

The Pitfalls of Policymaking in Peru: Actors, Institutions and Rules of the Game*

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Abstract

Policy making in Peru over the last 24 years has been largely dominated by the Executive, and has been influenced by a variety of structural and political factors, as well as by the personal ambitions of presidents and the public perception of crisis. With few exceptions, neither the Congress nor the other branches and levels of government have played effective roles in defining the national policy agenda, promoting inter-temporal cooperation and providing checks and balances on executive power. This is due in part to constitutional arrangements, in part to electoral outcomes, and in part to the historical weaknesses of political parties and other actors. Although this situation has been partially modified since 2001, it is not clear that the general pattern has changed.

While certain arenas of decision-making have been reformed in recent years, in many spheres policy making remains an arbitrary and unpredictable process, resulting in policies that are of low quality, poorly enforced and easily reversed. Although reforming aspects of the political and electoral systems could contribute to improving this outcome, the instability of the political regime per se has been a deterrent to longer term institutional development.

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Introduction

Politics in Peru has always been a volatile undertaking. Since gaining independence in 1821 the country has had 13 constitutions, at least 26 successful coups and 108 different governments, only 19 of which were elected and only nine of which completed their terms. While oligarchic power remained entrenched until well into the twentieth century, governance has often been tumultuous and the Armed Forces have repeatedly intervened to resolve elite disputes and quell social protest. During the last quarter century this volatility has continued, with two constitutions, three complete regime changes, at least four overhauls of the electoral rules and three sweeping turnovers in the party system and prevailing political leadership.

Until well into the 20th century, Peruvian politics was also an exclusive undertaking, in which the majority of the public remained out of game. The colonial legacy of violence and racism, combined with the erratic history of primary export-led development and high concentration of wealth, reinforced patterns of economic inequality and social exclusion that were matched in the political sphere. Multi-class populist and reformist parties in Peru failed to build the kind of broad coalitions that enabled counterparts in Argentina, Brazil, Mexico and Venezuela to gain access to power, modernize the state apparatus, and implement essential land, labor and social reforms. Through the 1960s, large sectors of the population –especially the rural and indigenous poor– were denied even basic citizenship rights. Democracy with universal suffrage was first introduced in 1980.

For years analysts tended to blame Peru's erratic political development on structural and historical factors, including external economic shocks, natural disasters and defeat in war. While these have indeed been fundamental challenges to governance, recent analyses have shifted attention to the country's weak institutions and leaders. As Schmidt, Cameron and Mauceri, McClintock, Kenney and others tell it, Peruvian elites have tended to promote particular, short-term interests, while the building of institutions to mediate conflict, buffer external shocks, and deliver collective goods has usually been a low priority (Schmidt 2004:3).¹ Though constitutions have varied in form, the dominant political tradition has been a high concentration of power in the Executive and an arbitrary and personalist exercise thereof, which inhibits coalition building and provides few effective checks on policymaking. At the same time, internecine political conflicts and social tensions have led to repeated crises under both democracy and dictatorship. In such contexts, Peruvians have continued to place their faith in individuals rather than institutions, and especially in charismatic popular leaders –such as General Juan Velasco in 1968 and Alberto Fujimori in 1990– who promise to suspend competitive politics in order to “get things done”.

Clearly there has been a sort of vicious cycle in Peru, in which historical constraints help to perpetuate institutional weaknesses and these in turn inhibit effective reform. Yet in the last twenty-five years there have also been new opportunities for political action to reduce such constraints and introduce new institutional forms. To date, however, there have been few efforts to analyze these opportunities, and the extent to which post-1980 changes in institutional frameworks have affected the nature and impact of policymaking. This paper represents an initial step in that direction.² In Section I, we briefly summarize some of the historical legacies and new opportunities faced by the democracy that was inaugurated in 1980. We then examine the evolution of the political regime and

¹ See in particular Schmidt (1996, 2004), Cameron and Mauceri (1997) and Kenney (2004).

² The analytical foundations for this paper include Spiller and Tommasi (2003) and Weyland (2002).

formal “rules of the game” since 1980, and how different leaders applied, defied or changed the rules. This provides a background for understanding the nature of public policy and policymaking during this period.

In Section II, we then identify some general characteristics of public policies since 1980, as well as a few important exceptions. In Section III we attempt to analyze the policymaking process (PMP) in different periods since 1980, highlighting three distinct scenarios. These scenarios are related not just to formal regime type but also to other political variables, including electoral outcomes, the nature of the party system, the ambitions and preferences of specific leaders, and exceptional circumstances generated by crisis. Admittedly, this is an ambitious effort to simplify thousands of complex policymaking experiences, but we attempt to illustrate some general trends with specific examples. Section IV provides more in-depth information on each of the key institutions mentioned, while Section V draws general conclusions and discusses possible alternatives for breaking Peru’s erratic pattern.

I. Historical Legacies and Changing Rules

“Pendulum”, “labyrinth”, “kaleidoscope”, “*espejismos*”, “enigmas”, and “*entornos cambiantes*”³, are but a few of the terms used by scholars who attempt to characterize Peru’s contemporary political and economic history. The consensus is that this is a place where politics are complex and ever changing, where crisis is the norm and “politics as usual” never happens –in other words, where formal rules do not necessarily apply. At the same time, Peruvian elites have invested considerable time in designing constitutions, electoral codes and other forms of legislation, with the hope that changing the rules can change reality. As Schmidt recently noted, although this goal has proved elusive its institutional legacy is complex and poorly understood (2004:52).

1. Historical Legacies

As mentioned at the outset, Peru has always had a profoundly unequal society. The Spanish conquest reinforced and institutionalized existing geographic, ethnic and cultural disparities, driving a sharp wedge between a small, European ruling elite and the mass of Indians and African slaves, whose forced labor on large haciendas, in mines and workshops, generated the wealth of the ruling classes. Unlike neighboring Chile and Argentina, post-Independence Peru also lacked a governing class capable of giving firm leadership to the state and unifying the nation. Instead, a series of military caudillos battled for control of the country during its first three decades, forming shifting alliances with landowners and merchants while leaving in place the underlying racial and class structure of colonial society. Civilian elites and their military allies continue to battle for control of the state into the 1960s (see Table 1).

Political instability and social exclusion were historically exacerbated by Peru’s erratic pattern of economic development. While a series of primary export booms generated wealth for a small group, the latter was historically resistant to redistributing the benefits of such bonanzas. When trade unions, peasant organizations and reformist parties came on the scene in the early 20th century, they were largely met with suppression rather than incorporation, as occurred in neighboring countries earlier in the century. Even in the 1960s, when much of the region was pursuing more

³ See for example González de Olarte (1991), Cameron and Maucci (1997), Schmidt (2004:87-127), Tanaka (1998), Tuesta (1996a), Parodi (2002).

developmental and democratic alternatives, Peruvian elites in power continued to adhere to a primary export model and a minimalist state, and were inflexible to demands for land reform, extended social welfare and broader political participation. As a result, Peru had one of the most unequal patterns of income distribution in Latin America, and large sectors of the population were denied even the basic rights of suffrage (see Table 2).

Prior to 1968, Peru had one powerful reformist party –the APRA– which represented an important segment of the population, including students, workers in the modern sector and emerging middle classes. The APRA was unable to lead a successful reform effort, however, due in part to structural factors –including the persistent power of large landowners, the small size and dispersion of the labor movement, and a highly restricted citizenry– and in part to tactical errors by party leaders, including confrontation with the military and a series of ill-fated pacts with conservative forces, seeking access to state power in exchange for abandoning its social agenda (Sanborn 1991, Adams 1984). Yet this goal proved elusive, and the brief periods in which APRA dominated Congress (1945-48, 1963-68) were marked by explosive executive-legislative conflict and military intervention.

When the more moderate Acción Popular (AP) party also proved unable to enact a reform program through peaceful means (1963-1968), there was a generalized sensation that civilian elites were incapable of forging genuine national integration and transforming the unjust structures of this society. Instead, the Revolutionary Government of the Armed Forces (GRFA) assumed these tasks for itself. Taking power in a 1968 coup, General Juan Velasco Alvarado promised to accelerate economic growth and radically improve distribution, to strengthen the State and integrate the Nation, to eliminate social class conflict and overcome external dependency. To do so, the GRFA enacted radical land and labor reforms, nationalized a large share of the primary export and financial sectors, confiscated the mass media, and prohibited all political parties and electoral competition.

The military ultimately failed to achieve its objectives, leaving civilian successors with a country that was still fraught with disparities and social conflicts, as well as an unprecedented external debt and deepening economic crisis. Yet the military “revolution” also left in its wake some fundamental changes in social and political structures. These include the elimination of the old oligarchy as a political force, the consolidation of the Armed Forces as a powerful and autonomous actor, a larger and more modern state apparatus with greater incidence in the economic and social spheres, and the emergence of important new political and social actors. The latter include dynamic new business groups, expanded middle class and professional sectors, and a broad range of labor, peasant and “popular” organizations, whose demands for social justice and political inclusion could not be ignored by subsequent governments.

In summary, after twelve years of military rule, Peru in 1980 had yet to overcome the historical legacies of authoritarianism or inequality. However, it had made important strides towards expanding social inclusion and reducing various historical barriers to democracy. The challenge would be to design a set of effective, representative institutions capable of reflecting and extending these changes.

Table 1: Classification of Latin American Regimes, 1945-1999

D = democratic		S = semi-democratic		A = authoritarian		
Argentina	1945	A	Guatemala	1945-53	S	
	1946-50	S		1954-86	A	
	1951-57	A		1986-99	S	
	1958-61	S		Haití	1945-99	A
	1962	A			Honduras	1945-56
	1963-65	S		1949-54		S
	1966-72	A		1955-56		A
	1973-74	D		1957-62		S
	1975	S		1963-70		A
	1976-82	A		1971		S
1983-99	D	1972-81	A			
Bolivia	1945-55	A		1982-93		S
	1956-63	S		1994-99	D	
	1964-81	A	Mexico	1945-87	A	
	1982-99	D		1988-99	S	
Brazil	1945	A	Nicaragua	1945-83	A	
	1946-63	D		1984-99	S	
	1964-84	A	Panamá	1945-47	S	
1985-99	D	1945-55		A		
Chile	1945-72	D			1956-67	S
	1973-89	A		1968-89	A	
	1990-99	D		1990-93	S	
Colombia	1945-48	S		1994-99	D	
	1949-57	A	Paraguay	1945-88	A	
	1958-73	S		1989-99	S	
	1974-89	D	Perú	1945-47	S	
1990-99	S	1948-55		A		
Costa Rica	1945-48	S			1956-61	S
	1949-99	D		1962	A	
Dominican Republic	1945-65	A		1963-67	D	
	1966-73	S		1968-79	A	
	1974-77	A		1980-82	D	
	1978-93	D		1983-84	S	
	1994-95	S		1985-87	D	
Ecuador	1996-99	D		1988-91	S	
	1945-47	A		1992-94	A	
	1948/60	D		1995-99	S	
	1961-62	S	Uruguay	1945-72	D	
	1963-67	A		1973-84	A	
	1968-69	S		1985-99	D	
	1970-78	A	Venezuela	1945	A	
	1979-99	D		1946	S	
El Salvador	1945-83	A			1947	D
	1984-91	S		1948-57	A	
	1992-99	D		1958-99	D	

Note: The authors coded the year of a regime transition as belonging to the new regime. For example, although the Argentine military dictatorship lasted from 1976 to 1983, 1983 was coded as democratic because the new regime was inaugurated in December of that year.
Source: Mainwaring, Brinks, and Pérez-Liñán (2001:49)

Table 2: Peru: Evolution of Suffrage Rights
(Presidential Elections)

Year	Elegible Voters	Type of vote	Voters/Population
1896	Literate, taxpaying men over 21	Optional, indirect and public	0.2 %
1931	Literate men over 21	Obligatory, direct and secret	6.7 %
1956	Literate men and women over 21	Obligatory, direct and secret	18.2 %
1980	Literate and illiterate men and women over 18	Obligatory, direct, secret and universal	37.4 %

Source: Datos Electorales, Transparencia (October 1999), Tuesta (2001), INEI, Mainwaring and Scully (1995).

