reduction of inflation by fixing the prices of the exchange rate, the interest rate,

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<sup>408</sup> State terror, counter-insurgency tactics, anti-terrorist laws, etc., all form part of the class struggle from above. In this chapter we have included scarce references to these issues as our focus is on the labour policies introduced by Peruvian governments since the 1980s, especially those of the Fujimori regime (1990-2000). The labour policies that have been implemented in the last three decades helped to bring about major changes in the Peruvian class structure.

public goods and services, basic foodstuffs and house rents, among others. Periodical salary and wage increases, employment emergency programs and subsidies for the agricultural sector accompanied the anti-inflation measures (Wise, 2010: 212; Reyna, 2000: 37).<sup>409</sup> The salary and wage increases were accompanied by the Employment Program (*Programa de Empleo*; PROEM for its acronym in Spanish). This program gave capital the possibility to contract individuals up to two years without any labour stability (Balbi, 1988: 42). Also the government introduced various types of labour contracts of short duration, during which the workers had no rights on benefits or protection whatsoever (Thomas, 1999: 275).

The policies in favour of the proletariat started to come to an end when it became urgent to increase the country's production capacity. As private capital was not willing to expand the production capacity of its companies, the upward economic trend of the years 1985, 1986 and, for a part, 1987, was reversed. In order to curb inflation, the State put limits on real wage increases by intervening in the collective negotiations between the workers and capital. In the years 1988, 1989 and 1990 Peru faced one of its most severe economic crises in its contemporary history. In December 1987 the first austerity measures were introduced (Crabtree, 2005: 201; Balbi, 1990: 65-66).

The strength of the proletariat in the period 1980-1990 can be perfectly demonstrated by the evolution of the strikes in the private and public sector and the evolution of trade union membership.<sup>410</sup> Data of Verdera (2000: 28) show that in the period 1981-1990 membership of trade unions in Metropolitan Lima increased with 12 per cent. After 1991, trade union membership only decreased.<sup>411</sup> Barba Caballero (1981: 235) estimates that in 1980 40 per cent of the economic active population (EAP) was affiliated to a trade union and Yopez del Castillo and Bernedo Alvarado (1985: 52) calculated that in

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<sup>409</sup> Reyna (2000: 42) rightly observes a contradiction in the agricultural policies of the García regime. While on the one hand it provided subsidies to the sector, on the other hand it fixed the prices. According to Reyna, the government was more worried about urban consumption than agricultural production. We think, however, that the government was preoccupied about the production of surplus value. By subsidizing agricultural production and fixing its prices, the regime contributed to stabilize, or 'fix', the costs for the reproduction of labour-power.

<sup>410</sup> "In the absence of legal protection and union support, collective action was perceived by many workers as a possible threat to their jobs. Workers looked with fear at possible reactions of entrepreneurs. Unions had to change their strategy to using strikes as an instrument of pressure, to be employed only in extreme circumstances —preferring direct, low-profile agreements with the enterprise itself." (Solfrini, 2001: 65)

<sup>411</sup> According to Zapata (interview, 2015), in the 1980s the big majority of the mine workers was affiliated to a trade union. In the 1990s, with the generalized use of temporary contracts, this diminished considerably.



the period 1981-1982 17.5 per cent of the occupied EAP was affiliated to a union.<sup>412</sup> According to Thomas (1999: 279), during the years in which the class struggle started to ‘peak’, for instance in 1987, 34 per cent of workers in the private sector were affiliated to a trade union. In 1995 union membership had fallen to 13 per cent. In Tables 7.1 and 7.2 we present the evolution of the strikes in the private and public sector in the period 1980-1990.

**Table 7.1: Strikes in the private sector: 1980-1990<sup>413</sup>**

<b>Year</b>	<b>Strikes</b>	<b>Workers involved</b>	<b>Man hours lost</b>
<b>1980</b>	739	481.484	17.918.890
<b>1981</b>	871	856.915	19.973.932
<b>1982</b>	809	572.263	22.750.879
<b>1983</b>	643	785.545	20.300.000
<b>1984</b>	509	694.234	14.081.764
<b>1985</b>	579	237.695	12.228.220
<b>1986</b>	648	249.374	16.867.444
<b>1987</b>	720	309.407	9.067.930
<b>1988</b>	814	693.252	38.274.969
<b>1989</b>	667	208.235	15.223.166
<b>1990</b>	613	258.234	15.067.880

Source: <http://www.inei.gob.pe/estadisticas/indice-tematico/ocupacion-y-vivienda/> (consulted 05/05/2015).

<sup>412</sup> On the basis of their definition of individuals that might affiliate themselves to a trade union (mainly salaried urban workers in companies that employ 20 and more individuals), Yepez del Castillo & Bernedo Alvarado (1985: 51-52) estimate that in the period 1981-1982 67.8 per cent of the working population pertained to a trade union. For the same period, individuals affiliated to a trade union as a percentage of total salaried workers amounted to 39.1 per cent.

<sup>413</sup> See appendix 5 for strikes according to economic sector in the years between 1980 and 1990.

**Table 7.2: Strikes in the public sector: 1980-1990<sup>414</sup>**

<b>Year</b>	<b>Strikes</b>
<b>1980</b>	46
<b>1981</b>	62
<b>1982</b>	70
<b>1983</b>	94
<b>1984</b>	93
<b>1985</b>	63
<b>1986</b>	42
<b>1987</b>	34
<b>1988</b>	43
<b>1989</b>	55
<b>1990</b>	69

Source: Julio Cotler (1994), *Política y sociedad en el Perú. Cambios y continuidades*, p.183.

As outlined in section 7.2 in the 1990s capital was able to reduce the class struggle and the political and social power of the representatives of the proletariat to their minimum expression. Of course, the economic crisis in the years 1988 to 1990, the political and ideological implications of the collapse of what has been called ‘actually existing socialism’ in Eastern Europe, neoliberalism, anti-labour measures and the generalized repression of labour, have all influenced of what might be considered as an epochal change, however, this will not have full explanatory power if we do not include an analysis of the Left itself, armed and unarmed, in the period 1980-1990.

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<sup>414</sup> In most of the public services it is forbidden to organize trade unions (Sulmont, 1981: 144). Although data in Table 7.2 show the evolution of the strikes in the public sector, in general terms data on strikes of the public sector, with the exception of the teachers, are scarce. Although in many occasions it was not possible to register the trade unions in the public sector, however mid-1980s 95 per cent of individuals working in the public sector was affiliated to a trade union (Balbi, 1988: 9-10). Estimates of Yopez del Castillo & Bernedo Alvarado (1985: 51, 52) show that in the period 1981-1982 82.8 per cent of the individuals that worked in the public sector and that might affiliate themselves to a trade union pertained to a trade union. Trade unions members in the public sector as a percentage of total salaried workers amounted to 59.9 per cent and as percentage of the occupied EAP this was 10 per cent.

### 7.1.1. Class struggle and the Left under military dictatorship

The strength of the proletariat, and in particular their political and social representatives in the 1980s, originates in the 1970s.<sup>415</sup> The military government of Velasco (1968-1975) enabled the Left, and especially the revolutionary Left,<sup>416</sup> to re-organize itself after the defeat of the guerrillas in 1965<sup>417</sup> as it created a political platform for the Left to disseminate their proposals for a radicalization of the reforms that were implemented by this regime (Roberts, 1996b: 73).<sup>418</sup> By attacking capitalism and imperialism, the regime helped to overtake its own ideology of class conciliation.<sup>419</sup> According to Gerardo Benavides (interview, 2015), a cadre of the PCP-PR, it must be added that the reforms of the Velasco regime contributed to an increase of the proletariat. Fernández Chacon (interview, 2015) tells that the working class became more dynamic and more militant during the Velasco regime. Raúl Wiener (interview, 2015), a former cadre of the *Partido Unificado Mariateguista* (PUM), a party that was founded in 1984 and formed part of the *Izquierda Unida* (IU) in the 1980s (see below), and a left-wing journalist, says that “Velasco awakened a new configuration of class that had class consciousness”.

In order to maintain its control over the labour and peasant movement and to control the participation of the population in the ‘revolutionary process’, it created the National

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<sup>415</sup> Stephens (1983: 57) states that labour and the Left “emerged strengthened by the period of military rule in their mobilizing capacity and electoral presence”. According to Bamat (1983: 148), the working class and much of the peasantry became better organized and more militant after 1968. Wise (2010: 135) writes that during the Velasco regime class consciousness increased.

<sup>416</sup> In 1974, for instance, the first National Class Consciousness Trade Union Assembly (*I Asamblea Nacional Sindical Clasista*) was organized. In this event more than 100 trade union organizations participated such as the National Federation of Mine and Metal workers of Peru (*Federación Nacional de Trabajadores Mineros y Metalúrgicos del Perú*) and also the peasants organized in the Peasants Confederation of Peru (*Confederación Campesina del Perú*; CCP for its acronym in Spanish) (Sulmont, 1977: 276). See on this also, Angell (1980: 24-29).

<sup>417</sup> In the 1970s many new left-wing oriented political organizations were founded. Organizations such as the PCR, the *Partido Obrero Marxista Revolucionaria* (POMR) and the PST emerged as a consequence of the class struggle in the 1970s, the debates on the character of the military regime and splits within the Left. In the course of the decade of the 1970s, the organizational strength of these organizations would increase (Sulmont, 1977: 270-271, 302-303).

<sup>418</sup> “The outcome of the Peruvian Revolution, then, was not a change in the political system according to plan, but a change in the balance of political forces in favor of labor and the left resulting from a complex interaction between state policy and the struggle of social forces to protect and promote their interests.” (Stephens, 1983: 86-87) According to Grompone (1991: 168), the Velasco regime was not able to control the great variety of social movements that it had ‘supported’ to emerge.

<sup>419</sup> According to Tovar (1985:112), the reforms of the military government “had motivated the actions of previously calm and inoperative forces”.

System of Social Mobilization (*Sistema Nacional de Movilización Social*; SINAMOS for its acronym in Spanish); it founded the National Agrarian Confederation (*Confederación Nacional Agraria*; CNA for its acronym in Spanish); and, set up the Workers Central of the Peruvian Revolution (*Central de Trabajadores de la Revolución Peruana*; CTRP for its acronym in Spanish).<sup>420</sup>

One of the major reforms in the labour legislation was the creation of labour communities.<sup>421</sup> It was supposed that through these communities capital and labour would be reconciled. As it foresaw the possibilities of the workers and employees to participate in the administration of the companies,<sup>422</sup> and companies with labour communities<sup>423</sup> were obliged to share profits with their personnel,<sup>424</sup> this might increase productivity and could undermine trade union power (Haworth, 1983: 101; Angell, 1980: 31-32).

The labour communities worked like a boomerang as it enabled the Left to push towards a radicalization of the role of these communities in the companies. In fact, as Sulmont (1977: 234) argues, the labour communities did not reconcile capital and labour but were turned into new terrains of class struggle.<sup>425</sup> According to FitzGerald (1981: 171), the participation of the workers in the decisions of the companies strengthened the workers organizations. In February 1973 the labour communities even succeeded in organizing a national congress. Although it rallied behind the ‘revolutionary process’ of the military

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<sup>420</sup> “The military regime was interested in mass movements which fitted in with its own plans for capitalist development under state direction: any development in the direction of class-struggle politics was repressed sooner or later. Class struggles oriented towards the elimination of particular fractions of the dominant class (e.g. the agrarian bourgeoisie and pre-capitalist landowners) were condoned and even encouraged, but struggles against the overall relations of class domination were not.” (Havens, Lastarria-Cornhiel & Otero, 1983: 30)

<sup>421</sup> Although only 6 per cent of the total labourforce was ‘affected’ by the labour communities, this 6 per cent produced 21 per cent of Gross National Product (Haworth, 1983: 102). See also Angell (1980: 33)

<sup>422</sup> The labour communities pointed to joint management instead of self-management. Private companies were not supposed to disappear (Angell, 1980: 31).

<sup>423</sup> In the industrial sector companies with more than six workers or employees were obliged to install an industrial community (a labour community in a company that pertains to the industrial sector). If they did not employ six workers or employees but their gross yearly income was more than one million soles, at that time around 25.840 US dollars (exchange rate 38.70: 1), they also had to install an Industrial Community (Angell, 1980: 31).

<sup>424</sup> Only workers and employees that were contracted on a permanent basis participated in profit sharing.

<sup>425</sup> For the same argument, see Lynch (1996: 166), Wise (2010: 134-135) and Angel (1980: 32). Tovar (1985: 145) argues that the industrial communities helped to increase the class consciousness of the workers.

government, the congress also criticized the regime for its attempts to reconcile capital and labour and called for the class independence of the working class (Sulmont, 1977: 264).<sup>426</sup>

Notwithstanding the corporatist policies of the Velasco regime, independent trade unions were not forbidden. The CGTP was officially recognized by the government (interview, De la Cruz, 2015) and the number of trade unions increased from 2.343 in 1968 to 4.330 in 1975 (Sulmont, 1981: 109ft4).<sup>427</sup> One reason for this increase was the Law of Labour Stability promulgated by the Velasco regime. This law made it much easier than in previous years to establish a trade union as it became increasingly difficult to fire workers (Lynch, 1996: 166; Parodi, 1986: 325; Gil Piedra & Grompone Velásquez, 2014: 9; Yopez del Castillo & Bernedo Alvarado, 1985: 24).<sup>428</sup> In addition, the CGTP, led by the (PCP-U), provided critical support to the regime. This meant that on the one hand it supported the regime against certain social movements that pointed to a radicalization of the reforms, and on other hand it maintained a certain distance of the government in the case this support would alienate it from its bases (Tovar, 1985: 102).

During the military dictatorship class reconciliation was not achieved. In the period 1968 to 1975 the strike movement showed an upward trend and the workers federations such as the Federation of Bank Employees (*Federación de Empleados Bancarios*) and the federation of mine and steel workers grew stronger (interview, De la Cruz, 2015; interview, Fernández Chacon, 2015). While in 1968 there were 368 strikes and involved 5.2 per cent of all workers, in 1971 377 strikes were organized in which 8.6 per cent of the total labour force participated. In 1973 and 1975 these data were 788, 20.9 per cent and 779, 29.0 per cent respectively (Angell, 1980: 13) The reduction of the strikes in 1976 can be explained by the fact that in 1976 strikes became illegal. However, in 1977 and 1978 this did not keep the labour movement from organizing massive national strikes against the military regime.

In Table 7.3 data is presented on the evolution of the strike movement, the workers involved in these strikes and the man hours lost for the period 1968-1979.

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<sup>426</sup> On this congress, see also Angell (1980: 34-36).

<sup>427</sup> See on data for the evolution of trade unions recognized by the State since the 1930s until 1982, Yopez del Castillo & Bernedo Alvarado (1985: 17-20).

<sup>428</sup> In 1970 the Law of Labour Stability was enacted. After a three month period of probation, this law established that a labourer could only be fired in the case of (i) serious misconduct; and, (ii) as a consequence of the “reduction or complete dismissal of personnel authorized by the labour authority” (Sulmont, 1977: 225).

**Table 7.3: Strikes: 1968-1979**

<b>Year</b>	<b>Strikes</b>	<b>Workers involved</b>	<b>Man hours lost</b>
<b>1968</b>	364	107.800	3.400.000
<b>1969</b>	372	91.500	3.900.000
<b>1970</b>	345	111.000	5.800.000
<b>1971</b>	377	161.400	10.900.000
<b>1972</b>	409	130.600	6.300.000
<b>1973</b>	788	416.200	15.700.000
<b>1974</b>	570	362.700	13.400.000
<b>1975</b>	779	617.100	20.300.000
<b>1976</b>	440	258.100	6.800.000
<b>1977*</b>	234	396.200	5.000.000
<b>1978**</b>	364	1.398.300	36.100.000
<b>1979</b>	637	516.900	7.900.000

Source: Denis Sulmont (1981), *El movimiento obrero peruano (1890-1980). Reseña histórica*, pp.204-205.

\* The national strike of July 19, 1977, involved 272.000 workers (69 per cent of total workers involved in strikes in 1977) and represented 2.2 million man hours lost (44 per cent of total man hours lost in 1977).

\*\* The national strike of May 23-24, 1978, involved about 1 million workers (70 per cent of total workers involved in strikes in 1978) and represented 20 million man hours lost (55 per cent of total man hours lost in 1978).

The progressive development of the labour movement was not an isolated consequence of the policies implemented by the reformist military government. Also the peasant movement reemerged. Just like in the case of the proletariat, the Velasco regime helped to increase the class consciousness of the peasants and to strengthen their organizations (Matos Mar & Mejía, 1984: 121).

The Agrarian Reform of 1969 proclaimed that the land belonged to those who worked on it. Stimulated by this reform, peasants started to occupy the lands of the big landowners. Although in general terms land occupations were motivated by the peasants' desire to own a small piece of land, the concrete motives to occupy the lands were diverse. In the district of Huando (department of Huancavelica), for instance, the peasants struggled (February 1970-February 1971) against the intentions of the landowners to partition the land. In order to be excluded from being expropriated by the government, landowners

started to fictitiously parcel up their landed property (Matos Mar & Mejía, 1984: 115).<sup>429</sup> In other occasions the peasants took the land in advance of the actions of the regime to expropriate the landowners and occupied the land because ‘their’ landowners were not affected by the Agrarian Reform. Also land occupations took place as a reaction to the de-capitalization of the farms by the landowners who feared expropriation in the nearby future (Tovar, 1985: 65-66; García-Sayan, 1982: 30-31, 58-59, 63, 111; Montoya, 1989: 28, 178).

The state cooperatives were not exempted from land occupations. Land that was not in use by the cooperatives, the usurpation of the land of the communities by the cooperatives and bad management of the cooperatives induced peasants to occupy these lands. The fact that the peasants considered the land to be theirs and did not want to work for bosses anymore, also stimulated land occupations (García-Sayan, 1982: 37, 39, 70, 126-128, 166).

One of the most important battles for land took place in July-September 1974 in the province of Andahuaylas (department of Apurímac). The land of 68 (out of 118) state cooperatives and individual landowners were occupied. About 30.000 peasants were involved in the struggle that gradually evolved from what might be called isolated actions into a big wave of land occupations. The struggle was organized by the Provincial Peasants Federation of Andahuaylas (*Federación Provincial de Campesinas de Andahuaylas*; FEPCA for its acronym in Spanish), affiliated to the CCP, and the political organization *Vanguardia Revolucionaria* (Sánchez Enríquez, 1981: 28, 30, 185).

The struggle in Andahuaylas ended in the repression of the movement and the full implementation of the Agrarian Reform. By June 1975, the farms of the remaining big individual landowners had been converted into state cooperatives (Sánchez Enríquez, 1981: 28, 210).

The struggle of the peasants cannot be considered as a clear battle for the collective use of the land by the peasants. While in some cases the objective of the peasants was to work the land collectively, in many other cases the peasants fought to obtain the ownership

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<sup>429</sup> Decree Law 18002 of November 1969 removed the possibility to partition the land, as was foreseen in the Agrarian Reform Law of 1969 (Havens, Lastarria-Cornhiel & Otero, 1983: 39). On the possibility to partition the land, see “Nueva Reforma Agraria. Decreto-Ley 17716”, articles 108-111, in <http://faolex.fao.org/docs/pdf/per124295.pdf> (consulted 16/10/2015).

of a small plot of land.<sup>430</sup> In other instances it was a mix of a struggle for the collective and individual property of the land (García-Sayán, 1982: 59, 63, 113, 138, 145-147, 156-157, 172-173).<sup>431</sup>

Apart from the progressive development of the workers movement and the reemergence of the peasant movement translated in the increasing strength of the CCP (interview, De la Cruz, 2015), also urban social movements in the popular neighbourhoods and regional movements started to appear (defense fronts).<sup>432</sup> These movements did not only battle for their particular interests, but also joined the struggle of the workers and the peasants. According to Cáceres (interview, 2015), the Departmental Federation of Workers (*Federación de Trabajadores Departamentales*) was the articulating axis of the defense fronts. This federation played an essential role in the struggle against the military regime.

The steady growth of the strength of the Left entered a new phase with the coup of a right-wing fraction of the military against General Velasco in 1975. The coup was the result of the convergence of six factors: (i) the increasing power of the Left; (ii) the strengthening of class conscious tendencies within the labour movement; (iii) the struggle of the peasant movement that pointed to a radicalization of the ‘revolutionary process’; (iv) the development of local and regional popular movements and their increasing ties with the labour movement; (v) the unfolding economic crisis (1974-1976); and, (vi) the emerging contradictions within the military regime regarding the future of the ‘revolution’.

The return of the Right in power helped the Left to increase its strength. The austerity and anti-labour measures implemented by the new government (such as the conversion of the labour communities in mere organs for the participation of the workers in the administration of the companies), the attempts of capital to increase the rate of

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<sup>430</sup> According to Eduardo Cáceres (interview, 2015), former general secretary of the PUM “in the Andes, when people took the land, they distributed it to the last centimeter. They never had the expectation to work the land in an associative sense. The idea was communal enterprises, but the people took the land and divided it”.

<sup>431</sup> In his analysis of the land occupations in the province of Andahuaylas, Sánchez Enríquez (1981: 226) concludes that the main interest of the majority of the peasants was to obtain a small plot of land. The same happened after the land occupations in the beginning of the 1960s in the province of La Convención (department of Cuzco). The Trotskyist organization that ‘led’ these land occupations expected to convert the struggle for land into a battle for socialism. See for this battle and the problems to elevate the level of peasant struggle, Lust (2013: 70-91).

<sup>432</sup> The regional movements were called defense fronts (*frentes de defensa*). In these Fronts converged, among others, trade unions, student unions, small businessmen and popular organizations (Sulmont, 1981: 153). The objective of these defense fronts was to defend specific regional interests.



exploitation (intensification of work) and the attacks of the companies on the labour movement and labour stability,<sup>433</sup> among others, provided the Left with a national platform for the defense of the rights of the working population. The declaration of the state of emergency in 1976 (this lasted until August 1977), the suspension of the constitutional rights after massive protests against the austerity measures and the prohibition of strikes (August 14, 1976), politically strengthened the Left but at the same time reduced the strikes (see Table 7.3).<sup>434</sup>

The years 1975 and 1976 were characterized by many local strikes for the defense of jobs and labour stability.<sup>435</sup> These strikes were supported by demonstrations of urban and regional social movements. Slowly the struggle against the military government and capital started to convert itself into a nationwide popular struggle. And although the government intended to repress the strike movement and the protests of the popular movements, it was already too late to stop the dynamics of the class struggle (Sulmont, 1981: 110-111; Sulmont, 1977: 289-290, 293-297; Lynch, 1996: 159). On July 19, 1977, in the midst of a state of emergency, these struggles culminated in a national strike that heralded the end of the military government.

The strike was basically organized around social-economic demands such as wage increases and labour stability. Even the CNA and the Lima base of the CTRP participated in the strike (Valladares Quijano, 2013: 36). The strike was accompanied by demonstrations that caused the death of 18 persons and 700 arrests (Traverso Flores, 2013: 156, 163).

In order to visualize the situation of the working population in the 1970s, in Table 7.4 we present data on inflation, indices of real wages and real salaries, and the share of salaried workers in National Income for the period 1970-1979. In Table 7.5 data is

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<sup>433</sup> The economic crisis in the mid-1970s affected capital in such a way that workers were threatened to be fired in the case they went to strike. In some economic sectors, such as the automotive industry, the companies even intended to dismantle the unions through the systematic dismissal of trade union leaders. The strength of the unions, however, permitted the labour movement to fiercely respond to these attacks (Sulmont, 1981: 109).

<sup>434</sup> It should be mentioned that capital was extremely benefitted by the Supreme Decree Law of August 14, 1976, as it was empowered to fire personnel on the basis of the suspicion that a strike was being organized (Sulmont, 1977: 297). On the other hand, according to Tovar (1985: 115), the economic crisis strengthened the class conscious tendency within the popular and organized social movements.

<sup>435</sup> On February 5, 1975, even the police forces went to strike.

presented on the evolution of the unemployment and underemployment rates for the years between 1975 and 1979. The tables show that starting from 1974 the situation of the working population began to deteriorate.

**Table 7.4: Inflation, indices of real salaries and real wages in (base year = 1979 = 100) and the participation of salaried workers in National Income: 1970-1979**

Year	Inflation	Index real salaries	Index real wages	Share of salaried workers in National Income
1970	4.9 %	111.3	157.2	46.7 %
1971	6.8 %	121.7	167.6	49.5 %
1972	7.1 %	131.7	180.7	51.3 %
1973	9.5 %	144.6	184.0	48.9 %
1974	16.9 %	142.6	176.2	47.0 %
1975	23.5 %	128.3	170.5	47.6 %
1976	33.6 %	131.1	146.6	46.9 %
1977	38.0 %	110.9	127.5	46.6 %
1978	58.1 %	99.9	109.5	42.9 %
1979	67.7 %	100.0	100.0	38.2 %

Sources: <http://www.bcrp.gob.pe/estadisticas/cuadros-anuales-historicos.html> (consulted 14/09/2015); INE (1986), Perú: *Compendio Estadístico 1985*, p.151; Ministerio de Trabajo y Promoción Social. Dirección General del Empleo (1981), *Situación ocupacional del Perú. Informe 1980*, s.p.

**Table 7.5: Rates of unemployment and underemployment: 1975-1979 (as a percentage of EAP)**

Year	Unemployment	Underemployment
1975	4.9 %	42.4 %
1976	5.2 %	44.3 %
1977	5.8 %	48.2 %
1978	6.5 %	52.0 %
1979	7.1 %	51.4 %

Source: INE (1983), Perú: *Compendio Estadístico 1982*, p.99.

The Left might not have had the declared intention to convert the economic struggle into a political battle. The dynamic of the national strike of 1977, however, definitively had this as its main result. The week after the strike, on Independence Day (July 28), General Morales, President of Peru, announced the return of democracy, i.e. elections for a Constituent Assembly in 1978 and presidential elections in 1980.

The success of the strike did not mean that the anti-labour and austerity measures were suspended. As a consequence of the strike, the regime promulgated a Supreme Decree Law (July 21) that allowed public and private companies to fire trade union leaders who had 'incited or organized' the national strike (Valladares Quijano, 2013: 134; Pease García, 1981b: 288). About 5.000 leading trade union members were fired (Letts, 2014: 282; Lynch, 1996: 129) and numerous trade union leaders were detained (Pease García, 1981b: 290). Naturally, as Nieto Montesinos (1986: 51) explains, this had far reaching consequences for the unions as a generation of workers leaders was politically eliminated. Years of experience, intellectual and political, were lost. According to Rochabrún (1988: 94ft2) these workers leaders "made up the broadest and most experienced layer of leaders in all Peruvian history". Their dismissal "decisively weakened the working class". Minguillo (interview, 2015): "The proletariat suffered a major blow after the national strike of 19 July 1977. More than 5.000 workers were fired. Among them all the people we had formed, all the leaders we had formed."<sup>436</sup> Fernández Chacon (interview, 2015): "A large part of the organized working class was beheaded."<sup>437</sup> The workers leaders who were fired were also leading members of workers parties (interview, Cristóbal, 2015).

The contradictory results of the national strike might be explained by the fact that it was exactly this strike that had incentivized the political Right to take action before the movement against the military dictatorship could turn into a struggle for socialism. Hence the Right pushed the regime to announce the return of parliamentary democracy<sup>438</sup> and

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<sup>436</sup> According to Cáceres (interview, 2015), although the dismissal of 5.000 trade union leaders had definitively an effect on the labour movement, it did not have lasting negative consequences for the class struggle.

<sup>437</sup> Fernández Chacon (interview, 2015) tells that the organized working class had reserves and managed this loss. As a matter of fact, in 1978 a much bigger strike was organized. Pablo Checa, a leader of the CGTP and former Vice Minister of Labour and Employment Promotion (2011-2012), says that a new generation of workers leaders emerged after the dismissal of the 5.000 trade union leaders in 1977.

<sup>438</sup> The conversations between the political parties of the Right, the APRA and the regime regarding the return of parliamentary democracy had already started at the end of 1976 (Valladares Quijano, 2013: 75-76; Lynch,

succeeded in convincing the military to promulgate a law that would permit the companies to fire the most militant workers leaders (Sulmont, 1981: 112-113, 137-138).

About a year after the strike of July 1977, on May 23 and 24, 1978, another successful national strike was organized. The anti-labour measures taken by the regime in March 1978 that meant the definitive end of labour stability infuriated the population.<sup>439</sup>

The strike of May 1978, two weeks before the elections for the Constituent Assembly, was bigger than the strike of July 1977 (Letts, 2014: 282; Sulmont, 1981: 117; Nieto, 1983: 88). At local and regional level coordination had been taken place between the labour and popular movement (Sulmont, 1981: 116-117). Although the strikes in 1978 were the largest in the history of the Peruvian labour movement, the May national strike did not succeed in its objective, i.e. to eliminate the anti-labour measures (Sulmont, 1981: 120). Naturally, the regime answered with repression. Twelve leaders of the Left were deported to Argentina (Letts, 2014: 282, Traverso Flores, 2013: 188-189), the state of emergence was declared, the constitutional rights were suspended and the offices of independent magazines were closed. Ten days before the elections for the Constituent Assembly most of the civil rights were restored (Lynch, 1996: 142-143).

The successful strikes of 1977 and 1978 had a tremendous effect on the electoral strength of the Left. According to Letts (2014: 283, 295), these strikes formed the basis for the electoral victory of the popular forces in the Constituent Assembly (June 18, 1978). A more or less united Left succeeded to obtain 31 per cent of the vote.<sup>440</sup>

The electoral success of the Left masked the fact that the struggle of the labour movement was starting to weaken as the economic crisis prolonged and the fear of being fired began to spread within the movement. Although the battles still continued, it seemed that the electoral process had eliminated the political fervour of the struggle. The fact that the military had announced that it would return to its barracks and that another regime

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1996: 122-123). According to Gustavo Espinoza, a former leader of the PCP-U, it was the oligarchy that came to the conclusion that it did not need the Morales government anymore and that the government had to return into the hands of the traditional political parties (Adrianzén, 2011b: 302).

<sup>439</sup> A new law on labour *instability* was promulgated that extended the probation period from three months to three years (Haworth, 1983: 110).

<sup>440</sup> Although the Left obtained a third of the popular vote, it must be clear that the majority voted for right-wing oriented political parties and the APRA.

would be ‘in charge’ of the countries’ destiny, changed the political dynamics of the class struggle.

Notwithstanding the political weakening of the battle against the anti-labour measures of the government, the demonstrations continued until 1979. For instance, the protests of public sector workers against possible massive lay-offs culminated in August-September 1978 in the annulation of the lay-offs and the foundation of the CITE (Lynch, 1996: 145). With the struggles against the austerity measures between May and September 1979 and the organization of a national strike on July 19, 1979, leaving an important mark in the consciousness of the popular sectors (Sulmont, 1981: 125-133; Nieto, 1983: 100-101), the circle of the class struggle in the 1970s came to an end.

The unity of the Left in their fight against the government of Morales came to an end with the run up to the elections of 1980. While during the elections for the Constituent Assembly in 1978 the Left had been able to unite itself, or, maybe better, was not able to divide itself a lot, during the presidential elections of 1980 it was split into a variety of presidential candidates, causing the Left vote (13.8 per cent) to be splintered among the candidates (Letts, 2014: 295; Crabtree, 2005: 112). Although before the presidential elections several attempts had been made to unify the Left and many times electoral alliances had been established, for a variety of political and personal reasons these had not last a very long time.<sup>441</sup> In other words, in the period after the installation of the Constituent Assembly and before the presidential elections of 1980 there was no firm political compromise to unite the forces of the Left to present an electoral platform that might be able to win these elections.

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<sup>441</sup> In 1977 the *Unidad Democrática Popular* (UDP) was founded. The UDP was a platform of 12 organizations such as the VR, *Partido Vanguardia Revolucionaria* (PVR), *Vanguardia Revolucionaria-PC* (VR-PC), *Movimiento de Izquierda Revolucionaria* (MIR) and the PCR. In 1979 the radical Left formed an electoral platform: *Fuerzas Revolucionarias Antiimperialistas por el Socialismo* (FRAS). This platform was composed of: *Partido Comunista Peruano – Mayoría* (PCP-M), *Acción Revolucionaria Socialista* (ARS), *Partido Socialista Revolucionaria - Marxista Leninista* (PSR-ML), *Comité de Orientación Revolucionaria* (COR), *Movimiento de Izquierda Revolucionaria - El Militante* (MIR-EM) and the *Frente de Izquierda Revolucionaria - Marxista Leninista* (FIR-ML). In 1980 the *Alianza Revolucionaria de Izquierda* (ARI) and the *Unidad de Izquierda* were established. While the first alliance was formed by the *Unión de Izquierda Revolucionaria* (UNIR), FRAS, POMR, PCP-PR, PRT and the UDP, the second was an alliance of the *Frente Obrero Campesino del Perú* (FOCEP), PCP-U, PSR, MIR, PVR, COR and the *Frente Democrática Popular del Perú* (FEDEP) (Letts, 2014: 293; Traverso Flores, 2013: 217, 231; Adrianzén, 2011cb 575-576; Herrera Montesinos, 2002: 50, 55, 61, 63-64; Sulmont, 1981: 173-175).

### 7.1.2. The Left under democracy

The return of parliamentary democracy in 1980 posed key ideological problems for the Peruvian Left. In years before, most of the time it had worked underground but now some of its representatives had been elected to form part of the Senate and the Chamber of Deputies. Instead of fighting against the bourgeois political system, it began forming part of it.<sup>442</sup> Only the *Partido Comunista del Perú – Sendero Luminoso* (PCP-SL) and later the *Movimiento Revolucionario Túpac Amaru* (MRTA) did not participate in the parliamentary system.

Over the course of the 1980s it became clear that the Left was not fully capable to combine parliamentary work with the class struggle outside the buildings of ‘democracy’. Although it participated in the struggle of the trade unions and the popular movement in general, it was not able to adequately combine both terrains of class struggle. Responsibilities in the municipalities and issues related to electoral campaigns seem to have absorbed all energy, leaving no time for articulating the struggle in- and outside the parliamentary institutions, national, regionally and locally (Balbi, 1989: 167; Roberts, 1996b: 84; Diez Canseco, 1997: 192; Izquierda Unida, 1989: 40; interview, Militant 1 Pueblo Unido, 2015). According Zapata (interview, 2015), with the return of democracy at the national and local level “the most important work will no longer be trade union work. The most important work will be municipal work. To administer municipalities or to be the opposition of the municipalities governed by the Right or the APRA becomes the most important work in the life of the (party) cells. The cells are no longer interested in the trade unions, but are interested in the territory, the towns, the districts, municipal life”.<sup>443</sup> Jorge

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<sup>442</sup> “[Electoral] success forced the IU to consider the possibility of assuming governmental responsibility nationally within the institutional confines of the “bourgeois” state. This prospect proved to be highly divisive. Success also required leftist parties that had specialized in conspiratorial organization, social protest, and demands to assume positions of authority and implement public policies under severe fiscal and administrative constraints.” (Roberts, 1996b: 84)

<sup>443</sup> See on this also, Adrianzén García (2008: 19). Constante Traverso (interview, 2015), a former cadre of the *Partido Socialista Revolucionario* and who also worked in the IU, says that the Left was focused on elections and did not work with their social bases. Fernández Chacon (interview, 2015): “I agree with what said Flores Galindo. The left and their leadership abandoned the class struggle to sit comfortably in the bourgeois parliament and live from bourgeois democracy.” Zapata (interview, 2015): “The key of the 1980s is the municipality as a space of power around which the leftist organizations developed their strategies.” According to Benza (interview, 2015), the Left “bureaucratized and lost direct contact with grassroots work”.

Hurtado (interview, 2015), a former leading cadre of the PCP-PR, tells that in the course of the 1980s the PCP-PR did not need party cells anymore but voters.

Notwithstanding the problems to unite the class struggle in- and outside the parliamentary institutions, the foundation of the Popular National Assembly (*Asamblea Nacional Popular*; ANP for its acronym in Spanish) in November 1987, called together by a variety of social organizations, must definitively be considered as an important intend to unify both terrains of class struggle. At its foundation meeting about 1200 political and social organizations participated. Around 2600 delegates were accredited (Herrera Montesinos, 2002: 421). These individuals represented trade unions, peasants federations, neighbourhood organizations, and local and regional defense fronts, among others (Crabtree, 2005: 253-254).

It was supposed that the ANP would coordinate and centralize the struggle, uniting all anti-imperialist and revolutionary currents. One of the programmatic issues of the ANP was to build a democratic, anti-imperialist and united people's power, and to construct an authentic political, economic, social and cultural democracy (Herrera Montesinos, 2002: 417, 422). The ANP considered that the country could only liberate itself from imperialism and would only be able to develop all its productive forces when it would build a socialist society. A precondition for building socialism in Peru was the constitution of a revolutionary power, which embryo was the ANP (Simon Munaro, 1988: 168-169).

The ANP was short-lived. Political and personal discrepancies between the different political organizations that formed part of the ANP and the intentions of some of these organizations to dominate the ANP made it unviable (Herrera Montesinos, 2002: 423-427; Guerra García, 2011: 91).

The 'defeat' of the 1980 elections made the Left conscious of the importance to unite in order to have the possibility to win the next elections (Herrera Montesinos, 2002: 72, 74; Guerra García, 2011: 81; Izquierda Unida, 1989:40-41). For this reason only, although some of the integrating political organizations might have had other objectives, the political platform IU was founded. The IU was an initiative of the PSR, PCP-U, PCP-PR, VR-PC, VR, UNIR, *Partido Comunista Revolucionario – Clase Obrera*, UDP, FOCEP and the *Frente Nacional de Trabajadores y Campesinos* (FRENATRACA) (Herrera Montesinos, 2002: 76, 79). After its foundation, other left-wing oriented organizations such

as the *Acción Popular Socialista* (APS) and the *Movimiento de Afirmación Socialista* started to form part of the IU. For the following nine years the Left was electorally united. Auris (interview, 2015) says that the IU “was not a party. It was a coalition. And what united it us was the struggle for the structural transformation of the country”. According to Traverso (interview, 2015), the IU was nothing more than an “electoral front”.<sup>444</sup>

The electoral unity was a success as in the municipal elections of 1980 the coalition obtained 23.9 per cent and in 1983 it got 28.8 per cent of the popular vote (Crabtree, 2005: 126). In Lima, Alfonso Barrantes, the IU candidate for Mayor, won the municipal elections of 1983. In the presidential elections of 1985 Barrantes came second, with more than 25 per cent of the national vote, behind Alan García of the APRA.<sup>445</sup> The IU became the strongest left-wing electoral coalition in Latin America (McClintock & Vallas, 2005: 71; Adrianzén, 2011a: 13).<sup>446</sup>

The electoral unity of the Left did not mean an organizational and political unification of the Left. Although the IU announced in its foundation document that it was going to struggle for “the destruction of the bourgeois state and the conquest of a government that would emerge from the revolutionary action of the masses, of the working class, of the peasantry and of the entire oppressed people” (Herrera Montesino, 2002: 713),<sup>447</sup> however, as the organization did not go beyond electoral unity (Herrera Montesinos, 2002: 298, 619; Guerra García, 2011: 89; Lajo, 1996: 301; Diez Canseco, 2011: 143-147)<sup>448</sup> proposals to destroy the bourgeoisie state were never implemented.<sup>449</sup>

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<sup>444</sup> Benza (interview, 2015) agrees that the IU was nothing more than an electoral front. “On paper it had a strategic perspective, but that was on paper. The IU did not work to construct bases.”

<sup>445</sup> Although García did not win with a majority of the vote, i.e. 50 per cent + 1, Barrantes declined to participate in the second round of the presidential elections of 1985. This was a personal decision of Barrantes (interview, Benza, 2015).

<sup>446</sup> Petras, Morley & Havens (1983: 41-42): “This growth of the Left in general, and Marxism in particular, is expressed in every aspect of Peruvian political and social life. Socialism is no longer confined to a small group of university leaders debating esoteric issues in student assemblies; the Left, with Marxist currents in the ascendancy, has become the principal mass opposition to the Belaúnde regime.”

<sup>447</sup> The IU declared that it would struggle for the revolution in Peru and the building of a democratic people’s state that would set the bases for socialism (Izquierda Unida, 1989: 89).

<sup>448</sup> In the documents of its first and last congress, the IU stated that it aspired to become a revolutionary front of the masses (Izquierda Unida, 1989: 76-84). The division of the IU, almost directly after the congress, impeded this to happen.

<sup>449</sup> Already at the onset of the 1980s, Jorge Hurtado (interview, 2015) argued that the Left not only needed organizational unity but also a programmatic unity, a revolutionary programmatic unity. If the Left was not able to unite its forces behind such a program, it was possible that the IU would convert itself in a leftist wing of the liberal bourgeoisie or might even break-up and disappear (Mercado, 1982: 64-65).



Traverso (interview, 2015) tells that the IU was not able to transform itself into a mass front because of the “electoral ambitions of its leaders”. It was all about elections.

The transformation of the IU into a mass front would have meant that internal elections should be held. These elections might have gone against the interests of the parties that formed the IU. These parties had a quota of power within the IU (interview, Traverso, 2015).

The IU has never initiated processes of political unification, i.e. ideological and strategic unification. The general strategic line of the IU, approved in April 1984, was never put in practice. It seems that instead of building the IU, the political parties and groups that had formed the IU were busier with trying to develop their own organizations through the IU instead of building the IU (Herrera Montesinos, 2002: 136). According to Renan Raffo (interview, 2015), former general secretary of the PCP-U, the IU was not able to convert the popular vote into organization.

After the 1985 presidential elections the electoral platform started to disintegrate. Although in 1986 the IU got 30.8 per cent of the vote, 2 per cent more than in 1983, it ‘lost’ the elections in Lima and in 23 other municipalities (Crabtree, 2005: 141-142).

In January 1989 the first and last Congress of the IU was held. The Congress that supposedly had to unify the different positions within the IU only exacerbated the division. According to Crabtree (2005: 251), the main conflict was around the composition of the National Executive Committee. The biggest debates were about the proposal of the socialist Left to promote a national strike and the resignation of the APRA government. The date of the general elections should be accelerated (Reyna, 2000: 228). Moreno (interview, 2015) says that “the infighting within the Left caused by its short-term vision led, later, to its division and after the division in the late 1980s and 1990s almost to its disappearance of the national political scene. All accumulated forces were lost by this wrong orientation”. The short-term vision of the Left was manifested in the fact that (i) it had reduced itself to ‘trade union struggle’ and ‘economic struggle’; (ii) it had no strategic vision and did not build a strategic correlation of forces. When there were elections, they participated in the elections. When there was a strike, they went to the strike; and, (iii) it did not develop an alternative that fitted to the “conditions and circumstances of the country”. The proposals of the Left were based on what was happening in the former Soviet-Union, China and/or Cuba.

After the Congress in which 3.142 delegates participated (Izquierda Unida, 1989: 8), the debates continued and the discrepancies within the organization came known to the public (Traverso Flores, 2013: 308-309; Herrera Montesinos, 2002: 520-521). In the municipal elections of 1989 and the presidential elections of 1990 the Left presented, again, different candidates. While for the municipal elections the IU obtained 17.9 per cent and *Acuerdo Socialista de Izquierda* (ASI) 2.3 per cent of the national vote, in 1990 these results were reduced to 8.2 per cent and 4.7 per cent respectively (Diez Canseco, 2011: 103).

The defeat in the elections of 1989 and 1990 meant the political end of the IU. As the IU was founded to win the elections, the defeat made it clear that the IU was no longer of use. Although it participated in the presidential elections of 1995, this was nothing more than the last convulsion of a political cadaver. The IU obtained two per cent of the vote.

In 1995 the IU was officially dissolved. Traverso Flores (2013: 370) argues that the devastating electoral results of 1995 resulted in the disappearance of the Left. Although some of the organizations were able to survive, they did not have the same organizational and political power as in the 1980s. According to Moreno (interview, 2015), “when the neoliberal project was imposed the Left did not have the strength anymore to face it. “It was not able to build an alternative or a political and social movement capable of convincing large sectors of the population of the options the Left represented”.

### **7.1.3. Class struggle in democracy**

The return of parliamentary democracy in 1980 was favourable for the exploited and oppressed classes in the sense that political rights were re-established. Economically however, the second government of Belaúnde did not increase the well-being of the majority of the working population. As a matter of fact, the neoliberal policies implemented by the regime meant an attack on this well-being. In Table 7.6 data is presented on the indices of real salaries and real wages for the period 1980-1984.

**Table 7.6: Indices of real salaries and real wages (base year = 1979 = 100): 1980-1984**

<b>Year</b>	<b>Index real salaries</b>	<b>Index real wages</b>
<b>1980</b>	105.8	107.4
<b>1981</b>	103.6	109.2
<b>1982</b>	105.0	117.8
<b>1983</b>	86.8	101.0
<b>1984</b>	74.1	93.2

Source: INE (1986), *Perú: Compendio Estadístico 1985*, p.151.

The economic crisis that started to unfold in 1982-1983 and anti-labour measures such as those that made it easier to fire permanent employees (Petras, Morley & Havens, 1983: 34) were met by protests. On January 15, 1981, September 22, 1981, March 10, 1983, July 10, 1983, September 27, 1983, March 22, 1984 and November 29, 1984 national strikes were organized by trade union federations (Ministerio de Trabajo y Promoción del Empleo, 2015: s.p).

The national strikes did not reverse the negative impact of the economic crisis on the population. Although the economic policies of the government were not changed by the protests (Balbi, 1989: 167), many measures such as the privatization of state-owned companies were halted by the strength of the political Left and the trade unions (interview, De la Cruz, 2015; interview, Fernández Chacon, 2015). Company closures continued, work hours reduced, real wages decreased and workers were fired.<sup>450</sup> As the fear of losing one's job started to spread among the working population, the negotiation power of the unions diminished. Workers started to look for individual solutions instead of fighting against the State and capital. The informal sector became a source for additional income<sup>451</sup> and the

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<sup>450</sup> During the 1980s, the workers movement “not only weakened because of a problem of class consciousness”. There was also “a material process of the destruction of productive forces” going on (interview, Militant 1 Pueblo Unido, 2015).

<sup>451</sup> While on the one hand the economic crisis and company closures led to a weakening of trade union power (interview, Gorriti, 2015), on the other hand they helped to radicalize certain sectors of the working population, expressed in the occupation of factories by the workers. Although these actions to avoid company closures multiplied, they had not a structural character (Balbi, 1989: 158ft143).

fired workers started to labour as “independents”.<sup>452</sup> Union activities diminished as total working hours increased. Many people had more than one job and were not able to dedicate time to the union (Balbi & Gamero, 1990: 76-77; Balbi, 1988: 13; Parodi, 1986: 332-334; Nieto Montesinos, 1986: 51; interview, Zapata, 2015). The diminution of the strikes in the years 1983-1984 (see Tables 7.1 and 7.2) is an indication of weakening trade union power.

Although the workers started to solve their economic problems individually, according to Zapata (interview, 2015) “in the first phase of the crisis solidarity prevailed. The people wanted to help each other to overcome the crisis and that is why some collaboration mechanisms were encouraged”. One of these mechanisms was the program Glass of Milk (*Vaso de Leche*). Currently this is an organization that provides breakfast to poor children. The popular kitchens (*comedores populares*) were another ‘invention’ of the people to help each other. The *comedores populares* provided cheap meals.

In the period 1980-1985 the peasantry did not have a similar presence in the class struggle as in the 1970s. According to Montoya (1989: 233, 236-237), during the Belaúnde regime no land occupations had taken place, possibly caused by governmental induced processes to individualize landownership. Cáceres (interview, 2015) and Militant 1 Pueblo Unido (interview, 2015), however, tell that the peasants still occupied lands, for instance in the department of Puno. According to Petras, Morley & Haven (1983: 42-43), in recent years there has been a “sharp decline in nationally coordinated mass peasant struggles”. This has been caused by “the land distribution programme and the growing complexity of the countryside” that “have created such a diversity of socio-economic demands that it has been difficult to maintain a coherent national movement. In particular, there has been a divergence between the demands of the rural cooperatives and those of peasant communities which, in many cases, have claims on land occupied by the cooperatives”.

The electoral victory of the APRA in 1985 and economic growth in the first three years of the regime did not diminish the fighting spirit of the proletariat. On May 19, 1987 the first national strike against the APRA was organized. This strike was followed on January, 28, 1988 and on July 19 and 20, 1988 with a second and third national strike. Previously, in December 1987, the principal peasant organizations united in the National

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<sup>452</sup> It should be mentioned that “independent workers” already existed in the 1970s. In the 1980s, however, with the economic crises, the number of “independent workers” increased (interview, Zapata, 2015).

Agrarian Unitary Council (*Consejo Unitario Nacional Agrario*) had organized a national strike (Reyna, 2000: 137; Balbi & Gamero, 1990: 77-78; Balbi, 1990: 68; Balbi, 1988: 53, 58, 61).<sup>453</sup> The strikes (and demonstrations) were a reaction against the limits on real wage increases,<sup>454</sup> and the unwillingness of the government to negotiate with the trade unions, among others. In Tables 7.7 and 7.8 data is presented of the indices of real salaries and real wages in Metropolitan Lima (1990 = base year = 100) and on unemployment and underemployment in Metropolitan Lima.

**Table 7.7: Indices of real salaries and indices of real wages in Metropolitan Lima (1990 = base year = 100): 1985-1990**

Year	Index real salaries	Index real wages
1985	214.2	253.7
1986	287.7	316.6
1987	311.3	332.0
1988	195.3	229.8
1989	136.8	145.2
1990	100.0	100.0

Source: INEI (1994b), *Perú: Compendio Estadístico 1993-94*, Tomo I, pp.478-479.

**Table 7.8: Rates of unemployment and underemployment in Metropolitan Lima: 1985-1990 (as a percentage of EAP)**

Year	Unemployment	Underemployment
1985	xxx	Xxx
1986	5.3 %	42.6 %
1987	4.8 %	34.9 %
1988	xxx	Xxx
1989	7.9 %	73.5 %
1990	8.3 %	73.1 %

Source: INEI (1995), *Perú: Series Estadísticas 1970-1994*, p.448.

<sup>453</sup> It should be noted that the countryside was definitively not exempted from class struggle. Crabtree (2005: 237-238) uses an “indicator of protests” to measure the battles in the rural areas. According to this author, in the fourth trimester of 1988 there were 15 times more battles than in the first trimester of 1985. In 1989 this number was increased to 44 times.

<sup>454</sup> By putting a limit on real wage increases, the State intervened in the collective negotiations between capital and the workers. The trade unions considered this intervention a measure of the APRA regime to maintain the profitability levels of the companies (Balbi, 1988: 49).

The strikes of the proletariat against the economic policies of the APRA government and the demands for wage increases to compensate for increasing inflation were not successful. In the course of 1988 the power of the trade unions started to diminish.<sup>455</sup> According to Crabtree (2005: 233), the reaction of the working population against the austerity measures that were announced in September 1988 was very weak. The national strikes of October 13 and December 1 did not result in massive mobilizations against the government. Cáceres (interview, 2015) explains that during the government of García the national strikes were ‘less proletarian’. It was not the workers strikes that caused a standstill of the cities, but the demonstrations of the popular movement. “The strikes in the 1980s were mostly urban tumult. It was the demonstrations through the city that paralyzed the city. And the success of the strike is not defined by how many factories closed or did not function, but if traffic circulated or not circulated, if there was transport or no transport.” Fernández Chacon (interview, 2015) tells that the reduction of the power of the trade unions was compensated by the increased strength of the defense fronts. Prado (interview, 2015) explains that at the end of the 1980s the labour movement was not leading the social struggles anymore. The local and regional defense fronts became the principal social actors.

Tables 7.1 and 7.2 evidence a reduction of strikes in 1989 and 1990. Although in 1989 still a considerable amount of strikes had been organized, they were less than in 1987 and 1988. Slowly the emphasis of the struggle was put on battles within the companies instead of collective actions organized by trade union federations. Solidarity strikes started to disappear (Balbi & Gamero, 1990: 83-84).

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<sup>455</sup> According to Prado (interview, 2015), the measures of the García government (“*paquetazas*”) started to weaken the labour movement, especially in the private sector. In the public sector, at the end of the 1980s, the struggle of the teachers union, the United Union of the Workers in Education of Peru (*Sindicato Unitario de Trabajadores en la Educación del Perú*; SUTEP for its acronym in Spanish) and the CITE, were still very strong. Ibis Fernández (interview, 2015), a leader of the CGTP who works in the municipality of Lima, tells that the unions of the municipalities maintained their strength and succeeded in obtaining their wage demands. It should be mentioned that during the García regime the salaries of the public sector were indexed for inflation (interview, Fernández, 2015). According to Gorriti (interview, 2015), wage and salary indexation in the public sector ‘avoided’ strikes for wage increases or against wage reductions.

The aggravation of the economic crisis and the dismissal of workers and employees by capital induced the working population, again, to search for individual solutions.<sup>456</sup> Zapata (interview, 2015):

In the second phase of the crisis solidarity mechanisms that had been developed in phase 1 of the crisis [see above; JL] started to fall apart. I have the idea that individualism reappears when the crisis reaches such a level that survival is threatened. You can no longer help the other because one of the two will die. I have to do everything possible to prevent that it is me. So when famine is widespread, solidarity mechanisms were much less effective than in the past. The people began to leave the *comedores populares* and the enthusiasm for solidarity mechanisms such as the *Vaso de Leche* and the popular women's federation declined dramatically."<sup>457</sup> Gorriti (interview, 2015), by referring to a trade union lawyer, says that "crises declass. It is not that crises make you more aware of the issue of class. The crises declass because the people try to survive in one way or the other.

The severity of the crisis contributed to the loss of the political work of the Left and some organizations even started to dissolve (interview, Minguillo, 2015).<sup>458</sup> The people were preoccupied with their own survival and retreated from politics (interview, Militant 1 Pueblo Unido, 2015).<sup>459</sup> The workers left the labour parties because they had to look for work (interview, Fernández Chacon, 2015). Cáceres (interview, 2015): "In the first six months of the crisis the class [the proletariat; JL] is on the offensive against the crisis. If there is no change in the correlation [of classes; JL], a year of crisis and the class is exhausted." The trade unions weakened (interview, Bernedo, 2015).

As the strikes had not been successful in stopping the measures taken by the State and capital, doubts rose about the usefulness of this method of struggle (interview, Checa, 2015). Crabtree (2005: 234) argues that the working population did not want to go on a strike anymore as this meant a loss of income for one or two days. Also it was willing to

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<sup>456</sup> Cáceres (interview, 2015): "Hyperinflation kills all."

<sup>457</sup> Luxemburg (1909-1910): "In general, the greater the need and the pressure in a proletarian layer, the lower the chance of union influence." Fernández (interview, 2015): "When there is more militarization the people will not fight. When there is more hunger, as was said in the past, the people will sacrifice themselves. It is not like that. Human beings are not like that." Hurtado (interview, 2015): "To more exploitation, to more poverty, more revolution, stronger parties, bigger parties. No, things do not work that way."

<sup>458</sup> According to Castro (interview, 2015) the economic crisis strengthened "the levels of organization of the working class around the parties of the Left". Wise (2010: 270) argues that economic insecurity and the fear to lose one's job had a negative effect on labour solidarity.

<sup>459</sup> Militant 1 Pueblo Unido: "I think that we were blurred by the intensity of these processes, of these struggles. We did not see that who was fighting was becoming a strong minority with a capacity to determine the national political agenda. But most of the people were actually not fighting anymore. They were in the struggle for survival, caused by the structural effects of the crisis."

accept wage reductions if one could keep his or her job (interview, Wiener, 2015).<sup>460</sup> Reyna (2000: 197-198) writes that going on a strike was similar to putting one's job on the line.<sup>461</sup> According to Balbi (1990: 69) and Balbi & Gamero (1990: 79), workers started to negotiate the effects of the recession, i.e. to accept the reduction of work hours and/or temporary company closures.

#### **7.1.4. The armed struggle**

In 1980 the PCP-SL started a guerrilla war against the State and capital. Its principal base was in the department of Ayacucho.<sup>462</sup> In the mid-1980s it was believed that the PCP-SL had about 2.000 to 7.000 militants (Wickham-Crowley, 1992: 212).<sup>463</sup>

The PCP-SL considered its organization central for the revolution. In their book *Memorias desde Némesis* Guzmán and Yparraguirre, undisputed leaders of the organization, transcribe parts of the declarations of the VI and VII plenary sessions of the Central Committee (1977). By referring to Mao Tse Tung, the party was to be built through the development of the United Front and the armed struggle. In order to take power, it was indispensable to use violence (Guzmán Reinoso & Yparraguirre Revoredo, 2014: 449-450). In addition, as the national-democratic revolution had not been able to develop itself to its highest form (anti-imperialist and anti-feudal), it was not possible to pass to the phase of the socialist revolution. The national-democratic revolution could only succeed when it would be led by the communist party. History demonstrated that this was only possible through armed struggle. Hence the main task of the revolution in Peru was to initiate the armed struggle. Everything should be done in function of the development of the national-democratic revolution (PCP-SL, 1979).

The time to start the guerrilla war might have been optimal in the sense that the transference of governmental power from a military dictatorship to a parliamentary regime might have caused a certain political and military vacuum. As the armed forces were just

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<sup>460</sup> Wiener (interview, 2015): "There was a feeling that if one did not negotiate with the employer one would go down with the employer."

<sup>461</sup> For the same argument, see Crabtree (2005: 234).

<sup>462</sup> It is interesting to observe that during the elections of 1978 and 1980 the Ayacucho department had, according to Wickham-Crowley (1992: 258), among the highest votes for Marxist oriented parties.

<sup>463</sup> According to Tapia (1997: 93), the PCP-SL counted on 3.000 party militants.



recently returned to their barracks, it was not to be expected that the re-born ‘democratic’ state would ask the military to eliminate the insurgency.<sup>464</sup> However, strategically the timing was definitively not adequate. Although the organization claimed that popular protests were increasing and there was a developing revolutionary situation<sup>465</sup> which urged the use of non-electoral ‘methods’ of action (PCP-SL, 1979, PCP-SL, 1982), as discussed above, in the years after the elections for the Constituent Assembly the struggle of the popular masses started to diminish.<sup>466</sup> Therefore, as the guerrilla struggle of the PCP-SL came too late, it could do nothing else than to use a militaristic / subjective strategy, i.e. to replace the ‘independent’ action of the masses by armed actions of the PCP-SL and hoping that through these actions the masses would rise again.

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<sup>464</sup> See on this also, PCP-SL (1988c).

<sup>465</sup> It seems important to fully transcribe Lenin’s definition of a revolutionary situation as the PCP-SL refers to Lenin for arguing that this situation existed in Peru. In his work “The Collapse of the Second International” (1915) Lenin (1974b: 213-214) describe a revolutionary situation as follows: “To the Marxist it is indisputable that a revolution is impossible without a revolutionary situation; furthermore, it is not every revolutionary situation that leads to revolution. What, generally speaking, are the symptoms of a revolutionary situation? We shall certainly not be mistaken if we indicate the following three major symptoms: (1) when it is impossible for the ruling classes to maintain their rule without any change; when there is a crisis, in one form or another, among the “upper classes”, a crisis in the policy of the ruling class, leading to a fissure through which the discontent and indignation of the oppressed classes burst forth. For a revolution to take place, it is usually insufficient for “the lower classes not to want” to live in the old way; it is also necessary that “the upper classes should be unable” to live in the old way; (2) when the suffering and want of the oppressed classes have grown more acute than usual; (3) when, as a consequence of the above causes, there is a considerable increase in the activity of the masses, who uncomplainingly allow themselves to be robbed in “peace time”, but, in turbulent times, are drawn both by all the circumstances of the crisis and by the “upper classes” themselves into independent historical action. Without these objective changes, which are independent of the will, not only of individual groups and parties but even of individual classes, a revolution, as a general rule, is impossible. The totality of all these objective changes is called a revolutionary situation.” Not every revolutionary situation gives rise to a revolution. According to Lenin (1974b: 214), “revolution arises only out of a situation in which the above-mentioned objective changes are accompanied by a subjective change, namely, the ability of the revolutionary class to take revolutionary mass action strong enough to break (or dislocate) the old government, which never, not even in a period of crisis, “falls”, if it is not toppled over”. In order to define a revolutionary situation, the PCP-SL only refers to the first two objective conditions and eliminates the “independent historical action” of the masses. According to the organization, these two objective conditions generate the mobilization of the masses, i.e. the mobilization of the masses does not generate a revolutionary situation but the revolutionary situation generates the mobilization of the masses (PCP-SL, 1979). Of course, as Lenin argues, conditions 1 and 2 influences condition 3, but we cannot exclude the struggle of the masses in order to define a revolutionary situation. On the same argument, see Ibarra (2010: 70-71). By making reference to Mao, without providing the specific source, the PCP-SL (1979) claims that in a country such as Peru, semi-feudal and semi-colonial, there always exist a revolutionary situation (stationary or in development). According to Ibarra (2010: 72-73), in none of Mao’s work one can find an argument that in semi-feudal and semi-colonial countries there is always a revolutionary situation.

<sup>466</sup> On the same argument, see Ibarra (2010: 73).

At the beginning of the armed struggle the replacement of the ‘independent’ actions of the masses by the armed actions of the guerrilla seemed to be successful (Starn, 1995: 405-406).<sup>467</sup> However, as the organization did not work to establish a United Front with a broad variety of social forces but considered the revolution the work of the party, the people’s army and the mass organizations *created* by the party (PCP-SL, 1988b) such as the Movement of Class Conscious Workers (*Movimiento de Obrero y Trabajadores Clasistas*), the Movement of Poor Peasants (*Movimiento de Campesinos Pobres*) and the Popular Women Movement (*Movimiento Feminino Popular*), in general terms called *movimientos sociales generados*,<sup>468</sup> it was only a matter of time before the organization had to confront its first strategic defeat. In Table 7.9 we present the number of PCP-SL attacks in the years 1980 to 1993.

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<sup>467</sup> In 1991, US-based National Defense Research Institute RAND even considered a victory of the armed struggle led by the PCP-SL an increasing possibility (Lora Cam, 2003: 136).

<sup>468</sup> According Degregori (2010a: 174-175, 180), the *movimientos generados* were not really mass organizations. Basically these organizations served to broaden the party’s periphery of cadres.

**Table: 7.9: Number of attacks by the PCP-SL: 1980-1997<sup>469</sup>**

Year	Attacks
1980	219
1981	715
1982	899
1983	1122
1984	1734
1985	1960
1986	2394
1987	2252
1988	2244
1989	2979
1990	2610
1991	2523
1992	2689
1993	1729

Sources: Mario Miguel Meza Bazan (2012), “El movimiento revolucionario Túpac Amaru (MRTA) y las fuentes de la revolución en América Latina”, p.307; Desco (1989), *Violencia política en el Perú 1980-1988*, p.24.

The first strategic defeat of the PCP-SL, according to Degregori (2010b: 94, 224), was inflicted by peasants of self-defense committees. These committees, also called *rondas*, were founded by the peasants *and* the Army, i.e. sometimes it was a decision of both and in other cases it was the peasants themselves who founded a *ronda* or the Army took the ‘initiative’ to create a *ronda* (Degregori, 1996: 24-25; Coronel, 1996: 62-63, 106; Pino, 1996: 134-135; Starn, 1996: 233-234). In 1991, when the *rondas* started to officially receive arms from the Fujimori regime (Murakami, 2007: 268; Starn, 1996: 237-238), the formation of *rondas* became an integral part of the counter-insurgency strategy (Pino, 1996: 151-152; Burt, 2011: 299).<sup>470</sup> The ex-chief editor Luis Arce of *El Diario*, a newspaper that supported the armed struggle of the PCP-SL, wrote that about half a million of peasants were organized in these self-defense committees (Arce Borja, 2009: 69, 71).<sup>471</sup> The *rondas*

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<sup>469</sup> We have decided to stop listing the actions in 1993 as in that particular year the organization decided to officially put an end to the armed struggle. Although in the years after 1993 armed actions were still being executed in name of the organization, these were not approved by the leadership.

<sup>470</sup> The regime provided 15.390 rifles, to be distributed among 400.360 members of the *rondas* (Degregori, 1996: 24ft11).

<sup>471</sup> Burt (2011: 299), by referring to “experts”, writes that about 200.000 peasants formed part of the *rondas*. Degregori (1996: 24ft11) talks about 400.360 peasants that were organized in 5.786 *rondas*.

provided troops to patrol in desolated areas and they participated in battles against the PCP-SL (Burt, 2011: 299). Even within the *rondas* special military anti-subversive commandos were created (Pino, 1996: 154). The *rondas* permitted the Army to strategically control rural areas (Burt, 2011: 299).

In September 1992 Guzmán and Yparraguirre were arrested. Although their detention did not stop the guerrilla from fighting, it had crucial repercussions for the armed struggle of the PCP-SL. In 1993 the Central Committee declared that the popular war was over and that the struggle had to be continued on the legal terrain, i.e. for a peace accord (PCP-SL, 1993).

The detention of Guzmán and Yparraguirre might of course been attributed to military errors of the organization, however, it seems that the causes of the political defeat of the organization lies much deeper. We believe that the defeat of PCP-SL has been the result of not having been able to create a massive support base in the rural areas. The support bases were considered fundamental for the development of the armed struggle. PCP-SL (1976):

We will not win the peasantry immediately. First we are going to build support bases in large areas and thereupon to develop the People's War. To build a support base requires annihilating the enemy forces, mobilizing the peasant masses and developing our own armed forces. On these support bases the popular power is erected and the agrarian reform is carried out. The problem of the support bases is cardinal for the development of the people's war.<sup>472</sup>

The emergence of self-defense committees in the rural areas indicates not only the effectiveness of the counter-guerrilla policies, but also the difficulties for the PCP-SL to establish a firm rural base. These problems are grounded in the political conceptions of the organization and have less to do with 'external' factors. As Ibarra (2010: 105) argues, "the debacle of Sendero was due to internal causes (its ultra-left line) and [...] external causes (Army repression) only played a conditioning role".

In its efforts to politically, socially and military dominate the rural areas, it not only intended to eliminate whatever state presence, but also possible independent opposition to

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<sup>472</sup> In "Desarrollar la guerra popular sirviendo a la revolución mundial" (1986) and "Bases de discusión de la línea política general" (1988b), among other texts of the PCP-SL, the key importance of building support bases is reaffirmed.

the State and capital, i.e. political organizations and movements that might compete with the party for power in the rural areas. By creating of what have been called “power vacuums” or ‘removing’ all forces that were opposed to the politics of the PCP-SL, or might form an obstacle for its development (Wiener, 1989: 13-14, 37), the organization hoped to occupy these “power vacuums” through their Popular Committees.<sup>473</sup> In not so few occasions, these committees were not the result of political work with the popular organizations but were imposed and maintained by military force.<sup>474</sup> Instead of creating a broad United Front against the State and capital, the way these committees were established helped to create enemies within the popular camp. Naturally, when the armed forces were mobilized to fight the guerrilla, these committees were not able to persist.

The struggle against the State and capital by the PCP-SL could never have counted on a broad popular support as it not only created enemies within the popular camp and it intended to replace the independent movements and organizations against the State and capital by their “*movimientos sociales generados*”, but also because it considered that a United Front should function at the service of the armed struggle of the organization (PCP-SL, 1979; PCP-SL, 1988a). The functions of the United Front cannot be reduced to the armed struggle as the concept of the revolution is much broader than the armed struggle. The latter not necessarily includes the former (Ibarra, 2010: 95).

The PCP-SL was not the only organization that considered it opportune to develop the armed struggle. In 1982 the MRTA was founded. The organization might have counted on 1.000 to 10.000 militants (Sterr, 1997: 252; Strong, 1992: 218; Polay, 2007: 127). When in 1992 its leader Víctor Polay was captured, the actions of the organization diminished drastically. The repentance law (*ley del arrepentimiento*), promulgated in May 1992, that foresaw benefits for jailed militants who provided information that would help to disarticulate the organization, weakened the MRTA considerably (Rénique, 2015: 149-150; Sterr, 1997: 255).<sup>475</sup>

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<sup>473</sup> On these committees, how they were established and functioned, see Manrique (2007: 38-69).

<sup>474</sup> On the basis of a document attributed to Guzmán and found in January 1991 in one of Guzmán’s safe houses, “Balance de la aplicación de la I campaña de impulsar el desarrollo de las bases de apoyo”, Tapia (1997: 89-90) calculated 1.140 popular committees. These committees had power over 211.437 individuals. The majority of these committees were clandestine.

<sup>475</sup> Naturally, also the PCP-SL was hurt by this law as it suffocated its bases, depriving it from its logistical support as the law enabled the State to ‘get’ to ‘low level’ PCP-SL militants (Burt, 2011: 303).

In December 1996 the MRTA assaulted the residence of the Japanese Ambassador in Lima. For about four months militants of the guerrilla organization occupied the residence holding hostage 72 individuals; congressmen, businessmen, Peruvian police officers and Japanese diplomats, among others. In April 1997 Peruvian commandos of the Armed Forces attacked the residence, liberating all but one hostage who died in the action. All guerrilla fighters died, some liquidated with just a bullet in their head. The attack was mortal for the MRTA.

The MRTA considered its armed struggle justified as the civil government had not changed the conditions for the use of revolutionary violence. The structural factors that were aggravating the situation of the country made the development of the guerrilla war possible (MRTA, 1990a: 17).

The MRTA characterized the political situation in the country as pre-revolutionary. This situation would produce the conditions for revolution (MRTA, 1988: 70).

Although the organization did not provide a definition of what it considered to be a pre-revolutionary situation, it surely indicated its key aspects. During the 2<sup>nd</sup> meeting of the Central Committee of the MRTA in February 1985, the organization argued that because the economic and political situation for the masses had deteriorated, the principal method to accumulate forces was through the armed struggle (MRTA, 1990a: 47). According to the MRTA (1990d: 183), the worsening of the political and economic situation of the masses would increase the fighting spirit of the population. Furthermore, it was believed that organized violence might generate the class consciousness that was needed to pass from a pre-revolutionary situation to a revolutionary situation (MRTA, 1990b: 27).