2. Transition to Democracy and Remaking the Rules: 1978-1992

In 1978, Peru's military rulers convened elections for a Constituent Assembly, as the first step for a return to civilian rule. The composition of this assembly was unprecedented. While over a third of the 100 seats went to the APRA party,—and its historical founder, Victor Raul Haya de la Torre, was the Assembly President— 25 seats went to the new right Popular Christian Party (PPC), and a surprising 28 seats (30% of the popular vote) went to four new Left slates, the largest vote for a Marxist left in Latin America outside of the Unidad Popular in Chile. For the first time in Peruvian history, parties of the left, right and center had the opportunity to compete freely for the support of the electorate, and each would participate in the definition of new institutions and rules of the game that would condition their own behavior in the years ahead (Sanborn 1991).

The Constitution of 1979 established a basically presidential regime which prevailed through 1992, and the subsequent Constitution of 1993 retained many of its core elements. It established an Executive branch with a President who is also Chief of State, a Legislature with two chambers (reduced to one in 1993) and an independent Judiciary, as well as providing for popularly elected municipal governments and regional authorities. The president and the entire legislature would be elected simultaneously every five years, through direct popular election with universal suffrage. Starting in 1985, the president would be elected by a majority of 50 percent plus 1 or face a second round, run-off election (*ballotage*), while members of Congress would be selected in the first round. An open list proportional representation system known as *voto preferencial doble* (VPD) was also introduced in 1985.

One of the few objectives that generated broad consensus across party lines in 1979 was the desire to promote a stronger and more pro-active Executive, particularly in the realms of economic and social policymaking.⁴ Parliamentary elements of the previous constitution (1933) were widely blamed for the blockage of Belaunde's democratic reform efforts by an alliance between APRA and the right, provoking the military intervention in 1968. In particular, the prior constitution gave Congress greater budgetary powers, and had no provision for presidential veto when the legislature censured ministers or provoked a fiscal crisis (Kenney, 2004). The 1979 Constitution gave the Executive greater control over national finances, enhanced the president's legislative and emergency powers, reduced congressional power of censure over cabinet ministers, and provided for at least a weak presidential veto (*ibid*).

⁴ According to constitutional expert Enrique Bernales, "There was full consensus over this issue among all the groups represented in the Constituent Assembly, because this was an issue called for by reality itself, and... because modern constitutions have accepted delegation [of legislative authority to the Executive] as an institution stemming from the development of the contemporary state". Bernales and Rubio (1985:336).

Yet although the Executive was given more authority in the 1979 Constitution, its drafters did not want presidents to be dictators, and hence they retained a series of formal checks and balances. These include some important measures of congressional control over presidents as well as a formally independent judiciary. An opposition majority in both houses of Congress could override a presidential veto, block legislation initiated by the Executive, deny him extraordinary legislative powers, censure cabinet ministers, impeach the president (a lengthy process) or declare the presidency vacant, a relatively quick procedure (Kenney 2004). Indeed, these elements have led some analysts to place the Peruvian regime in a hybrid or “semi-presidential” category.⁵

Competing elites did not agree on the objectives for electoral rules, however, and their nature and evolution reflects this. While direct presidential election and proportional representation have remained constant since 1980, other rules have varied considerably, including those establishing the type of circumscription, the number of elected representatives, the number of chambers and rules for electing each, preferential voting, the simultaneity of presidential and parliamentary candidacies, and immediate presidential reelection. In the 1980s, new rules lowered the barriers to electoral participation by allowing any group of citizens to form a party with the signatures of 1% of registered voters in a given jurisdiction. Although these barriers also changed over time, the tendency has been towards expanding competition. The 1979 Constitution also extended suffrage to illiterates and lowered the voting age from 21 to 18, measures which increased the electorate in 1980 by an estimated 150 percent over the last election of 1963, and it would continue to expand significantly in the next two decades.

What was the impact of these new rules and institutions? Although this is addressed in more detail in Sections III and IV, we can say that certain electoral rules encouraged a “coat-tail effect”, and presidents enjoyed majorities in Congress for most of the following two decades, a situation that allowed them to exercise considerable power and had a significant impact on the PMP. However, the introduction of the second-round runoff system for the presidency alone left the door open for an opposition legislature, an outcome that has only occurred twice (1990-1992 and 2001-present), but may be more likely in the years ahead. Meanwhile, other rules encouraged pluralism and voter choice, but at the expense of party unity and discipline. Although the weaknesses and fragmentation of Peruvian parties are due to a series of factors, including ideological and strategic disagreements, personality clashes and succession crises, analysts tend to argue that the electoral rules have made this situation worse.

In sum, the new regime structure and electoral rules in force after 1980 expanded the opportunities for participation and competition by a vast new electorate, while reinforcing the weaknesses of parties and the fragmentation and volatility of the party system. They also encouraged a centralized and pro-active Executive that was expected to make many of the major economic and social policy decisions that would affect the nation, while including provisions that could check –or obstruct– his ability to do so.

⁵ See Martínez Martínez (1998) and Sardon (2004). However, most analysts place Peru in the presidential camp, including Mainwaring and Scully (2002), Shugart and Carey (1998), and Tuesta (1996), based on the electoral and party systems and dependent nature of the Prime Minister and Cabinet.

3. Challenges to Democracy 1980-1992: Critical Junctures and the Politics of Crisis

The general elections of 1980 inaugurated a new phase of democratic optimism in Peru, with a new constitution, a broader party spectrum and a citizenry better organized than ever to defend its new rights. Although APRA hoped for a historical victory, Peruvians ultimately opted to return power to the same populist leader who was ousted twelve years prior –Fernando Belaunde. Belaunde’s party, Accion Popular (AP) won an absolute majority in the lower house and near majority in the Senate, where an alliance with the PPC gave him the congressional mandate needed to be the decisive but democratic president Peruvians longed for.

The external context for Peru’s new democracy was not so favorable. By 1983, the country faced serious challenges generated by changes in U.S. economic policy, falling export prices during world recession, and the debt crisis. Peru also experienced severe natural disasters related to one of the most intense El Niño currents in recent history, and an armed insurgency added to Belaunde’s troubles. Unfortunately, the Belaunde administration also made policy choices that exacerbated the country’s persistent social tensions, without achieving greater stability or much-needed public sector reform.⁶

Belaunde moved quickly to consolidate the power of the Executive branch, giving the PPC control over the ministries of Justice and Industry in exchange for a congressional majority. But Belaunde and his party loyalists – the *populistas* who comprised most of AP’s congressional bloc -- did not have a broad policy agenda of their own, and for the most part this power was not concentrated for the president’s own use. Rather, it would be used in pursuit of the macroeconomic goals initiated by a small group of technocrats (*técnicos*) led by Prime Minister and Minister of Finance Manuel Ulloa, and initially supported by the President. The Congress granted Belaunde extraordinary legislative faculties to enact wide-ranging reforms, and by the end of the first year the Executive had promulgated 217 legislative decrees. Most of these involved economic policy measures, but some were also designed to allow the Executive to make up its own laws of organization and function largely without further oversight (Sanborn 1991: 229-230).

Yet despite their declared intentions of rolling back the statist legacy of the military regime, the *tecnicos* were not in fact able to reform the bureaucracy and privatize public enterprises, nor did they undertake serious reform of Peru’s ineffective tax structure. Instead, this government followed the traditional pattern of using the public administration as a way to reward party loyalists, with state enterprises remaining key sources of patronage. Indeed, by this point analysts argued that the Peruvian state was in fact becoming weaker, in spite of (or due to) its expanding size and responsibilities.

While the consolidation of a strong Executive was actively sought by Belaunde, the other major political actors contributed to this tendency. Members of Congress assumed a largely reactive role vis-à-vis the Executive, one which the newly-restored private media and political critics began to call a “*parlamento genuflecto*” (Sanborn 1991: 232). Dominated by a pro-government majority, for most of this period the legislature produced few laws of weight and contributed little in the way of public debate over issues of national importance. This early abdication of its legislative and oversight powers was accompanied by a lack of attention to the efficacy and modernization of the institution itself, which would make it harder to reassert parliamentary authority in the years ahead, even though

⁶ This discussion of 1980-1985 is based on Schmidt (2004) and Sanborn (1991).

growing numbers of opposition politicians (and some from the governing alliance) wanted to do so. Instead, the weakness of Congress reinforced public views that greater Executive powers were needed to get things done.

Although the weakness of Congress under the Belaunde Administration was due in large part to the behavior of the AP-PPC majority, opposition parties also bore some responsibility. Both the APRA and the Marxist left parties were mired in internal problems until 1983 and had limited concern for the consolidation of the new democracy and its core institutions. When the opposition parties did revive themselves, they found the parliamentary arena had become relatively marginal to political decision-making and widely repudiated by citizens. As GDP fell and the government was forced to implement harsh austerity measures, the main arenas of opposition became the media and the streets, where major strikes and social protests in 1983 and 1984 contributed to the rollback of some austerity measures and the resignation of at least one finance minister.