The general objective of the MRTA was, according to Polay (2007: 167), to contribute to the constitution of a real democracy in the country, politically, economically and socially. As the country's mineral resources were being handed over to multinational corporations, the neoliberal policies were excluding the population and the militarization of the country initiated during the government of Belaúnde pointed towards the generalization of state terror, this urged the building of an organization that was prepared to deal with whatever circumstance (Polay, 2007: 183). The MRTA hoped to form an armed wing that would be able to defend the population against military and police aggression (Polay, 2007: 211-212, 397; MRTA, 1990e: 56).

The military politics of defense, i.e. the defense of the interests of the population, seem to coincide with the politics of the IU to predominantly react on daily occurrences instead of building an organization (programmatically and ideologically) that would enable the oppressed and exploited masses to take state power.<sup>476</sup> Indeed, the analyses of the MRTA (1990b: 24-26) of the political situation in Peru were not focused on structural trends and contradictions in Peruvian society, but rather on what happened in the country on a day-to-day basis.<sup>477</sup>

In order to establish real democracy in Peru, the MRTA saw its task to help advance the pre-revolutionary situation to a revolutionary situation (MRTA, 1990c: 70). In concrete terms this meant that the revolutionary war should be prepared (MRTA, 1990a: 15; 1990c: 27). MRTA (1990c: 70): “In a pre-revolutionary period, the task of revolutionaries is to mature this period towards a revolutionary situation. In our country this is only possible through the armed struggle.” Although the MRTA considered the armed struggle the principal element of the revolutionary strategy, in contrast with the PCP-SL it did not discard other forms of struggle (MRTA, 1988: 40-41). In Table 7.10 we present the number of MRTA attacks in the period 1982-1997.

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<sup>476</sup> McCormick (1993: 3), a researcher of RAND, writes that the MRTA is a “high profile” organization. What you see is what you get. Since its inception, it has chosen to pursue short-term operational goals, usually designed to keep the group in the headlines, rather than look to the future and gradually build the grass roots organization necessary to pose a long-term institutional challenge to the standing political order.”

<sup>477</sup> In a critical evaluation of the strategy of the MRTA by ex-militants of the organization, it is stated that some militants, fighters and leaders considered the organization to have been shortsighted and *conyunturalista* (NN, ND: 11).

**Table 7.10: Number of attacks by the MRTA: 1982-1997<sup>478</sup>**

<b>Year</b>	<b>Attacks</b>
<b>1982</b>	1
<b>1983</b>	1
<b>1984</b>	26
<b>1985</b>	90
<b>1986</b>	155
<b>1987</b>	237
<b>1988</b>	171
<b>1989</b>	170
<b>1990</b>	169
<b>1991</b>	262
<b>1992</b>	306
<b>1993</b>	189
<b>1994</b>	133
<b>1995</b>	141
<b>1996</b>	91
<b>1997</b>	137

Source: Mario Miguel Meza Bazan (2012), “El movimiento revolucionario Túpac Amaru (MRTA) y las fuentes de la revolución en América Latina”, p.307.

One of the main causes of the political defeat of the MRTA was its incorrect understanding of Peruvian reality. Hence the organization was not able to adequately respond to changing political situations. Although the MRTA was aware that the Peruvian population did not have the necessary class consciousness for revolution, it thought that the proper fighting experience of the population would generate this consciousness. The organization did not understand that an armed struggle in times of extreme economic and social crisis does not generate ‘normal’ political outcomes of class struggle. Poverty and car bombs do not create a revolutionary consciousness, but, in fact, given the dominance of the ideology of the ruling class and their management of the means of communication, create apathy, survival strategies and fascist solutions.<sup>479</sup> When in 1987 the economic and social crisis unfolded, the organization should have put all its energy to politically and

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<sup>478</sup> We have decided to stop listing the actions in 1997, notwithstanding the fact that the organization still executed military actions, because after the massacre in the residence of the Japanese Ambassador the organization was practically beheaded.

<sup>479</sup> The pauperization of the masses causes demobilization (interview, Militant 2 Pueblo Unido, 2015).



ideologically develop itself, to create support bases and to work towards becoming a political alternative.<sup>480</sup>

The MRTA thought that the militarization of Peru at the beginning of the 1980s urged the existence of an organization that could defend the population (MRTA, 1990b: 26). On the basis of this defense it was thought that the consciousness of the population would ripen for a socialist struggle. However, to base the armed struggle on the defense of the population meant that the organization could not convert itself into an organization that would lead the revolutionary process to take state power. The MRTA depended heavily on the popular organizations to advance the struggle. However, when these organizations were defeated, or maybe better, destroyed, it left the MRTA without any concrete revolutionary horizon.

## **7.2. Class struggle from above: 1990-2000**

The presidential elections in 1990 marked a turning point in the political, economic and social history of Peru. After ten years of being ‘harassed’ by the proletariat and their left-wing representatives, armed and unarmed, electoral and non-electoral, a ferocious class struggle from above was initiated. Although the policies of Fujimori did not favour the capitalist class as a whole, he could count on its complete support (Durand, 2004: 322-323) as the system was starting to fall apart. As a matter of fact, it could be argued that in 1990 it was the choice between socialism or the neoliberal version of capitalism.

Fujimori’s auto-coup of April 1992, condemned by all oppositional bourgeois and left-wing electoral forces, was meant to forcefully implement the legal apparatus of the neoliberal economic ‘reforms’ and to introduce a drastic repressive legislature (or the legalization of the counter-insurgency strategy of the Army) that should permit an

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<sup>480</sup> For the same arguments, see NN (ND: 23). Néstor Cerpa, the MRTA commander who led the assault on the residence of the Japanese ambassador in 1996, told in an interview just before the attack on the residence that with the military offensive against the PCP-SL and the MRTA at the beginning of the 1990s, and especially after the auto-coup of Fujimori in April 1992 (see below), and the introduction of the *ley del arrepentimiento*, the organization should have started to ideologically strengthen its militants instead of continuing with the attacks. The difficult times that lay ahead urged to fortify the organization. It is apparently after the arrest of Polay in June 1992 that the organization decided a tactical retreat (MRTA, Dirección Estratégica, 2008: n.p). See for these issues also, NN (ND: 17, 90-92).

‘efficient’ repression of the armed and the unarmed Left.<sup>481</sup> It was considered that discussions in Congress would slow down and even impede the necessary legislative framework.<sup>482</sup> According to De la Cruz (interview, 2015), “these were economic prescriptions of the International Monetary Fund, the Washington Consensus. These measures could not be implemented in democracy. You could not privatize in democracy.”<sup>483</sup> Wiener (interview, 2015): “Since Morales it was tried to impose the economic model [the neoliberal model; JL] in Peru. At the end they had to resort to a coup.”

### **7.2.1. Class struggle under neoliberalism**

The class struggle from above was a great success for capital. It not only helped to reduce strikes<sup>484</sup> and trade union membership,<sup>485</sup> it also increased their profits (see table 5.18 above). Tables 7.11 and 7.12 show the evolution of strikes in the private sector in the period 1991-2000 and trade union membership in Metropolitan Lima for the years 1990 to 2000.<sup>486</sup> In Graphs 7.1 and 7.2 we present the evolution of the strike movement in the private sector and the number of workers involved in these strikes for the period 1980-2000.

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<sup>481</sup> According to the PCP-SL (1991a: n.p), a counter-guerrilla struggle could only be led with “absolute centralization”. State institutions should be turned into the “complete negation” of bourgeois democracy, i.e. they should stop functioning.

<sup>482</sup> For these matters and the process that led to the auto-coup, see Olano (2001: 17-20).

<sup>483</sup> According to Castro (interview, 2015), it was not possible to implement neoliberalism in democracy. It needed an “authoritarian hand”. See for the same arguments, Auris (interview, 2015). See also Klein (2007: 32-33).

<sup>484</sup> It should be mentioned that already at the beginning of Fujimori’s regime strikes that would threaten the provision of basic social services had become illegal (Bowen, 2000: 83). Gorriti (interview, 2015): “In the late 1980s strikes diminished due to strong trade union action. In 1990s, strikes diminished because of weak trade union action.” According to Bernedo (interview, 2015), strikes had reduced because the trade unions had weakened.

<sup>485</sup> At the start of the 1990s the search for individual solutions instead of a collective battle against the State and capital was generalized (interview, Bernedo, 2015).

<sup>486</sup> The diminution of trade union militancy has, obviously, adverse effects on the power of the unions. It also seems to negatively affect the non-affiliated workers individually.

**Table 7.11: Strikes in the private sector: 1991-2000**<sup>487</sup>

Year	Strikes	Workers involved	Man hours lost
1991	315	180.728	8.880.886
1992	219	114.656	2.319379
1993	151	41.474	2.167764
1994	168	62.940	1.936647
1995	102	28.182	1.048753
1996	77	36.242	1.399886
1997	66	19.196	3.19414
1998	58	17.333	323.168
1999	71	52.080	724.260
2000	37	5.280	181.691

Source: <http://www.inei.gob.pe/estadisticas/indice-tematico/ocupacion-y-vivienda/> (consulted 27/08/2015).

**Table 7.12: Members of trade unions in Metropolitan Lima: 1990-2000 (as a percentage of salaried workers in Metropolitan Lima)**<sup>488</sup>

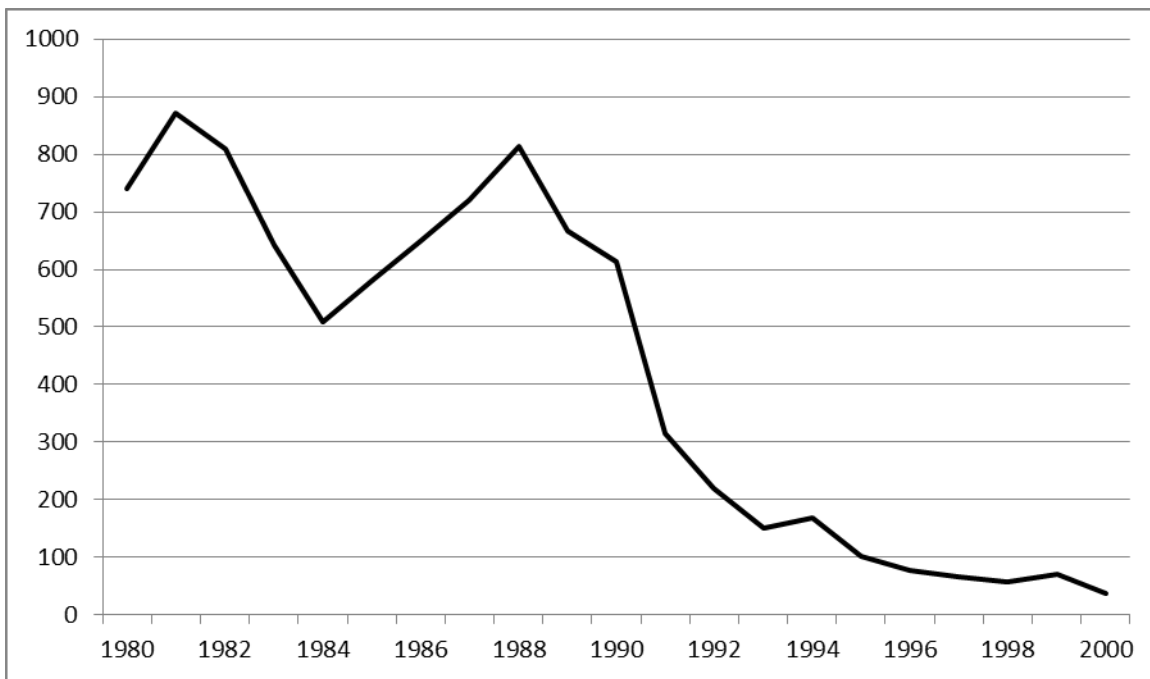
Year	Affiliation to trade unions
1990	21.9 %
1991	18.4 %
1992	16.3 %
1993	10.9 %
1994	11.7 %
1995	8.0 %
1996	5.1 %
1997	4.7 %
1998	4.0 %
1999	2.7 %
2000	2.8 %

Source: Fernando Cuadros Luque (2015), “Situación del mercado de trabajo y costos laborales en el Perú”, p.25.

<sup>487</sup> See appendix 6 for strikes according to economic sector in the period 1991-2000.

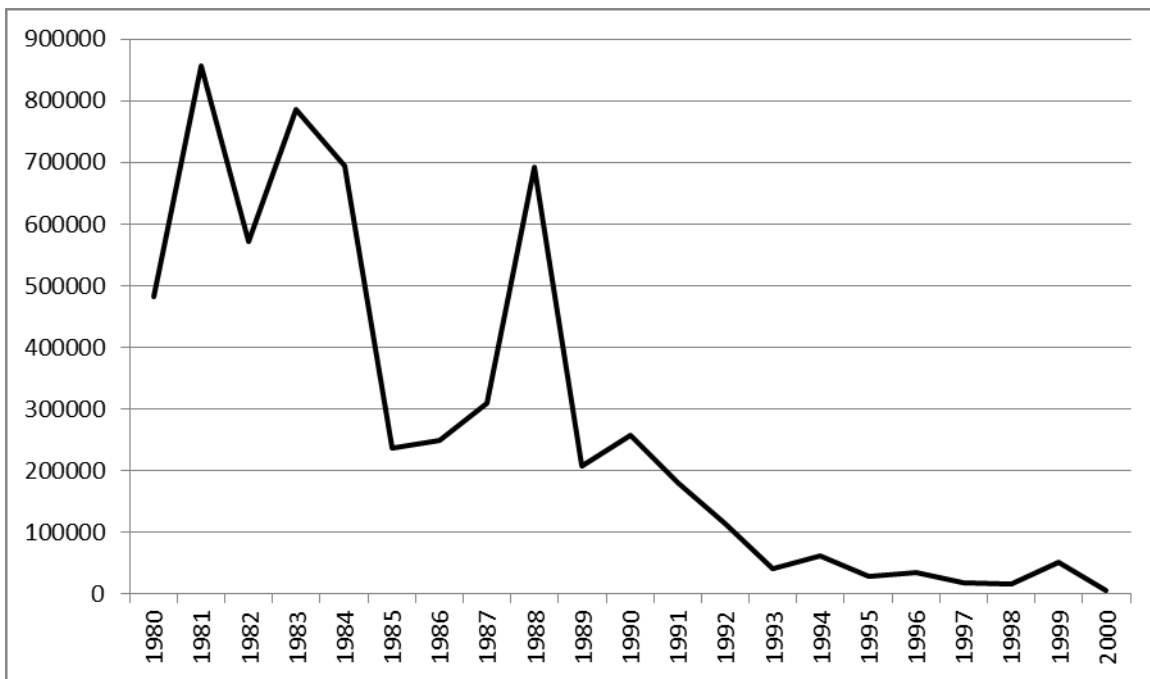
<sup>488</sup> See for comparative data, Gamero & Humala (2002: 58).

**Graph 7.1: Strikes in the private sector: 1980-2000**



Source: Ministerio de Trabajo y Promoción del Empleo (2015), *Huelgas en el Perú 2014*, p.21.

**Graph 7.2: Workers involved in strikes in the private sector: 1980-2000**



Source: Ministerio de Trabajo y Promoción del Empleo (2015), *Huelgas en el Perú 2014*, p.21.

The Fujimori regime never had the intention to structurally increase the welfare of the Peruvian working population. The anti-labour measures formed part of a project to destroy the revolutionary *and* reformist forces of the Peruvian Left.<sup>489</sup> According to Castro (interview, 2015), “the Americans, the intelligence services, are not very interested in the armed man. You can fight the armed individual. What matters is to disrupt social subversion, the organized masses. The main target of the Fujimori-Montesinos dictatorship since 1992 is the working class”. Gorriti (interview, 2015): “The trade union movement is for two reasons severely beaten. One, Fujimori fires around 400.000 state workers. He strongly hits their unions, the CITE at that time. He destroys it practically; it disappears. Its leaders are fired. Besides firing its leaders, he dismisses a lot of workers. Unions disappear. [...] Second, he begins to privatize all state enterprises and other sectors of the national economy and then begins to put the anti-labour laws in force.”

The measures against labour not only had the declared objective to increase the rates of exploitation, but also to destroy the labour movement.<sup>490</sup> The application of anti-terror laws in the 1990s was not reduced to the guerrilla. Even legally functioning organizations were subjected to these laws.<sup>491</sup> State repression went so far as to murder trade union

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<sup>489</sup> The anti-labour measures of the Fujimori regime “destroyed the trade union vanguard” (interview, Prado, 2015). Fernández Chacon (interview, 2015): “The flexibilization of labour was the strongest weapon they had to liquidate the organizations.”

<sup>490</sup> Mandel (1976: 158): “If [...] capital succeeds in decisively weakening, or even smashing, the trade unions and all other organizations of the working-class—including their political organization; if it succeeds in atomizing and intimidating the proletariat to such an extent that any form of collective defense becomes impossible and workers are once more relegated to the point from which they started—in other words, the ‘ideal’ situation, from the point of view of capital, of universal competition of worker against worker, then it is quite possible 1) to use the pressure of unemployment to bring about a significant reduction in real wages; 2) to prevent wages returning to their previous level even in the phase of a upswing following a crisis, i.e., to lower the value of the commodity of labour-power in the long term; 3) to force the price of the commodity of labour-power down, by means of manipulations, deductions and various swindles, even below this already diminished value; 4) simultaneously to achieve a significant increase in the average social intensity of labour and even to attempt, in tendency, to prolong the working day. The outcome of all these changes can only be a rapid and massive rise in the rate of surplus-value.”

<sup>491</sup> Marta Luza (interview, 2015), a human rights lawyer, an advisor of peasant communities in the department of Cusco and in the 1980s also a lawyer of trade unions, believes that the current weakness of the peasants federation and the workers federation in Cusco was the “product of huge repression in the last twenty years”. This has dispersed these organizations. Combined with this repression and with the auto-coup of Fujimori, a “revolution of the Right has taken place”. This was a revolution “of a neoliberal system that has penetrated all State structures from within”. Moreno (interview, 2015): “After the 1990s we [the PCP-PR; JL] no longer struggled to grow, but we fought to ‘keep us alive’ and to avoid from being destroyed”.

leaders such as Pedro Huilca (interview, Gorriti, 2015).<sup>492</sup> The use of the massive means of communication to instill the logic of market thinking in the population, and the implementation of social policies that pointed to suffocate protests and to maintain popular support (the policies of what might be called *clientalismo* and *asistencialismo*), completed the ferocious class struggle from above.<sup>493</sup>

### **7.3. The return of the Left: 2000-2015**

In November 2000 President Fujimori fled the country, a few months after having won the presidential elections. The replacement of Fujimori by Toledo had an important effect on the political space for oppositional forces. It seems that Fujimori's 'fall' liberated latent social unrest and social anger. Social protests rose spectacularly (Garay & Tanaka, 2009: 60).

#### **7.3.1. The trade unions and the popular movement**

The rise of social protests during the Toledo regime was met, just as before, with police repression, deaths, detentions and the declaration of the state of emergency in different parts of the country. The government was afraid of the possible negative effects of increasing social struggle on economic development (Pajuelo, 2004: 58-59). However, while during the Fujimori regime repression was a frequent and effective method to suffocate the battles of the people, the Toledo government did not succeed in obtaining the same results. In June 2002 the people of Arequipa rose against the intentions of the regime to privatize the state-owned electricity companies. The repression of the protests could not stop new battles from emerging.

Together with the 'return' of social protests the trade unions reappeared at the negotiation table with the government. They demanded the reconsideration of some anti-labour laws and decrees that had been passed under Fujimori's regime such as the

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<sup>492</sup> When Pedro Huilca was assassinated, he was the general secretary of the CGTP. On state repression against the trade unions, see Strong (1992: 204-205).

<sup>493</sup> On *clientalismo* of the Fujimori regime, see Solfrini (2001: 62-63), Crabtree (1999: 62-63) and Roberts (1996a).

restoration of collective bargaining at the economic-sector level, the participation of labour in the profits of the companies, the extension of the right of unionization to the public sector,<sup>494</sup> the improvement of the labour conditions, and the reinstatement of workers who had been fired during the Fujimori regime (Solfrini, 2001: 71; Garay & Tanaka, 2009: 67).<sup>495</sup> In Table 7.13 we present the evolution of the strikes in the private sector in the period 2000-2014.

**Table 7.13: Strikes in the private sector: 2000-2014**

<b>Year</b>	<b>Strikes</b>	<b>Workers involved</b>	<b>Man hours lost</b>
<b>2000</b>	37	5.280	181.691
<b>2001</b>	40	11.050	488.930
<b>2002</b>	64	22.925	912.648
<b>2003</b>	68	37.323	881.362
<b>2004</b>	107	29.273	582.328
<b>2005</b>	65	19.022	478.738
<b>2006</b>	67	19.565	446.584
<b>2007</b>	73	48.096	2.216.520
<b>2008</b>	63	34.011	1.520.960
<b>2009</b>	99	36.114	1.452.466
<b>2010</b>	83	30.606	1.279.380
<b>2011</b>	84	26.770	1.799.416
<b>2012</b>	89	25.845	1.878.696
<b>2013</b>	94	26.736	1.573.202
<b>2014</b>	95	40.681	3.153.018

Sources: <http://www.inei.gob.pe/estadisticas/indice-tematico/ocupacion-y-vivienda/> (consulted 05/05/2015); Ministerio de Trabajo y Promoción del Empleo (2015), *Huelgas en el Perú 2014*, p.21.

The ‘return’ of the trade unions in the political and economic arena is obvious when we look at the evolution of the strike movement. However, undeniable is the fact that current trade union power is incomparable with the decade of the 1980s. According to Juan José Gorriti (interview, 2015), currently the Vice President of the main workers

<sup>494</sup> The Constitution of 1979 allowed the building of unions in the public sector, i.e. in the Ministries (interview, Bernedo, 2015; interview, Gorriti, 2015). The Constitution of 1993 prohibited this.

<sup>495</sup> According to data of Garay & Tanaka (2009: 66), in the period 2001-2006 protests were mainly caused by labour issues.

organization, the CGTP, around 10 per cent of the formal EAP of the private sector (25 per cent of total EAP of the private sector) is affiliated to a union. And while in the period 2000-2014, in the case of the private sector, 1.128 strikes took place that involved 413.297 workers and caused a loss of 18.845.939 man hours, in the years 1980-1990 and 1991-1999 these figures were respectively 7.612, 5.346.638, 201.755.074, and 1.227, 552.831, and 19.120.157.<sup>496</sup> The class struggle from above initiated in the 1990s has definitively meant an epochal change, i.e. a structural change in the correlation of class forces.

A detailed analysis of the strikes according to economic activities reveals that the vanguard of the urban class struggle is formed by workers and/or employees in mining, manufacturing and construction. Workers and employees in transport and in 2014 also those individuals that were employed in public administration and defense, can be found in the front ranks of the class struggle in the urban areas.

The evolution of the strike movement in the last fifteen years is directly related to the expectations that were fostered by the governments of Toledo, García and Humala. Especially it was supposed that the regimes of Toledo and Humala would increase the income of the working population. However, economic progress did not “trickle down”, the rates of remuneration as a percentage of GDP kept falling in favour of the exploitation surplus, and the remuneration of the absolute majority of the working population was still near the minimum wage level. The commodities boom during the García regime was not translated in income increases of the working population. Average remuneration was even allowed to decrease below the official minimum wage level. Hence the urban class struggle in the years 2000 to 2014 has been mainly fought around social and economic issues such as wage and salary demands, the improvement of the labour conditions and against the renewed attacks on what is left of the labour rights. In Tables 7.14, 7.15 and 7.16 we present the evolution of the strike movement according to economic activity in the period 2000-2014. We have divided the data in three tables as the economic activities to which the strikes correspond do not coincide in these three periods.

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<sup>496</sup> Source: <http://www.inei.gob.pe/estadisticas/indice-tematico/ocupacion-y-vivienda/> (consulted 27/08/2015).



**Table 7.14: Strikes according to economic activity: 2000-2007**

<b>Economic Activities</b>	<b>Strikes</b>	<b>Workers involved</b>	<b>Man hours lost</b>
<b>Agriculture (i)</b>	6	1.909	211.264
<b>Fishing</b>	xxx	xxx	xxx
<b>Mining</b>	116	69.254	2.942.664
<b>Oil and gas extraction</b>	4	468	3.744
<b>Manufacturing</b>	93	36.325	778.689
<b>Electricity (ii)</b>	62	15.358	130.112
<b>Construction</b>	52	27.618	793.712
<b>Transport (iii)</b>	80	9.565	197.136
<b>Commerce (iv)</b>	5	392	3.808
<b>Finance (v)</b>	xxx	xxx	xxx
<b>Real estate activities, company activities and house renting</b>	27	9.659	298.312
<b>Education</b>	8	712	5.696
<b>Public administration and defense</b>	38	4.042	55.488
<b>Social services and health</b>	19	6.809	247.700
<b>Services (vi)</b>	3	197	15.808
<b>General strikes</b>	3	2.226	18.128

Sources: INEI (2006), *Perú: Compendio Estadístico 2006*, p.335; INEI (2008), *Perú: Compendio Estadístico 2008*, p.382.

(i) Includes: Cattle raising, hunting, forestry.

(ii) Includes: Gas and water.

(iii) Includes: Storage and communication.

(iv) Includes: Restaurants and hotels.

(v) Includes: Assurance companies, real estate, company services.

(vi) Includes: Social and personal community services.

xxx = No information provided or no strikes.

**Table 7.15: Strikes according to economic sectors: 2008-2013**

<b>Economic Activity</b>	<b>Strikes</b>	<b>Workers involved</b>	<b>Man hours lost</b>
<b>Agriculture (i)</b>	10	4.039	73.776
<b>Fishing</b>	4	608	16.936
<b>Mining</b>	202	10.939	6.468.686
<b>Manufacturing</b>	116	31.343	1.476.336
<b>Electricity (ii)</b>	17	6.215	125.554
<b>Construction</b>	38	5.408	47.592
<b>Transport (iii)</b>	35	7.359	358.878
<b>Commerce (iv)</b>	15	4.958	118.352
<b>Finance</b>	6	5.636	36.168
<b>Real estate activities, company activities and house renting</b>	8	911	36.808
<b>Education</b>	10	1.335	37.488
<b>Public administration and defense</b>	31	7.161	118.720
<b>Social services and health</b>	14	6.137	512.722
<b>Services (v)</b>	3	113	14.152
<b>Not determined</b>	5	1.760	19.920

Source: [http://www.inei.gob.pe/media/MenuRecursivo/publicaciones\\_digitales/Est/Lib1173/cap07/ind07.htm](http://www.inei.gob.pe/media/MenuRecursivo/publicaciones_digitales/Est/Lib1173/cap07/ind07.htm) (consulted 26/12/2015).

(i) Includes: Cattle raising, hunting, forestry.

(ii) Includes: Gas and water.

(iii) Includes: Storage and communication.

(iv) Includes: Restaurants and hotels.

(v) Includes: Social and personal community services.

**Table 7.16: Strikes according to economic activities: 2014**

<b>Economic Activities</b>	<b>Strikes</b>	<b>Workers involved</b>	<b>Man hours lost</b>
<b>Agriculture (i)</b>	3	556	15.552
<b>Mining</b>	32	14.748	1.170.064
<b>Manufacturing</b>	32	7.766	367.688
<b>Electricity (ii)</b>	1	377	6.032
<b>Construction</b>	2	1.108	21.952
<b>Transport (iii)</b>	3	1.276	278.126
<b>Commerce (iv)</b>	5	1.582	23.040
<b>Finance (v)</b>	5	2.651	40.680
<b>Real estate activities, company activities and house renting</b>	1	100	2.400
<b>Education</b>	1	245	7.840
<b>Public administration and defense</b>	5	6.359	684.648
<b>Social services and health</b>	5	3.913	53.499

Source: Ministerio de Trabajo y Promoción del Empleo (2015), *Huelgas en el Perú 2014*, p.25.

- (i) Includes: Cattle raising, hunting, forestry.
- (ii) Includes: Gas and water.
- (iii) Includes: Storage and communication.
- (iv) Includes: Car reparation.
- (v) Includes: Assurance companies and pension funds

The fact that individuals working in mining, manufacturing and construction are leading the urban class struggle, i.e. their organizations form the vanguard of the class struggle in the urban areas, does not tell us anything about its real power in society. In order to assess this power we should analyze the importance of the mining, manufacturing and construction sectors for employment and economic development.

In the years 2001 to 2014 data of the Peruvian National Institute of Statistics and Informatics showed that the mining, manufacturing and construction sectors employed between 14 per cent and 17 per cent of the occupied EAP.<sup>497</sup> According to data of the Peruvian Central Bank, in the period 2000-2014 the contribution of the mentioned sectors to GDP (in prices of 2007) fluctuated between 32.7 per cent and 36.5 per cent.<sup>498</sup>

<sup>497</sup> See on these data INEI (2010: 97) and <http://www.inei.gov.pe/estadisticas/indice-tematico/ocupacion-y-vivienda/> (consulted 26/12/2015).

<sup>498</sup> Source: <http://www.bcrp.gov.pe/estadisticas/cuadros-anales-historicos.html> (consulted 26/12/2015).

The power of the vanguard of the class struggle is based on the economic importance of the mining, manufacturing and construction sectors. In terms of the vanguard's impact on workers and employees in other economic sectors the picture is not at all clear. The effect of the vanguard on individuals working in other economic sectors might be considered limited because of the small part of the Peruvian occupied EAP that works in mining, manufacturing and construction. However, more than just its reduced size in terms of employment, the fundamental reasons for the weak impact of the vanguard on the rearguard have to be sought in the political and social weakness of the trade unions in general.

The current political and social weakness of the trade unions can be explained by the changes in the Peruvian class structure. Individuals who in the 1980s and 1990s were wage labourers have become own account workers or independents (interview, Checa, 2015; interview, Moreno, 2015; interview, Militant 2 Pueblo Unido, 2015; interview, Risso, 2015).

A second cause of the weakness of the trade unions is the fact that still a considerable number of the EAP is not adequately employed. While in 1979 51.4 per cent of the EAP was underemployed, in 1984 this had grown to 54.2 per cent. In 1990 the rate of underemployment stood at 73.1 per cent, in 2000 it was reduced to 42.9 per cent (INE, 1983: 99; INE, 1987: 150; Murakami, 2007: 374, 430) and in 2014 it had grown again to 46.3 per cent.<sup>499</sup> Although in Peru a 48-hours working week is mandated by law, these long working hours do not seem to be enough to generate sufficient income to 'survive', obliging individuals to look for a second job. The struggle for survival reduces time available for union activities.

A third element that has a negative impact on the power of the trade unions is the generalized use of temporary contracts by the State and capital. While in 1990 39 per cent of the working population was hired on a temporary basis, in 2003 this had increased to 77 per cent. In 2012, the majority of the contracts in whatever type of company and of

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<sup>499</sup> Source:

[https://www.inei.gob.pe/media/MenuRecursivo/publicaciones\\_digitales/Est/Lib1253/cap07/ind07.htm](https://www.inei.gob.pe/media/MenuRecursivo/publicaciones_digitales/Est/Lib1253/cap07/ind07.htm)  
(consulted 20/02/2016).

whatever size were temporary contracts (Instituto de Estudios Sindicales, 2012: 3).<sup>500</sup> Gorriti (interview, 2015): “Temporary contracts eliminate whole unions.” Fernández (interview, 2015) says: “Every time there are lesser and lesser unions. Individuals on a contract-base do not affiliate to a union. The only ones who dare to join are those who are affiliated years ago.”<sup>501</sup> Fernández Chacon (interview, 2015) tells that one of the reasons why there are no mineworker strikes is because only 20 per cent are permanent workers.

A fourth negative influence on the possibilities of the organized working population to make a fist against the State and capital is the problem of informality. Gorriti (interview, 2015): “The working class of manual workers, including highly skilled workers, was in the 1980s mostly replaced by self-employed formal or informal workers.”<sup>502</sup> Informal workers are very hard to organize (interview, Fernández Chacon, 2015). Gorriti (interview, 2015) tells that for the organization of protests you cannot count on informal workers. You do not know if they are going to participate or not.

The fifth reason for the weakness of the trade unions can be traced back to the neoliberal ‘reforms’ of the 1990s. According to Fernández (interview, 2015), the privatization of the economic activities of the municipalities fragmented the union power of the municipality workers. Instead of two big unions (of workers and employees), nowadays, in Lima, there exist a whole range of small unions that organize individuals employed in the municipality of Lima. In addition, individuals that are employed in the privatized municipality services are working on a temporary base.

Currently, the oppositional urban forces are still weak and the class struggle is principally based on social and economic demands. In the countryside, however, the class struggle has entered the political stage. In section 7.4 we delve into the struggle of the indigenous and peasants based social movements. Their fight is not about an agrarian reform but, principally, for the defense of their lands and livelihoods.<sup>503</sup>

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<sup>500</sup> See for more data on temporary contracts, section 5.14. According to Dammert (interview, 2015), the majority of productive labour is based on subcontracting and temporary contracts.

<sup>501</sup> The effects of temporary contracts on the trade unions were already felt in the 1990s. Zapata (interview, 2015): “The strike does not make sense. [...] The workers stop to strike because the strike is a mechanism to get something. But if you do not get this something through a strike, why going on a strike?”

<sup>502</sup> See section 6.10 for data on informality.

<sup>503</sup> A rural trade union movement is currently inexistent. One of its main causes is the fact that the big majority of the peasantry is formed by small and very small landowners (see section 6.7) and do not depend on an employer (Eguren, 2014: 184).

### 7.3.2. Civil society versus class struggle—a matter of discourse and ideology

Together with the trade unions the political Left returned to the political surface. However, class struggle positions had to make way for positions that tended to class collaboration.<sup>504</sup> Instead of a struggle for socialism now the battle is about the humanization of the capitalist system. As argued by Adrianzén (2009: 112-113), the 1990s were a programmatic defeat for the Left. The market was being accepted as the central institution for the allocation of resources and the discussion about how capital is accumulated was replaced by a technical debate on how to diminish poverty. Breña (Adrianzén, 2011b: 269), general secretary of the PCP-PR, argues that neoliberalism has inflicted a political, social and ideological defeat on the Left because socialist elements in the consciousness of the population were replaced by the market, competition and individualism.<sup>505</sup>

The concept of civil society is of major utility to the bourgeoisie as it helps to maintain and deepen a false image within the oppressed and exploited classes and social layers regarding the characteristics of capitalist society in general and the capitalist state in particular. The concept contributes to a consciousness of the proletariat that is not in accordance with its objective interests. While the capitalist production process is being constructed in such a way as to prevent the working class to ‘transform itself’ from a class in itself to a class for itself—the productive process is not only a technical one but also a social process, “in which the transformation of the material conditions of existence is simultaneously the production, reproduction, and transformation of social relations between the direct producers (engaged in actual productive labour) and the appropriators of their “surplus product” (those who control the means of production” (Zeitlin, 1980: 2)—, the concept of civil society intends to create the perception that society is composed of classless individuals or subjects. As Wood (1990: 79) comments, “the whole object of the exercise is to side-line class, to dissolve it in all-embracing categories which deny it any privileged status or even any political relevance at all”.

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<sup>504</sup> According to Adrianzén García (2008: 28), it was already in the 1980s that the Left, slowly, started to leave Marxist-Leninist positions.

<sup>505</sup> Auris (interview, 2015): “In the realm of ideas, neoliberalism has inflicted us a hard temporary defeat.” According to Benavides (interview, 2015), the PCP-PR and the people have suffered an ideological defeat as the people started to believe in neoliberalism. See on this ideological defeat also, Mendoza (interview, 2015).

The concept of civil society is embedded within a discourse that eliminates class as the fundament of society, as the basic unit for the analysis of the development of capitalist society, and as the key for revolutionary social transformation. By ‘removing’ class from society, the discourse is able to concentrate the analysis of, for instance, inequality and poverty, on its superficial appearances instead of on its causes. As a consequence, it eradicates the possibility to define strategic power relations as well as conflicts between social groups (Portes & Hoffman, 2003: 9). In addition, and not in the least unimportant, civil society discourse intends to make us believe that a gap exists between the state and society, even contradictory interests. The state is considered autonomous and politics and economics are conceived of as two different spheres of action. By making reference to Wood, Morton (2004: 158) argues that “by dividing politics and economics attention is diverted from social (class) struggles over subordination and exploitation that are inextricably embedded within capitalist social relations of production”.

The overwhelming influence of the concept of civil society in the Peruvian Left can be evidenced by the emergence of organizations such as *Fuerza Social* and *Ciudadanos por el Cambio*. While *Fuerza Social* won the municipal elections of Lima in 2010, *Ciudadanos por el Cambio* participated in the elaboration of Humala’s election program The Great Transformation. According to Traverso (2013: 442-443), *Ciudadanos por el Cambio* was Humala’s programmatic and ideological support, in 2006 as well as in 2011. Members of this organization participated in the first six months of Humala’s government. One of its leaders is Salomón Lerner, Humala’s first Prime Minister.

The objectives of *Fuerza Social* point to a good functioning of the free market, respect for the environment, solidarity, social justice and equality of opportunities. According to Sagasti, a member of *Fuerza Social*, “the market has demonstrated to be an efficient mechanism for the allocation of resources and to promote growth”. It should play a central role in economic life but cannot function properly without a clear and impartial legal and regulative framework. *Fuerza Social* considers the active participation of business associations, trade unions and civil society organizations as one of the prerequisites for a good functioning of the free market (Traverso Flores, 2013: 434).

The emergence of left-wing oriented political parties with a ‘civil society profile’ does not necessarily imply a generalized acceptance of civil society discourse, however, it

is characteristic of the metamorphosis of the Peruvian Left in the first fifteen years of the third millennium. This radical change is perfectly embodied in the former leader of the PCR, a Marxist-Leninist organization of the 1970s and 1980s, and one of the principal members of *Ciudadanos por el Cambio* Manuel Dammert, currently a firm adherent of what he calls the “community of citizenry”, the “power of citizenry” and the “Republic of Citizens” (Dammert Ego Aguirre, 2014: 566, 576, 586). Naturally, as the state is considered to be separated from society, Dammert argues that although the governments of Toledo, García and Humala wanted to introduce “substantial changes”, rapidly they were controlled by the “plutocratic lobbies” (Dammert Ego Aguirre, 2014: 586). In their “Manifiesto. Por la gran transformación del Perú” of January 2010, *Ciudadanos por el Cambio* tells us that the governments after Fujimori were kidnapped in favour of a few’. The State was controlled by a dominant group (Traverso Flores, 2013: 444).

Civil society discourse is connected with the idea that it is possible to regulate the capitalist economy in favour of the big majority of the population. *Ciudadanos por el Cambio* heavily criticizes the neoliberal model and the policies that benefit transnational capital. It proposes a new social contract at the benefit of the population, the defense of the national patrimony, the control of the State over the country’s natural resources, industrialization and universal social policies, among others (Traverso Flores, 2013: 444). It also favours the market economy, a ‘solidary globalization’ and processes of capitalist regional integration such as the Andean Community and Mercosur (Traverso Flores, 2013: 444).

### **7.3.3. Electoral participation: political survival and conceptual change**

Since the return of parliamentary democracy in 1980 the participation of the Left in presidential, regional and municipal elections is not a surprise. Election periods are useful for the Left as this provides possibilities to present its proposals for a politicized ‘audience’. A participation in national, regional and local parliaments can be helpful to strengthen the Left and to fortify social movements (accumulation of forces). A parliamentary presence of the Left is furthermore of importance as it is a suitable platform for denouncing policies



that go against the interests of the majority of the population and for the defense of these interests.

In the 1980s the IU considered parliamentary work one of the methods to defend the interests of the population and to strengthen the organizational power of the exploited and oppressed masses (Izquierda Unida, 1989: 70, 74). In the third millennium it seems that the electoral participation of the Left is motivated by political survival.<sup>506</sup> While in 2006 it presented independent presidential candidates and still had some political doubts about Humala,<sup>507</sup> in 2011 it completely backed the campaign of Humala. The political desperateness of the Left blinded it for Humala's transformation when he changed his election program The Great Transformation for the Route Sheet. This miscalculation came wide in the open when in December 2011 left-wing supporters of Humala started to abandon the regime as it turned out that he would continue the economic policies of his predecessors.

The run up to the presidential elections of 2016 demonstrated that an important sector of the Left was willing to give up its principles to assure its participation in the elections. It was even prepared to participate in a coalition with the former Prime Minister of the second García government Yehude Simon as his party, the *Partido Humanista Peruano*, was inscribed in the electoral register.<sup>508</sup> Critics from the Left on Simon's participation in this coalition led the *Partido Humanista Peruano* to abandon it.

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<sup>506</sup> In a document on its electoral strategy for 2016, the PCP-PR tells us that today the principal contradiction is between the continuity of neoliberalism and democratic and patriotic change. It is not between capitalism and socialism and also not between the Left and the Right. An electoral bloc should be composed that would be able to fight the extreme neoliberal right, to neutralize centre-right oriented sectors and to impede the isolation of the PCP-PR (PCP-PR, 2015: 2-3). According to Moreno (interview, 2015), this "New Course" is a "proposal of fundamental reforms". As the correlation of forces is completely changed, it is not possible to fight for socialism. The weakness of the Left (many organizations have disappeared) and the neoliberal ideological offensive make it inadequate "to propose revolutionary tasks". The "New Course" should help the Left in general and the PCP-PR in particular to leave the defensive situation. On the same, see Auris (interview, 2015). The current strategy of the PCP-PR is to "accumulate forces" (interview, Benavides, 2015).

<sup>507</sup> Wiener (interview, 2015) tells that the Left "had never the idea to develop the movement of Humala, but only to ally with him to see what they would get out of it." In 2006 the PCP-PR supported Humala. It believed that Humala would provide the possibility for the PCP-PR to regain lost terrain (interview, Moreno, 2015).

<sup>508</sup> Political organizations should be inscribed in the electoral register in order to be able to participate in the general elections (presidential elections and elections for Congress). To get an official registration is a rather complicated matter. For the presidential elections of 2015, new organizations should present, among others, the signatures of around 500.000 individuals, i.e. 3 per cent of the citizens that voted in the general elections of 2011. Political organizations that in previous elections passed the electoral barrier of 5 per cent or had six seats in the parliament, do not have to renew their inscription for the next general elections (Sources:

Apart from the Left that was ready to participate in a coalition with Simon, in 2013 emerged the *Frente Amplio*. This electoral front was led by the *Movimiento Tierra y Libertad*. The *Frente Amplio* unites, apart from the *Movimiento Tierra y Libertad*, organizations and movements such as the *Movimiento Sembrar* and *Pueblo Unido*. The main candidate of the Left in the presidential elections of 2016 is Veronica Mendoza, a leading member of the *Movimiento Sembrar*.

The *Movimiento Tierra y Libertad* is the principal national political organization that currently is fighting the development model based on the extraction of the country's natural resources. It is also the main political organization that is leading and promoting discussions on another development model.

The *Movimiento Tierra y Libertad* considers it key that public policies help to develop new economic, social and environmental equilibriums. For this to occur, the organization proposes to strengthen the institutional environmental framework, the application of Convention 169 (on indigenous rights) of the ILO,<sup>509</sup> to plan the pace of investments in function of the social and environmental sustainability of the country, to increase the taxes of the companies on the rents obtained from the extraction of the country's minerals, to put in force policies that should stimulate mining companies to purchase goods and services locally, and to implement economic diversification policies to make the country lesser dependent on its metals and other commodities, among others (Tierra y Libertad, 2012: 3-6). The objective of the *Movimiento Tierra y Libertad* is not socialism but the humanization of capitalism.

#### **7.4. Class struggle in the countryside: 2000-2015**

The first fifteen years of 21<sup>st</sup> century can be considered as the start of an offensive of the indigenous and peasant communities against mining capital. In recent years, the fight of the communities has literally gotten bloody. In 2010, the struggle of communities in the

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<http://portal.jne.gob.pe/ROP/pagweb/Preguntas%20Frecuentes.aspx>;  
<http://www.eleccionesperu.com/noticias-12-partidos-politicos-pierden-inscripcion-1738.html>, <http://www.eleccionesperu.com/noticias-firmas-validas-inscripcion-organizaciones-politicas-1692.html>; consulted 09/10/2015).

<sup>509</sup> For a critique on the "Peruvian interpretation" of Convention 169, see Lust (2014b: 10-11).

Amazon region against the privatization and parceling out of their land was choked in blood.<sup>510</sup> The repression of the protests in the city of Bagua caused the death of 23 policemen and 10 civilians. During the current government of Humala more than 20 people died as a consequence of the repression of the protests against the operations of extractive capital.<sup>511</sup>

#### **7.4.1. The battle of the communities**

The communities fight, principally, to defend their land and water resources. Extractive capital, especially mining capital, has set its eye on the land beneath which gold, copper and other lucrative mineral resources can be found. The operations of mining capital negatively affect the quality of the water of the communities and even cause the disappearance of complete water basins. The battle of the communities is also against the policies of the Peruvian State to further a development model based on the extraction of natural resources.

The peasants and indigenous-based social movements might be considered as the vanguard of the class struggle in Peru.<sup>512</sup> The struggle of these movements to protect their habitats and livelihoods has not only expanded to all parts where extractive capital has set foot, but also these battles is putting the current development model in check. That is, the struggle of these movements is primarily a political battle against the Peruvian State and extractive capital, especially transnational mining capital.

The struggle of the Peruvian communities against mining capital can be divided in two phases. While in the first phase indigenous and peasant communities accepted the presence of the mining corporations but fought for economic and social issues related to

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<sup>510</sup> According to Julio Céspedes (interview, 2015), a member of the Central Committee of the PCP-PR and responsible for the party's work with the peasantry and the communities, although the land is parceled up, in the highlands communities still do exist. "Formally they exist, but in reality they do not because of the individualization of the land." In the amazon region the communities struggle against the individualization of their lands.

<sup>511</sup> On the militarization of the conflicts and the legislation to criminalize the protests during the previous government of García, see OCMAL & Acción Ecológica (2011: 117-120, 133-137) and Velazco Rondón & Quedena Zambrano (2015: 13, 15-16). The laws to criminalize the protests are still in force.

<sup>512</sup> See on this also, Fernández Chacon (interview, 2015).

mining, in the second phase the communities battled against the presence of the mining companies in their territories.

The struggle in the first phase was, among others, about the compensation for the land the communities were willing to sell to the companies, job opportunities in the mine, compensation for environmental damage, the recognition of the communities' economic, social and cultural rights that were affected by the mine, and against the pressure exercised by the corporations on peasant families to sell their lands (Bebbington, 2007: 135-136, De Echave, 2009b: 3; Padilla, 2009: 157; Aliaga, 2014: 2).

The first phase of the battle of the Peruvian communities started to come to an end in the first years of the third millennium after a truck of Yanacocha<sup>513</sup> spilled 152 kilos of mercury affecting at least 1700 individuals in Choropampa, a district in the province of Chota of the department of Cajamarca. The adverse effects of mining became widely known. The receptiveness of the communities ended when they became aware of the negative effects of mining on the environment (interview, Vásquez Huamán & Vásquez Becerra, 2015; interview, Sánchez, 2015).

The second phase of the struggle of the communities is characterized by the fight against the presence of mining capital in their territories. The battle for Hill Quillish in 2004 in the department of Cajamarca might be considered as a turning point. At Hill Quillish originates the rivers Grande and Porcón that provide 72 per cent of the water of the city of Cajamarca. The Hill is also an important gold reservoir. It is estimated that it 'covers' 4.2 million ounces of gold (Rodríguez Carmona, Castro & Sánchez, 2013: 128). When it became known that Yanacocha was intending to start explorations at the Hill, tens of thousands persons demonstrated in the city of Cajamarca. They succeeded in stopping the mining explorations (interview, Sánchez, 2015).

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<sup>513</sup> Yanacocha is one of the major mining projects in Peru and according to the mining company Newmont South America's largest gold mine. The Conga Project is a new joint venture of the same companies that exploit Yanacocha. These companies are Newmont Mining Corporation, Minas Buenaventura and the International Finance Corporation, i.e. the World Bank. The project is three times the size of Yanacocha (Sullivan, 2013) and implies an investment of 4.800 million US dollar. The Conga Project will 'empty' four lakes. The water of two lakes covers enormous reserves of copper and gold. Two other lakes are planned to be used as waste bins for the 80.000 tons of toxic waste tailings per day that the project will generate for the next 17 years. The four lakes will be replaced by four artificial water reservoirs. The project will affect five rivers, six lakes, 682 natural water springs, 18 irrigation canals and 102 catchments of water for human consumption (Sánchez, 2015). When we refer to the companies that intend to exploit the Conga Project we use the name Yanacocha.

The protests against the mining corporations are mainly organized in the form of demonstrations, strikes, assemblies and the inspections of mine installations. In the case of the department of Cajamarca, we should include the investigation of the lakes the Yanacocha company is pretending to use as ‘wastebaskets’ for mine waste. Also local referenda are held on the presence of mining corporations such as in Tambogrande (department of Piura) in 2002, in Ayabaca (department of Piura) in 2007, in the district of Cañaris (department of Lambayeque) in 2012 and 2013, and in 2013 in Palca (department of Tacna). Frequently, international NGOs help the protesters give the struggle international coverage. These international relations are fundamental to obtain the financial means to organize, for instance, the aforementioned local referenda (Bebbington, 2009b: 146-148; Hinojosa & Bebbington, 2008: 11).

The protests in the department of Cajamarca against mining capital might be considered as the vanguard of the class struggle that is returning to the countryside since the start of the third millennium. In November 2015 the struggle entered its fifth year and there are no indications that it is coming to an end soon.<sup>514</sup>

Since the last four years, the struggle of the municipalities, communities and the people of Cajamarca in general affected by Yanacocha has become an example of how the battle against mining capital can be organized and sustained. The struggle in Cajamarca also perfectly exemplifies how the mining corporations try to gain the population for their business undertakings. It is furthermore a good illustration of the ‘natural’ repressive reaction of governments that are confronted with massive and sustained popular protests against the economic fundament of their political programs.

The fight against the Conga Project began at the outset of the third millennium. The initial problems to organize the population have definitively been influenced by the ten years of class struggle from above that has characterized the period 1990-2000. The depoliticization of society and the dominance of the thought, in all layers of society, that private initiative instead of collective decision-making should be the point of departure for the allocation of the means of production had negatively affected the political consciousness of the population.

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<sup>514</sup> During the struggle against the Conga Project, the Cajamarca region has endured three states of emergency and eight months of militarization (Sullivan, 2015).

Since 2004, the fight against the Conga Project has been organized by the people of the provinces of Cajamarca, Bambamarca, San Marcos, Celendín and San Pablo. These provinces are directly affected by the project.

In the province of Cajamarca the struggle is organized by the Environmental Defense Front of Cajamarca (*Frente de Defensa Ambiental de Cajamarca*; FDAC for its acronym in Spanish).<sup>515</sup> The FDAC is composed of a variety of social organizations such as representatives of the neighbourhoods of the city of Cajamarca, the trade union of the professors of the National University of Cajamarca (UNC), the student federation of the UNC, the mothers of *Vaso de Leche*, and the *rondas campesinas*. Political parties are not allowed in the FDAC (interview, Saavedra, 2015; interview, Silva, 2015).

The battle in the province of Celendín, one of the provinces directly affected by the Conga Project, is led by the Inter-institutional Platform of Celendín (*Plataforma Interinstitucional Celendina*; PIC for its acronym in Spanish). This platform is made up of different social organizations such as the *rondas campesinas* of Celendín, the trade union of schoolteachers of Celendín, and associations of producers and irrigators. At the end of 2009, 37 organizations formed part of the PIC. The main objective of the PIC is to defend and protect the headwater basins of Celendín. Currently, the PIC also struggles against hydroelectric power stations that the Brazilian company Odebrecht is planning to build in Celendín (interview, Sánchez, 2015).

In 2009 Yanacocha started its campaign to present its environmental impact study (interview, Sánchez, 2015). This campaign meant the beginning of a prolonged battle of the communities that were going to be affected by the Conga Project. As the authorities of the provinces to which these communities pertain had been ‘bought’ by the corporation, it only depended on the struggle of the population if the Conga Project would be implemented or

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<sup>515</sup> The FDAC initiated its activities in 1993. As the name suggests, the FDAC is only dedicated to environmental issues. The FDAC was first called the Defense Front of the Interests of the Cajamarca Region, but in 2007 it changed its name in FDAC as the activities were only concentrated in the province of Cajamarca. It was also thought that the Cajamarca defense front could not represent the other provinces of the department of Cajamarca as it did not know these provinces (interview, Saavedra, 2015). The Defense Front of the Interests of the Cajamarca Region (*Frente de Defensa de los Intereses de la Región Cajamarca*) still exists and is led by Ydelso Hernández, a cadre of the political parties PCP-PR and the MAS, and the *rondas campesinas* (regionally and nationally) This Defense Front consists of different social organizations and political parties and is focused on social issues in general such as labour rights, environmental problems related to mining, the defense of the authority of the *rondas campesinas*, etc. (interview, Hernández, 2015).

not. However, as the population was not informed about the devastating environmental impact of the project, it was necessary to start a counter-information campaign.

In Celendín, several independent worried individuals, in small groups, took the initiative to launch this counter-campaign. Although different activities against Yanacocha were developed, these had not a lasting effect (interview, Livaque, 2015). Later, under the flag of the PIC, this work got a more structural and organizational character when members of the PIC began to visit the communities that were going to be affected by the Conga Project and to inform these communities about the consequences of the project. According to Sánchez (interview, 2015), the information caused a change of opinion. Instead of favouring the project, the population started to turn against it.

The counter-campaign was not reduced to the province of Celendín. Since Celendín was not the only community affected by the Conga Project it was important that the population in other provinces were informed as well. With the help of the FDAC, defense fronts were erected in the provinces of San Pablo, Bambamarca, Chota, Cajabamba and San Marcos (interview, Saavedra, 2015).

Yanacocha did not sit aside when the protests against the Conga Project began. On the one hand it used the Peruvian judicial system to denounce the leaders of the resistance against the Conga Project and monitored these leaders by using paramilitary forces (for instance in the case of battle for Hill Quillish), on the other hand it tried to 'buy' the consciousness of population (interview, Sánchez, 2015; interview, Vásquez Huamán & Vásquez Becerra, 2015; interview, Livaque, 2015; interview, Silva, 2015; interview, Hernández, 2015) and to misinform the population, speaking "bad of us, demonize us, sow discord, fear, mistrust" (interview, Hernández, 2015).

On November 9, 2011, the first regional strike against the Conga Project was organized. A few days earlier, three Ministers had visited the area of the mining operations. The Regional President Gregorio Santos, a member of the left-wing oriented organization MAS rallied behind the protest. Fifteen days later a second regional strike was organized. This strike lasted 11 days. Seventeen people got hurt, six of them showed bullet wounds. The city of Cajamarca was the central focus of the struggle. Thousands of persons coming from surrounding provinces were received and nourished by the FDAC. According to the

President of the FDAC, at a certain moment the central square of Cajamarca was filled with around 75.000 demonstrators (interview, Saavedra, 2015).

The organizational committee in the city Cajamarca, the FDAC, succeeded in controlling all economic activities. Also the highways around and in the city were under control of the FDAC. On the request of the FDAC, transport in the city came to a complete standstill (interview, Saavedra, 2015). The FDAC received the support of a variety of social actors such as the associations of motor taxis, taxis, market vendors and street vendors (interview, Saavedra, 2015; interview, Silva, 2015). Saavedra (interview, 2015): “We have been in control of the city. All authorities and private institutions were subordinated to the Environmental Defense Front, including Goyo.<sup>516</sup> [...] We, the Environmental Defense Front, issued decrees. [...] During our struggle there was no police in the streets [...] because the *rondas urbanas* controlled the whole city. [...] The city was ours.”

On November 29, 2011, the Conga Project was suspended. On December 4 the government declared the state of emergency in the provinces of Cajamarca, Celendín, Hualgayoc and Contumazá. According to Sánchez (interview, 2015), the police and the army were everywhere in Celendín, “doing their military aerobatics, scaring people, with a naked torso and well-armed. It seemed like a war scenario”. Livaque (interview, 2015) tells that around 1.500 soldiers were “doing war practices in the streets, frightening the children. [...] In the streets they were doing their exercises with their weapons ready to fire”.

Before the state of emergency was declared, in the city of Cajamarca conversations had been held between the resistance and premier Lerner. While the government considered it impermissible to affect the interests of transnational capital, the anti-Conga coalition would only end the strike “provided that the mining company would withdraw all its machinery” (interview, Saavedra, 2015). Naturally, the government could not fulfill this demand and, as a consequence, the conversations ended in an impasse.<sup>517</sup>

On May 31 until July 3, 2012, a new regional strike was organized. In the city of Celendín the strike occasioned the death of four persons. In the city of Bambamarca one person died.

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<sup>516</sup> Goyo is the nickname of the Regional President of Cajamarca, Gregorio Santos. Santos is currently imprisoned on corruption charges.

<sup>517</sup> The only tangible result of the ‘Conga Project Crisis’ was the fall of the first cabinet of the Humala government in December 2011. Prime Minister Salomón Lerner renounced on December 10.



The deaths caused the intensity of the struggle to diminish. However, when in October 2012 Yanacocha tried to install some of its equipment, again the population of Celendín was mobilized.

The struggle against the Conga Project has entered a new phase. Sánchez (interview, 2015): “The fight has cycles and I think that you have to calculate the struggle. Knowing that this is a long battle, you are not going to have 365 days to mobilize the people.” According to Saavedra (interview, 2015), the defense fronts have reduced their activities because Yanacocha has stopped its work near the lakes.

#### **7.4.2. The class enemies of the communities**

The Peruvian development model is defended by transnational mining capital and multilateral institutions such as the IMF and the World Bank. As a matter of fact, the World Bank plays a key role in the appropriation of Peru’s mineral resources by international capital. In the 1990s it stimulated changes in the legal framework that favoured transnational capital. It also supported the privatization of state-owned mining companies and it helped to finance important mining projects. In the period 1993–2001 the mining sector was one of the main investment objects of the World Bank (De Echave, 2009a: 1-2). Through the International Finance Corporation (IFC) it has a direct stake in certain mining companies such as Yanacocha.<sup>518</sup> In 2011 the IFC held an extractive industry portfolio of around 2.1 billion US dollar: 75 per cent in oil and gas and 25 per cent in mining. The interests of the corporation expanded to 40 countries, of which those in Peru —valued at 387 million US dollar— occupied a second place (World Bank, 2011a: 19).<sup>519</sup>

The struggle of the indigenous and peasant communities faces a broad range of class enemies. Principally it is a battle against the Peruvian and international bourgeoisie. The Peruvian mining business is historically a ‘foreign affair’. The production of the country’s main minerals that determine the dynamics of the mining sector, copper and gold, is in the hands of just a few companies. In 1965 three companies in the metallic mining sector,

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<sup>518</sup> By 2014, the Yanacocha mine was the fourth largest gold producer in the world (output in Australian tonnes), in “Gold’s Top 20 – Mines, miners and countries”, in <http://www.mineweb.com/news/gold/golds-top-20-mines-miners-and-countries/> (consulted 24/09/2015).

<sup>519</sup> In the annual reviews of 2012, 2013 and 2014 no specific portfolio data on Peru was mentioned.

owned by US capital, dominated the market: the Cerro de Pasco Mining Corporation had a market share of 30 per cent; Southern Peru Copper's share was 28 per cent; and, Marcona Mining Company had 14 per cent of the market (FitzGerald, 1981: 154, 157). In 1970, during the progressive military government of General Velasco Alvarado, the Cerro de Pasco Mining Corporation controlled 32 per cent of Peruvian mining exports (Torres Cuzcano, 2013: 38). In 1981, Southern Peru Copper controlled respectively 70 per cent and 75 per cent of the production and export of copper (Torres Cuzcano, 2013: 39). Finally, according to data of the NGO Grupo Propuesta Ciudadana (2014: 10), in 2013 almost 80 per cent of the production of copper was concentrated in the mining units Antamina (owned by BHP Billiton, Glencore, Teck and Mitsubishi Corporation), Southern Copper Corporation (a majority-owned, indirect subsidiary of Grupo Mexico S.A.B.) and Cerro Verde, property of Freeport-McMoRan Copper & Gold, SMM Cerro Verde Netherlands B.V. (a subsidiary of Sumitomo Metal Mining Company) and the Peruvian Compañía de Minas Buenaventura S.A. Similarly, Yanacocha and Barrick Gold controlled about 42 per cent of domestic gold production (Grupo Propuesta Ciudadana, 2014: 10). Currently, Chinese mining companies hold 36 per cent of the portfolio of mining projects.<sup>520</sup>

Transnational and Peruvian mining capital are defended by the multilateral institutions of imperialism and their representatives within the Peruvian State. This brings us to the second group of enemies of the indigenous and peasant communities: the local Peruvian bourgeoisie.

The Peruvian bourgeoisie plays a subordinated but important role in the alliance with the global ruling class. In the last twenty-five years it was not only capable of implementing a large-scale privatization process, but it was also able to impose free trade agreements with a broad range of countries.<sup>521</sup> Currently, the Peruvian bourgeoisie is successfully defending the interests of transnational extractive capital. It has succeeded in avoiding an extra tax on the super profits of the mining corporations, tax stability pacts

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<sup>520</sup> "Empresas chinas controlan el 36% de la cartera de proyectos mineros del Perú", in <http://gestion.pe/economia/empresas-chinas-controlan-36-cartera-proyectos-mineros-peru-2141175> (consulted 24/09/2015).

<sup>521</sup> The following free trade agreements are in force: Mercosur (2005), Chile, United States (2006), Canada, Singapore (2008), China (2009) European Free Trade Association (2010) Japan, Costa Rica, Panama, Mexico, Thailand (2011), European Union (2012), and Pacific Alliance (2014), in [http://www.sice.oas.org/ctyindex/PER/PERAgreements\\_e.asp#FTAs](http://www.sice.oas.org/ctyindex/PER/PERAgreements_e.asp#FTAs) (consulted 10/02/2016).

were implemented to protect mining companies for changes in the tax regime, processes for the approval of mining concessions were accelerated, environmental protection legislation was relaxed, and policies were elaborated to divide the communities in order to make the sale of their land an increasing feasibility, among others.

### **7.4.3. Weaknesses of the struggle against mining capital**

The protests against the mining corporations are generally being organized and led by local and/or regional organizations around environmental issues and life threatening situations caused by the operations of mining capital. The struggle for these concrete local issues definitively assures a popular local base.

At the same time that it assures a popular local base, the struggle lacks a national political and organizational projection that enables it to pass the local and/or regional frontiers and to convert the local and/or regional battles into a nationwide struggle for another development model. According to De Echave (2009b: 16), the locally organized indigenous and peasants-based social movements against mining capital might be effective in responding to local conflicts, issues and cases, but it is not able to articulate a national agenda related to mining. The fact that the objectives of these different battles are very diverse, also hampers the possibility to unify these dispersed struggles (Comisiones de Investigacion Polítai, 2013: 106).

In this subsection we enumerate the principal weaknesses of the struggle of the peasants and indigenous-based social movements against mining capital. Although frequently we refer to the experiences in the Department of Cajamarca, these weaknesses are not limited to the struggle of vanguard against the Peruvian State and mining capital.

The first weakness of the struggle is not only that it is local but also that it has a local projection.<sup>522</sup> However, since September 2014 the indigenous and peasant communities in the highlands of Cajamarca and communities in the Amazon region seem to have united in their struggle against extractive capital.<sup>523</sup> Processes of articulation of the

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<sup>522</sup> See on this also, Fernández Chacon (interview, 2015) and Hernández (interview, 2015).

<sup>523</sup> “Perú: Ronderos y comunidades nativas del norte exigen anular permisos a minera Águila Dorada”, in <http://servindi.org/actualidad/113609> (consulted 21/09/2014).

struggles against the mining and oil companies as well as against projects that point to the installation of hydroelectric power plants in different parts of Peru are confirmed by Sánchez (interview, 2015) and Livaque (interview, 2015).<sup>524</sup> Even coordination at the international level is starting to take place. Members of the resistance in Celendín, according to Sánchez (interview, 2015), have participated in the Political School of the Landless Workers Movement of Brazil (*Movimento dos Trabalhadores Rurais Sem Terra*; MST for its acronym in Portuguese). Members of the MST have visited Celendín to learn from the battle against the Conga Project. Also individuals from the United States, Bolivia and representatives of the Zapatistas from Mexico and the Mapuches from Chile have visited Celendín (interview, Livaque, 2015).

It might be thought that it would not be so difficult to unite the struggles in the different localities in Peru as in general terms the communities face the same problems. Unfortunately this is not the case. First of all, the National Confederation of Communities Affected by Mining in Peru (*Confederación Nacional de Comunidades del Perú Afectadas por la Minería*; CONACAMI for its acronym in Spanish) has been de-activated. Its foundation in 1999 was a big step forward in the centralization of the local struggles, in the coordinated support of these local battles and the elevation of the debates on the negative impacts of mining to a national level (Padilla, 2009: 158-159). Second, the CCP and the CNA are not involved in the struggle. Third, there are almost no political parties with a national presence that defend the interests of the communities affected by mining or struggle against extractivist capital in general.<sup>525</sup> Although the MAS in Cajamarca occupies the regional presidency and is directly affiliated to the PCP-PR, a national organization, it

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<sup>524</sup> According to Minguillo (interview, 2015), the main weakness of the struggle against extractive capital is the “lack of articulation” of all the battles in the country. Auris (interview, 2015) says that the weakness of the struggle is the fact that the battles of the different communities are not articulated, i.e. “there is no organization that unites all these struggles”. Prado (interview, 2015) agrees with this point of view. The reason why the struggle is not nationally centralized is because of the current “crisis of social representation”. There is no “centralized movement at national level”. When the struggles are united victory is assured. Céspedes (interview, 2015) tells that the main weakness of the struggle is the dispersion of the movement, its atomization. Fernández Chacon (interview, 2015) explains that the reason why the local and regional struggles have not been turned into a national struggle is because the fighters have not set themselves the task to do this or those who want to do this “are not strong enough to combat the problems within the Left”. Risso (interview, 2015) argues that these movements are limited because they lack a national character.

<sup>525</sup> If the political parties would be strong, they would have a clear and important presence in the social movements (interview, Céspedes, 2015).

has not been able to become central for the national articulation of the struggles of the communities against extractivist capital.<sup>526</sup>

To unite the local and regional struggles is crucial for winning the battle against extractive capital as capital not only forms a big united front against the interests of the exploited and oppressed majorities, but also because it has the support of the Peruvian State and the multilateral institutions of imperialism. The unity of the struggle in the rural areas is important to ‘get’ the battles in small and ‘forgotten’ communities on the agenda of the population in the urban areas.

A second weakness has to do with the lack of ties between the movements against extractive capital in the rural areas and the proletariat and popular organizations in the urban areas.<sup>527</sup> Although these relations might exist, there is no evidence of a strategic alliance between movements and organizations in both areas that struggle against the State and capital that permit to take political control of the cities.<sup>528</sup> It is interesting to observe, for instance, that the current Mayor of the capital of the department of Cajamarca is a member of the right-wing Fujimori political party (*Fuerza Popular*). The regional presidency, as we mentioned above, is in the hands of the MAS.<sup>529</sup>

The difficulties to develop strategic ties between the urban and rural areas are mainly caused by class differences. In the case of the struggle in the province of San Marcos in the department of Cajamarca against the intentions of a Peruvian subsidiary of the Brazilian corporation Vale, Miski Mayo, to exploit gold and copper deposits located at the Cerro Mogol (2005-2009), for instance, Taylor (2011: 431) describes these problems as follows: “A second thorny issue that emerged when Miski Mayo first appeared in the zone concerned divisions between town and country. A sector of the petit-bourgeoisie settled in

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<sup>526</sup> It should be mentioned, however, that according to Hernández (interview, 2015) and Mendoza (interview, 2015), another cadre of the MAS, the MAS is not against the mining corporations but against mining at headwater basins. According to both, what is needed is a “territorial zoning” that establishes, for instance, which areas are destined for agriculture and which for mining. Céspedes (interview, 2015) repeats this argument in the case of the PCP-PR.

<sup>527</sup> According to Auris (interview, 2015), the struggles in the cities and in the countryside should support each other. This is not happening today because of the fragmentation of the battles and of the “lack of understanding of the same people, of the social actors, who do not understand that they must overcome this barrier, this difficulty”. On the necessity to unify urban and rural struggles, see also Mendoza (interview, 2015) and Hernández (interview, 2015).

<sup>528</sup> The exception is the struggle at Hill Quillish in 2004 in the department of Cajamarca.

<sup>529</sup> In 2014 Santos won again the regional presidential elections.

the town of San Marcos looked favourably on the project, anticipating that an upsurge in mining activity would increase sales in shops, restaurants and bars, as well as boost the market for rented accommodation. One activist from San Marcos noted: ‘Until now, we have been growing strongly in the countryside. With the townspeople it is more complicated. Many are undecided, as they hope to take advantage and make money. They expect more business, but don’t realize how they could be affected’.” In the case of the city of Cajamarca the same applies. Yanacocha converted the city of Cajamarca in a ‘mining camp’ and managed to ‘generate an enclave’ in which everybody is connected and dependent on each other (interview, Saavedra, 2015) This brings us to the third weakness.

The organizations that are leading the struggle are not necessarily class-based. Everybody who is affected by the operations of mining capital forms part of the organization/group/network. Hence within the local or regional movement there exist different points of view on the principal demands of the movement (Comisiones de Investigaciones Politai, 2013: 106). This is definitively an important condition for the struggle to weaken during a prolonged battle.