As with prior democratic interludes in Peru, the Belaunde government ended in economic crisis and social discontent, as well as increasing political violence. Yet unlike the past, widespread dissatisfaction with the government did not initially bring an end to the regime. Instead, most Peruvians turned to opposition leaders for answers. By 1983 the APRA and the United Left front were leading the polls, with renovated leadership and apparent political unity. Although they were minorities in Congress, both parties won important municipal victories in 1983, as well as participating in widespread social protests. In the 1985 general elections, APRA's charismatic new 35-year old leader, Alan García Perez, won a landslide victory with 53 percent of the valid vote and a majority in both houses of Congress. Alfonso Barrantes, the Izquierda Unida candidate and popular mayor of Lima, finished second with 25 percent of the vote and pledged tacit support to Garcia. Hence 75 percent of the electorate had voted for similar, left-of center alternatives— an outcome that seemed to herald a new era of political consensus as well as social change.

Yet in fact, in García the citizenry had elected another populist leader, more ambitious than his predecessor, and one whose arbitrary style of rule and impetuous policy decisions would lead Peru to the brink of economic and political collapse. Garcia's electoral triumph was based on his personal but transitory appeal to non-*apristas*, including workers in the informal sector, independent professionals, and also leading business and military figures whose support he personally cultivated (Sanborn 1991, Graham 1992). It was not accompanied by institutional renovation of his party, which was ill-prepared for governance in the 1980s and inclined to reproduce the traditional patterns of clientelism and corruption that prevailed under AP. During his brief spell in power, Garcia managed to alienate many of his new friends on the left and right, in business and labor, and many *Apristas* as well.

This outcome was not immediately foreseeable. García's initial proposals -to limit debt service payments, pursue heterodox economic policies and build consensus through regular dialogue with major interest groups (*concertación*) -generated unusually broad support at home and abroad. This support, combined with a firm and relatively disciplined congressional majority, allowed Garcia to concentrate significant personal power and implement policies quickly. In this case, the President took a personal interest in virtually all policy areas, from agriculture to anti-terrorism. Initially, he was aided by reserves built up through suspension of the debt, which financed a boom in consumption and imports. Through populist measures that immediately touched the lives of the poor, delivered through rallies and widely-covered *balconazos* from the presidential palace, Garcia's

popularity reached more than 90 percent in 1986, and the APRA won major victories nationwide in the 1986 municipal elections (Sanborn 1991: 356-358).

By early 1987, however, the reserves began to run out and it became apparent that Garcia and his advisors did not have coherent plans for moving beyond the short-term. The consumption boom and incentives to the private sector failed to stimulate the kind of new investment Garcia hoped for, the public sector deficit widened, and inflation began to rise once again. The promised *concertacion* also did not develop as anticipated. Economic deal making was conducted in a personalist fashion between Garcia and a small group of leading businessmen (popularly dubbed the “Twelve Apostles”), bypassing trade associations and generating considerable resentment among those left out. Garcia also alienated organized labor by giving priority to his meetings with business and not attempting a tripartite effort.

Finally, a highly controversial decision to nationalize the private banking system in July 1987 generated major economic and political disruption without regaining the popular support Garcia had bargained for. In fact, the bank takeover was apparently a personal decision by the President, without adequate preparation and against the warnings of key party leaders. Novelist Mario Vargas Llosa led a backlash movement against the measure, adopting the name *Movimiento Libertad*, which mobilized not only businessmen and center-right politicians but also many from the independent middle classes that had voted for Garcia. Numerous APRA leaders also opposed the measure, and some prominent Cabinet members resigned over it. After protracted conflict in the streets and resistance in Congress, the measure was eventually halted (Sanborn 1991, Graham 1992). During its last two years the Garcia government went into a policy paralysis reminiscent of the end of the Belaunde administration, while the rapid downward spiral of the economy ended in a crisis of even greater proportions.

It is important to bear in mind that during the course of the 1980s, two armed movements –the Shining Path and MRTA– also posed challenges to the new democracy, as did the alarming increase in illegal cocaine production and drug trafficking (Schmidt 2004:31). The most serious threat came from the Shining Path, which launched its armed struggle in 1980 and grew steadily over the subsequent decade. In response to the violence, the Belaunde and García governments placed increasing expanses of the country under states of emergency, and handed political as well as strategic authority to the Armed Forces –forces that were already weakened by twelve years in power, economic crisis and public distrust. The lack of an effective counterinsurgency strategy led to widespread, often indiscriminate violence and the suspension of newly won civil liberties. The weakness and corruption of the Judiciary, exacerbated by political interference, also left judges vulnerable to intimidation by armed groups and unable to exercise consistent authority over either side. By the late 1980s, emergency zones covered nearly a third of Peru’s provinces and over half of the population. According to the Truth and Reconciliation Commission, an estimated 69,000 Peruvians died from political violence between 1980 and 1999, and at least 200,000 refugees fled the countryside to Lima and other cities, swelling the ranks of the precarious informal sector (Schmidt 2004, Truth Commission 2004).

The external challenges Garcia faced at the outset were exacerbated by the arbitrary nature of decision-making, the incapacity and corruption of the governing party, and a structure of power that Garcia inherited and expanded to its very limits. By 1989 voters had lost confidence in virtually all political institutions, with parties among the least respected – 77 percent of citizens distrusted them. Yet remarkably, 61 percent still believed that democracy was the best system of government for their

country (Schmidt 2004: 32). What they sought was new leadership, not necessarily a new regime -- what they got was both.

4. The Fujimori Decade: 1990 - 2000

“En el Peru no existen partidos politicos (...). El poder soy yo, es verdad. Pero es un poder que me fue dado por el pueblo. Yo lo represento.”

- Alberto Fujimori, 21-6-93⁷

By 1990 the Peruvian public faced another vacuum of political leadership. The frontrunner to fill the spot was Vargas Llosa, leading an alliance of parties and independents (FREDEMO) with a neo-liberal policy agenda, and generous backing from prominent members of the business, political and ecclesiastical establishments. Polls initially gave second place to the leftist Alfonso Barrantes and a distant third to the APRA candidate Luis Alva Castro, but as FREDEMO began to show its internal contradictions the voters cast around for more palatable alternatives. The dark horse in the race was Alberto Fujimori, a little-known mathematician and university rector, the son of Japanese immigrants, who had entered the race in search of a Senate seat, and who had no clear program or party base. Promising “honesty, technology and hard work”, Fujimori’s campaign also stressed vigorous rejection of Peru’s entire political and social elite. In a celebrated round run-off, Fujimori won by a landslide.⁸

Fujimori began as one of the weakest presidents in Peruvian history, a political neophyte with a minority in Congress and a context of extreme economic and social crisis. In the first round election, FREDEMO won a plurality in both houses, while APRA had the largest bloc of any single party, and the divided Left still retained an important presence (Tuesta 2001). In contrast, Fujimori’s hastily constructed Cambio 90 list held just 32 seats in the 180 member lower house and 14 of the 60 seats in the Senate, and none of his followers was an experienced legislator. Yet Fujimori had a majority of the voters on his side, strong support from the military, and the legitimacy of being a true “outsider” who was untainted by politics as usual.

Initially, the widespread perception of crisis and this initial legitimacy allowed Fujimori to initiate dramatic policy measures, much as his predecessors had done. A majority of the new Congress also gave this president broad authority to pass urgent legislative decrees in areas of economic policy and counter-insurgency. Fujimori used these powers to enact structural adjustment, privatize many state enterprises, resume payment on the foreign debt and restore international credit. He also launched a sweeping reform of the tax authority, signed a controversial anti-drug agreement with the United States, and gave greater authority to the military and peasant self-defense leagues in the fight against the Shining Path. Through these measures, Fujimori quickly won over large numbers of wealthy and middle class citizens who had voted for FREDEMO, while holding on to his initial popular support.

During this first two years in office, Fujimori did not try to form a governing coalition with other groups represented in Congress, holding firm to the independent image that made him attractive to voters. Instead, he regularly ridiculed the Legislature, the Judiciary and the established parties, expressed disdain for politics in general and promised practical, technical solutions to the nation’s problems. Although the FREDEMO-led majority in Congress supported his initial adjustment policies and subsequent free market reforms, legislators challenged presidential actions that were not

⁷ Diario El Comercio, 21/6/1993, cited in *Idéale* No.71-72, December 1994, p. 98.

⁸ For excellent analysis of the Fujimori victory see Schmidt (1998) and Degregori and Grompone (1991).

clearly within the bounds of the 1979 constitution, especially executive decrees that overturned regular legislation or violated civil liberties (Schmidt 2004: 35). Disagreement over the 1992 budget was also more intense, as legislators resisted new taxes and other measures proposed by the Economy Minister (Kenney 2004). Legislators also demanded more fiscal support for the agricultural sector, which Congress declared in emergency, and censured the new Minister of Agriculture (McClintock 1993:115). The conflict reached a climax in early 1992, when Congress elected opposition figures to replace Cambio 90 presidents of both houses, and overrode Fujimori's veto to pass several bills into law, including a new Law of Parliamentary Control, which regulated subsequent use of executive decree authority (Schmidt 1998 and 2004:35). The Tribunal of Constitutional Guarantees also ruled against Fujimori on the use of certain emergency powers.

On April 5, 1992, President Fujimori abruptly announced the closure of Congress, the reorganization of the Judiciary, and the appointment of a commission to draft a new constitution for submission to voters (Schmidt 2004: 36, Fujimori 1992). With support from the military hierarchy, Fujimori had opposition leaders confined to their homes and the press momentarily silenced. This *auto-golpe* was condemned by all major parties except Cambio 90, by the major news media, and by most interest groups, with the notable exception of business associations. The public was generally supportive, however, and Fujimori's approval ratings rose to 79 percent the week after the coup and remained well over 50 percent for the rest of his first term, reinforced by important victories in economic stabilization and counter-insurgency. Although Fujimori was surprised by the negative international reactions to the coup, he responded by promising to restore civil liberties and hold elections for a constituent assembly that would also operate as a legislature. The CCD elections in 1992 were boycotted by the larger parties, and Fujimori's hand-picked candidates won 49 percent of the valid vote and 44 of the 80 seats, giving him a firm majority and control over the drafting of the new constitution (Schmidt 2004: 36).

In 1993, Peruvians narrowly approved a new constitution that retained the essential presidential nature of the 1979 regime, while reducing Congress from two chambers to one and from 240 members to 120, and –importantly for Fujimori–permitting immediate reelection of the president. At the same time, it reduced the formal economic role assigned to the state, established checks on executive decree authority and eliminated the executive's role in selection of judges. It also created a semi-autonomous Ombudsman (*Defensor del Pueblo*), and introduced innovative measures of direct democracy and government accountability. Although many of these features would be ignored by Fujimori, some would gain new importance after his departure in 2000.