The non-class-based struggle is a strength as well as a weakness. As the struggle might be able to count on a range of different social actors that are united on one specific issue, the access to water for instance, it is very difficult to connect this battle to other social struggles. The contradictory class interests between the different social actors that are united on one specific issue do not permit to broaden the fight to other social issues. In other words, one-item non-class-based alliances do not allow for a broad programmatic alliance.

The fourth and last weakness of the struggle of the social movements against mining capital is the fact that they do not seem to have a strategy that might enable these movements to determine the course of the battle. The movements only react on what happens in their direct environment instead of trying to determine the course of future events.<sup>530</sup> The activities of the mining corporations and the measures taken by the government that favour mining capital determine the actions of the social movements.

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<sup>530</sup> See for this argument also, Auris (interview, 2015).

## 7.5. Conclusions

The heydays of the Peruvian Left date from the 1970s and the 1980s. The policies implemented by the Velasco regime not only increased the number of individuals pertaining to the proletariat and eliminated big landownership, they also gave a push to the organizations of the proletariat and the peasantry, and stimulated the development of left-wing oriented political organizations. The policies that pointed to class conciliation helped to bring about new terrains of class struggle.

The class struggle in the 1970s was led by the organized labour movement and the peasantry. Although the struggles were principally about direct socio-economic demands, not in a few instances the political dynamics of these struggles pointed to much further objectives. Hence the right-wing coup against Velasco in 1975 was the result, among others, of (i) the increasing power of the Left; (ii) the strengthening of class conscious tendencies within the labour movement; (iii) the struggle of the peasant movement that pointed to a radicalization of the military 'revolutionary process'; and, (iv) the development of local and regional popular movements and their increasing ties with the labour movement.

Velasco's successor General Morales reduced the spaces for a left-wing oriented political practice. These measures came too late to save the dictatorship. The Left's accumulated strength, the unfolding economic crisis and the anti-labour measures implemented by the regime enabled it to use a democratic platform to tumble the military dictatorship.

The class struggle in the second half of the 1970s, and especially the national strikes of 1977 and 1978, was translated into a considerable Left vote during the elections for the Constituent Assembly in 1978. The Right, in alliance with the APRA, however, obtained the majority.

The presidential elections of 1980 were disastrous for the Left. The division of the Left is an important explanation for the reduction of the Left vote in 1980, apart from the fact that the struggle of the labour movement started to weaken as the economic crisis prolonged.

The dismissal of 5.000 trade union leaders in 1977 has definitively hurt and weakened the labour movement at the end of the 1970s and the beginning of the 1980s. The decade of the 1980s, though, must be considered as a period in which the class struggle reached its highest levels in contemporary Peruvian history. The struggle of the Peruvian proletariat and their armed and unarmed political and social representatives in the 1980s put the State and capital in a defensive position.

The high tide of class struggle in the 1980s seemed to have masked the structural weakening of the class struggle in the same decade. Class struggle expressions such as the electoral power of the IU, the creation of the ANP, the military advances of the guerrilla and the wave of strikes and demonstrations of the labour and popular movement hid the trend of declining collective struggle for a radical change of the development model in place. Furthermore, it covered the political weakness of the IU, i.e. to transform itself from an electoral front into a mass front. Instead of fighting against the bourgeois political system, the Left began to form part of it.

The class struggle in the 1980s, armed and unarmed, and the electoral course of the main legally functioning left-wing oriented political parties did not result in the taking of state power by the progressive forces. Just as in the period between the elections for the Constituent Assembly and the presidential elections in 1980, the armed organizations and the legal Left of the 1980s have not been able to attend the slowly and structurally weakening of the class struggle as they seemed to have been focused on its visible expressions. Instead of working to establish a power base that might have permitted it to tumble the capitalist regimes to tumble the capitalist regimes, the Left's political practice was limited to respond to day-to-day occurrences and to the policies of the dominant class.<sup>531</sup> The prolonged and deepening economic crisis forced the 'unattended' exploited and oppressed masses to look for individual solutions.

The IU was incapable to convert itself into a revolutionary front of the masses and to organize these masses on the basis of a political program and strategy that would surpass concrete political, economic and social demands. The MRTA reduced its activities to a reformist practice of defending the masses. It was not able to respond to changing political

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<sup>531</sup> Instead of seeing or finding the essence or characteristics of the class struggle, the MRTA only looked at its superficial expressions (NN, N/D: 77).



and economic situations as it thought that the worsening of these situations would increase the fighting spirit of the population. The armed struggle organized by the MRTA would generate the necessary class consciousness to pass from a pre-revolutionary to a revolutionary situation. However, when the bases of the popular organizations started to reduce, i.e. when the popular masses started to retreat, when the masses began to fight for individual solutions of their economic and social problems, it was too late to reverse the demise of the MRTA.

The PCP-SL declared that its guerrilla war had the objective to take state power. Although there did not exist a revolutionary situation that might have justified the use of political violence, at the beginning of the armed struggle the replacement of the 'independent' actions of the masses by armed actions seemed to have been successful. However, as the PCP-SL did not construct political and social power bases composed of a broad variety of popular forces but, rather, eliminated 'competing' social actors, it was not able to become a revolutionary alternative for the exploited and oppressed masses. Its defeat depended on the success of the State to inflict irreparable military losses on the organization.

The devastating economic crisis at the end of the 1980s coupled with a non-existent political, ideological and organizational left-wing alternative facilitated the implementation of a radical form of neoliberalism in the 1990s.

The thesis can be defended that the Peruvian population welcomed the neoliberal measures because it stood with its back against the wall. It was willing to accept whatever economic program that could solve the economic crisis and cut a skyrocketing inflation to 'normal' proportions. Anti-labour measures and repression caused heavy losses for the forces of progressive change in the sense that its historical base, the trade unions and the peasants' organizations, was reduced to its minimum expression. The anti-labour measures formed part of a project to destroy the revolutionary *and* reformist forces of the Peruvian Left. The measures against labour not only had the declared objective to increase the rates of exploitation, but also to destroy the labour movement.

In the first 15 years of the third millennium the Left has started to recuperate its forces. Although the trade unions returned to the negotiation table and strikes show an

upward trend, their forces may not be overestimated. Only a very small part of the Peruvian working population is affiliated to a union.

The current weakness of the trade unions is the accumulated result of five factors. First of all, a change of the Peruvian class structure has weakened the social basis of the trade unions. Second, a considerable amount of the EAP is not adequately employed but underemployed. Third, the generalized use of temporary contracts by the State and capital negatively 'influences' the decision of workers to form part of a trade union. The high rate of informality forms the fourth reason of the weakness of the trade unions. Informal workers are very hard to organize. Fifth, the fragmentation of union power caused by the privatization of state-owned companies does not help to make a fist against the State and capital.

The current power of the vanguard of the trade unions formed by workers and/or employees in mining, manufacturing and construction is based on the economic importance of these sectors. Its struggle seems to have lesser impact on workers and employees in other economic sectors or on the working population in general. The peasants' organizations are still very weak. The CCP does not play any role in the struggle of the peasants and indigenous communities against the State and extractive capital.

The vanguard of the class struggle in Peru is located in the rural areas. In the urban areas the class struggle is mainly fought around social and economic issues. The struggle of the indigenous and peasant-based social movements to protect their habitats and livelihoods has not only expanded to all parts where extractive capital, and mining capital in particular, has set foot, but also these battles are putting the current development model in check. Although these movements have a lot of limitations such as its local and regional projection, the lack of ties with the urban class struggle, their non-class based composition, and the fact that it lacks a strategy, the struggles organized by these movements are battles against the Peruvian development model in place. This struggle is principally a political struggle. It will depend on the revolutionary socialist forces if this struggle can surpass the local and regional frontiers and if this battle is converted into a fight for socialism.

The future for socialist struggle is bleak. Not only the forces for socialist change are weak, but also reformist left-wing organizations have a determining influence on the class struggle. The radical change of the correlation of class forces initiated in the 1990s has

induced the socialist Left to replace their strategic project of socialist change for capitalist reform. The ideological and organizational defeat of the 1990s still endures.

The class struggle positions of the Left have made way for positions that tend to class collaboration. Instead of a struggle for socialism, now the battle is about the humanization of the capitalist system or the struggle for reforms. Civil society discourse is widespread within the Left. These ideological changes coupled with an employment structure and labour legislation that does not permit a rapid accumulation of forces, are currently determining the spaces for revolutionary socialist organizations. It seems that the revolutionary Left has been thrown back to what might be called the era of primitive political, ideological and organizational accumulation. Participation in elections, at any cost and motivated by political survival, determines the political agenda of the Left.

## **CHAPTER 8: THE EROSION OF THE POLITICAL AND SOCIAL BASES OF THE SOCIALIST LEFT**

I argued in Chapter 1 that for a proper understanding of capitalist development one should have a comprehension of the objective and subjective conditions that determine this development. The objective conditions of the capitalist development of society should be considered as the development of as well its economic and social structure (the base) as its superstructure (the state, ideology, etcetera). Chapters 2 and 3 reviewed the theory on these conditions and in Chapters 5 and 6 we analysed these conditions in the case of Peru, among others. The subjective conditions of capitalist development refer to the class struggle. In Chapter 7 we examined the development of the class struggle in the last thirty-five years in Peru. The analysis of the subjective conditions of capitalist development will be concluded in the present chapter.

This chapter examines the Peruvian socialist Left's contemplation of the changes in the country's class structure in the 1980s and 1990s, and the strategic and tactical responses of the socialist Left to these changes or, in more concrete terms, the socialist Left's political and organizational practice in relation to the changes in the class structure. In other words, it intends to shed light on how (and if) the changes in the class structure—the result of the development of capitalism in Peru—have been analysed by the socialist Left and how these changes have influenced the political practice of the socialist Left. It analyses documents of the PCP-U, PCP-PR, IU, PCR, PUM, VR, PCP-SL and the MRTA. This analysis is enriched by interviews with a variety of leaders, cadres, militants and intellectuals of the Peruvian legal socialist Left.<sup>532</sup> Excluded are all those political parties and organizations that might be considered part of the Left's family but do not have the objective to radically change the system, i.e. to install a society based on socialist principles. The prime objective of socialist organizations is to take state power and to destroy the capitalist system. As pointed out in the introduction of this dissertation, its aim is to contribute to a revolutionary change in Peru instead of the humanization of capitalism in this Andean country.

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<sup>532</sup> Unfortunately we have not been able to interview former leaders, cadres and militants of the MRTA. Interviews with cadres and militants of the PCP-SL were not authorized by the PCP-SL. Only its leaders Guzmán and Yparraguirre were allowed to be interviewed. It has not been possible to interview these leaders.

As we explained in Chapter 1, we consider that one of the reasons why the Peruvian socialist Left has not been able to take state power in the last thirty-five years was the fact that it has not politically and organizationally addressed the changes in the country's class structure that resulted from the political and economic dynamics of capitalist development in general and that of a country at the periphery of the capitalist world system in particular. The 1980s and 1990s are of utmost interest to us as in these decades important changes in the class structure have taken place that have laid the foundation for the current class structure. As demonstrated in Chapter 6, the principal changes in the Peruvian class structure were related to the composition of the proletariat, the independent intermediate class, the proletarian fraction of the independent intermediate class and the informal sector.

In general terms, left-wing oriented political organizations (and socialist organizations in particular) determine their strategies and tactics on the basis of a political, economic and social analysis of society. The analysis of the class structure is part of this analysis. In the case no reference is made to changes in society and to the class structure in particular, it must be expected that the political practice of these organizations has not changed. However, if reference is made to the changes we still do not know for sure if the political practice has been changed to address these changes. Our interviews with individuals that pertained and still pertain to the socialist Left in the period 1980-2000 are crucial to find out if the political practice of the socialist organizations has changed as a response to the social changes that were going on in the 1980s and 1990s.

The strategies of socialist organizations are, principally, determined by their political analyses of society, their long and short-term objectives (minimum and maximum program), and the correlation of class forces, among others. Hence knowledge on the particular development of the class structure is only one of the factors, but a crucial one, that, it is supposed, have helped to design these strategies. The responses of the interviewed leaders, cadres, militants and intellectuals of the legal socialist Left should provide us with the necessary information to determine if some changes were introduced in the strategies of the socialist Left to politically and organizationally respond to the evolving class structure in Peru.

Tactics derive, principally, from strategies. However, for the elaboration of their tactics it must be expected that socialist organizations take the class consciousness of the

proletariat, the proletarian fraction of the independent intermediate class and the peasantry into consideration. It should also be armed with an analysis of the political consciousness of possible allies of these classes and class fraction such as the middle class fraction of the independent intermediate class and the dependent intermediate class, and an appraisal of the national and international political and economic conjuncture. The political practice of the socialist Left must indicate if changes were introduced in the tactics in order bring the political actions of the organizations in line with society's changing class structure.

The strategies and tactics of the socialist organizations and errors in their political practice cannot fully explain why they have lost their political and social bases during the 1980s and 1990s. As argued in chapter 1 we should include elements such as the division of the Peruvian socialist Left at the end of the 1980s, the political and social effects of state terror in the 1980s-1990s, the neoliberal attack on labour in the 1990s, and international developments such as the collapse of 'actually existing socialism' in Eastern Europe at the end of the 1980s and the electoral defeat of the Nicaraguan Revolution. However, while the effects of these elements on the (socialist) Left have been widely discussed, an analysis of the strategic and tactical responses of the socialist Left to the changing class structure has not been elaborated yet. This chapter fills this vacuum.

It must be mentioned that the conclusions that may be drawn from this analysis are limited in the sense that the socialist organizations that are object of our analysis maintain their concrete political work in secrecy. It is furthermore important to take into account that we have not been able to review all the texts of all these organizations. In most of the cases this was not possible because these documents were not available. Notwithstanding these limitations, we think we have been able to overcome these limitations, for a big part, through our interviews with leading individuals of the socialist Left.

This chapter is organized as ten sections. Section 8.1 briefly identifies the political and social bases of the socialist Left. In section 8.2 we discuss the relation between class structure and class consciousness. Sections 8.3 and 8.4 analyse how the armed and unarmed socialist Left understood the evolution of the Peruvian class structure in the 1980s and 1990s. In section 8.5 we examine the political work of the legal socialist Left in relation to their social bases. Section 8.6 discusses the weakening of trade union power in the 1980s and 1990s, and the political undermining effects of the neoliberal ideology on own account

workers. In section 8.7 we analyse the loss of the social bases by the legal socialist Left and in section 8.8 we review the difficulties the organizations of the legal socialist Left encounter to reorganize their social bases. Section 8.9 addresses the relation between social reality and revolutionary political practice. In section 8.10 we present our conclusions.

### **8.1. The political and social bases of the socialist Left**

The proletariat, the peasantry and the proletarian fraction of the independent intermediate class form the objective social bases of the socialist Left. Through the socialist revolution the proletariat, peasantry and the urban semiproletariat will be freed in the sense that they will not be exploited and oppressed anymore. State power in the hands of these classes and class fraction is a precondition for the abolishment of exploitation and economic oppression.

The dependent intermediate class and the middle class fraction of the intermediate class might be considered allies of the classes and class fraction that ‘objectively pertain’ to the socialist Left. Although this class and class fraction might also be exploited and economically oppressed, they do not form part of the objective social bases of the socialist Left as they may perform the function of capital *and* the collective worker.

The trade unions, the peasants’ organizations and the social organizations of the popular movement are the political bases of the socialist Left. While the trade unions and peasants’ organizations are class-based organizations and have, in general, proper class objectives, the social organizations of the popular movement are composed of different social classes and their objectives are not ‘reduced’ to one class or one class fraction in particular.

### **8.2. Class structure and class consciousness**

There is no direct relationship between class structure and class consciousness. Class consciousness is the product of a variety of interrelated factors. These factors are not only political, economic, social and ideological, but also national, international, historical and country-specific.

The class structure of a given society provides the economic basis on which the class consciousness of individuals is founded. However, class consciousness emerges in class struggle and can be attained by intellectual labour or political clarification by workers organizations and left-wing oriented political organizations.

It is possible to differentiate between an economic class consciousness and a political class consciousness. Due to their position in the production process, individuals that pertain to the proletariat might easily be able to attain the economic class consciousness that they belong to the proletariat. On the other hand, persons that form part of what we call the proletarian fraction of the independent intermediate class do not have this possibility. Their position in the production process leads them to attain a class consciousness that is located on the frontiers of a working class and intermediate class economic class consciousness.

The proletariat may have an economic class consciousness, but this does not guarantee that it also has a political class consciousness. The proletarian fraction of the independent intermediate class may have an economic class consciousness that tells him or her that he or she pertains to the intermediate class, but its political consciousness may lead it to belong to the proletariat.

In contrast to proletariat and the urban semiproletariat, the economic and political class consciousness of the bourgeoisie coincides. When this class does not exploit and/or oppress the proletariat and the intermediate class, it will lose its economic power base. If it does not use all political, economic, social and ideological means at its disposal to withhold the exploited and oppressed masses from attaining political class consciousness, it contributes to its own elimination.<sup>533</sup>

The analysis of the evolution of the class structure gets its importance for class-based social organizations and socialist political organizations as it indicates the types of possible economic class consciousness that exist or are emerging. On the basis of this analysis these organizations might be able to develop strategies and tactics that help to

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<sup>533</sup> According to Bresser-Pereira (1981), it is the bourgeoisie or the dominant class that “always had class consciousness and exercised its domain not only through control of the means of production and the repressive apparatus, but also through ideological hegemony, while the dominated class is not necessarily endowed with it. In order to maintain its dominant position, the dominant class transmits its ideology to the dominated class through the ideological apparatuses existing in society”.



transform concrete economistic working class consciousness in political (socialist) class consciousness and the economistic consciousness of the intermediate class, and especially its proletarian fraction, into an anti-capitalist class consciousness.

The lack of an analysis of the evolution of the class structure, the inability to visualize trends within the class structure and weaknesses to point out contradictory class fractions within classes is politically and organizationally disastrous for the forces of socialist change. They will be condemned to political impotence as they will lack an understanding of the evolution of their social bases.

Political impotence sets the conditions for the political and organizational self-elimination of the socialist forces as they will not be able to elaborate on adequate political proposals —on the economistic level though— and to put into practice strategies and tactics that might win the masses for projects towards socialist change.

### **8.3. The class structure and the legal socialist Left**

Documents for congresses and conferences, Central Committee reports on the economic and social reality of Peru, texts on the political and economic conjuncture, and papers on the strategic line of active socialist organizations evidence that Peruvian legally functioning socialist organizations were aware that in the 1980s and 1990s the class structure has been subject to important changes (Izquierda Unida, 1989; PCP-PR, 2001; 1996; 1993; 1984; PCP-U, 1991; Dammert E., 1990: n/p; PCR, 1981; VR, 1983; PUM, 1993).<sup>534</sup> This awareness, however, has not resulted, in most cases, in studies regarding these changes.<sup>535</sup>

The continuous study of political, economic and social developments in the country must be considered as one of the key features of an organization that fights for the installation of socialism and the destruction of capitalism. According to the Peruvian socialist Letts (2014: 280), “the program, the strategy, the tactic, the forms of struggle,

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<sup>534</sup> Dammert E. (1990: n/p), a leading member of the PCR, even considered “popular entrepreneurship” revolutionary. This type of entrepreneurship corresponded to a new society that was starting to take root.

<sup>535</sup> According to the leader of the PCP-PR, Alberto Moreno, in the 1980s there was a lot of discussion about the character of Peruvian society but this “strongly dogmatized debate [...] lost sight on the reality of the country and the class movements in that period” (Adrianzén, 2011b: 415). Benavides (interview, 2015) says that although the PCP-PR discussed the changes in the class structure and the deregulation of the labour market, he believes that the PCP-PR ‘abandoned the working class’.

should be based” on the description and analysis of the character of Peruvian society, the structure of the economy, the class structure of society, the government, power and the workers movement, among others. The revolutionary intellectual César Riso says that it is

necessary to make a study of the development of capitalism in the country. It is indispensable. To talk about strategy is not only to talk about how to get to power, but also what you do with this power. So what are the social classes that will fight against the current power and what are the classes that will transform the new power into a socialist society? If you do not have this as a premise, everything dissolves in concrete and specific struggles. There will be a series of movements, but they will not go further than their direct objectives.

According to the general secretary of the PCP-U, “there was no political will in the party. Study and research were not stimulated. No cadres were formed to do research” (interview, De la Cruz, 2015). Auris (interview, 2015) says that the PCP-PR has not “made significant progress” in the analysis of the Peruvian class structure. And that is our Achilles heel. That is why I say that we should renew our politics and our tactics. [...] Our programs are close to general. There are no specific policies for certain key sectors. That is a limitation.” In the 1990s, De la Cruz (interview, 2015) explains, “we, the Left, have not made the effort, neither individually nor collectively, to produce political proposals, ideas for change, for the transformation of society.” Guillermo Herrera, a former leading member of the PCP-U, writes that the IU did not take the changes in the economic and social structure in consideration (Herrera, 2002:96). In the case of the emergence of small and micro companies, Dammert (interview, 2015) tells that the Left was aware of the changes in the social structure but it “had not systematized it theoretically”. And although the Left worked with these labourers, they were not incorporated in the political strategy of the Left. Edmundo Murrugarra, a founding member of the VR, says that the question of own account workers or independents was “not addressed, studied and examined in depth by the Left because of a theoretical brake”. Individuals who represented small and micro companies were not accepted in the Left (interview, Murrugarra, 2015).

The political importance of having knowledge about the evolving class structure is, naturally, not neglected by the Peruvian socialist Left. In its analysis of the informal sector in 1993, the PCP-PR (1993: 21) underlined that over 90 per cent of the informal sector was

located in the hundreds of slums and shantytowns of the major cities. While in the 1970s individuals that pertained to this sector formed neighbourhood movements that constituted the bases for “quasi-insurreccional movements”, in the 1990s important sectors of the masses in the shantytowns set their hopes on the “Fujimori Dictatorship”.<sup>536</sup> According to the PUM (1993: 129), in the 1970s informality did not impede left-wing militancy. In the 1980s, however, with radically declining living standards, the neoliberal discourse of free enterprise and the weakness of the Left, this has been much more difficult. In 1991, the PCP-U (1991: 97) believed that informality was a key feature of the lives of the working population.

The PCR, the PUM, and one of the predecessors of the PUM, the VR, might be considered as the only legally functioning Peruvian socialist organizations that have really intended to study the evolving class structure. Unfortunately, the main documents of the PCR were written in the 1970s. In its second conference in 1979 it clearly described the ‘enemy classes’, the ‘unsteady classes’ (petibourgeoisie, etcetera) and the classes that were supposed to lead the socialist revolution and that were considered the motors of the revolution (PCR: 1979a: 117-124).<sup>537</sup> Since the return of parliamentary democracy in 1980, however, the PCR seems to have reduced its capacity (or interest) to analyse the class structure. For instance, while in the 1970s it discussed that the majority of the working population that lived in the shantytowns was not organized in trade unions and it differentiated between individuals that worked in big, small and micro companies (PCR,

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<sup>536</sup> During the municipal elections of 1983 and 1986, the IU got the support of the informal sector. In the 1990 presidential elections it was Fujimori who received this support (Crabtree, 2005: 276-277). “By 1991 the level of unionization had fallen by one-third to 12 percent of the workforce, while over half of the economically active population in Lima worked in the informal sector and 49 percent of salaried workers in the private sector had temporary contracts. In short, structural changes in the Peruvian economy had fragmented and atomized the workforce, obstructing organizational efforts that relied upon class-based collective interests and identities. These changes made organized labor less broadly representative of diverse working-class interests, and it ceased to be the axis of popular political movements. Fujimori’s economic model was therefore able to challenge the interests of a politically prostrate labor movement at relatively little cost--through wage cuts, decreased public and private sector formal employment, and changes in the labor law that emasculated collective rights. [...] Indeed, Fujimori had more to gain politically by aiming his message at the burgeoning microenterprise and informal sectors; they incorporated nearly five times as many people as the labor unions, and their ambiguous class identities, malleable political loyalties, and lack of autonomous organizational power facilitated personalist mobilization. [...]. Likewise, the weakening of organized labor and the informalization of the workforce created a fragmented, heterogeneous mass electorate that lacked autonomous organizational power.” (Roberts, 1996a: 99-100)

<sup>537</sup> See for the development of the class structure in the 1970s also the political report of the Lima Regional Committee of the PCR (PCR: 1979b).

1979b: 11), in its document of 1981 the organization only schematically elaborated on the class structure (PCR, 1981: 65-71). It also did not delve into the “particularities of the classes” as was argued to be necessary in 1979 (PCR, 1979b: 21). In its documents for its third congress in 1993, the PUM, for its turn, reserved a chapter on how the class structure had changed in the 1980s.<sup>538</sup>

The analysis of the class structure by the PUM (1993: 117-136), as well as the analysis of the VR (1983: 29-38), encompasses a description of all classes in society.<sup>539</sup> It includes empirical data and presents some of the important changes that have taken place within classes since the beginning of the 1980s, for instance the relative diminution of the salaried working class<sup>540</sup> and the increase of what are called independents. It mentions the increase of underemployed individuals, the effect of underemployment on informality, and the relation between the increase of informality and the decrease of trade union representation.<sup>541</sup>

The PUM’s examination of the class structure is completed with an analysis of the political and strategic consequences of the changes in the class structure for projects that point to the socialist organization of society. The changes in the occupational structure, for instance, structurally eroded the social bases of the trade unions. Hence in order to determine the situation of the mass movements, the PUM explains, it is not sufficient anymore to look at the number of strikes and the number of workers involved in these strikes. There are new social expressions that the organization should know and manage in

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<sup>538</sup> It should be mentioned that in its text “La estrategia del poder popular”, elaborated in 1984 in the light of its foundation congress, nothing was said about the class structure of Peru. This is very odd as one of the fundamentals of whatever political strategy that is oriented towards the seizure of power should have this part of social reality as one of its indissoluble components. In the 1988 report of the sixth plenary session of the Central Committee on strategy and tactics, again nothing was said about class and the Peruvian class structure (PUM, 1988).

<sup>539</sup> In what follows we have concentrated ourselves on the PUM as its analysis is focused on the 1980s. As the document of the VR is of 1983, it does not provide a complete panorama of the changes in the class structure but can only mention the first observable modifications. However, we may not forget to mention what the former leader of the VR and founding member of the PUM, Ricardo Letts, had to say on the evolving Peruvian class structure. According to Letts (2014: 191), the class structure shows that the working class forms a minority. Even the peasantry does not form a majority of the EAP. In fact, the majority is formed by the “middle strata” such as small proprietaries, independent workers, students, artisans, micro businessmen, etc. See for the same analysis, VR (1983: 47).

<sup>540</sup> It should be mentioned that the organization did not provide a definition of the working class. For its analysis of the class structure, the PUM used data of the Ministry of Labour (1993:118).

<sup>541</sup> See chapter 1 for a definition of underemployment.

order to shape future popular movements.<sup>542</sup> The organization took even a “strategic decision” regarding its political and organizational work towards the informal sector, i.e. towards independent workers, small and micro companies, etcetera<sup>543</sup>

The fact that most of the socialist Left has not elaborated profound studies on the position of the exploited and oppressed masses in the class structure, does not mean that they have not occupied themselves with the issue of class and class structure. In the documents for their fifth congress in 1984, the PCP-PR elaborated a complete chapter on the Peruvian class structure (PCP-PR, 1984: 269-289). It described, in very general terms, the ruling classes and the dominated classes. Empirical data to sustain these descriptions were not provided. For the Lima regional congress of the PCP-PR in 1996 a socioeconomic diagnostic of Lima was presented. A part was dedicated to the importance of small and micro companies for the economy and for employment in particular. The effects of the emergence of small businesses on the organized labour movement were not discussed.

The scarcity of analyses on the evolution of the Peruvian class structure by the socialist Left might have to do with the lack of intellectual capacity of the organizations and the lack of time to do this research. In the preparatory documents for its sixth congress, the PCP-PR (1993: 21) stated that the party and the Left in general had not studied, from a Marxist and class struggle point of view, the question of informality. Three years later, in documents for its third regional congress of Lima, we read that “one known aspect but not thoroughly studied or addressed from the perspective of our political work is informality” (PCP-PR, 1996: 51). In the documents for its seventh congress, the PCP-PR (2001: 46) writes that the “class configuration of contemporary Peru is extremely complex”. However, instead of describing this complex structure it only mentioned some classes and social sectors that pertained to this “class configuration”. And although the organization was ‘forced’ to use data that institutions of the bourgeois state were providing, no effort has

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<sup>542</sup> In an interview in 1993, Letts (2014: 257-258) argued that the worker-peasant alliance would not be sufficient to change the neoliberal policies that were introduced by the Fujimori regime. This alliance should be broadened with small and medium-sized entrepreneurs. The big majority of the Peruvian population is not composed of workers or peasants but of all those that form part of the informal sector. In order to attract these “big majorities”, the politics of the Left should include business notions and should accept, within certain margins, mechanisms for the accumulation of surplus value.

<sup>543</sup> We not only do not know the results of this work, but we also do not have any knowledge about the concrete meaning or implications of this strategic change. It should be mentioned, however, that in 1994 the PUM was dissolved (interview, Cáceres, 2015), i.e. that is two years after this “strategic decision” was taken.

been made, not by the PCP-PR and not by any other organization of the Peruvian socialist Left, to adapt these data for the purpose of elaborating a Marxist analysis of the Peruvian class structure.

A third reason for the scarcity of analyses on the class structure might have been the socialist Left's prime focus on practical political work. The PCP-U, according to Espinoza, was aware of the changes in society's social structure. However, this did not induce them to analyze these changes. Regarding the internal migration processes that have contributed to these changes, Espinoza said the following: "We did not analyze or take it into account. We considered it a phenomenon that should be studied at a certain moment, but regarding which it was more important to try to incorporate these sectors in the anti-imperialist struggle, in the democratic struggle, in the struggle for socialism. It did not change our tactics at all." (Adrianzén, 2011b: 295)<sup>544</sup> In the PCP-PR preparatory documents for its sixth congress in 1994, the organization considered that the common problems of the informal sector "create favourable conditions for the Party, provided that it [the PCP-PR; JL] defines the general and specific programmatic alternatives that it [the informal sector; JL] needs". It was thought that through hard political work the PCP-PR would be able to win individuals that were employed in the informal sector "for the national democratic revolution and for socialism" (PCP-PR, 1993: 21). In its documents for its third ordinary Lima regional congress in 1996, the party stated that it should build the organization in the informal sector and small industrial businesses (PCP-PR, 1996: 22-23).

The scarcity of analyses on the Peruvian class structure is not the only worrying issue. Also the lack of profoundness of existing analyses is disturbing. Classes and class fractions are not thoroughly described and when important phenomena such as informality, semiproletariat, workers on temporary contracts and the emergence of small and micro businesses are mentioned, the analyses are reduced to point out that these phenomena are the consequence of capitalist development.

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<sup>544</sup> According to Traverso (interview, 2015), the Left knew about this phenomenon but it never elaborated a strategy or tactics directed towards migrating peasants.

Apart from the fact that not all socialist organizations clarified which individuals pertained to the proletariat, the petitbourgeoisie and the peasantry,<sup>545</sup> none of the investigated organizations provided a definition of class. In a report of the Central Committee of the PUM (1988: 21), intellectuals, the semiproletariat and the poor petitbourgeoisie were considered revolutionary classes. The VR (1983: 36-38) seems to have regarded the middle strata (professionals, employees, the population ‘occupied in small jobs’), the semiproletariat, the national minorities and even the youth and women as separated classes. The PCP-PR (1984: 285-286) classified the ethnic minorities and the lumpenproletariat as distinct classes.<sup>546</sup>

True to their socialist character, in their documents the socialist Left makes reference to the masses, to the people (*el pueblo*), to the unity of the people, the working class, the semiproletariat, the peasantry,<sup>547</sup> to the alliance of the working class with the peasantry, to the alliance of the working class and the peasantry with the petitbourgeoisie and the progressive sectors of the national bourgeoisie, etcetera. However, as these classes and class fractions are not concretely visualized, reference to these classes become hot air, i.e. they become meaningless for whatever project that looks for concrete strategic and tactical responses to the capitalist development project of the Peruvian ruling class.

#### **8.4. The class structure and the armed socialist Left**

The social bases of armed socialist organizations are the same as those of legally functioning socialist organizations. With the objective to broaden their political and organizational scope, armed socialist organizations, just like legal socialist organizations, consider it necessary to create a united front of all those classes that are exploited and oppressed by capitalism and imperialism. This front includes not only the proletariat and

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<sup>545</sup> In its strategy document of 1984, the PUM (1984: 12), without providing a definition, even talked about democratic and national classes.

<sup>546</sup> The semiproletariat was considered to be part of the working class (1984:279).

<sup>547</sup> In the preparatory documents for its seventh congress, the PCP-PR (1993: 4) wrote that the peasantry was the biggest class in the country. Our data in chapter 6 contradict this point of view. The data of the PCP-PR cannot be discussed as the organization did not present a definition of the peasantry. The PCR (1979a: 213) also considered the peasantry the biggest class in Peru. Although it made clear which individuals pertained to the peasantry, it did not provide empirical data that might sustain why it considered the peasantry the biggest class in Peruvian society.

the peasantry, but also sectors of the intermediate class and, in some cases, the national bourgeoisie.

For political and military reasons, armed socialist organizations should be more preoccupied with their social bases than legally functioning socialist organizations. The loss of these social bases causes political isolation that not only benefits the state in the sense that it might be able to militarize the conflict in order to deepen and consolidate the gap between the armed organizations and their social bases, but it also provides the state the *increased* possibility to politically, ideologically and military strengthen itself through mass counterrevolutionary propaganda and the generalized application (and propagation) of anti-terrorist laws. The military confrontations with the police and the armed forces can only be maintained if the armed organizations have well-structured logistic apparatuses and if there is a continuous flow of new militants.

In Chapter 7 we argued that the PCP-SL created enemies in the popular camp when it began to establish “power vacuums” and Popular Committees through the elimination of state representatives, the ‘removal’ of competing left-wing oriented political and social organizations, and by forming *movimientos sociales generados* that should replace existing ‘autonomous’ social organizations. One of the principal causes of the defeat of the MRTA was precisely the loss of social bases for socialist politics. This was expressed, among others, in the weakening of trade union power and the generalized turn to individual instead of collective solutions for the unfolding economic and social crisis at the end of the 1980s. According to one of the former leading members of the MRTA, Alberto Gálvez, the MRTA became isolated as a consequence of the division of the IU and the decrease of social struggle (Polay, 2007: 435).

The documents of the PCP-SL tell us a lot about how the organization conceptualized the economic character of society and the class nature of the Peruvian State. This emphasis, however, seems not to have been accompanied by a profound analysis of the country’s class structure. The economic characterization of society and the description of the class nature of the Peruvian State seem to have been sufficient for the PCP-SL as these analyses would ground the character of the Peruvian revolution and would provide the political ‘tools’ for the elaboration of strategies that should advance the revolution.