From 1992 to 2000 Fujimori governed with a heavy hand, a rubber stamp Congress and a purged and politically dependent Judiciary. During this period, he also relied on national security advisor Vladimiro Montesinos and a growing clandestine intelligence apparatus to bribe or intimidate opponents, while maintaining a façade of democratic legitimacy. Although voters expressed concerns about human rights and signs of high level corruption, the economic and security results under Fujimori's watch largely kept the public on his side. By late 1994 political violence had declined to 20 percent of 1990 levels. The GDP grew by 4.8 percent in 1993 and 12.5 percent in 1994, while inflation fell to 15 percent in 1994 and 10 percent in 1995. “These achievements”, says Schmidt, “made Fujimori's Peru a showcase for the World Bank, IMF and international financial community” (2004: 38). Meanwhile, the political opposition remained divided and uncertain about how to confront this regime. In 1995 Fujimori was reelected with 64 percent of the vote, and his Cambio 90-Nueva Mayoria list won 67 of 120 seats in the unicameral congress.

During his second term, Fujimori's capacity to maintain popular support and a strategic civil-military alliance would be more strongly tested. The economy began to take a downturn, human rights concerns and military scandals increased, and polls suggested that Fujimori would lose a second reelection contest. Despite this declining support, and despite widespread objections from opponents and the Constitutional Tribunal to his running for a second reelection, Fujimori nearly won a third term in office in 2000. Fraud, intimidation and bribery accounted for part of this, but the nature of the opposition –divided into eight separate candidacies -- also made it possible. While Fujimori failed to win a congressional majority in 2000, he was initially able to buy or coerce enough members from other parties to pass to his side. Yet when a video taped copy of one of these transactions was leaked to the media, Fujimori's alliance began to crumble and he fled to exile Japan. The network of corruption that was subsequently exposed was far greater than even his stronger critics suspected (Schmidt 2004: 43).

5. Transition (Back) to Democracy: 2000 onward

As the 21st century began, there appeared to be significant agreement among Peru's political and economic elite concerning the errors of the recent past, including broad recognition of the damage that had been inflicted by violent political confrontation and by radical and erratic shifts in national policies and priorities. In 2001, a National Accord was signed by government officials, leading opposition parties, business, labor and other civil society representatives, all of whom committed to working towards the achievement of 29 common policy priorities over the next twenty years.

A brief interim government led by Congressional President Valentin Panigua governed largely by consensus, and initiated a series of reforms to restore democracy and rule of law, investigate human rights abuses and prosecute the corruption of the past era. In 2001, Alejandro Toledo –a leader of the democratic opposition to Fujimori – won the presidency in a second-round runoff with former President Alan Garcia. While Toledo's loosely knit party, Peru Posible, did not win a majority in Congress in 2001, he initially crafted one with the Frente Independiente Moralizador (FIM) and other minor groups. Toledo also enjoyed initial broad authority to continue the re-democratization and other reforms initiated by the interim government, and launched an important new decentralization effort with the cooperation of Congress. To date his government has followed relatively orthodox liberal economic policies and the economy has grown at around 4% per year.

Nonetheless, the president's inability to deliver on other campaign promises, his apparent lack of vision or decisiveness, and growing signs of corruption in his entourage, led his popularity to plummet dramatically and his weak congressional alliance to fray. In late 2004, more than half way through his five year term, few of the National Accord policies had been implemented, and the Toledo Administration faced an increasingly impatient opposition both in the streets and in Congress. Furthermore, public disenchantment with the entire political establishment had once again sunk so low that analysts were speculating about whether the next step would be a change in the president, the government, or the regime itself.

II. Public Policies in Peru: Characteristics and Cases

Given the erratic path of Peru's institutional and political development, it is no wonder that the policy making process –if one can call it that– has reflected erratic swings on numerous fronts:

between democracy and dictatorship, between more inclusive and exclusive modes of governance, and between market-oriented economic policies and those that favor state intervention. The damage inflicted over the long term by these swings is notable, not only in Peru's inability to sustain economic growth, but also its failure to consolidate the rule of law and achieve greater social equity – objectives that are fundamental if the country is ever to break the historical cycle of failed populism, crisis, authoritarianism and crisis again.

It is important to note, however, that since 1990 there have also been some important policy successes. In the 1990s, policymakers advanced considerably in achieving general financial stability and strengthening market-oriented policies. From 2000 onward, important inroads were made in the areas of political decentralization as well as the protection of human rights and civil liberties. Although we examine why some specific policies have succeeded or failed, our underlying concern here, is why the general pattern of policymaking remains so erratic and short sighted.

To this end, we identify certain general characteristics of public policies in Peru over time, which is the focus of this section. Generally speaking, public policies have been made arbitrarily, they have often been volatile, and they tend to be easily reversed. They also tend to be of low quality and are poorly enforced. This is admittedly a generalization, and a dismal one, which requires further definition and elaboration.

1. Theoretical Discussion

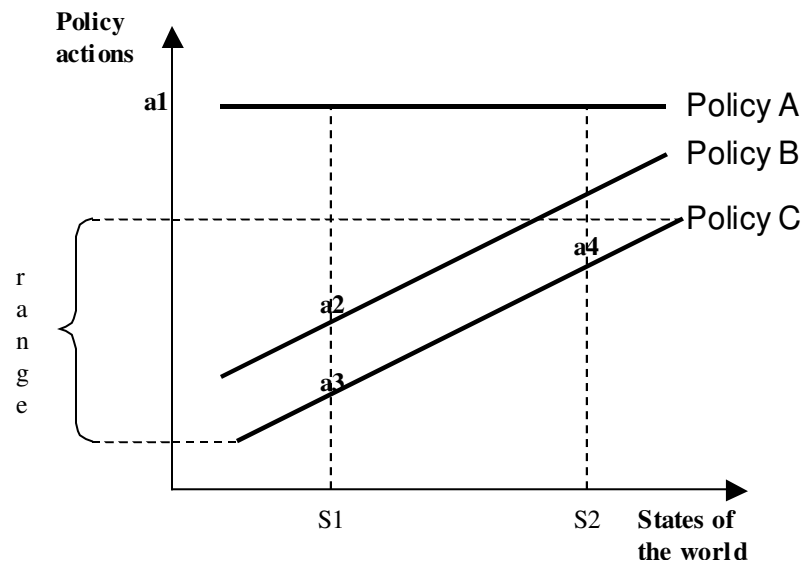
First, following Pritchett (2004), we define a *policy* as a conditional mapping from political and economic interactions into a concrete action. A *policy action* is thus the specific result of the application of that mapping; in turn, a *policy outcome* is the consequence (intended or otherwise) of applying a specific policy action within a particular real world context.

Given this definition of policy as a conditional mapping, it is important to highlight that not all changes in realized policy actions need be interpreted as volatile. If we observe a different policy action due to a change in the state of the world we are looking at a flexible policy.⁹ For example, in Figure 1 we have $S1 \rightarrow a3$ and $S2 \rightarrow a4$ with the same policy C. However, when changes in a policy action occur in the absence of change in the underlying circumstances, we would identify this as a volatile policy shift. Such policy volatility is displayed in the move from $a3$ to $a2$, where S1 remains constant but the actual policy changes from C to B. Under this setup we define an inflexible policy as policy A, which remains at position $a1$ regardless of the relevant state of the world. Conversely, we can say that a policy is easily reversible if it tends to switch from policy A to B to C or the other way around.

In most of the cases examined here we will not be able to observe policy mapping in a given issue area, but rather the policy actions. In doing so, we will bear in mind these definitions and make use of the information provided when discussing the characteristics of the public policies in Peru's PMP.

⁹ This distinction between volatile and flexible policies was also stressed in personal communication with John Carey, who provided valuable input for our analysis of this case.

Figure 1: Policies as Mappings



2. Main Characteristics

(a) Arbitrary, volatile and easily reversible

Policymaking in Peru seems above all to be an arbitrary process, determined by the will and preferences of the “*gobierno de turno*”, or individual leaders, and just as easily reversed within a short period of time. This generates a high level of uncertainty, which hinders longer-term investments and erodes public confidence.

As stated above, volatility involves the inability to articulate and stick to core goals. As such, it is a curse for any political system. Reversibility is the probability of observing a change in the direction of a policy. The higher reversibility is, the more fluctuating and unpredictable is the policy. Policymaking in Peru tends to follow this latter path, as both core goals and the means to achieve them are frequently brought into question. For reasons that we analyze below, policy decisions under both democratic and authoritarian rule have, for the most part, been unpredictable and subject to unanticipated reversals.

These traits are reflected most notably at the macroeconomic level. Drawing on the information in Spiller, Stein and Tommasi (2003), Peru ranks in the middle income group (an annual per capita GDP of about US\$ 2,000), but is also characterized as one of the most volatile economies in Latin America in terms of the fluctuation in GDP rates (see Table 3) and its historically high inflation rates.¹⁰

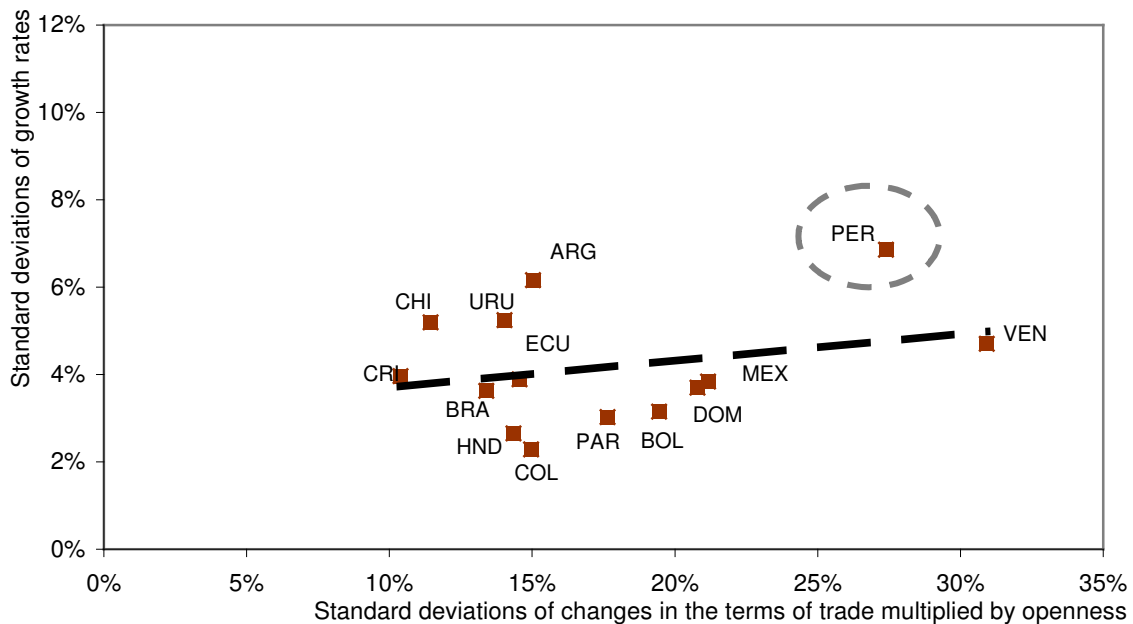
¹⁰ The average inflation rate in Peru between 1980 and 2001 was 586.2 percent, whereas the average for the Latin American countries in the same period was 203.9 percent (see ECLAC Database).