The class analysis of the PCP-SL was reduced to a schematic analysis of the class composition of Peru. It did not empirically analyse the classes that were supposed to make the revolution.

According to the PCP-SL, Peru was composed of six classes: the big bourgeoisie (bureaucratic and comprador), the feudal landowners, the national bourgeoisie, the petitbourgeoisie, the proletariat and the peasantry (PCP-SL, 1979: n.p). The democratic and socialist revolution proposed by the organization should be led, through the party, by the proletariat. As the peasantry was the biggest class, it was the principal force of the revolution (Guzmán, 1974: n.p).<sup>548</sup> Together with the petitbourgeoisie and, “under certain circumstance and conditions”, the national bourgeoisie, these four classes, united, would battle against semi-feudalism and imperialist dominance (PCP-SL, 1975: n.p).

It is possible that the PCP-SL had more profound analyses of the Peruvian class structure. These analyses might have existed only for internal use. For instance, the text “¡Que el equilibrio estratégico remezca más el país!” (1991) could be considered as an indicator that the PCP-SL had more elaborated analyses of the Peruvian class structure. In this document the organization analysed the country’s economic structure according to the distribution of employment by enterprise size groups, and discussed the labour conditions of individuals working in small and micro companies (PCP, 1991b: n.p).

The documents of the MRTA are, in general terms, analyses of the political and economic situation in Peru, assessments of the policies implemented by the different regimes, and discussions about the legal left-wing oriented political organizations and the PCP-SL. Especially the IU is subject of discussion and is frequently attacked for its reformism. The texts seem to reflect the practice of the MRTA to react on day-to-day occurrences (see Chapter 7). This focus, however, does not mean that the organization was not concerned about class and class structure.

In the text “El camino de la revolución peruana. Documento del Segundo Comité Central de MRTA”, published in 1988, we can find the MRTA’s conceptualization of the Peruvian class structure (MRTA, 1988: 26-28). Directly at the onset of the part on class the organization divided Peru in four classes: bosses, independents, non-remunerated family

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<sup>548</sup> In 1988 the PCP estimated that 60 per cent of the population pertained to the peasantry. Unfortunately, no references were given to sustain this data (PCP, 1988b: n.p).

members and remunerated individuals. One paragraph later it described the class fractions of the bourgeoisie (big bourgeoisie, middle bourgeoisie and agrarian bourgeoisie), the remainders of semi-feudal landowners, the petitbourgeoisie and the revolutionary classes (working class, peasantry,<sup>549</sup> urban semiproletariat). The working class, defined as “salaried workers that produce the wealth of our country” and the agricultural proletariat, was considered the only class that would be able to lead the struggle of the Peruvian people (MRTA, 1988: 28). The urban semiproletariat, i.e. all those non-salaried workers such as the underemployed and informal workers, was considered an ally of the proletariat.

The analysis of the class structure by the MRTA cannot be considered as a well and profoundly elaborated part of its conception of Peruvian social reality. It is not only confusing and data of 1981 were used for an analysis of the Peruvian class structure in 1988, also its concept of the proletariat was not adapted to Peru’s economic and social reality.

The fact that in the principal documents of the MRTA (1988; 1990a) no attention has been given to the changes in the Peruvian class structure does not mean, just as in the case of the PCP-SL, that the organization was completely blind for what was happening in Peruvian society. For instance, in an interview with Néstor Cerpa, the MRTA commander that led the assault on the residence of the Japanese Ambassador in 1996, one can read that the organization was definitively aware of the changes in the Peruvian class structure. According to Cerpa, in addition to the fear of losing one’s job, the economic and social consequences of the neoliberal policies implemented in the 1990s contributed to the loss of fighting power of the Peruvian workers federation CGTP.<sup>550</sup> The considerable reduction of union membership went hand in hand with an increase of the informal sector (MRTA, Dirección Estratégica, 2008: n.p).

The weakness of the MRTA’s analysis of the country’s class structure might have had a negative effect on the organization’s strategy. Although it considered that to “properly define the principles and laws that govern” its struggle to take power and to build

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<sup>549</sup> Without providing data and a definition of the peasantry, the MRTA (1988: 28) believed that the peasantry was the biggest class in Peruvian society.

<sup>550</sup> According to Moreno (interview, 2015), the deregulation of the labour market contributed to the weakening of the trade unions and left-wing oriented political parties because people feared to lose their Jobs when affiliating to these organizations.

socialism it was “first necessary to understand the character of Peruvian society, its class composition, its location within the capitalist system” (MRTA, 1988: 38), it did not succeed to profoundly understand the country’s class structure. In their assessment of the organization’s strategy, ex-militants of the MRTA considered that because the organization had not specified the development trends of capitalism, it was not able to see that in the 1980s and 1990s the working class disintegrated as the companies started to shut down and/or were privatized (NN, N/D: 62).

### **8.5. Political work and social bases**

In the 1980s, the focus of the socialist Left’s political work started to change from work with their social bases or with grass roots organizations to work in local and regional governments. It became increasingly difficult to combine political work in and outside the parliamentary buildings.

It is argued that the participation of the socialist Left in local and regional governments has not been a success (interview, Moreno, 2015). The socialist governments did not distinguish themselves from governments led by the Right or the APRA. Prado (interview, 2015): “In reality, Barrantes [the Mayor of Lima in 1983; JL] managed the municipality like anyone else. His hallmark was the program *Vaso de Leche*. This program did not differentiate his administration from the municipal administration by another class [the dominant class; JL]. He did not organize, he did not mobilize.” Minguillo (interview, 2015): “Leftist sectors that succeeded to enter local governments got corrupt. They did the same as the Right always did [stealing; JL]. This generated discouragement in the social bases, in the militants.”

The impossibility of the IU to transform itself into a mass revolutionary front has everything to do with its focus on elections and its ‘politics of react’.<sup>551</sup> Instead of broadening and deepening their social bases, the socialist Left started to prefer short-term

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<sup>551</sup> Traverso (interview, 2015): “I think, now over the years, that the political parties of the Left were dedicated to the conjuncture and did not study the past and the possible future.” Bernales (interview, 2015), a former leading member of the PRT, says that the meetings in the party were to respond to the political conjuncture.

success, hoping this would bring them more quickly to their long-term objectives, i.e. the destruction of the capitalist system and the installation of socialism.

The ‘politics of react’ is intimately tied to a political practice that looks for short-term success. It even led the socialist Left to believe that electoral or trade union success meant that it had the political support of the masses. Strong socialist parties were not built because it thought that the social movements were politically ‘captured’ by the socialist Left. Moreno (interview, 2015) argues that electoral support for the Left is “transitory”. According to Militant 1 Pueblo Unido (interview, 2015) and former member of the UDP, the number of tasks, the pressing need to carry out these tasks and the fact that in the 1980s you had to act in the ‘open’ instead of in a small and closed nucleus, caused that the UDP did not have the capacity to “read the complex processes of transformation” that were going on in Peruvian society.

The focus on electoral participation, however, did not mean that no work was done with the social bases of the socialist Left. In the 1980s the PCP-U had party cells in trade unions and in companies. The existence of big state-owned companies strengthened the organization through their work in the unions. In the course of the 1980s this work reduced considerably (interview, De la Cruz, 2015; interview, Raffo, 2015).

The PST had a lot of party cells in trade unions. It had a strong presence in the labour movement, especially in the metallurgical and textile branches. The organization also developed political work with teachers and was active in the bank sector, i.e. in the *Federación de Empleados Bancarios* (interview, Prado, 2015; interview, Fernández Chacon, 2015). Prado (interview, 2015): “We had workers leaders who were very important in their unions, even at national level. At that time, Trotskyism was characterized by work in the labour movement.”

The PSR worked with the proletariat and with peasants (interview, Benza, 2015; interview Minguillo, 2015; interview, Traverso, 2015).<sup>552</sup> The leader of the CNA was a militant of the PSR (interview, Benza, 2015; interview, Traverso, 2015). The organization

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<sup>552</sup> According to Juan Cristóbal, a former militant of the PSR and a revolutionary poet, the PSR did not have specific workers cells that attended issues related to the proletariat. The cells of the organization were composed of different classes and social strata. The PSR looked at the “population as population”. Traverso (interview, 2015) tells that the PSR did not have systematically organized political work among the proletariat and the peasantry.

also worked with individuals in state organisms and with left-wing oriented sectors of the petitbourgeoisie in general. This work was primarily based on the heritage of the reforms implemented by the Velasco regime (interview, Benza, 2015; interview, Minguillo, 2015). According to Cristóbal (interview, 2015), the work was concentrated on those social sectors that in the past had been prioritized by Velasco.<sup>553</sup>

The PUM was primarily focused on the peasantry. It controlled the CCP. It also worked with students and in the CGTP. On the basis of their work in the local and regional Defense Fronts that started to emerge in the 1970s, it was able to develop political activities with informal workers (interview, Cáceres, 2015).

## **8.6. The weakening of the trade unions and the neoliberal ideology**

In the 1980s the class structure began to change.<sup>554</sup> Big companies with lots of workers were replaced by small companies and own account workers. This caused problems for the socialist Left as it was starting to lose one of its political bases: the trade unions. As trade unions were only allowed in companies that employed 20 more workers, its power diminished considerably. According to De la Cruz (interview, 2015), in the 1980s the strength of the PCP-U was based on its presence in the trade unions.

The accumulation of economic crises in the 1980s weakened the power of the trade unions in the sense that not only company closures meant the disappearance of trade unions but, more importantly, individuals retreated from political and trade union activities and started to look for individual solutions to their economic problems instead of fighting the State and capital. The socialist Left was not able to adequately respond to this situation as it thought that victory was near. It was confused by the expressions of social reality, i.e. it did not see the structural weakening of the labour movement. The fact that underemployment was converted into a structural feature of the Peruvian economy (as also the fact that a considerable number of the Peruvian working population had a secondary job) and

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<sup>553</sup> Over the years, the memory of the Velasco regime started to fade. This was a problem for the PSR as it “lived” from this memory (interview, Benza, 2015).

<sup>554</sup> Fernández Chacon (interview, 2015): “The class structure changed as the consequence of a defeat.”

informality increased, reduced, on the one hand, available time for political and trade union activities<sup>555</sup> and, on the other hand, made it superfluous to affiliate to trade unions.

The introduction of neoliberalism in the 1990s had a major effect on the class structure. Neoliberalism fragmented and eroded not only the social organizations, but also the political organizations (interview, Auris, 2015).<sup>556</sup> Auris (interview, 2015): “In our country the great impact of neoliberalism was the fragmentation of social classes, mainly the working class.” The working class became divided, i.e. 20 per cent are currently formal workers and 80 per cent informal workers. And 80 per cent of the informal workers are small businessmen. They do not believe anymore in the “predicate of the revolution, in the predicate of social change” (interview, Auris, 2015). According to De la Cruz (interview, 2015), it was starting from the 1990s that not only the economic structure of the country was changed, but also its political and social structures. The Left was not able to respond to these changes. Dammert (interview, 2015) explains that it is not that the working class and the peasantry disappeared, but that their composition changed.

In the 1990s the power of the trade unions weakened considerably because of the widespread implementation of temporary work contracts and subcontracting. It also became easier to fire personnel (interview, Raffo, 2015; interview, Gorriti, 2015; interview, Castro, 2015). Not only strikes reduced drastically, but also the unions saw a decrease of membership.<sup>557</sup>

The laws that made work more flexible totally de-structured the social organization of labour (interview, Raffo, 2015). The privatization of state-owned companies had a major effect on the trade unions. In the case of the *Federación de Empleados Bancarios* for instance, the unions disappeared because state banks were liquidated (interview, De la Cruz, 2015). The closure of these companies pushed the working population towards small and micro companies (interview, Dammert, 2015).<sup>558</sup> Although in the second half of the

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<sup>555</sup> Gonzales de Olarte (2007: 30) writes that in the period 1985-1990 union activities reduced as a consequence of high inflation or hyperinflation. Workers had to look for additional sources of income.

<sup>556</sup> Benza (interview, 2015) tells that the trade unions, for decades organized with great sacrifice, quickly disappeared.

<sup>557</sup> We should not forget that state-terror also had a negative effect on the strength of the trade unions.

<sup>558</sup> In the 1980s, it was believed that micro companies emerged as a consequence of the struggle for survival. Today, an owner of a micro company is considered an entrepreneur (interview, Militant 1 Pueblo Unido, 2015). See on this also Iziga Núñez (1994: 338-339).

1980s the majority of the working population laboured in companies that employed less than 20 individuals (in the case of Metropolitan Lima), in the 1990s (for Metropolitan Lima and for Peru as a whole) this has only increased.<sup>559</sup> In the period 1986-1987, in the case of Metropolitan Lima, individuals working in companies with less than 20 individuals even diminished. At the beginning of the 1980s and in years before, more persons worked in companies that employed 100 or more individuals.

Trade liberalization and the opening of the Peruvian economy for FDI were other factors that reduced the power of the trade unions in the 1990s. Peruvian capital was not able to compete with foreign capital and had to close their companies. Together with these companies, also the trade unions disappeared (interview, Castro, 2015).

The replacement of wage labour performed in big companies for employment in small and micro companies and own account workers, was accompanied by the neoliberal ideology of the free market. In other words, the material changes in the Peruvian economic structure were strengthened by the ideology of the free market. It should be added that the governments of Belaúnde, García and Fujimori also designed and implemented policies that stimulated the emergence and growth of small and micro businesses. It could be argued that these policies were part of the whole package of social policies to suffocate anti-capitalist social struggle.

The ideology of the free market, disseminated through the massive means of communication, helped to create the idea within the proletariat, the peasantry and the proletarian fraction of the independent intermediate class that the solution to their economic problems was the proper development of capitalism based on the free and unregulated functioning of the market. Workers, who were formerly employed as wage labourers but during the crises in the 1980s were fired and began to work as independents, did “no longer feel themselves to be part of the working class” (interview, Gorriti, 2015). Individuals who worked on their own account started to consider themselves entrepreneurs instead of workers (interview, Benavides, 2015). However, as the Peruvian socialist Left did not have a profound understanding of social reality or what lay behind it, it could not see that the majority of the independent intermediate class was composed of individuals with a

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<sup>559</sup> In the case of the proletariat, the main victim of the neoliberal policies and company closures, the differences between the 1980s and 1990s are much more marked (see tables 6.33 and 6.34 above).

proletarian occupation. Although these persons were also ‘captured’ by the neoliberal ideology, specific strategies and tactics of the socialist Left might have avoided their passing to the camp of the bourgeoisie.<sup>560</sup>

### **8.7. The loss of the social bases by the legal socialist Left**

The changes in the Peruvian class structure that started to unfold in the 1980s have definitively reduced the social bases of the socialist Left.<sup>561</sup> According to Risso (interview, 2015), Peru is mainly a country of “independent workers, workers in micro companies and this does not allow a form of self-organization”.<sup>562</sup>

The ferocious economic crisis in the second half of the 1980s contributed to a dilution of the social bases of the Left. Although the socialist discourse attracted the poor and the excluded, it was not supported by a solid basis (interview, Cáceres, 2015). Benavides (interview, 2015) argues that the social bases of the Left broadened because of the work in the popular sectors.<sup>563</sup> This might be so, however, it is undeniable that the ‘classic’ social bases of the (socialist) Left, i.e. workers and employees in big and medium-sized companies (more than 100 individuals employed), and a majority of peasants without land, disappeared. In the case of the PST for instance, their militants had worked in big factories and had been fired (interview, Prado, 2015). Fernández Chacon (interview, 2015): “The PST was a party of the working class. Upon entering the working class in crisis, it almost disappeared. It had lost its fundamental axis for its construction.” As discussed in

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<sup>560</sup> It should be remembered, however, that the independent intermediate class and the urban semiproletariat were not new phenomena in the 1980s. Their origin dates from before the 1980s. This makes the lack of a political practice of the socialist Left towards these sectors more worrisome.

<sup>561</sup> See on the changes of the social bases of the IU in the 1980s also, Adrianzen García (2008: 2).

<sup>562</sup> In their article on the first three years of the Belaúnde government (1980-1985), Petras, Morley & Havens (1984: 42) write the following regarding trade union weakness: “The union movement, however, faces several critical problems. First, the distorted structure of Peruvian capitalism, with its bias towards rentier and speculative accumulation, has shaped an employment pattern in which only 38 per cent of the economically active population were reported to be wage or salary earners in 1980; the rest were ‘self-employed’, a designation which encompasses the mass of subsistence farmers, pauperized artisans, street vendors, and so on. This retarded proletarianization is combined with a low level of unionization: over two-thirds of salaried and waged workers remain unorganized, as do 90 per cent of non-waged producers. Efforts to organize the vast army of street vendors, it should be noted, have not extended to the even larger layers of temporary workers, sub-contractors and the unemployed.”

<sup>563</sup> In the 1990s the Left also lost their bases in the popular sectors (interview, Benavides, 2015).



chapter 7, during the course of the 1980s the strike movement diminished. In the 1990s the struggle of the labour movement was reduced to its minimum expression.

Workers that were employed in small and micro businesses were not object for politicization by the socialist Left. Prado (interview, 2015), a former cadre of the PST, tells that it “did not occur to us to articulate a policy towards small or medium entrepreneurs. We did not see that it was a new sector”.<sup>564</sup> As the organization lacked a strategy to “capture” workers in small and micro companies and the strikes had reduced, the organization was not able to politically relate itself to the workers in these businesses (interview, Prado, 2015).<sup>565</sup> Minguillo (interview, 2015) says that the workers in small and micro companies were not taken into account by the Left.

The introduction of neoliberalism in the 1990s further reduced the social bases of the socialist Left. The decrease of the number of formal workers and the increase of the number of informal workers (interview, Auris, 2015) had negative consequences for the PCP-PR as it became much harder to organize the proletariat (interview, Auris, 2015).<sup>566</sup> The closure of the factories was a very hard blow for the PST. Its political work in unions and factories reduced. And although the organization maintained its contacts with the proletariat, it was not the same as in previous years with a “great rise of the working class”. The privatization of state-owned companies caused trade unions to disappear.

The loss of the socialist Left’s social bases was not reduced to the proletariat. Also it started to lose its bases in the countryside. While in the 1970s the socialist Left’s “historical basis” in the countryside was formed by the “proletariat of the communities”, the crises in the 1980s and the increasing presence of the market in the countryside contributed to the emergence of a rural semiproletariat (interview, Cáceres, 2015).<sup>567</sup> According to Raffo (interview, 2015), the socialist Left lost its bases with the atomization

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<sup>564</sup> The fact that the PST did not have a lot of work with individuals in small and micro companies is confirmed by Fernández Chacon (interview, 2015).

<sup>565</sup> It must be recognized, however, pointed out by Minguillo (interview, 2015), that individuals who are employed in micro companies have not “generated” a labour movement with the characteristics of the 1970s. Although this might explain why the socialist Left has not worked with individuals that are employed in these businesses, but it does not answer the question why the socialist Left has not contributed to the organization of a labour movement based on these individuals.

<sup>566</sup> According to Hurtado (interview, 2015), the PCP-PR did not develop political activities with the mass of informal workers and the semiproletariat.

<sup>567</sup> On the reproletarian of individuals that sold their land to capital, see Raffo (interview, 2015). Data in chapter 6 show that the Peruvian rural proletariat is very small.

of the countryside. The individualization of the land of the cooperatives converted former workers on these cooperative in small landowners. Minguillo (interview, 2015) tells that the peasant movement became ‘disarticulated’ as the peasants had sold their land to the capitalists.<sup>568</sup> According to Benza (interview, 2015), not only the Fujimori regime continued the individualization of the land, but also introduced the ideology of entrepreneurship: “Individualism among the peasantry was stimulated again.” As demonstrated in chapter 6, the big majority of the peasantry is composed of subsistence landowners.

### **8.8. Political work in a changed social and economic environment**

The organizations of the socialist Left have enormous difficulties to reorganize their social bases. This will not only take a very long time as Cáceres (interview, 2015), Auris (interview, 2015) and Militant 3 Pueblo Unido (interview, 2015) explain, but it will also mean that the socialist Left should use all its creative powers to reinvent its political work with the masses.

The dispersion of the labourers over thousands of small and micro companies and the fact that they are not organized in trade unions, the disappearance of many trade unions,<sup>569</sup> the deregulation of the labour market and the widespread use of temporary contracts by the State and capital,<sup>570</sup> make political work with the masses very complicated (interview, Moreno, 2015, interview, Auris, 2015; interview, Minguillo, 2015; interview, De la Cruz, 2015).<sup>571</sup> According to Wiener (interview, 2015), there are no “structured social sectors” anymore. In addition, the deregulation of the labour market has created a labour regime in which the working population is completely tied to the necessities of capital. This means that it is not the proletariat that through their trade union representatives negotiates

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<sup>568</sup> Wiener (interview, 2015) argues that the CCP lost their bases because its social bases in the countryside had changed.

<sup>569</sup> Fernández Chacon (interview, 2015): “Today unions are decoration.”

<sup>570</sup> It is very difficult to work with individuals who are employed on a three-monthly basis (interview, Moreno, 2015).

<sup>571</sup> In the past, the concentration of workers in large units made it relatively very easy to establish party cells (interview, Murrugarra, 2015). In the 1980s and 1990s the workers were concentrated in 10 or 20 factories and had a trade union to mobilize 40.000 to 50.000 persons” (interview, De la Cruz, 2015). Today the Peruvian economic structure is principally based on small and micro companies (interview, Dammert, 2015).

its working hours, but these hours are imposed by capital. The lack of time to develop political activities has negatively influenced the organizational strength (and membership) of the socialist organizations and the trade unions (interview, Fernández Chacon, 2015; interview, Militant 1 Pueblo Unido, 2015).

Individuals that work on their own account are very difficult to organize (interview, Raffo, 2015). Most of them are armed with an idealistic ideology (interview, Moreno, 2015).<sup>572</sup> Auris:

For your political work what do you prefer? Do you prefer a worker who is the owner of a small buss or a taxi driver or do you prefer a salaried worker? I prefer to work with this salaried worker instead of working with the taxi driver because the taxi driver, although he is a worker, has another orientation, a different mentality. The other knows completely what it means to be exploited. He knows that he is the producer of wealth and yet does not enjoy his wealth. It is much easier to work with him and to convince him. But this social base has decreased, has been reduced. We have permanently lost a very important sector of our revolutionary army.<sup>573</sup>

Just like the self-employed who work ‘on their own account’, informal workers do not tend to organize themselves. Prado (interview, 2015) and Fernández Chacon (interview, 2015) explain that the PST has tried to organize these individuals. However, according to Prado (interview, 2015), this work resulted in a complete disaster. Wiener (interview, 2015) tells that the Left talked about the necessity to work with informal workers but nobody knew how. Traverso (interview, 2015) says that the PSR did not have any organized political work with informal workers. According to Militant 1 Pueblo Unido (interview, 2015) and Militant 2 Pueblo Unido (interview, 2015), the Left has not developed political activities directed towards the informal sector.

It is not only difficult to organize the workers in the urban areas, but also in the countryside. Although it might be argued that it should be easy to organize the rural proletariat, the control of the big agro-exporting companies and the fact that these workers have temporary contracts make political work very hard. In the case of small landowners,

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<sup>572</sup> According to Risso (interview, 2015), the owners of micro companies who emerged in the 1990s have “basically a bourgeois mentality but live the life of a worker”. On the ‘business mentality’ of small businessmen at the end of the 1970s and beginning of the 1980s, see Durand (2004: 317).

<sup>573</sup> According to Benavides (interview, 2015), the “bourgeoisie regained” the terrain of the own account workers and the small and micro companies from the Left.

the dispersion of the peasants, cultural differences and the heterogeneity of concrete interests, and even conflicting interests, make their political organization complicated (interview, Céspedes, 2015).

Since the ‘fall’ of Fujimori in 2000 the trade unions have reemerged. However, their reduced political and social relevance in society do not seem sufficient to initiate a political and organizational process that would enable the socialist Left to reestablish its social bases.

Apart from the fact that, currently, the socialist Left is not able to reorient the political work of their organizations,<sup>574</sup> we also think that the majority of what is called the Peruvian socialist Left may not be interested anymore in political work with their objective and historical social bases. The widespread use of the concept of civil society within the socialist Left and the substitution of the struggle for socialism for the battle for the humanization of capitalist society, has made it ‘superfluous’ to organize the exploited and oppressed classes (as such) against the ruling class (as such). The struggle for socialism has been replaced by the struggle against social injustice.

### **8.9. Social reality and revolutionary practice**

The lack of studies on the Peruvian class structure seems to have disabled the socialist Left to elaborate on strategic and tactical responses to address these changes politically and organizationally. This brings Moreno (interview, 2015) to declare that the theoretical weakness of the Left explains a big part of the Left’s problems. The socialist Left was not able to react on the neoliberal version of capitalism as it had not studied the development of capitalism. According to Moreno (interview, 2015), the Left “did not even understand the new phenomenon that was presenting itself”. Raffo (interview, 2015) believes that the PCP-U had a correct understanding of Peruvian social and economic reality. It only had not adequately adapted itself to the economic and social changes that were going on. Raffo (interview, 2015):

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<sup>574</sup> The masses have changed, but the discourse of the PCP-PR is still the same. It should change to ‘capture’ the informal workers and the proletariat in the micro companies. Currently, a political practice directed towards individuals that are employed in micro companies is absent (interview, Auris, 2015).

It is not an erratic reading of reality but it is an erratic reading of the changes that were occurring since the 1980s with the globalization process and the hegemony of the neoliberal capitalist system that changed the relations of production and changed the administrative structure of the system. For example, the decentralization of production and the triangulation of labour with contracts and subcontracts. That has radically changed the production relations and has curbed, for example, collective bargaining and unionization.

In section 8.3 we mentioned that the awareness of the changes in the class structure led the PCP-PR to conclude that more should be done with those masses that were not pertaining to any political organization. The above referred document of the VR from 1983 also did not draw concrete political and strategic conclusions from the incipient changes in the class structure, besides telling that the organization should work to attract the “progressive, national and democratic sectors” of small and medium sized agricultural and industrial producers and businessmen (VR, 1983: 54). In the case of the IU things seem to be worse. In the documents for its first (and last) congress in 1989 we cannot find any reference to the Peruvian class structure (Izquierda Unida, 1989).

The lack of discussions on the evolving Peruvian class structure<sup>575</sup> has been accompanied by a complete absence of analyses on the development of capitalism in Peru.<sup>576</sup> In the PSR, for instance, no debates were organized regarding the political, economic and social character of Peru and the revolution that was necessary to install socialism (interview, Minguillo, 2015).<sup>577</sup> The organization fought to further the reforms of Velasco (interview, Minguillo, 2015; interview, Traverso, 2015). At the end of the 1970s debates were about the Constituent Assembly and the presidential elections of 1980

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<sup>575</sup> Traverso (interview, 2015) does not remember any debate in the IU on the evolving Peruvian class structure.

<sup>576</sup> In general, the Left did not have an integral vision on the political, economic and social characteristics of the country. They also did not have any idea about the social changes that were going on. A serious and systematic study on the development of capitalism in Peru, on the modes of exploitation and on the emergence of new social classes and strata, among others, has not been executed. “They have been stuck in a purely rhetorical discourse of what revolution is, what socialism is, what the working class and peasant alliance is, i.e. they have repeated the same what Lenin said in 1917.” (interview, Cristóbal, 2015). According to Traverso (interview, 2015), in Peru there is a complete lack of studies on Peru. The Left does not understand Peru and is pragmatic. Luza (interview, 2015): “The left never knew how to interpret Peruvian reality. It was always a biased interpretation. It was always an interpretation from the point of view of the West.”

<sup>577</sup> Benza (interview, 2015) does not agree with the fact that, before anything else, one should politically, economically and socially characterize a country. This idea originates from dogmatic Marxism-Leninism.

(interview, Minguillo, 2015). According to Cristóbal (interview, 2015), the PSR did not study the country and nobody worked on issues related to class and class structure. He has never seen ‘ideological’ or ‘strategic’ documents of the PSR.<sup>578</sup> Traveso (interview, 2015), a former cadre of the PSR, has never participated in debates on the class structure.

The absence of a thorough understanding of the evolution of the class structure impedes the elaboration of programs and proposals that might find acceptance among the exploited and oppressed classes and class fractions. It also blocks the development of adequate strategies and tactics to win the masses for a socialist change of society. As the IU (1989) did not describe the classes and class fractions that might be ‘interested’ in the socialist project of the IU, it was not able to elaborate on strategies and tactics that might have helped the IU to ‘capture’ these classes and class fractions. According to the IU, one of the reasons for its electoral defeat in 1990 was the fact that it had maintained “an image of the country that did not correspond with reality” (Traverso Flores, 2013: 314).<sup>579</sup> In its 1985 analysis of the presidential elections of the same year, the PUM (1985: 19) arrived at the conclusion that the lack of an “adequate evaluation of the situation of the sectors and social classes in the country” disabled the IU to determine the “link of the mass movements with the competing political alternatives”. However, as the former general secretary of the PUM points out, because the PUM thought that the crisis in the second half of the 1980s would lead to revolution, not a lot of work was done to broaden the social bases of the organization that were beginning to reduce (interview, Cáceres, 2015).

The political necessity for socialist organizations to have a clear understanding of underlying economic and social trends can be demonstrated when we review the PUM’s characterization of the political situation at the end of the 1980s. In 1989 the organization thought that Peru was entering a prerevolutionary phase (PUM, 1989: 8).<sup>580</sup> This conclusion was based, among others, on the evolution of the strike movement in the years

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<sup>578</sup> According to Traveso (interview, 2015) the PSR definitively had a strategy and tactics. However, these were not based on a class analysis but were determined on the basis of the particular development of the political and economic conjuncture.

<sup>579</sup> The former Lima Mayor Villarán, a former leader of the organization *Fuerza Social*, tells that the IU did not see that society was changing. As the Left was used to the “collective”, to the “trade unions”, it did “not fully understand” the individual idea of getting ahead, the sense of being an entrepreneur. The Left did not look at the “world of the neighbourhood” (Adrianzén, 2011b: 502-503).

<sup>580</sup> In its congress documents of 1993, the PUM (1993: 237) wrote that the revolutionary situation (sic) lasted five years, i.e. from 1987 to 1992.

before. As, at that moment, the PUM was not clearly visualizing the evolving class structure and did not see the reality of decreasing fighting power of the proletariat and their allies behind the strike movement (see Chapter 7), the organization believed that the struggle might culminate in a national strike against the economic policies of the government (PUM, 1989: 15).<sup>581</sup> When in August 1990 the first drastic austerity measures were implemented by the new government led by Fujimori, the PUM even thought that “the revolutionary situation has reached its highest level” (PUM, 1993: 46).<sup>582</sup> Finally, nothing happened. According to the PUM (1993: 79), “the huge delay in the study of the changes that occur in Peruvian society, together with schematic criteria for the definition of social classes” prevented it from directing a part of its strategy towards new social groups or class fractions that started to emerge.<sup>583</sup>

## 8.10. Conclusions

In the 1980s the legal socialist Left was political active in trade unions and peasants organizations. Different organizations had also party cells in companies and intended to work with the increasing informal sector. However, as the politics of the legal socialist Left was primarily determined by the ‘politics of react’ and it had gained a major presence in different local and regional governments, it slowly started to lose its social bases. Parliamentary work began to dominate the political practice of the legal socialist Left and the ‘politics of react’ impeded it to distinguish between the expressions of social reality and what laid behind these expressions. These politics also helped to confuse electoral support and trade union power with the support for the socialist transformation of society.

The loss of the social bases by the legal socialist Left cannot be reduced to the ‘politics of react’ and the predominance of political work in local and regional

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<sup>581</sup> One of the reasons why the Left did not have the capacity to respond to neoliberalism and not even understood this “new phenomenon that was presenting itself”, was the fact that the Left thought that it was “rising” (interview, Moreno, 2015).

<sup>582</sup> It must be noted that in 1989 the PUM talked about a prerevolutionary situation and in 1990 about a revolutionary situation. Unfortunately, the organization has not clarified the difference between these two concepts. It should be remembered that also the MRTA talked about a prerevolutionary situation without defining this. See section 7.1.4 on Lenin’s definition of a revolutionary situation.

<sup>583</sup> According to Lynch (2014: 171), the political vanguard, i.e. the Left, was not able to respond adequately to the increased informality of the economy.

governments. It is also not only caused by corruption of the socialist Left's representatives in these governments or because their management of the local and regional governments could not be distinguished from the administration by right-wing oriented political forces.

The erosion of the political and social bases of the legal socialist Left is caused by the particular development of capitalism in Peru. This not only enabled the representatives of capital to attract the proletariat, the peasantry and the proletarian fraction of the independent intermediate class with a discourse in favour of the free market,<sup>584</sup> but also disabled the legal socialist Left to develop political alliances with the dependent intermediate class and the middle class fraction of the independent intermediate class. The lack of knowledge on the political consciousness of this class and class fraction made, in the 1980s, specific anti-capitalist policies directed towards this class and class fraction impossible, and could not block the powerful influence of the neoliberal ideology in the 1990s on this class and class fraction.

The accumulation of economic crises in the 1980s, the implementation of large scale privatization processes and the liberalization of the economy in the 1990s not only reduced trade union power to its minimum expression, but also helped to radically change the distribution of employment by enterprise size groups. The closure of private and state-owned companies meant the 'closure' of trade unions. The replacement of companies with strong trade unions by small and micro companies<sup>585</sup> without unions further reduced the power of the trade unions in society and their strength in negotiations with the State and capital. The dispersion of the working population over thousands of small economic units made politicization by the legal socialist Left incredibly difficult.

The role of the accumulation of economic crises in the 1980s for the erosion of the political bases of the legal socialist Left may not be underestimated. The fact that the trade unions were not able to defend the working population against the crises and the socialist Left did not succeed in transforming its main electoral front into a revolutionary front of the masses, pushed individuals to look for individual solutions for their economic problems

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<sup>584</sup> We do not disregard, as explained in the introduction of this chapter, the negative political effects on the socialist Left of the economic and social disaster of the project of state-led development of García's first term (1985-1990).

<sup>585</sup> The social programs implemented by the Fujimori government coupled with the replacement of big companies with lots of wage labourers by small and micro companies and own account workers contributed to what Wiener (interview, 2015) calls a "popular *Fujimorismo*".



instead of to continue fighting against the State and capital.<sup>586</sup> The increase of informal workers and the fact that underemployment became a structural feature of the economy, eroded the political bases of the legal socialist Left in the sense that these individuals do not have the need to affiliate themselves to a union or have time for political or trade union activities.