Table 3: Volatility in Latin America
Standard deviations of growth rates by decade

Country	1980s	1990s
Argentina	5.6	5.5
Bolivia	2.9	1.0
Brazil	4.6	3.0
Chile	6.4	3.5
Colombia	1.5	3.3
Costa Rica	4.5	2.4
Dominican Republic	2.7	4.4
Ecuador	4.5	3.4
El Salvador	5.7	1.9
Guatemala	2.7	0.8
Honduras	2.5	2.5
Haití	2.9	6.4
México	4.4	3.6
Nicaragua	5.4	2.3
Panama	6.5	2.6
Peru	8.4	5.2
Paraguay	5.3	1.5
Uruguay	6.6	2.8
Venezuela	4.8	5.0
Unweighted average	4.7	3.3
Weighted average	4.6	3.5
Overall Median	4.6	3.0

Source: Inter-American Development Bank and the World Bank (2002)

Figure 2: Volatility of GDP vs. Volatility of Terms of Trade in Latin American Countries (1981-2000)



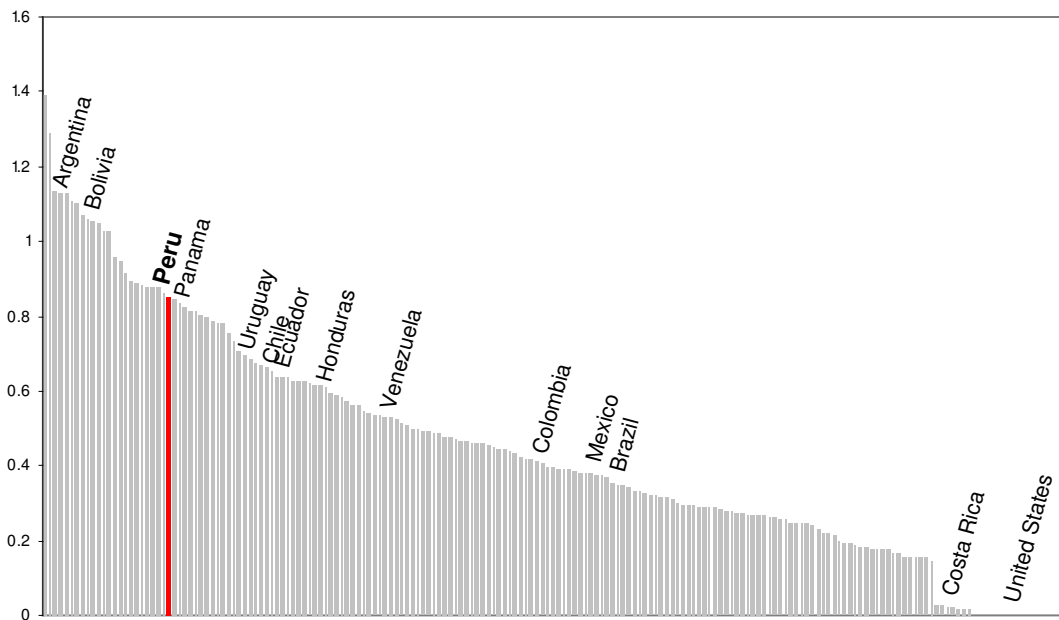
Source: World Development Indicators (World Bank, 2002), World Economic Outlook – IMF.

This volatility is usually attributed to the fact that Peru is a small open economy that has been subjected to frequent and substantial external shocks. In fact, the evidence (see Figure 2) shows that Peru has the most volatile GDP in the region and is among the group of countries for which GDP volatility could not be explained only by volatile terms of trade (conditioned on openness).

One possible explanation of this residual volatility could be attributed to the performance of political institutions and decision-making processes. Another indicator of Peru's volatility is its constant change in the rankings of the Fraser Institute index of economic freedom. According to this index, Peru went from being ranked 43 in 1970 to 109 in 1985 and back to 41 again in 2000 (see Figure 3).¹¹

Clearly, these kinds of policy swings take a toll on a country's ability to sustain economic growth, and especially on the perceptions and practices of private economic actors. In Figure 4, for example, we show how international investors rightly perceive that these swings render the price of doing business in Peru especially costly.

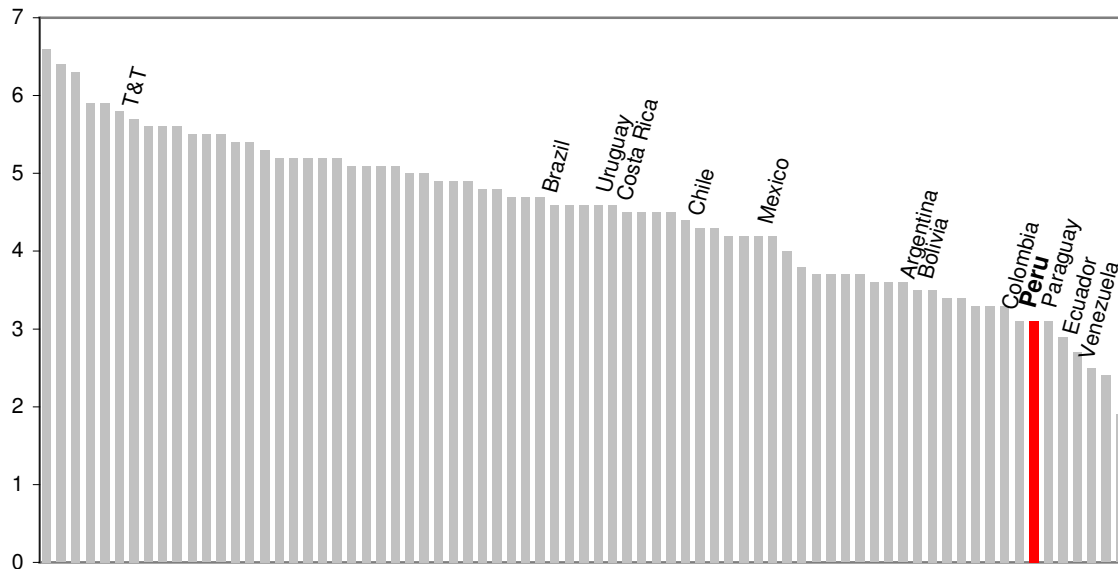
Figure 3: Volatility of Economic Policies
Standard Deviation of the detrended Index of Economic Freedom
(1973-1974 to 2000-2001)



Source: Freedom House

¹¹ See the recent "Economic Freedom of the World: 2004 Annual Report", available at <http://www.freetheworld.com>

Figure 4: Cost of Policy Change



Legal or political changes over the past five years have (1=severely undermined your firm's planning capacity, 7=had no effect)
 Source: Spiller, Stein and Tommasi (2003).

(b) Low quality, inefficient and ineffective

The outcome of a particular policy action is determined both by the quality of policy formulation and by the way it is implemented. In the Peruvian case, the outcomes tend to be policies of low quality that are best described as ineffective. All too often, and across most (but not all) sectors, public policy objectives are only partially achieved even when there is broad consensus amongst the various stakeholders. Furthermore, across diverse sectors we find that policies are implemented in an inefficient manner, both in terms of coverage and use of resources.

Some of the most sobering examples of this trend lie in the area of basic service delivery, including education policy, nutrition and anti-poverty programs. Recent studies show, for example, that less than 30 cents of each dollar budgeted to social programs in Peru reaches the targeted populations.¹² One specific case is the *Vaso de Leche* (Glass of Milk) program, created in 1985, which is funded by the central government and managed by local governments. A direct food assistance effort aimed at extremely poor children and nursing mothers, this program is one of the most important in the social sector in terms of its scope, budget requirements and political and social implications. Nevertheless, recent studies show that 71 percent of the more than 6 million people belonging to the target population are not covered, and 42 percent of those who receive the “Glass of Milk” are not from the target group. Similar problems of seepage to non-targeted beneficiaries and lack of coverage for the most needy occur with the *Comedores Populares* (community dining halls).¹³

These results reflect the broader failures of social service delivery in Peru, which is hampered by a lack of clear objectives and division of responsibilities on the part of those in charge. With considerable duplication in the application of programs across sectors and levels of government, and

¹² See Inter-American Development Bank and World Bank (2002: 62).

¹³ See Vásquez (2003) for more details. The control and funding of these programs are slated to be transferred to new regional governments in 2004.

a low capacity to evaluate and reform policies when necessary, it would be difficult to overstate the weaknesses inherent in Peru's social policy. A better understanding of this vicious circle lies in an analysis of the incentives that drive the PMP, which will be discussed in Section III.

Other examples of low quality policies lie in the educational sphere.¹⁴ If we look at enrollment rates, we find that Peru is ranked as second in Latin America, after Uruguay. However, when other indicators of public school quality are taken into consideration, Peru ranks much lower. A main reason for this situation is that Peru spends very little of its public budget on education (about 2.4 percent of GDP versus 4.5 percent in the rest of Latin America), and what it does spend is done without the establishment of clear priorities for distribution or accountability mechanisms.¹⁵ As a consequence, although enrollment rates may run at a respectable pace, repetition and desertion rates are relatively high,¹⁶ standard comprehension and academic performance are very low,¹⁷ and functional illiteracy remains prevalent despite widespread access to public schools.¹⁸

(c) *Poor enforcement*

As Grindle and Thomas (1991) have effectively put it, the *implementation* of policy is as much an interactive and dynamic process as the initial policymaking action itself. One of the most striking characteristics of the Peruvian case, however, is the limited ability of all branches of government to put policy decisions into practice and to confer them with the proper evaluative and oversight mechanisms. This is evident in the area of contract enforcement, for example, where 441 days are required to enforce a contract, regardless of judiciary involvement, according to a recent World Bank report (2004). In that report, Peru ranked 105th among 127 countries on this score.

Two other spheres of activity in which poor enforcement is notorious are tax and labor policy. In both cases, official policies have been seen by some as too costly to comply with, while state capacity to consistently enforce them across the board has been limited. The incentives are such that over time there have been high levels of tax evasion and low levels of compliance with labor codes regarding such basic issues as the minimum wage, regulation of work hours, severance pay, and the provision of a pension plan. For example, private sector employers complain about the steep mandatory severance payments required by law (in the absence of a national unemployment insurance scheme), and although a third of those workers in the formal private sector are entitled to this benefit, studies find that less than 4 percent of those who are dismissed actually receive it.¹⁹

This low compliance with stated policies also lies in the lack of efficient oversight mechanisms, including a credible system of rewards and punishments. Thus, compliance is low even when policies are not widely perceived as being too costly. This deficiency is endemic across the state bureaucracy, including the line ministries responsible for a given sector, the relevant autonomous regulatory agencies, the tax authority and the judiciary. One example is the private pension system, where regulations established in the early 1990s now require that firms enroll their workers in a privately administrated pension plan (AFP) and that they deposit a corresponding payment each month on a

¹⁴ For a thorough discussion about education policies in Peru see Wu et al. (2000) and World Bank (1999).

¹⁵ For example, the per capita expenditure in tertiary schooling is six times the expenditure in primary schooling. See Wu et al. (2000).

¹⁶ According to a 1999 World Bank study, only 40 percent of students finished primary school without repeating a year, and 43 percent of secondary students dropped out.

¹⁷ In standardized tests of language and mathematics taken in 2000, Peru ranked among the last three compared with the rest of Latin American countries. See Willms and Somers (2000).

¹⁸ It has diminished from 10.6% of the people ages 15 and above to 9.5% between 1999 and 2002. See the World Development Indicators of the World Bank.

¹⁹ See Table 5 in MacIsaac and Rama (2001). It is important to note that not all the persons who lose their job are entitled to receive this benefit.

worker's behalf into his or her individual pension account. Yet, more than half of Peru's formally registered firms do not make their legally mandated pension contributions, and neither the AFP nor the workers have the power to enforce compliance by negligent firms. State authorities have not found a more efficient way of enforcing payments than the regular courts which, as we discuss further on, are among the most inefficient institutions in the country.

In any case, the aforementioned examples suggest how this failure to enforce policy decisions and rules can trigger a vicious cycle. Both poor policy design and low enforcement encourage evasive behavior, which in turn leads to the expansion of a huge "informal" economy as a major source of new employment in this country – a sector which, by definition, perpetuates the violation of basic legal obligations to both its workers and the state.

3. Escaping the Curse or Adapting to it?

As we said before, in a few key areas there has been significant effort to reduce the range of possible policy swings, and also to improve the quality and effectiveness of policy outcomes. One example of the former is exchange rate policy. In the past five decades Peru switched back and forth from flexible to fixed exchange rate systems and all the possible choices in between, and from a unified exchange rate market to a multiple exchange rate system (with 17 different rates). Amazingly, in the midst of its worst hyperinflation ever (1990), Peru opted for a floating exchange rate regime that has survived until now despite a series of external shocks and political changes. More importantly, the old debate on the need to use this policy as a key instrument for fostering development has virtually disappeared. There is almost no agent in the policy game proposing changes to this policy decision. This outcome is due to a combination of strategic choices. First and foremost, was the granting of political independence to the Central Bank. The second is the fact that all agents came to understand that there are other ways to boost their effective protection without tinkering with the exchange rate.

In this kind of political context, however, some actors will prefer to try and reduce the uncertainty of arbitrary policy swings by recurring to mechanisms to close off all routes of policy change. An example of such a mechanism is the tax stability contracts that some major corporations signed with the Fujimori administration in the 1990s. Obviously, these actors saw changes in the tax codes as a source of potential disruption of their cash-flow projections, while such contracts guaranteed them that future tax changes would not be applied to their firms.²⁰ During the 1990s most of the foreign direct investment that entered Peru enjoyed such stability contracts, including multinational mining and telecommunications interests.²¹ However, in the more competitive post-Fujimori context there are numerous politicians seeking not only to avoid renewal of these agreements, but also to challenge their validity.

This example points to the larger issue of observed versus latent volatility, that we discuss further in our policy example about pensions (see Appendix 1). From our viewpoint the presence of arbitrary decision making not always lead to observed volatility or policy reversal but rather to latent volatility, a situation in which most actors *behave* as if policies would be volatile and reversible. In that scenario, it is optimal to have a mechanism to remove the issue from this circle of uncertainty.

²⁰ On the same token, the group most interested in promoting the National Accord as a deterrent of policy swings was CONFIEP, Peru's main business peak association. Members hoped to use the Accord as a tool to block possible congressional initiatives leading to major policy swings.

²¹ During the 1990s more than 500 "convenios de estabilidad" were signed. See PROINVERSION website for details. <http://www.proinversion.gob.pe>. Those stability contracts came under severe questioning in the post-Fujimori period. This explains the relatively small number of new contracts signed after 2000.

There are other examples in which policies have been designed and implemented in order to avoid inefficiency or low compliance. One example is the recent use of private sector capabilities to improve tax collection. While the VAT tax should yield nine percent of GDP, it currently yields just six percent, and the difference is basically the size of the tax evasion. In the last two years SUNAT, the tax collection agency, has delegated to the largest private sector firms the role of tax collection, forcing them to withhold taxes to their providers and subjecting them to fines if they make mistakes. In this way tax revenues have been growing at more than 10% per year in real terms reducing the tax evasion gap.

III. Policymaking Since 1980: Scenarios and Patterns

Given Peru's repeated opportunities for democratic governance and consensus around national development goals, how can we explain these generally unfavorable policy outcomes? Why are the main actors in this story generally unable to cooperate among themselves, make critical reforms under democratic rules, and sustain them over time? This section examines the policy making process (PMP) in Peru since 1980, highlighting how it works as well as what factors perpetuate this higher level of volatility and inhibit efforts at cooperation. The latter include historical legacies, contemporary political and institutional variables, the character and ideology of specific leaders, and the exceptional circumstances generated by crisis itself.

1. Distinguishing Scenarios

In order to understand policymaking over the past 25 years, we begin by making three fundamental distinctions.

First, we must distinguish between two basic regime types – constitutional democracy and semi-authoritarian rule. Policymaking is inherently different under a formally democratic regime with open party competition, a free and lively press and general respect for the rule of law (1980-1992 and 2001-present), and under semi-authoritarian rule where competitors are harassed, silenced or kept out of the game and the Constitution is suspended or overruled by autocratic leaders (1992-2000).

Second, in the context of democratic regimes, we can also distinguish two political situations -- when presidents have enjoyed majority support in Congress (1980-1990) and when they have not (1990-1992, and 2001 to the present). In this case, the difference is not based on formal rules but rather on different electoral and party variables.

In the first situation, when presidents have majority support, they have been granted broad powers to make policy decisions without prior deliberation by the legislature, and congresses have been reluctant to check executive authority. This was the case under Belaunde and Garcia (and was the extreme case under Fujimori post-1992). When presidents do not have a partisan majority, on the other hand, they face greater scrutiny from Congress and greater restrictions on their actions. Historically, the latter situations have been short-lived, fraught by political conflict and ending in the breakdown of democracy. This outcome is not inevitable, and the post-1979 constitutional framework was intended to help prevent it. However, if President Toledo completes his term in

2006, it will be the first time in Peruvian history that a president without a clear majority in Congress has done so (Schmidt 2004: 103).

Some analysts emphasize a third distinction, based on the relative strength of the party system and the role of ideology.²² According to this view, during the 1980s the existence of four main parties or blocs (APRA, AP, PPC, Izquierda Unida), with identifiable institutional structures, ideologies and links to civil society, as well as leaders who were professional politicians, provided some checks on executive authority – although though these checks were often extra-parliamentary. In contrast, by the late 1980s the loss of credibility and fragmentation of these parties, the crisis of socialism (democratic or otherwise), and the emergence of transitory electoral “movements” led by political independents, weakened the ability of the party system per se to influence policy or provide checks on government.

Although this is a relevant distinction, it is important not to overestimate the role of the party system in the 1980s. The parties of that era were also fraught with internal weaknesses, their roots in civil society were shallow, and in practice the ambitions of individual leaders frequently took precedence over ideologies or programs. At the same time, they have not vanished from the political landscape, and in the wake of Fujimori’s flight the parties of the 1980s –and their main leaders– have regained electoral presence. Alan Garcia of APRA and Lourdes Flores of the PPC vied for second place behind Toledo in the 2001 election. Despite greater competition from new actors, evidence suggests they are well positioned for the elections of 2006.

Based on these distinctions, we can identify three basic scenarios for the PMP over the last 25 years;

Scenario 1: A strongly presidentialist but formally democratic process, in which executives with majorities in Congress make major policy decisions and exercise considerable powers, including frequent use of legislative decree authority, with little interference from the other branches of government. The main controls on their power are their own weak parties, a lively and free press, and the mobilization of civil society, as well as their own ambitions (1980-1990).

Scenario 2: A more attenuated presidentialist process, in which executives operate under similar rules as Scenario 1 but with minorities in Congress. In this situation, they are generally granted a honeymoon period, during which time they also wield considerable authority through legislative delegation and decrees of urgency (1990-1992 and 2001-?). However, the legislature can exercise greater oversight and is more likely to withdraw or challenge decree authority if members are not content with the president’s proposals. In theory, this can create a desirable balance of power in which presidents should negotiate with other actors and build consensus, and parliaments should deliberate over major issues that affect the daily lives of citizens. In practice, this was not the case in 1990-1992 and has only partially applied since 2001.

Scenario 3: “Unbridled presidentialism”, in which a popularly elected president wields strong and arbitrary power over the other branches of government, through both constitutional and extra-constitutional means (1992-2000). A backdrop of severe economic crisis and an armed insurgency enhances the president’s popular support and initial ability to enact sweeping reforms, but his lack of an institutional base or alliances inhibits the ability to sustain power once the crisis abides.

²² Fernando Tuesta and Martin Tanaka, leading Peruvian political analysts, emphasized this distinction in conversations with the authors.

Between 1980 and 2004, Peru had 10 years under Scenario 1, five years under Scenario 2, and 8 years under Scenario 3.

2. How Does It Work?

In each of these scenarios, major policy changes are most often initiated by the Executive through the use of legislative decree authority. Table 4 gives us a picture of this. In the past 24 years, sixty percent of all legislation involved decrees of urgency or congressional delegation of legislative power. Although the Fujimori regime was unique in many ways, it should be pointed out that the perception of crisis accompanied each of Peru's presidents during their first years in power (with the partial exception of Toledo), and each enjoyed an initial honeymoon period enhanced by such perceptions. During such periods, the Congress can be considered obstructionist if it does not grant the president discretionary power and the public expects presidents to use these powers decisively to end the crisis and enact audacious reforms.

For example, under Law 23230, the Belaunde administration was granted sweeping powers for 180 days to legislate by decree on a wide range of issues, and more than 200 of the 348 legislative decrees issued during his five-year period were issued during this initial window of opportunity. In 1990, an opposition majority in Congress also granted Fujimori broad discretionary powers, and 92 percent of all legislation in this period involved executive decree authority, including the initial agenda of liberal economic reforms and counterinsurgency policy. In this period, Fujimori was granted power over all tax policy issues (Law 25276), reorganized the national tax authority, assumed greater control over national defense and enacted measures to favor private investment (Law 25327).