The implementation of a radical form of neoliberalism in the 1990s meant an all-out attack on the organized labour movement and the legal socialist Left. The widespread use of temporary contracts, subcontracting and the deregulation of the labour market made trade unions superfluous and increased the difficulties for the legal socialist Left to develop political activities with the working population. As the informal workers and the own account workers (including the proletarian fraction of the independent intermediate class) were disconnected from the organized labour movement, and the proletariat and the peasantry became increasingly ‘disengaged’ from the organized labour movement and/or peasant movement, the neoliberal ideology of the free market that accompanied the class struggle from above helped to erode the social bases of the legal socialist Left. Instead of fighting the system, an important part of individuals pertaining to these classes, class fractions and social category became the support of the system.<sup>587</sup> In addition, as the legal socialist Left did not succeed in organizing the independents or the informal workers or did not take this part of the working population into account, it practically abandoned a major part of its social bases.<sup>588</sup>

The erosion of the political and social basis of the legal socialist Left in the countryside was started during the second term of Belaúnde and deepened during the Fujimori regime. The individualization of landownership not only formed an ideological barrier for socialist propaganda, but also, in the context of the factual political

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<sup>586</sup> Although it is not subject of our analysis, it cannot be neglected that the widespread use of terror by the State and the PCP-SL contributed to the political retreat of the working population. Fear made it felt in the population. In addition, as pointed out by Militant 1 Pueblo Unido, after the murder of the fourth and fifth social leader the people started to think if it made sense to resist.

<sup>587</sup> As explained in the introduction of this chapter, the neoliberal ideology is not the only factor that caused a big part of the objective social bases of the socialist Left to turn their backs on their ‘historical’ and ‘natural’ political representatives.

<sup>588</sup> In this context it is of no surprise that the popular movement, in the 1970s and 1980s allied with the labour movement, became, in the 1990s, the political support of Fujimori. See on this also, Mendoza (interview, 2015).

disappearance of the CCP and the CNA, principally caused by the atomization of the countryside, helped to disperse the legal socialist Left's social basis in the countryside. Political organizational work directed towards the reestablishment of a powerful peasant movement is very complicated because of the geographical dispersion of the peasants and the heterogeneity of interests, and even conflicting economic interests between the owners of small plots of land.

The awareness of changes in the Peruvian class structure has not led the Peruvian legal and armed socialist Left to profoundly study these changes. Although the socialist Left would not have been able to reverse the changes in the class structure, primarily the result of the particular course of capitalist development in Peru, a thorough comprehension of these changes could have enabled it to theoretically, politically and organizationally address these changes in order to maintain and/or expand its social bases.

The lack of a profound understanding of the continuously changing Peruvian social reality has been one of the principal reasons why the Peruvian socialist Left has not been able to attain state power in the last thirty-five years. It seems that it was unaware that in the 1980s it was losing its social bases. When in the 1990s it saw that a considerable part of its social bases had disappeared, it was too late to introduce strategic and tactical responses to reverse this situation.

A thorough understanding of the development of capitalism in Peru, of its political, economic and social expressions, is a precondition for the elaboration of strategies and tactics that might help to take state power. This understanding should determine the political practice of the socialist Left.

It cannot be argued that the legal socialist Left did not know in what kind of country it was living. Its documents on the political and economic conjuncture, the country's role in the international division of labour, the submission of the country to imperialism and the battle between the different fractions of the ruling class show that the socialist Left knew what was going on. However, this dispersed and, more or less, superficial knowledge has not been used as a starting point for a more profound and systemic theoretical elaboration of the development of capitalism in Peru, and that of its class structure in particular, that

could have enabled it to timely change their strategic and tactical conceptions.<sup>589</sup> Often the legal socialist Left stated the importance of the study of the class structure and social phenomena such as informality and announced that political work should be done in emerging social sectors and/or class fractions. However, it appears that all this has been stuck at the level of good intentions.

We think that there are at least three reasons that have caused the legal socialist Left to lack an adequate understanding of the changes in the Peruvian class structure.

1) The political practice of most of the legal socialist Left seemed not to have been determined by a concrete strategic project that pointed to the seizure of state power but, rather, by the political and economic conjuncture. Although its long-term objective might have been the installation of socialism in Peru and its tactics might have pointed to accumulate the necessary forces to take state power, it did not see that in the 1980s the class consciousness of the Peruvian ‘population’ was structurally starting to change. The ‘politics of react’ reduced the socialist Left’s capacities to timely respond to structural trends.<sup>590</sup>

2) The emphasis on electoral work and electoral projects has led the legal socialist Left to focus on day-to-day occurrences. It became part of the system that it supposedly wanted to destroy.

3) The legal socialist Left’s political and organizational weakness disabled it to profoundly study the Peruvian class structure. The heat of the class struggle in the 1980s and the electoral and military successes led it to overestimate its power and political influence.

It must be underlined that the armed socialist Left was not only in the same line affected by the changes in the class structure as the legally functioning socialist organizations, but it also had put the same (low) level of attention on the study of the class structure. The PCP-SL seemed to have thought that it did not need a deep comprehension of

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<sup>589</sup> Frequently the legal socialist Left talked about the masses. The indiscriminate use of the term masses may have led the socialist Left to forget to elaborate on specific policies and proposals.

<sup>590</sup> Of course, the reduction of the strike movements at the end of the 1980s and the considerable decrease of these movements in the 1990s have been analysed by the socialist Left, but only after this had occurred.

the class structure because its militaristic point of view permitted it to consider it possible to create its own social bases. Its struggle against the Peruvian State blurred the reality that the organization was structurally lacking social bases.<sup>591</sup> Although the MRTA was definitively aware that its social bases were eroding, it appears that the organization was theoretically unable to address this issue.<sup>592</sup> As the MRTA had the declared intention to become the armed wing of the ‘population’, its political practice was, just like in the case of the legal socialist Left, primarily determined by the political and economic conjuncture instead of by a strategic project that was directed towards the taking of state power.

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<sup>591</sup> This came wide in the open after the arrest of its leader Guzmán in September 1993.

<sup>592</sup> The indiscriminate use of the word “masses” impeded the organization to elaborate a coherent strategy. According to some ex-militants of the MRTA (NN, N/D: 35), by employing the concept of masses in abstract sense, “it prevents us from understanding its dynamic and its laws in real struggle and to be able to determine a more coherent strategy. Working class masses, peasant masses, petty bourgeois masses are distinct; each of these has a different dynamic that departs from its specific situation in production”.

## CHAPTER 9: CONCLUSIONS

Capitalism in Peru is not the result of a historical process of the development of the country's productive forces and the class struggle, but rather it was forcefully introduced by foreign powers. Hence capitalist development in Peru has never been a politically, economically, socially and ideologically articulated and interconnected process. Independent societal development in Peru before the introduction of capitalism was aborted and replaced by a societal development that was dominated by foreign powers.

Since the abortion of what might be called genuine Peruvian societal development, political, economic and social development became to be determined by foreign powers. Peru depends for its development on external political, economic and social forces.<sup>593</sup>

The existence of 'developed' and 'underdeveloped' countries is the historical product of theft and plunder by imperialism. Generally, 'underdeveloped' capitalist countries can never become 'developed' capitalist countries. Not only is this not of interest to transnational capital that originates in the countries of the 'North', but also the historical 'backwardness' of the countries at the periphery of the world capitalist system is tightened and the distance between the 'North' and the 'South' becomes deeper by the transference of value from the 'underdeveloped' to the 'developed' countries and the mechanism of unequal exchange, among others. Unequal exchange and the transference of value is not a specifically designed policy of imperialism, but the result of real differences in the productive development of the 'North' and the 'South'.

Capitalist development in Peru is a specific capitalist development. The general laws and contradictions of capitalist development cannot be mechanically applied on Peru. While in the countries of the 'North' the profit rate has a tendency to fall, in Peru the profit rate shows a rising tendency. This is mainly caused by the workings of what are called the general counter-tendencies of capitalist development. Although the organic composition of capital has a tendency to rise just like in the countries of the 'North' and this should lead to

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<sup>593</sup> Baran (1964: 168): "They existed under capitalism, yet there was no accumulation of capital. They lost their time-honoured means of livelihood, their arts and crafts, yet there was no modern industry to provide new ones in their place. They were thrust into extensive contact with the advanced science of the West, yet remained in a state of the darkest backwardness."

a decline of the profit rate, it is the increase of the rate of exploitation and the use of the price mechanism that, in the last thirty-five years, has enabled capital to almost permanently offset the tendency of the profit rate to fall by increasing the production and appropriation of the mass of surplus value.

It might be argued that capitalist development in Peru does not force capital to innovate as an abundant labourforce is forehanded that is easily to exploit. This argument might be sustained by the fact that the majority of the Peruvian proletariat and the proletarian fraction of the intermediate class primarily perform manual labour. Hence the rise of the organic composition of capital seems to be lesser caused by technological improvements than by the reduction of variable capital (not in 'man-hours' but in salaries and wages).

Economic growth and economic crises are the consequences of accumulation. However, economic crises in Peru are not caused by the decrease of the profit rate and are also not manifested in an overproduction crisis. The production of value in Peru is not meant to be realized inside the country but abroad. For this reason the problem of a realization crisis is not an 'issue' in Peru as it definitively is in the 'advanced' capitalist countries. The continuous rise of the rate of exploitation evidences that capitalist production is not focused on the internal market.

The fact that the development of the internal market or, maybe better, the lack of its development, is not preoccupying capital does not mean that it neglects its importance for accumulation. Naturally, capital not only invests in Peru to appropriate value abroad, but also it hopes to make a profit within the country. However, the development of the internal market is conditioned by the development of the possibilities to realize value and surplus value abroad.

Capitalist development in Peru has principally been determined by economic developments in the 'advanced' capitalist countries. The necessity of capital to accumulate induces it to increase its markets and to look for new investment possibilities. These processes have given rise to the concentration and centralization of capital, the internationalization of capital and the monopolization of national economies. It must be underlined that the production of surplus value is a pre-condition for the development of capitalism. Without production there is no appropriation.

Neoliberal globalization is the proper result of capital's need to accumulate. It was the declining rate of profit in the 1970s that unleashed the political and economic forces in the 'North' to increase the appropriation of value in the home countries of transnational capital and in the 'South'. In addition, it forced the countries at the periphery of the world capitalist system to 'return' to their historical role in the international division of labour, i.e. to provide the raw materials for capitalist development in the 'advanced' capitalist countries.

The dependence of the Peruvian economy on the 'developed' countries is the principal reason for the particular development of capitalism in Peru. Economic growth and economic slowdown in the 'developed' countries determine growth and slowdown in Peru. As a matter of fact, the country is heavily dependent for its growth on the export of its mineral resources and the investments of transnational extractive capital in the mining sector. Economic crisis or depression in the 'developed' countries not only reduces the demand for the country's commodities and decreases the investments by transnational extractive capital, but also diminishes the realization of value and surplus value of local Peruvian capital in Peru.

Economic crises in Peru are not the sole product of external factors. Also proper Peruvian factors can cause economic crises. However, it is not the dynamics of the capitalist system in Peru that cause these crises (rise of organic composition of capital, reduction of the production of value, fall of the rate of profit, overproduction crisis), but it is the conscious act of sabotage by capital that helps to bring about these crises. For instance, the reduction of private investments has been the principal weapon of capital to damage economic development during the regime of Velasco and García's first term in the 1980s.

. Generally, economic growth in Peru depends on the possibilities of capital, mainly transnational extractive capital, to accumulate capital. In concrete terms this means that Peruvian economic growth principally depends on the following four factors:

- 1) The international demand for the country's minerals.
- 2) The prices of the country's minerals on the international markets.

- 3) The possibilities of transnational capital to extract the country's natural resources.
- 4) The possibilities of transnational capital to appropriate produced value.

The dependency of Peruvian economic growth on the above mentioned four factors suggests that only when economic policies are implemented that satisfy the needs of capital, i.e. by increasing its possibilities to accumulate capital, economic growth is around the corner. This means that, in Peru, a political and economic environment must exist that enables it to accumulate. This environment, however, is, in the last instance, determined by political and economic developments abroad and by the political and economic relations between Peru and the countries of the 'North'. In the case of the investments by the non-extractive sectors of the economy for instance, these investments are not only determined by profitability, but they are also conditioned by the general political and economic development of the country.

Velasco had to leave office as he could not assure the furthering of accumulation processes. During the Morales regime the increase of the commodity prices, the growth of the export volumes of the country's mineral resources and the rise of the rate of exploitation helped to restore profitability.<sup>594</sup> The military regime was forced out as it could not assure the political conditions for sustained accumulation by capital. García's first term was profitable for capital as the stimulation of internal demand helped to reduce its unutilized capacity. However, when the economic policies of the regime put in danger the interests of capital (expressed in declining profit rates), investments were reduced. The government of Fujimori restored profitability through the introduction of anti-labour measures and policies that pointed to the destruction of the labour movement and left-wing oriented political organizations. The combined result of these measures and policies was the increase of the rate of exploitation. The implementation of large scale privatization processes increased Fujimori's credit with (transnational) capital as these processes augmented its investment possibilities. Fujimori's time was up when the development of

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<sup>594</sup> See in this case the role of the Morales regime to weaken the trade unions and to implement policies in favour of capital. This definitively helped to restore profitability.



the profit rate started to stagnate, investment possibilities for capital began to reduce and when the regime was not able anymore to provide stable political conditions for accumulation. The regime of Toledo, García's second term and the government of Humala, all assured the interests of capital. During the Toledo government the profit rate and the rate of exploitation increased. García deepened and broadened the scope of the development model in place by increasing the investment and accumulation possibilities for extractive capital (the profit rate boosted as a consequence of booming commodity prices). The Humala regime consolidated the model and introduced policies that had the objective to suffocate the protests against extractive capital.

During the last thirty-five years no fundamental changes have been introduced in the development model in place, i.e. the model that was implemented by the government of Morales in the 1970s. Even the current Humala regime did not embark on a process that should change the model based on the extraction of natural resources and the relatively free functioning of the markets. Of course, the economic policies of the consecutive governments of Belaúnde, García, Fujimori, Toledo, García and Humala were not the same. However, these differences were more the result of the national and international political and economic conjuncture than were caused by fundamental differences as regards to the role of the State in the economy. Of course, the governments of García (1985-1990) and Humala had, at the onset, the declared intention to 'reintroduce' the State in productive activities. However, while Humala forgot all his promises six months after he was sworn in as President, García abandoned the policies of state-led development when the economic crisis got out of hand.

The role of the State in the development of capitalism in Peru has been determined by the class struggle, the correlation of class forces within and outside the state apparatus, and political and economic developments in the 'North'. It was the development of the class struggle from below, the correlation of class forces in favour of the labour movement and the strength of the socialist Left that disabled the Peruvian State, in the 1980s, to embark on a full attack against the proletariat and the peasantry. It was the weakening of the class struggle at the end of the 1980s coupled with the prescriptions of the Washington Consensus that, in the 1990s, helped to bring about changes in the concrete political tasks of the Peruvian state.

Since the 1990s the role of the Peruvian State has been reduced to caretaker of the interests of capital. Hence it directly operates against the interests of the dominated classes, class fractions and social layers. Repression is a normal procedure of the Peruvian governments to put down social protest movements and the politics of *clientalismo* and *asistencialismo* are used to contain the spread of the protest throughout the population.

The dependence of Peru on political and economic developments in the 'advanced' capitalist countries is supported by the Peruvian bourgeoisie. As a matter of fact, the particularities of the Peruvian bourgeoisie are a reflection of the particularities of capitalism in Peru. The hegemonic fraction of the bourgeoisie in Peru is the product of national and international developments. And although the interests of the native bourgeoisie and the international bourgeoisie differ and may contradict, these differences are not fundamental. That is, these interests do not put the system itself in jeopardy.

The relation of dependency between Peru and the 'advanced' capitalist country's is expressed in the role of the Peruvian State to maintain and deepen this relation. As a matter of fact, since the 1990s the economic policies that have been pursued and implemented by the Peruvian regimes have furthered the country's dependence on external political and economic factors.

The particular character of capitalist development in Peru cannot only be demonstrated by the fact that the general laws and contradictions of capitalist development do not fully apply to Peru, but also by the particularities of its economic structure. Peru's economy can be divided into a 'modern' economy at the service of big corporations and a capitalist subsistence economy composed of small and micro companies characterized by low levels of productivity (technological improvements are negligible) and wage levels near or below the nominal minimum wage level. The capitalist subsistence economy is the product of the country's role in the international division of labour.

The existence of what might be called a 'modern' economy and a capitalist subsistence economy does not mean that we can talk about a dual economy. The relation between both economies is a relation of dominance and (inter)dependence. The development of the 'modern' economy determines the development of the capitalist subsistence economy. The existence of a 'modern' economy at the service of (transnational) capital realizes itself in the existence of a capitalist subsistence economy.

The internal structure of the Peruvian economy is a factor that explains, apart from the imperialist forces, the dependency of Peru on the countries in the 'North'.

The capitalist subsistence economy in Peru finds its expression in the distribution of employment by enterprise size groups and in the character of labour performed by the proletariat and the urban semiproletariat. The absolute majority of the Peruvian working population is employed in small and/or micro companies and the proletariat and semiproletariat mainly perform manual labour. Also the fact that underemployment and informality are structural features of the Peruvian economy evidences the existence of a capitalist subsistence economy.

The class structure of Peru at the level of the economic structure is composed of the bourgeoisie, the intermediate class, the proletariat and the peasantry. It is also possible to distinguish social categories.

In general terms, the evolution of the overall class structure for Metropolitan Lima in the years between 1986 and 1994 has remained relatively stable. Only the bourgeoisie and the peasantry reduced its size with some percent points. In the case of Peru as a whole, in the period 1997-2014 the overall class structure remained even more stable. It was solely the bourgeoisie that diminished a few percent points. The stability in the years 1997 to 2014 might not be of a surprise as the changes in the economic structure date from the mid-1980s until the mid-1990s.

The changes in the Peruvian class structure can be found within the different classes and when we compare the periods 1986-1994 and 1997-2015. These changes can be resumed as follows:

1) The bourgeoisie. The implementation of a development model based on the extraction of the country's mineral resources, the privatization of state-owned companies and a free and (relatively) unregulated functioning of the markets in the 1990s caused changes in the structure of the bourgeoisie. Transnational extractive capital became the hegemonic fraction of the bourgeoisie. The dismantling of the Velasco reforms initiated under the Morales regime and continued by the government of Belaúnde, coupled with the liberalization of the markets and the accumulation of economic crises in the 1980s, replaced big (national and international) companies for small and micro capitalists, giving rise to a

capitalist subsistence economy. In the rural areas economic crises and measures such as the individualization of land contributed to the reemergence of a rural bourgeoisie. During the Fujimori regime the capitalist subsistence economy was consolidated and expanded. The re-concentration of land in few hands was heavily promoted.

2) The intermediate class. Data show that in the years 1986 to 1994 (for Metropolitan Lima) and in the period 1997-2014 (for Peru as a whole) the dependent intermediate class remained stable. However, when we compare their weights in the EAP remarkable differences can be observed. Of course, Lima is not Peru, however, given Lima's dominant economic weight in Peru and its 'advanced' economic structure in comparison with the rest of the country, it might be concluded that a big part of the former dependent intermediate class became part of the independent middle class fraction of the intermediate class or even of its proletarian fraction. This might explain, comparing both periods, the phenomenal rise of the weight of the independent intermediate class in the intermediate class as whole. In the case of the independent intermediate class structure we can observe the same as in the case of the dependent intermediate class. In both periods its relative weights remained stable. Important differences can be noted when we compare both periods and when we examine what has happened inside the independent intermediate class. The proletarian fraction of the intermediate class increased remarkably. The accumulation of crises in the 1980s, and the privatization of state-owned companies and the anti-labour measures implemented in the 1990s might be considered as the principal reasons for the changes in the structure of the dependent and independent intermediate class.

3) The proletariat. The Peruvian proletariat is predominantly composed of individuals that carry out manual labour. Notwithstanding the fact that the implementation of neoliberalism has not really increased the weight of manual labour performing individuals in the proletariat, the development model introduced in the 1990s has definitively not increased the weight of mental labour. It seems that Peru's role in the international division of labour does not 'force' the country to have a more skilled labour force. The data for the years 1985 to 1994 on Metropolitan Lima show that the economic crisis in the second half of the 1980s caused a reduction of employment in companies that employed 100 and more individuals

and an increase in companies that employed two to nine and 20 to 99 individuals. The data for Peru as a whole in the period 1998-2014 show the consolidation of this trend, i.e. the employment in companies that employ between two and nine individuals instead of 100 or more individuals. The absolute majority of the occupied Peruvian proletariat is employed in small and micro companies. These changes have been brought about by the accumulation of crisis in the 1980s, the privatization of state-owned companies in the 1990s and the development model implemented by the neoliberal regime of the 1990s.<sup>595</sup>

4) The peasantry. The lack of data does not permit to compare the evolution of the peasantry in the period 1997-2014 with the 1980s and the first years of the 1990s. Notwithstanding this limitation, it is possible to draw some conclusions of the data that was presented in chapter 6. The Peruvian rural proletariat is very small. The big majority of the peasantry is composed of small plot owners. Although the land reform of Velasco contributed to the emergence of a *mini-latifundio* system, it was the counter-reform initiated under the Morales regime and continued by the government of Belaúnde, and the neoliberal measures introduced during the Fujimori regime that have decisively contributed to the current structure of the peasantry. As these small plots do not generate sufficient income, a considerable part of the peasants has a second job. This situation creates incentives to sell the land and furthers the concentration of landownership.

Before we continue with our conclusions on the class struggle and the socialist Left, a special note must be dedicated to the issue of informality. As pointed out above, informality is a key feature of the Peruvian economy and demonstrates the existence of a capitalist subsistence economy.

The deregulation of the labour market, the increased flexibility of the labour force and the formidable rise of workers on temporary contracts in the 1990s has not reduced the number of informal workers. As a matter of fact, during the years in which a radical form of neoliberalism was introduced informality has only increased.

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<sup>595</sup> Since the 2005 we can witness an increase of the occupied proletariat that was working in companies that employed more than 100 individuals. This is the result of what might be called the multiplier effects of the unfolding commodities boom.

Economists employed by the bourgeoisie repeatedly tell the story that informality is caused by elevated labour costs. In order to maintain competitiveness labour costs may not increase and should even be reduced. However, as has been shown in this dissertation, a causal relation between diminishing labour costs and diminishing informality cannot be demonstrated, not even a direct relationship between economic progress and the reduction of informality. What lies behind this argument is the intention of the bourgeoisie to introduce the labour standards of informality in the formal sector or, in other words, to formalize informality in the formal sector. Its result will be an increase of the rate of exploitation, helping to maintain the upwards trend of the profit rate.

The high tide of the class struggle from below in Peru in the decades of the 1970s and 1980s confused the legal socialist Left in sense that it believed that the expressions of social reality coincided with structural trends. Although the class struggle before the elections for the Constituent Assembly in 1978 was reflected in a considerable left vote, the Left was not able to see that after these elections the class struggle started to weaken. This weakening coupled with the division of the Left reduced the Left's electoral results during the presidential elections of 1980.

In the course of the 1980s the legal socialist Left believed that it was near the taking of state power. The strikes and demonstrations of the workers unions and the popular movement, the guerrilla struggle of the PCP-SL and the MRTA, and the electoral strength of the Left seemed to be putting the Peruvian State and capital in check.

The development of the class struggle in the 1980s masked the fact that the class struggle was structurally weakening. The political Right started to recuperate its strength when the accumulation of economic crises put life itself in danger and the strikes and demonstrations did not help to solve the urging economic problems of the population.

The legal socialist Left and the MRTA did not see that their political and social bases started to erode as they were concentrated on day-to-day occurrences. The development of the class struggle also hid the political weakness of the IU, i.e. its incapacity to convert itself into a mass revolutionary front. Hence power bases to tumble the capitalist regimes were not erected, maintained, broadened or deepened. And when the popular masses started to retreat and when the masses began to fight for individual solutions to their economic problems, the political Right used the spaces left by the socialist Left to foment

its ideology of the free market. The PCP-SL did not worry about the weakening of the class struggle and the erosion of the 'historical' political and social bases of the socialist Left because it thought that it could create by the force of military power its proper political and social bases.

During the 1990s the ferocious class struggle from above caused heavy losses on the socialist forces and reduced their historical political bases, i.e. the trade unions and the peasants' organizations, to their minimum expression. This class struggle complemented the changes that were going in the country's social structure and caused what we called an epochal change. Since the 1990s the correlation of class forces is in favour of capital and the ideology of the free market (and against state-intervention in the economy) is supported by a whole range of classes and class fractions. The socialist Left was thrown back to the stage of primitive political, ideological and organizational accumulation.

The erosion of the political and social bases of the socialist Left in the 1980s and 1990s is caused by, among others, the following six factors:

- 1) Capitalist development in Peru has brought about a distribution of employment by enterprise size groups that is most unfavourable for the activities of the trade unions and the socialist Left. Large companies with strong trade union participation were replaced by small and micro companies without any representation of the workers unions.
- 2) The capitalist development model in Peru increased the rates of informality of the economy, maintained underemployment at around 50 per cent of the EAP, structurally augmented the relative weight of own account workers (independents) in the EAP and atomized the peasantry.
- 3) The accumulation of economic crises in the 1980s caused a structural weakening of the labour movement. The working population started to become ready objects for the ideology of the bourgeoisie. Individual solutions replaced collective actions against the causes of the population's economic and social problems. The crises had a negative effect on the development of the class struggle.

4) The implementation of neoliberalism resulted in the demise of the trade unions and ‘helped’ to reduce the possibilities for political activities of the socialist Left with their political *and* social bases. Temporary contracts, subcontracting and the deregulation of the labour market radically changed the labour conditions of the proletariat. The privatization of state-owned companies eliminated trade unions.

5) The widespread dissemination of the neoliberal ideology of the free market among the ‘historical’ social bases of the socialist Left and in the popular masses in general. In the context of the economic and social disaster of a state-led development project (1985-1990) and the replacement of big companies with lots of wage labourers for small and micro companies, the dissemination of this ideology helped to ideologically erode the social bases of the socialist Left. Large sections of the proletariat, the proletarian fraction of the independent intermediate class and the peasantry became supporters of the system. As a matter of fact, class consciousness contributes to class formation, but the lack of class consciousness contributes to the declassing of class.<sup>596</sup>

6) The combination of an all-out attack on the labour movement, the socialist Left and on the well-being of the majority of the population with the policies of *asistencialismo* and *clientalismo*. The history of the class struggle shows that impoverished masses do not necessarily opt for a revolutionary path as survival is their main preoccupation. Especially in the case when the revolutionary forces have not been able to establish political and social bases at the local level, the masses are ready objects for the bourgeoisie by making use of the well-known system of *clientelismo* and *asistencialismo*. During the Fujimori regime massive social support programs were implemented. These programs had not only the objective to reduce the hardship caused by the economic measures, but, more importantly, to maintain popular support for these measures.

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<sup>596</sup> Class struggle and class consciousness have been crucial for the socialist Left to develop political activities with their political and social bases. This work was of key importance to help the exploited and oppressed masses to advance from an economic class consciousness to a political class consciousness. A considerable reduction of massive class struggle from below and a lack of class consciousness are politically catastrophic for the socialist Left.



The erosion of the political and social bases of the socialist Left has contributed to the loss of the social bases by the socialist Left. The erosion of the political and social bases of the socialist Left was a precondition for the loss of these bases. Adequate strategic and tactical responses to the process of erosion might have enabled the socialist Left to maintain and even broaden their political and social bases. This has not occurred.

The Peruvian socialist Left was definitively aware of the changes that were going on in the country's social structure. However, this has not incentivized it to study these changes and to develop an adequate political and organizational practice to respond to these changes. The socialist Left seems to have forgotten that a thorough understanding of social reality is a pre-condition for changing it.

The reasons why the legal socialist Left lost their social bases are the following:

- 1) The 'politics of react'. This helped to confuse the expressions of social reality for the underlying trends and to abandon the necessary focus on structural changes and trends.
- 2) The concentration on electoral participation instead of working to construct new political and social bases and to broaden and deepen existing ones.<sup>597</sup> Political work with its political and social bases was replaced for political work in local and regional governments.
- 3) The lack of having transformed, in the 1980s, its main electoral vehicle into a mass revolutionary front.
- 4) The corruption of its representatives in local and regional governments.

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<sup>597</sup> The socialist Left's deviation towards an electoral struggle for electoral power does not mean that we reject the participation in elections. Elections may be used as a platform for the dissemination of revolutionary proposals. These proposals might receive a push in the case revolutionaries would be elected in national, regional and local parliaments. Electoral participation also enables the socialist forces to not only present their proposals to a more 'politicized national audience', but it also might contribute to accumulate forces, to gain political experiences and to increase political credibility in a context of neoliberal political and ideological hegemony. However, the participation in elections can only benefit the objectives of socialist transformation when the struggle in and outside the parliamentary buildings is articulated and when the revolutionary organizations are deeply inserted in these struggles and can count on an organized national presence. It should be remembered that even in its strongest period the IU was not able to articulate the struggle in- and outside the parliamentary building.

5) The fact that a socialist management of a local or regional government could not be distinguished from a right-wing oriented administration. Its administration of local and regional governments did not embody the radical socialist change it had proposed.

6) The absence of political and organizational capacity to study the changes in the country's social structure, to elaborate and implement strategic and tactical responses to these changes, and to develop a political practice that responds to the changes.

In the case of the MRTA we can mention points 1 and 6 above. The PCP-SL lost its social bases because of its militaristic deviation.

In the years after the 'fall' of Fujimori social struggle shows an upward trend. This trend, however, cannot be compared with the class struggle in the 1980s and 1990s. Not only in numbers the class struggle is incomparable (strikes and affiliation to trade unions), but also the objectives seem to be different. Although the trade unions, as always, intend to defend the interests of the working population, the socialist Left appears to have left its class positions. Civil society discourse and the notion that it is possible to humanize the capitalist system seem to have 'captured' the socialist Left. As two leaders of the socialist Left told, not only Peruvian society is depoliticized but also the Peruvian socialist Left.

Although the future seems to be bleak for the Peruvian socialist Left, new social actors are starting to emerge. As capitalism produces its own gravediggers, indigenous and peasants-based social movements are currently leading the class struggle in Peru. This struggle is not about reforms but is against the development model in place. It is principally a political struggle. It depends on the socialist Left if this struggle becomes a battle for socialism.

A variety of factors have contributed to the fact that the Peruvian socialist Left has not been able to gain state power in the last thirty-five years. None of these factors can be considered to be the sole and unique explanation. In chapter 1 we wrote that (i) political and military errors of the socialist Left in the 1980s and 1990; (ii) the division of the Peruvian socialist Left at the end of the 1980s; (iii) state terror in the 1980s and 1990s; (iv) the economic and social disaster of state-led development in the period 1985-1990 (economic crisis, hyperinflation); (v) the neoliberal attack on the proletariat, the peasantry,

and, in particular, on the labour movement, in the 1990s, which pointed to the political, social, organizational and military destruction of the socialist Left and the workers unions; (vi) developments such as the collapse of what has been called ‘actually existing socialism’ in Eastern Europe (1989); (vii) the electoral defeat of the Nicaraguan Revolution (1990); and, (viii) the widespread dissemination of the market ideology should be incorporated in an analysis that addresses the reasons why the Peruvian socialist Left has not been able to take state power.<sup>598</sup>

In this dissertation we have demonstrated that the proper political and economic dynamics of capitalist development in Peru in the 1980s and 1990s have caused important changes in the Peruvian class structure and in the distribution of employment by enterprise size groups. Although these changes started in the 1980s, they accelerated in the 1990s. This has caused the erosion of the political and social bases of the socialist Left. As the socialist Left did not elaborate adequate strategic and tactical responses to these changes and its political practice did not change as a consequence of the changes in the class structure, the Peruvian socialist Left lost its social bases.

We believe that our explanation of why the socialist Left has not gained state power in the last thirty-five years is an important contribution to the factors mentioned above as it combines elements of the objective and subjective conditions of capitalist development in Peru. Although it is not possible to determine if the factors mentioned in this dissertation really have been decisive, we think they have been and still are crucial. We are convinced that not only without a revolutionary theory there can be no revolutionary movement as Lenin argued in *What is to be done?*, but also that without knowledge about the underlying trends of social reality it is not possible to successfully intervene in social reality with the objective to change it.

This dissertation has principally contributed to our knowledge on the reasons why the Peruvian socialist Left has not been able to take state power in the years between 1980 and 2015. It has also filled the gap in academic research on the evolution of the Peruvian

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<sup>598</sup> We do not disregard that more factors might have contributed to the fact that the socialist Left has not been able to take state power in the last thirty-five years, for instance the increasing power of the massive means of communication in society. However, we think that the indicated eight factors above are covering the most important factors. Most of these factors are frequently mentioned in the literature on the Peruvian Left. Many times these factors were also brought up in our interviews.

class structure in the last thirty-five years. It has contributed to Peruvian historiography in the sense that more than thirty leaders, militants, cadres and intellectuals of the socialist Left have been interviewed on questions related to capitalist development in Peru, the evolving Peruvian class structure, the class struggle in the years between 1980 and 2015, and the strategies and tactics of the socialist Left, among others.

The study on Peruvian class and the Peruvian class structure is just starting to reemerge. Unfortunately these studies are not based on a Marxist perspective but rather on a Weberian concept of class and a structural-functionalist theory of social stratification. We consider that future Marxist studies on the Peruvian class structure at the level of a concrete society, and the conjuncture and research on the social and economic conditions of the proletariat and the proletarian fraction of the intermediate class might be excellent contributions to the struggle for the revolutionary social transformation of Peruvian society.

## APPENDIX 1A: PROFIT RATE OF PERU: 1968-2011

The profit rate is the relation between surplus value and total capital invested. The profit rate can be described as follows:

s = surplus value  
v = variable capital  
c = constant capital (fixed and circulating)  
p = profit rate

$$p = s / (c + v)$$

For the calculation of the profit rate we follow the example of Roberts (2015) in his paper “Revisiting a world rate of profit”. We have also reviewed other examples of how to calculate the profit rate such as Maito (2014) and Li, Xiao and Zhu (2007). We not only agree with Roberts of how to calculate the profit rate,<sup>599</sup> but also data is available to calculate the profit rate of Peru, using the example of Roberts.

The profit rate is calculated on the basis of data provided in the Penn World Tables. It must be emphasized that only the profit rate of the formal sector is calculated. The Penn World Tables, as also the national accounts of Peru, only register official transactions. The enormous informal sector is not included. Furthermore, we would like to mention that data available only permit to calculate fixed constant capital.<sup>600</sup> In the case of the calculation of variable capital merely individuals with a salary or a wage are included. The monetary compensation of independent workers is included in the exploitation surplus. Hence the explanatory power of the calculated profit rate is limited. In other words, the profit rate presented in this dissertation is only an approximation. The following variables are used:

- Gross GDP at constant 2005 national prices (in million 2005 US\$) = Total value (tv)
- Share of labour compensation in GDP at current national prices = Share of variable capital in GDP (svgdp).
- Capital stock at constant 2005 national prices (in million 2005 US\$) = Constant Capital (cc)

The surplus value equals total value – variable capital. The rate of profit is  $tv - (svgdp \times tv) / cc + (svgdp \times tv)$  as a percentage.

A brief examination of the development of the profit rate shows that the economic crisis in the period 1975-1978 is translated in the reduction of profitability. The return of economic growth in 1979, pushed by a rise of the rate of exploitation (see appendices 3A and 3B) and an increase of exports, is reflected in the development of the profit rate. Although in 1980 the profit rate is lower than in 1979, starting from 1981 a downward trend sets in. The relation between the economic crisis in 1982-1983 and the reduction of

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<sup>599</sup> It is here not the place to discuss how to calculate the profit rate but to provide a reliable calculation of the rate of profit.

<sup>600</sup> Although Roberts (2015), Li, Xiao and Zhu (2007) and Maito (2014) also do not include the circulating component of constant capital, this is a third limitation of the calculated profit rate.

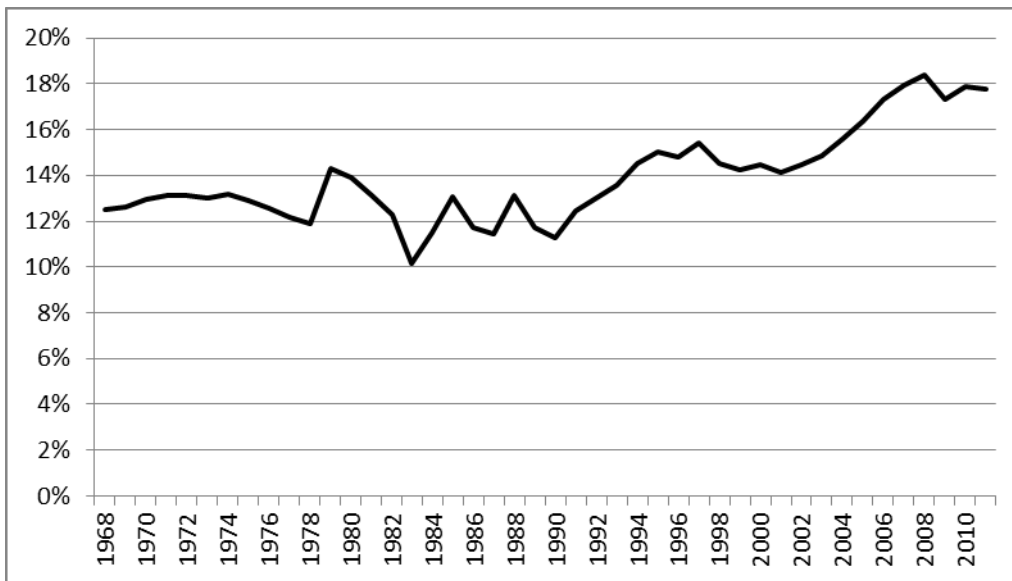
the profit rate is clearly shown. Its increase in 1984-1985 is, among others, caused by an increase of the rate of exploitation.

During the first government of García (1985-1990) profitability was not restored. While in the period 1985-1987 the class struggle helped to bring about a diminution of the profit rate by reducing the rate of exploitation (see chapter 7), in the years 1988 to 1990 the weakening of the battle between classes, economic crisis and inflation contributed to a rise of the profit rate by increasing the rates of exploitation.

In the years between 1990 and 1997 profitability increased. Starting from 1998 the profit rate began to diminish. While during the regime of Fujimori (1990-2000) the rate of exploitation increased when it is compared with previous decades, however, in 1998 and 1999 it fell (see appendices 3A and 3B). This might explain the diminution of the profit rate in the same years.

During the government of Toledo (2001-2006), after four years (1998-2001) of a decreasing or stagnating profit rate, the profit rate started to rise again. This has been caused by increasing profits, a consequence of the increase of the rate of exploitation and economic oppression (see appendices 3A and 3B).

The period of the second García regime is characterized by increasing and decreasing profit rates. The effects of the international crisis (2008-2009) and the reduction of the rate of exploitation reduced the profit rate. Although in 2010 the profit rate climbed again, in 2011 it fell as profits diminished as a consequence of the end of the commodities boom. In the graph below we show the evolution of the profit rate for Peru in the years between 1968 and 2011. No data is available for period 2012-2015.



Source: Penn World Table 8.1, in <http://febpwt.webhosting.rug.nl/Dmn/AggregateXs/VariableCodeSelect#> (consulted 18/02/2016).

## APPENDIX 1B: ANNUAL PROFIT RATE OF PERU: 1968-2011

<b>Year</b>	<b>Profit Rate</b>
1968	12.5 %
1969	12.6 %
1970	13.0 %
1971	13.1 %
1972	13.1 %
1973	13.0 %
1974	13.2 %
1975	12.9 %
1976	12.6 %
1977	12.2 %
1978	11.9 %
1979	14.3 %
1980	13.9 %
1981	13.1 %
1982	12.3 %
1983	10.2 %
1984	11.5 %
1985	13.1 %
1986	11.7 %
1987	11.5 %
1988	13.1 %
1989	11.7 %
1990	11.3 %
1991	12.4 %
1992	13.0 %
1993	13.6 %
1994	14.5 %
1995	15.0 %
1996	14.8 %
1997	15.4 %
1998	14.5 %
1999	14.2 %
2000	14.5 %
2001	14.1 %
2002	14.5 %
2003	14.9 %
2004	15.6 %
2005	16.4 %
2006	17.3 %
2007	17.9 %
2008	18.4 %
2009	17.3 %
2010	17.9 %
2011	17.7 %

Source: Penn World Table 8.1, in <http://febpwt.webhosting.rug.nl/Dmn/AggregateXs/VariableCodeSelect#>  
(consulted 18/02/2016).



## APPENDIX 2A: ORGANIC COMPOSITION OF CAPITAL OF PERU: 1968-2011

The organic composition of capital expresses the relation between constant and variable capital. The organic composition of capital can be described as follows:

c = constant capital (fixed and circulating)

v = variable capital

Organic composition of capital =  $c / v$

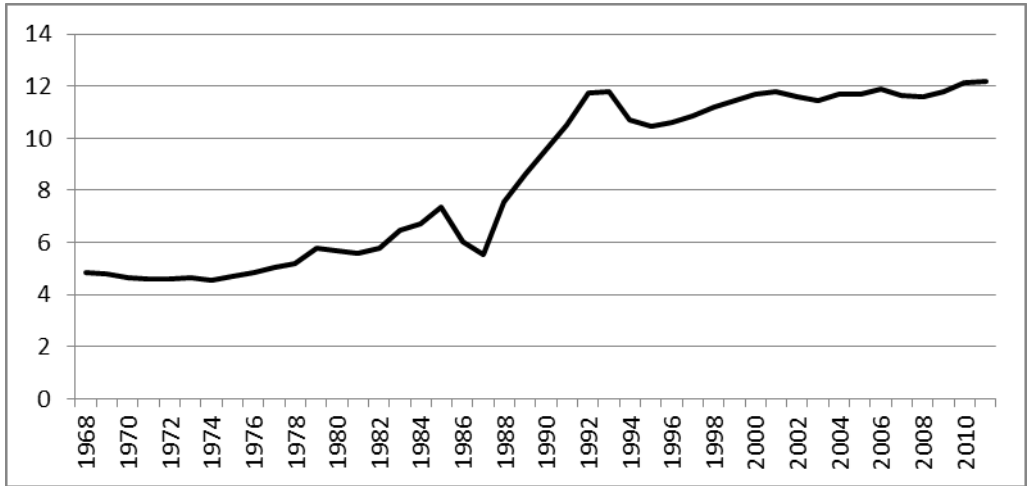
For the calculation of the organic composition of capital we have used the data provided in the Penn World Tables. It must be emphasized that only the organic composition of the formal sector is calculated. The Penn World Tables, as also the national accounts of Peru, only register official transactions. The enormous informal sector is not included. Furthermore, we would like to mention that data available only permit to calculate fixed constant capital.<sup>601</sup> In the case of the calculation of variable capital merely individuals with a salary or a wage are included. The monetary compensation of independent workers is included in the exploitation surplus. Hence the explanatory power of the calculated organic composition of capital is limited. The organic composition presented in this dissertation is only an approximation. The following variables are used:

- Gross GDP at constant 2005 national prices (in million 2005 US\$) = Total value (tv)
- Share of labour compensation in GDP at current national prices = Share of variable capital in GDP (svgdp).
- Capital stock at constant 2005 national prices (in million 2005 US\$) = Constant Capital (cc)

The organic composition of capital is  $cc / (svgdp \times tv)$ . In the graph below we show the evolution of the organic composition of capital for Peru in the years between 1968 and 2011. No data is available for period 2012-2015.

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<sup>601</sup> Although Roberts (2015), Li, Xiao and Zhu (2007) and Maito (2014) also do not include the circulating component of constant capital, this is a third limitation of the calculated profit rate.



Source: Penn World Table 8.1, in <http://febpwt.webhosting.rug.nl/Dmn/AggregateXs/VariableCodeSelect#> (consulted 18/02/2016).

**APPENDIX 2B: ANNUAL ORGANIC COMPOSITION OF CAPITAL OF PERU: 1968-2011**

<b>Year</b>	<b>Organic Composition of Capital</b>
1968	4.8680333
1969	4.79838135
1970	4.65001438
1971	4.5879876
1972	4.5935407
1973	4.62354579
1974	4.56918875
1975	4.69558346
1976	4.82720328
1977	5.02331295
1978	5.16909696
1979	5.76205321
1980	5.68874195
1981	5.57743252
1982	5.76511278
1983	6.46325525
1984	6.72966379
1985	7.343801
1986	6.00219582
1987	5.52150165
1988	7.52931753
1989	8.65052574
1990	9.56924389
1991	10.5212232
1992	11.7562034
1993	11.7982081
1994	10.7205932
1995	10.4618004
1996	10.6264634
1997	10.8543721
1998	11.1865119
1999	11.4559808
2000	11.7078359
2001	11.7759177
2002	11.5976795
2003	11.4691184
2004	11.6947445
2005	11.6849815
2006	11.8775473
2007	11.6328801
2008	11.5931883
2009	11.7661295
2010	12.1125587

<b>2011</b>	12.2023587
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Source: Penn World Table 8.1, in <http://febpwt.webhosting.rug.nl/Dmn/AggregateXs/VariableCodeSelect#> (consulted 18/02/2016).

## APPENDIX 3A: RATE OF EXPLOITATION OF PERU: 1968-2011

The rate of exploitation expresses the relation between the surplus value and variable capital. The rate of exploitation is described as follows:

s = surplus value

v = variable capital

Rate of exploitation =  $s / v$  as a percentage

The rate of exploitation is calculated on the basis of data provided in the Penn World Tables. It must be emphasized that only the rate of exploitation of the formal sector is calculated. The Penn World Tables, as also the national accounts of Peru, only register official transactions. The enormous informal sector is not included. Furthermore, we would like to mention that data available only permit to calculate fixed constant capital.<sup>602</sup> In the case of the calculation of variable capital merely individuals with a salary or a wage are included. The monetary compensation of independent workers is included in the exploitation surplus. Hence the explanatory power of the calculated rate of exploitation is limited. In other words, the rate of exploitation presented in this dissertation is only an approximation. The following variables are used:

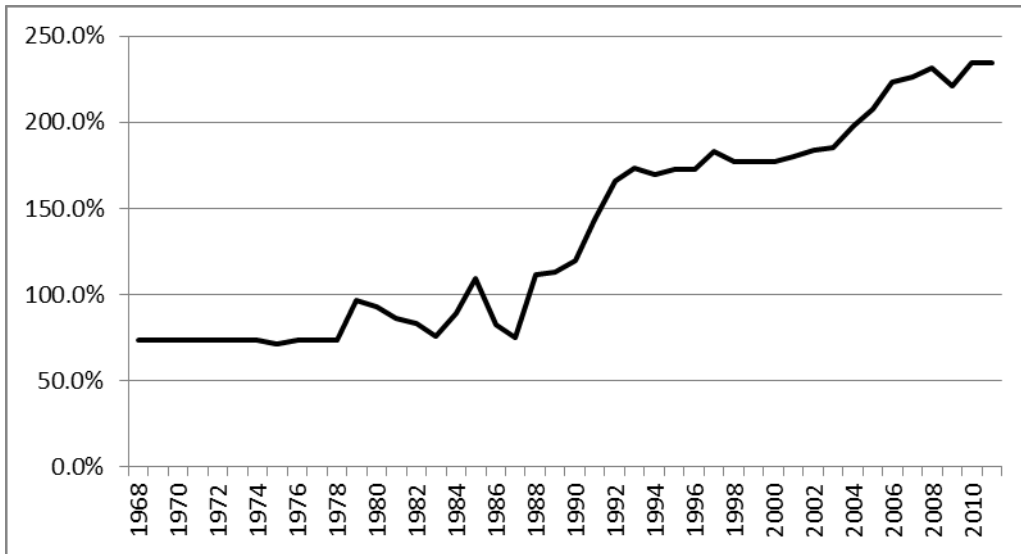
- Gross GDP at constant 2005 national prices (in million 2005 US\$) = Total value (tv)
- Share of labour compensation in GDP at current national prices = Share of variable capital in GDP (svgdp).
- Capital stock at constant 2005 national prices (in million 2005 US\$) = Constant Capital (cc)

The surplus value equals total value – variable capital. The rate of exploitation is  $tv - (svgdp \times tv) / (svgdp \times tv)$  as a percentage.

In the graph below we show the evolution of the profit rate for Peru in the years between 1968 and 2011. No data is available for period 2012-2015.

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<sup>602</sup> Roberts (2015), Li, Xiao and Zhu (2007) and Maito (2014) also do not include the circulating component of constant capital.



Source: Penn World Table 8.1, in <http://febpwt.webhosting.rug.nl/Dmn/AggregateXs/VariableCodeSelect#> (consulted 18/02/2016).

**APPENDIX 3B: ANNUAL RATE OF EXPLOITATION OF PERU:  
1968-2011**

<b>Year</b>	<b>Rate of Exploitation</b>
<b>1968</b>	73.3 %
<b>1969</b>	73.3 %
<b>1970</b>	73.3 %
<b>1971</b>	73.3 %
<b>1972</b>	73.3 %
<b>1973</b>	73.3 %
<b>1974</b>	73.3 %
<b>1975</b>	71.4 %
<b>1976</b>	73.3 %
<b>1977</b>	73.3 %
<b>1978</b>	73.3 %
<b>1979</b>	96.8 %
<b>1980</b>	93.0 %
<b>1981</b>	86.4 %
<b>1982</b>	83.2 %
<b>1983</b>	75.9 %
<b>1984</b>	89.1 %
<b>1985</b>	109.1 %
<b>1986</b>	82.2 %
<b>1987</b>	74.8 %
<b>1988</b>	111.8 %
<b>1989</b>	113.1 %
<b>1990</b>	119.4 %
<b>1991</b>	143.4 %
<b>1992</b>	166.1 %
<b>1993</b>	173.6 %
<b>1994</b>	169.9 %
<b>1995</b>	172.4 %
<b>1996</b>	172.3 %
<b>1997</b>	182.9 %
<b>1998</b>	177.3 %
<b>1999</b>	177.3 %
<b>2000</b>	177.3 %
<b>2001</b>	180.2 %
<b>2002</b>	184.1 %
<b>2003</b>	185.6 %
<b>2004</b>	197.6 %
<b>2005</b>	207.5 %
<b>2006</b>	223.0 %
<b>2007</b>	226.4 %
<b>2008</b>	231.7 %
<b>2009</b>	221.1 %
<b>2010</b>	234.3 %

<b>2011</b>	234.3 %
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Source: Penn World Table 8.1, in <http://febpwt.webhosting.rug.nl/Dmn/AggregateXs/VariableCodeSelect#> (consulted 18/02/2016).



**APPENDIX 4A: THE DISTRIBUTION OF THE CLASSIFICATION CODES OF OCCUPATIONS ACCORDING TO CLASS: 1981-1992**

<b>Capitalist class</b>	<b>Intermediate class</b>	<b>Working Class</b>	<b>Peasantry</b>	<b>Social Category</b>
133, 141, 177, 193, 211, 212, 221-229, 411-413, 421-423, 431-434, 511-513, 521, 522, 611, 612	011-013, 021- 035, 051, 053, 054, 061-063, 071-075, 084, 085, 091-094, 111, 112, 113, 114, 121, 131, 132, 142-154, 155, 157, 158, 161-164, 171- 176, 178, 181- 189, 191, 192, 196, 311, 321- 323, 351-355, 361, 362, 471- 489, 491, 492, 499, 531, 532, 701, 991, 994	014, 036-047, 064, 065, 076- 083, 086-088, 095-097, 115, 122, 135, 156, 159, 179, 331, 332, 341- 344, 363, 364, 391-395, 399, 441-458, 461, 462, 464, 465, 541-545, 552, 553, 561, 571, 572, 591-596, 641-657, 711- 799, 811-891, 901-989, 992, 993, 995-997	621-628, 631-638, 657	551, 581-587

Source: INE (1984b), *Censos Nacionales VII de Población III de Vivienda 12 de julio 1981. Resultados definitivos de las variables investigados por muestreo. Tomo II. Nivel Nacional*, Lima, INE, pp.b-h.

**APPENDIX 4B: THE DISTRIBUTION OF THE CLASSIFICATION CODES OF OCCUPATIONS ACCORDING TO CLASS: 1993-2014**

	<b>Capitalist class</b>	<b>Intermediate class</b>	<b>Working Class</b>	<b>Peasantry</b>	<b>Social Category</b>
<b>Occupation codes</b>	111-113, 121-139, 141-149, 255, 283, 361, 362, 363, 611	114-116, 211- 229, 231-238, 241-247, 251- 257, 259-268, 271-273, 274, 281, 282, 284, 331-335, 411, 431-435, 452, 521, 553, 574, 581-583, 881, 884, 911-927	239, 258, 269, 311-324, 341- 356, 364-367, 371-379, 381- 383, 391-396, 412-419, 421- 423, 436, 442-444, 451, 453-455, 461, 462, 511, 512, 522, 523, 531, 541, 552, 571-573, 621- 627, 631-637, 711-799, 811- 871, 873-877, 882, 883, 885, 886, 931-987, 999	612-616, 621-625, 627, 637, 641, 872	11, 12, 13, 21, 22, 23, 561-565

Sources: INEI (1994a), *Resultados Definitivos. Perú, Tomo V, Vivienda, Características de Hogares*, pp.4139-4145 and CIUO-88 (<http://inei.inei.gob.pe/microdatos/>; consulted 18 August 2015).

**APPENDIX 5: STRIKES ACCORDING TO ECONOMIC SECTOR:  
1980-1990**

	1980			1981		
	Strikes	Workers involved	Man hours lost (x 1000)	Strikes	Workers involved	Man hours lost (x 1000)
<b>Total</b>	<b>739</b>	<b>481484</b>	<b>17919</b>	<b>871</b>	<b>856915</b>	<b>19974</b>
Agriculture (i)	5	8920	91	9	5709	600
Mining	123	63790	2790	156	90330	5403
Manufacturing	361	111872	10857	394	92376	6360
Electricity (ii)	33	18017	987	19	5134	201
Construction	5	2585	35	19	7143	155
Commerce (iii)	113	230031	2074	60	10706	300
Transport (iv)	37	25866	670	49	65384	1234
Finance (v)	A	A	A	91	86329	956
Services (vi)	53	9908	189	57	6301	201
Not determined	9	10495	226	17	487503	4564

	1982			1983		
	Strikes	Workers involved	Man hours lost (x 1000)	Strikes	Workers involved	Man hours lost (x 1000)
<b>Total</b>	<b>809</b>	<b>572263</b>	<b>22751</b>	<b>643</b>	<b>785545</b>	<b>20300</b>
Agriculture (i)	13	5468	405	17	33894	885
Mining	129	61128	3464	145	84320	7853
Manufacturing	331	95415	6680	230	62749	2602
Electricity (ii)	21	18315	689	16	9205	358
Construction	82	154690	7556	52	31900	1514
Commerce (iii)	63	19837	681	26	10088	662
Transport (iv)	46	26774	376	42	59706	1407
Finance (v)	66	62109	886	67	58752	688
Services (vi)	41	4277	225	37	10719	412
Not determined	17	124250	1789	11	424212	3919

	1984			1985		
	Strikes	Workers involved	Man hours lost (x 1000)	Strikes	Workers involved	Man hours lost (x 1000)
<b>Total</b>	<b>509</b>	<b>702859</b>	<b>13816</b>	<b>579</b>	<b>237695</b>	<b>12228</b>
Agriculture (i)	5	2330	101	20	14325	2443
Mining	110	98144	4469	101	30817	2482
Manufacturing	189	31390	1795	250	43362	2769
Electricity (ii)	20	9153	645	31	6816	199
Construction	33	12760	681	20	9812	496
Commerce (iii)	39	8293	401	31	4520	207
Transport (iv)	42	37152	1173	48	36475	1589
Finance (v)	33	46171	687	34	43033	923
Services (vi)	26	3359	137	37	4394	192
Not determined	12	454107	3727	7	44141	928

	1986			1987		
	Strikes	Workers involved	Man hours lost (x 1000)	Strikes	Workers involved	Man hours lost (x 1000)
<b>Total</b>	<b>642</b>	<b>248851</b>	<b>16867</b>	<b>720</b>	<b>309407</b>	<b>9068</b>
<b>Agriculture (i)</b>	22	9872	361	13	4101	103
<b>Mining</b>	125	67194	5582	168	58929	3136
<b>Manufacturing</b>	311	74919	7196	301	57180	3156
<b>Electricity (ii)</b>	34	31276	1353	46	23799	530
<b>Construction</b>	28	8204	351	58	11284	432
<b>Commerce (iii)</b>	40	5319	148	33	5083	174
<b>Transport (iv)</b>	29	12516	662	50	24549	286
<b>Finance (v)</b>	23	35581	1119	28	15216	337
<b>Services (vi)</b>	29	1913	65	21	2735	62
<b>Not determined</b>	1	2057	30	2	106531	852

	1988			1989		
	Strikes	Workers involved	Man hours lost (x 1000)	Strikes	Workers involved	Man hours lost (x 1000)
<b>Total</b>	<b>814</b>	<b>693252</b>	<b>38275</b>	<b>667</b>	<b>224430</b>	<b>15223</b>
<b>Agriculture (i)</b>	14	6840	1207	13	11917	2225
<b>Mining</b>	127	109612	20889	120	67022	3445
<b>Manufacturing</b>	341	59117	6642	281	45847	3223
<b>Electricity (ii)</b>	43	17046	916	39	24551	2904
<b>Construction</b>	46	9644	721	17	8268	718
<b>Commerce (iii)</b>	44	6516	175	33	4359	199
<b>Transport (iv)</b>	77	24953	835	62	33524	1296
<b>Finance (v)</b>	62	59030	2498	56	24874	1053
<b>Services (vi)</b>	53	5691	131	46	4068	160
<b>Not determined</b>	7	394803	4262	xxx	xxx	xxx

	1990		
	Strikes	Workers involved	Man hours lost (x 1000)
<b>Total</b>	<b>613</b>	<b>258234</b>	<b>15067</b>
<b>Agriculture (i)</b>	15	8312	307
<b>Mining</b>	106	68763	5379
<b>Manufacturing</b>	270	41324	2915
<b>Electricity (ii)</b>	23	33699	1744
<b>Construction</b>	6	3538	121
<b>Commerce (iii)</b>	27	1672	86
<b>Transport (iv)</b>	63	37179	1386
<b>Finance (v)</b>	51	39974	2791
<b>Services (vi)</b>	50	5327	190
<b>Not determined</b>	2	18446	148

Sources: INEI (1995), *Perú: Compendio Estadístico 1994-1995*, pp.631-633, <http://proyectos.inei.gob.pe/web/biblioineipub/bancopub/Est/LIB0170/N23/iecff045.htm> (consulted 05/05/2015), <http://proyectos.inei.gob.pe/web/biblioineipub/bancopub/Est/Lib0172/cap13/cap13089.htm> (consulted 05/05/2015).

- (i) Includes: Fishing, hunting and forestry
- (ii) Includes: Gas and water
- (iii) Includes: Restaurants and hotels
- (iv) Includes: Storage and communication
- (v) Includes: Assurance companies, real estate, company services
- (vi) Includes: Social and personal community services

A: Included in Trade

xxx = No information provided or no strikes

**APPENDIX 6: STRIKES ACCORDING TO ECONOMIC SECTOR:  
1991-2000**

	1991			1992		
	Strikes	Workers involved	Man hours lost (x 1000)	Strikes	Workers involved	Man hours lost (x 1000)
<b>Total</b>	<b>315</b>	<b>1807728</b>	<b>8881</b>	<b>219</b>	<b>114656</b>	<b>2319</b>
<b>Agriculture (i)</b>	6	8605	1005	8	8798	82
<b>Mining</b>	65	47012	1966	46	26701	655
<b>Manufacturing</b>	145	32764	2281	113	34744	826
<b>Electricity (ii)</b>	17	22363	2431	10	6881	161
<b>Construction</b>	8	2765	177	2	413	13
<b>Commerce (iii)</b>	7	882	10	4	384	6
<b>Transport (iv)</b>	23	11796	182	16	11758	349
<b>Finance (v)</b>	11	8684	377	6	2799	34
<b>Services (vi)</b>	32	5356	128	13	1199	25
<b>Not determined</b>	1	40501	324	1	20979	168

	1993			1994		
	Strikes	Workers involved	Man hours lost (x 1000)	Strikes	Workers involved	Man hours lost
<b>Total</b>	<b>151</b>	<b>41474</b>	<b>2168</b>	<b>168</b>	<b>62940</b>	<b>1936647</b>
<b>Agriculture (i)</b>	xxx	xxx	xxx	7	968	20184
<b>Mining</b>	24	8505	418	35	20010	615688
<b>Manufacturing</b>	96	22580	1208	65	10890	641020
<b>Electricity (ii)</b>	4	2927	26	21	13871	169948
<b>Construction</b>	1	221	3	xxx	xxx	xxx
<b>Commerce (iii)</b>	5	289	19	xxx	xxx	xxx
<b>Transport (iv)</b>	11	5628	458	29	13784	431263
<b>Finance (v)</b>	1	31	0	1	520	4160
<b>Services (vi)</b>	9	1293	35	10	2897	54384
<b>Not determined</b>	xxx	xxx	xxx	xxx	xxx	xxx

	1995			1996		
	Strikes	Workers involved	Man hours lost	Strikes	Workers involved	Man hours lost
<b>Total</b>	<b>102</b>	<b>28182</b>	<b>1048753</b>	<b>77</b>	<b>36268</b>	<b>1399886</b>
<b>Agriculture (i)</b>	xxx	xxx	xxx	6	1840	215616
<b>Mining</b>	37	14214	286656	26	11790	664692
<b>Manufacturing</b>	28	3621	307170	9	2799	178306
<b>Electricity (ii)</b>	7	1238	15048	1	320	2560
<b>Construction</b>	12	5168	89216	21	15063	219400
<b>Commerce (iii)</b>	1	28	xxx	xxx	xxx	xxx
<b>Transport (iv)</b>	8	2745	318495	10	3175	78976
<b>Finance (v)</b>	1	119	4760	xxx	xxx	xxx
<b>Services (vi)</b>	8	1049	27184	4	1281	40336
<b>Not determined</b>	xxx	xxx	xxx	xxx	xxx	xxx

	1997			1998		
	Strikes	Workers involved	Man hours lost	Strikes	Workers involved	Man hours lost
<b>Total</b>	<b>66</b>	<b>19196</b>	<b>319414</b>	<b>58</b>	<b>17333</b>	<b>323168</b>
<b>Agriculture (i)</b>	1	100	2400	xxx	xxx	xxx
<b>Mining</b>	7	979	41498	12	2 578	76288
<b>Manufacturing</b>	14	1691	19592	15	1 728	107584
<b>Electricity (ii)</b>	3	6261	57944	2	52	956
<b>Construction</b>	22	6507	165832	14	10 045	108273
<b>Commerce (iii)</b>	xxx	xxx	xxx	1	73	1168
<b>Transport (iv)</b>	15	3265	27708	13	2 807	26499
<b>Finance (v)</b>	1	6	48	1	50	2400
<b>Services (vi)</b>	3	387	4390	xxx	xxx	xxx
<b>Not determined</b>	xxx	xxx	xxx	xxx	xxx	xxx

Sources: INEI (1995), *Perú: Compendio Estadístico 1994-1995*, pp.631-633; <http://proyectos.inei.gov.pe/web/biblioineipub/bancopub/Est/Lib0172/cap13/cap13089.htm> (consulted 27/08/2015).

- (i) Includes: Fishing, hunting and forestry
- (ii) Includes: Gas and water
- (iii) Includes: Restaurants and hotels
- (iv) Includes: Storage and communication
- (v) Includes: Assurance companies, real estate, company services
- (vi) Includes: Social and personal community services

xxx = No information provided or no strikes

	1999			2000		
	Strikes	Workers involved	Man hours lost	Strikes	Workers involved	Man hours lost
<b>Total</b>	<b>61</b>	<b>52080</b>	<b>724260</b>	<b>37</b>	<b>5280</b>	<b>181691</b>
<b>Agriculture (i)</b>	1	52	7488	xxx	xxx	xxx
<b>Fishing</b>	3	912	8448	xxx	xxx	xxx
<b>Mining</b>	12	3369	63309	5	855	14832
<b>Oil and gas extraction</b>	xxx	xxx	xxx	4	468	3744
<b>Manufacturing</b>	17	1690	18647	7	1220	19327
<b>Electricity (ii)</b>	1	31	188	5	514	4900
<b>Construction</b>	13	6398	62860	6	1175	17264
<b>Transport (iii)</b>	22	3225	272096	9	928	119704
<b>Commerce (iv)</b>	xxx	xxx	xxx	xxx	xxx	xxx
<b>Finance (v)</b>	xxx	xxx	xxx	xxx	xxx	xxx
<b>Real estate activities, company activities and house renting</b>	xxx	xxx	xxx	xxx	xxx	xxx
<b>Teaching</b>	1	9	72	xxx	xxx	xxx
<b>Public administration and defense</b>	xxx	xxx	xxx	1	120	1920
<b>Social services</b>	xxx	xxx	xxx	xxx	xxx	xxx

<b>and health</b>						
<b>Services (vi)</b>	xxx	xxx	xxx	xxx	xxx	xxx
<b>General strikes</b>	1	36394	291152	xxx	xxx	xxx

Source: INEI (2005), *Perú: Compendio Estadístico 2005*, p.316; INEI (2006), *Perú: Compendio Estadístico 2006*, p.335.

- (i) Includes: Cattle raising, hunting, forestry
- (ii) Includes: Gas and water
- (iii) Includes: Storage and communication
- (iv) Includes: Restaurants and hotels
- (v) Includes: Assurance companies, real estate, company services
- (vi) Includes: Social and personal community services

xxx = No information provided or no strikes



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## Interviews

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Bernales, Carlos, a former member of the Executive Committee of the *Partido Revolucionario de Trabajadores*, April 9, 2015.

Benavides, Gerardo, a cadre of the *Partido Comunista del Perú – Patria Roja*, March 31, 2015.

Benza, Manuel, one of the founders of the *Partido Socialista Revolucionario*, April 12, 2015.

Bernedo, Jorge, a former cadre of the *Comité Intersectorial de Trabajadores Estatales*, April 10, 2015.

Cáceres, Eduardo, former general secretary of the *Partido Unificado Mariateguista*, Lima, May 21, 2015.

Castro, Danto, writer and cadre of the political organization *Movimiento de Liberación Nacional 19 de Julio*, April 12, 2015.

Céspedes, Julio, member of the Central Committee of the *Partido Comunista del Perú – Patria Roja*, April 11, 2015.

Checa, Pablo, a leader of the *Confederación General de Trabajadores del Perú* and former Vice Minister of Labour and Employment Promotion (2011-2012), Lima, April 10, 2015.

Cristóbal, Juan, a former militant of the *Partido Socialista Revolucionario* and a revolutionary poet, Lima, March, 21, 2015

Cruz, de la, Roberto, general secretary of the *Partido Comunista Peruano – Unidad*, Lima, May 7, 2015.

Dammert, Manuel, former general secretary of the *Partido Comunista Revolucionario*, April 13, 2015.

Fernández, Ibis, a leader of the *Confederación General de Trabajadores del Perú*, Lima, May 29, 2015.

Fernández Chacon, Carlos, a former cadre of the *Partido Socialista de los Trabajadores* and editor of the paper *Lucha Indígena*, April 9, 2015.

Gorriti, Juan José, Vice President of the *Confederación General de Trabajadores del Perú*, Lima, April 10, 2015.

Hernández, Ydelso, cadre of the *Partido Comunista del Perú – Patria Roja* and the *Movimiento de Afirmación Social*, and the peasant self-defense committees (regionally and nationally), Cajamarca, April 19, 2015.

Hurtado, Jorge, former leading cadre of the *Partido Comunista del Perú – Patria Roja*, April 14, 2015.

Livaque, Marle, member of the *Plataforma Interinstitucional Celendina* and secretary of the political party *Tierra y Libertad* in the city of Celendin, April 16, 2015.

Luza, Marta, a human rights lawyer, an advisor of peasant communities in the department of Cusco and in the 1980s also a lawyer of trade unions, Cusco, April 25, 2015.

Mendoza, Segundo, cadre of the *Partido Comunista del Perú – Patria Roja* and the *Movimiento de Afirmación Social*, Cajamarca, April 19, 2015.

Minguillo, Héctor, former cadre of the *Partido Socialista Revolucionario*, interview by telephone, April 6, 2015.

Militant 1 *Pueblo Unido*, Lima, April 11, 2015.

Militant 2 *Pueblo Unido*, Lima, April 11, 2015.

Militant 3 *Pueblo Unido*, Lima, April 11, 2015.

Militant 4 *Pueblo Unido*, Lima, April 11, 2015.

Moreno, Alberto, President of the *Partido Comunista del Perú – Patria Roja*, Lima, May 7, 2015.

Murrugarra, Edmundo, a founding member of the *Vanguardia Revolucionaria*, Lima, April 9, 2015.

Prado, Tito, former cadre of the *Partido Socialista de los Trabajadores*, Lima, April 8, 2015.

Raffo, Renan, former general secretary of the *Partido Comunista Peruano – Unidad*, Lima, May 6, 2015.

Risso, César, revolutionary intellectual, Lima, April 7, 2015.

Saavedra, Wilfredo, President of the *Frente de Defensa Ambiental de Cajamarca*, Cajamarca, April 18, 2015.

Sánchez, Milton, general secretary of the *Plataforma Interinstitucional Celendina*, Celendin, April 16, 2015.

Silva, Narda, militant of the *Frente de Defensa Ambiental de Cajamarca*, Cajamarca, April 19, 2015.

Traverso, Constante, former cadre of the *Partido Socialista Revolucionario* and member of the *Izquierda Unida*, Chorillos, March 30, 2015

Vásquez Becerra, Alamiro, President of the *Frente de Defensa de la Cuenca del Río Jadibamba*, Celendin, April 17, 2015.

Vásquez Huamán, Elvira, secretary of the *Frente de Defensa de la Cuenca del Río Jadibamba*, Celendin, April 17, 2015.

Wiener, Raúl, former cadre of the *Partido Unificado Mariateguista* and left-wing journalist, Lima, April 9, 2015.

Zapata, Antonio, former cadre of the *Partido Revolucionario de los Trabajadores* and the *Partido Unificado Mariateguista*, April 6, 2015.