In Scenario 1, the president continues to lead most important policymaking beyond the honeymoon period, taking advantage of a relatively quiescent partisan majority to control Congress, as well as a historically weak and politically manipulated Judiciary and the weakness of other actors (see Section IV). As we have seen, in 1980-1985 Belaunde won a majority in the Chamber of Deputies and forged an alliance with the center-right PPC to secure a majority in the Senate

In Scenario 2, presidents face greater difficulties in pursuing policy objectives once the "honeymoon" wears off. Within a year of his first election, for example, the majority was moving to challenge and retract Fujimori's discretionary powers, as he attempted to enact more extensive structural forms and curtail civil liberties. Although Toledo's Peru Posible movement made a post-electoral alliance in 2001 with the FIM and other minor groups to form a shaky majority, by July 2004 an opposition alliance won internal elections in Congress, challenging the balance of power for a president who, in stark contrast to Fujimori, was unpopular and widely perceived as ineffective.

One common reason for delegating legislative authority under both scenarios is that representatives simply do not want to handle certain issues and prefer to avoid public deliberation thereof. This is understandable when dealing with very technical issues, as with aspects of economic policy, or with a piece of legislation in which the details are quite important in order to provide a consistent law (e.g. reforming the civil code). However, it also occurs when legislators do not want to be held responsible for controversial policy initiatives, as in the case of a tax increase.

As noted, all presidents since 1980 have had the opportunity to undertake audacious reforms. In all three scenarios, therefore, the personal ambitions and preferences of each leader are also important factors in explaining how certain reforms were implemented (or not). Belaunde was primarily

interested in restoring a free and privately owned press and overseeing ambitious public works and housing programs and both were enacted – the latter despite a pending debt crisis and high cost to the dwindling public treasury. Initially, he also supported an important economic liberalization program, placing it in the hands of the Minister of Finance and Prime Minister Manuel Ulloa and a team of technocrats. However, his own political will to support these reforms faded, as popular discontent rose and his own party bases were not keen about them. As economic crisis began to set in once again, everybody –including the President– laid the blame on the liberal economic reforms, which were cut short.

President García also began with dramatic reforms in a context of crisis, linking foreign debt payments to 10 percent of export earnings. He also initiated political decentralization and tried to nationalize the private banks. However, widespread civic opposition led by Vargas Llosa and the Movimiento Libertad, along with internal resistance from his own party members in Congress, was critical to the approval of a watered down version of García’s initiative. The initiative itself was ultimately blocked, and it marked the beginning of the end of García’s popularity. For his part, Fujimori carried out comprehensive pro-market reforms and drastic counterinsurgency measures, the success of which allowed him to extend his honeymoon with the citizenry despite congressional resistance, and ultimately allowed him to change the regime.

The transitory government of Valentin Panigua (November 2000 - July 2001) was something of an eight month honeymoon, in which decisive but democratic action and exemplary collaboration among democratic elites enabled the government to undue some of the damage done by Fujimori and restore the rule of law. Some have argued that this transition period spoiled Toledo’s honeymoon in 2001, since by the time the new president was elected the public was anxious for more progress on the social front, which was not forthcoming. However, Toledo did preside over an important new decentralization effort, with the collaboration of Congress.

How do presidents retain their loyal majorities in the scenarios above described? This requires some analysis of party structure and discipline. From the outset, one might expect legislative discipline to have been strongest when the APRA was in power, being Peru’s most organized and lasting party, but harder to maintain among parties characterized by weaker structures and a lack of clear ideology or agenda (see Section IV). At the same time, the nature of the entire “game” would seem to encourage short time horizons and opportunistic behavior on the part of individual legislators, whatever their party identity. Unfortunately, there is little empirical data or analysis available on political parties or congressional behavior in Peru with which to definitively assess these variables. However, interviews with party leaders and former top executive branch authorities describe policymaking in Scenario 1 as relatively easy, at least in the area of macroeconomic policy.

One factor is the extent to which policies implemented run against the ruling party’s own agenda. In the Belaúnde period, part of the intended liberalization was blocked by pressure from the populist wing of Accion Popular (Sanborn 1991:234). However, some of the large public investment projects which were dear to Belaúnde were also blocked by the economic team, with the latter arguing that there was simply no money or credit left with which to finance them (Webb 1999:101). Economic ministers were also sacked by a disgruntled president as a response to strikes and popular protests. During García’s term, the situation was distinct in that his impetuous policies were more in line with the preferences of his party (and its tactical allies on the left). The turning point came in 1987, however, when important party leaders opposed the bank nationalization - again, a measure resisted by widespread extra-parliamentary protests by civil society and the independent media.

Another means for keeping followers in line was patronage and “pork”, controlled by the Executive and distributed through party operators in Congress. The easiest mechanism was public sector jobs, which were prevalent under Belaunde and Garcia. In 1980 there were more than 200 public enterprises and around 300,000 public sector jobs.²³ By 1990, the number of public jobs was more than 700,000 (Ugarte 2000:391). While state enterprises were sold off under Fujimori and the number of public sector jobs initially shrank substantially, today the total number –subject to controversy– hovers around 1,000,000. Although evidence suggests that the Toledo administration has also tried to keep its shaky alliance together through similar means, these efforts have often backfired due to widespread criticism from the media and political opposition, and the efforts of anti-corruption investigators initiated under Paniagua.

Of course, enacting important reform legislation was an even easier process in Scenario 3, when Fujimori exercised firm control over the other branches of government and his congressional majority was largely a rubber stamp (in Peru the term used was “beeper controlled”). How did the president keep his followers in line? Also through patronage and outright corruption. The total number of Congress members Fujimori had to patronize was cut in half during this period, and in addition to public sector jobs for friends and followers Fujimori offered them increased pay, benefits and perks. The lack of a party structure facilitated this process, as most fujimoristas were political “nobodies” without the president’s approval. After his controversial third re-election in 2000, however, Fujimori’s majority was not as solid (43 percent), and he initially moved to buy off or blackmail opponents to increase his numbers. As McMillan and Zoido (2004) show with detail, Fujimori’s former spy chief Vladimiro Montesinos bribed members of Congress to stay in line (or cross the line), just as he did judges, media owners, prominent business and military leaders, forcing them to sign contracts as if their political affiliation were a tradable asset. Many of these transactions were recorded on video tape, and the revelation thereof was the beginning of the end for that regime.

How do macroeconomic policies –those of most concern to international financial institutions and private investors– get enacted? The Executive typically leads the process, starting with the basic policy design. In this case, the Executive has evolved significantly in the last two decades, though not in a linear direction. Under Belaunde, Fujimori and Toledo, a core economic team chosen or approved by the President has typically involved 10 or less people, who are generally not active party members and have good technical credentials. Under Garcia the same applied, but without the credentials or expertise (Graham 1990). The most important decisions were discussed in this closed circle. In the late 1990s, the Ministry of Economics and Finance became a more technical unit and the decision making process has come to involve a somewhat larger group, which includes not only the Minister advisors but also the staff of technocrats.

Depending on the President, he will either let the economic team work out the details (Belaunde, Toledo) or engage himself personally in them (Garcia, Fujimori). In either case, the President signs off, the Cabinet signs off, and the next step is to turn the initiative into a law, through one of three routes. The Executive can pass it through Congress, request authorization to legislate by decree, or use urgency decrees. As mentioned, until 2001 most major economic policy was made through the latter two means. In Scenario 1 and 3 Congress rarely questioned such decrees, presidents vetoed less than 10 percent of legislation coming from Congress, and few of these vetoes were overridden (none under Belaunde, 5 percent under Garcia). As mentioned, in Scenario 2 (1990-1992) Fujimori

²³ These figures were used in the first speech of the Prime Minister Ulloa at the Congress in August 27th, 1980.

vetoed 52 percent of all laws passed by Congress and saw 23 percent of these vetoes overridden (Kenney 2004).

The Toledo administration to date does not entirely fit this picture. Despite forging an initial post-electoral majority coalition, the Executive is no longer been leading the legislative process, and has made far less use of decree authority than its predecessors. Between 2001 and 2004, the Congress produced 78 percent of all legislation (see Table 4), and delegated legislative faculties only twice. Although a number of laws produced by Congress were trivial or merely declarative, most involved such normal activities as approving presidential travel and high-ranking officials' nominations, passing tax and budgetary measures, and modifying the legal frameworks of other branches of government. Furthermore, the few major reforms undertaken by this government seem to have been passed through Congress rather than bypassing it. Such was the case with decentralization—the creation of new regional governments—which Toledo promised and Congress has largely legislated. Other reforms passed by Congress include a new Political Party Law, and laws to promote transparency and access to public information, require participatory budgeting in local governments, reform the public pension system, and exact new royalties on private mining activity. In this case, evidence suggests that neither the President nor his party *had* a more ambitious reform agenda. However, it is notable that Toledo has exercised his presidential veto authority more than any of his predecessors, returning nearly a third of all laws made by Congress, and Congress has overridden very few of these (Table 4). Unfortunately, the public perception of both branches of government in 2004 was extremely negative, as neither was seen as effectively addressing issues of most concern to the electorate (APOYO 2004).

3. Why does it Work This Way?

For most of the past quarter century, presidents made major policy decisions in an arbitrary and personalist fashion, and the formal checks and balances of politics did not work well in practice. Why was this the case? In Figure 5, we try to depict the various factors that contribute to this outcome. As mentioned at the outset, to a considerable degree this reflects longer-term historical legacies, including the traditionally high concentration of power, the tendency towards authoritarian exercise thereof -- often in the hands of popular caudillos – and the tendency to revolve disputes through confrontation rather than negotiation. Peru's profound social and economic inequalities have long served to sustain this dynamic, and to debilitate the kind of mass-based parties and civil society organizations that could effectively challenge it.

While recognizing the weight of the past, we nonetheless argue that important changes in the 1970s reduced some of these structural constraints, creating more favorable conditions for the construction of democracy and for collaborative decision-making. We also argue that the decisions and actions of leading players in the last two decades have helped to perpetuate, rather than reverse, the remaining historical legacies.

Table 4: Peru: Decrees and Legislation, 1980 - 2004

Legal Instrument	Fernando Belaúnde		Alan García		Aberto Fujimori						Valentín Paniagua		Alejandro Toledo		Total
	1980 -1985	%	1985 - 1990	%	1990-1992	%	1992-1995	%	1995 - 2000	%	2000 -2001	%	2001 - 2004	%	
Legislative Decrees	348	20	263	13	156	20	174	15	119	9	10	4	36	4	1106
Urgency Decrees	667*	38	1033*	53	562*	72	744	62	507	38	122	49	145	17	3780
Laws	724	42	665	34	67	9	275	23	725	54	117	47	648	78	3221
Total Legislation	1739	100	1961	100	785	100	1193	100	1351	100	249	100	829	100	8107
Laws vetoed (as % of laws approved by Congress)	38	5.2	60	9	35	52.2	46	17	88	12	16	14	203	31	
Vetoes overridden (as % of vetoes)	0	0	3	5	8	22.9	2	4.3	6	6.8	2	13	33	16	

Source: Delgado Guembes (1992:43,226); Schmidt (1998:110,118) and Archivo Digital de la Legislación en el Perú.

(*) Prior to 1993 these were not formally called urgency degrees, but rather extraordinary measures under Article 211(20) although both carried the same weight.

Such actions begin with the new constitutions and rules of electoral competition, with elements explicitly designed to strengthen the power of the Executive, including significant budgetary and taxation authority. Equally important, are the decisions of congressional majorities to further strengthen the president's hand, by delegating legislative decree authority across a wide range of other policy issues. However, Peru's constitutions also provide for formal mechanisms of checks and balances by other branches of government, which as we have seen in other cases, are subject to varying degrees of influence and control by political parties, organized interest groups and/or lower levels of public authority. Such is the case, for example, of the Judiciary in Brazil, and federal governments and local party bosses in Argentina.²⁴ Yet in practice, for most of the last quarter century, neither the Congress, the Judiciary, the lower levels of government or the state bureaucracy have played their anticipated roles, in terms of generating policy inputs, exercising due oversight or providing effective counterweights to the Executive.

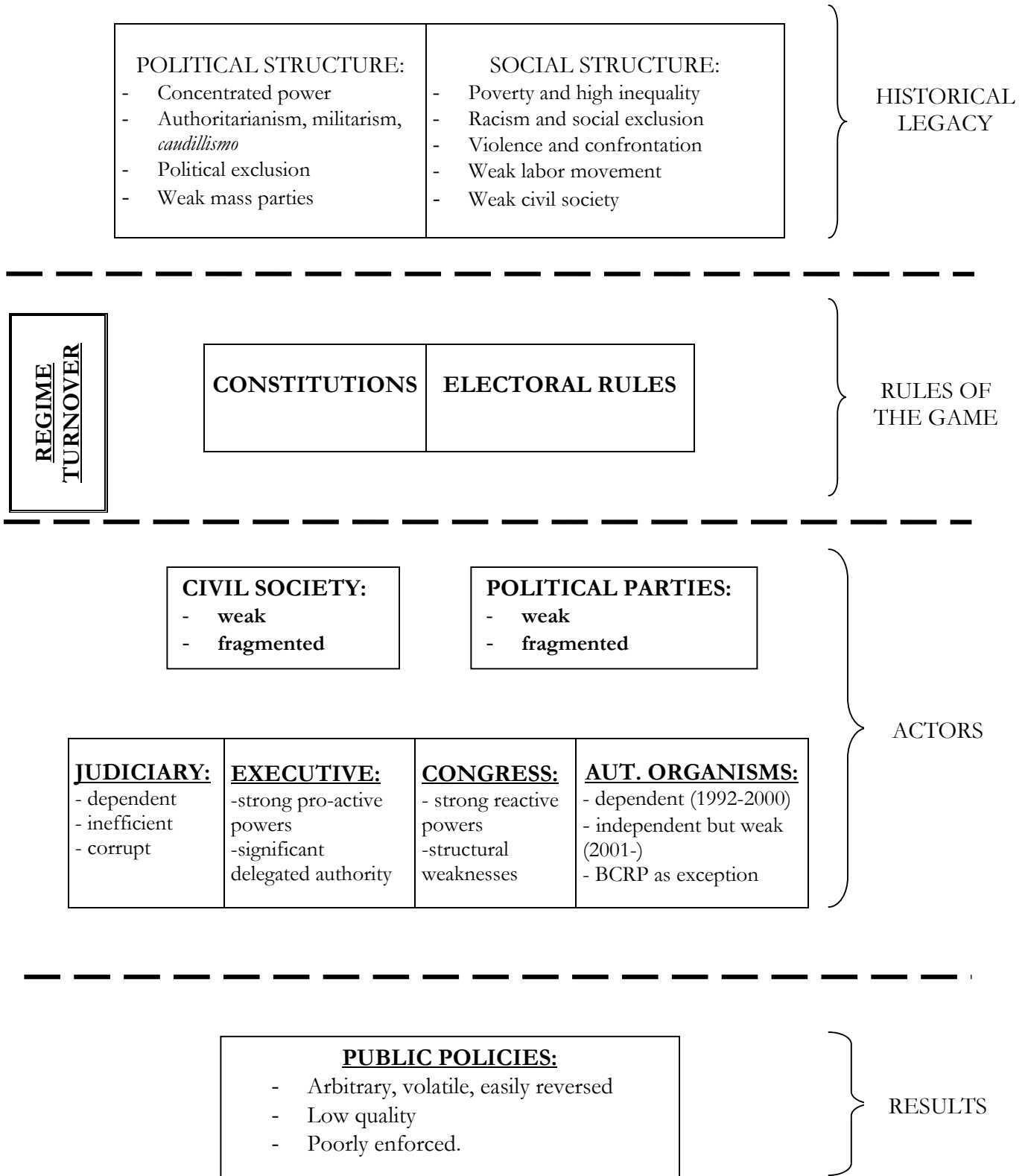
Why is this the case? The answer lies in part in the predominance of partisan majorities which consolidated executive dominance early on. But it also lies in the persistent weaknesses of Peru's political parties and party system, of most civil society organizations, and the weak links between the two, which in turn inhibit these actors from exercising effective influence over the various branches of government. Although the party system inaugurated in 1980 involved four clear options across a Left-Right spectrum, the parties in general remained institutionally weak, acting largely as vehicles for competing caudillos (of all ideological persuasions), with limited incentives to build lasting social bases, uphold consistent programs or policy agendas, or engage in cooperative agreements with others.

They also had limited ability to maintain discipline in their own ranks, and were debilitated by internecine conflicts and divisions. In the 1990s, these features were exacerbated by the emergence of multiple new "independent" movements that are even less institutionalized or politically effective than the older parties, and voter preferences across this expanding lot became extremely volatile. Meanwhile, the labor, peasant and urban popular organizations that emerged from the 1970s were subsequently devastated by external factors –economic crisis, political violence, the impact of structural adjustment– and by the inability of parties to defend them in the political sphere.

Why have Peruvian parties been so weak? In this case, their natural inexperience in 1980 (after twelve years of military rule) was exacerbated by electoral and political rules that shaped subsequent party behavior and the incentives of individual politicians. These include the majority runoff format, low barriers to competition, simultaneous candidacies for the presidency and congress (to 1993), preferential voting, the single unity district (1993-2001) and provisions allowing individual legislators (rather than parties) to sponsor legislation. All tolled, they served to encourage intra-party conflicts and divisions, reinforce "personality politics" over institutional and program development, facilitate the entrance of new contenders, and discourage inter-party alliances and coalitions.

²⁴ See Alson, Melo, Mueller and Pereira (2004), first draft, and Spiller and Tommasi (2003), first draft..

Figure 5: Peru: Brief Anatomy of the PMP



The interaction of the above factors –historical legacies, constitutional structures, electoral rules and outcomes, weak parties and civil society organizations- produced an Executive that has been powerful vis-à-vis the other branches of government, and Presidents that have governed with a high degree of personalized authority and little effective support from their cabinets and line ministries. It also produced a Congress with both structural limitations vis-à-vis the Executive, and political limitations on exercising the considerable constitutional authority it retains.

What about the other components of government? As we shall see in more detail below, although the Judiciary has institutional weaknesses of its own, its ability to exercise an autonomous influence over policymaking in this period has been primarily restricted by the constant political interference and manipulation by the other branches, especially the Executive. And although an array of constitutionally autonomous organisms were created to regulate the system and uphold the rules of the game – including election-related agencies (JNE, ONPE, RENIEC), a Constitutional Tribunal, the Comptroller General, the Public Defender (or Ombudsman), and the Central Reserve Bank – only the latter two have played this role in practice, for reasons that appear to be sui generis. Finally, unlike Brazil and Chile, Peru has never had a professional civil service, one that was above political manipulation and could thus keep the “ship of state” on a minimally steady course.

In summary, with brief exceptions, Peru’s presidents have made major policy decisions with little input from or accountability to the other actors in the political game. This is the result of historical legacies, of strategic choices made by key players, and of the rules they designed, which have perpetuated these legacies over time. The result has been arbitrary and erratic decision-making, an inability to undertake fundamental second generation reforms, and a tendency to confrontation and crisis. As long as the fundamental institutions are not changed, and urgent reforms effectively implemented, the public will continue to place its faith in “*salvadores de la patria*” who perpetuate the vicious cycle of regime crisis and change – the predictable volatility that characterizes the Peruvian case.

IV. Institutions and Actors

The purpose of this section is to provide more detailed analysis of components of the PMP since 1980.

1. The Executive

Since 1980, the Executive branch has been largely responsible for setting the national policy agenda and initiating major reforms. Individual presidents, along with their hand-picked cabinets and personal advisors, have made most major policy decisions, particularly in the areas of macroeconomic policy, social policy, national security and state reform.

During this period, Peru’s constitutional regimes have been presidential. The President, who is Chief Executive and head of state, is directly elected for a five year term, along with the entire legislature. Beginning 1985, the president needed to win with a majority of 50 percent plus 1

or face a second round, run-off election (*ballotage*), while members of Congress were selected in the first round. Until 1993, presidential and vice presidential candidates could run simultaneously for a seat in the Senate. Immediate presidential reelection was proscribed in the 1979 Constitution, a measure that was removed from the 1993 version but reinstated by amendment in 2001.

The Executive has strong pro-active powers, including significant control over national finances and legislative and emergency decree authority, and partial veto power over congressional decisions.²⁵ The President has the formal authority to create, modify and eliminate taxes as well as to initiate the budgetary process. In regard to the latter, the Executive presents an initial budget proposal to be modified and approved by Congress, but Congress can neither create nor increase public expenditures. Furthermore, if Congress does not pass a budget by a given date the Executive's original proposal becomes law for the following year.²⁶ Furthermore, the President can dictate "decrees of urgency" in economic and financial matters that have the force of law.²⁷

The granting of executive decree authority to presidents comes in various forms and degrees, including the extension of formal constitutional authority and the temporary congressional delegation of its own powers (Carey and Shugart 1998, Schmidt 1998). Both patterns have been present in Peru, and the results are dramatic. Table 4 shows that between 1980 and 2001, most legislation was passed through executive decree. Notably, 77 percent of these decrees involved the exercise of direct constitutional authority (decrees of urgency), rather than that delegated by congressional vote for specific purposes and time periods. The majority of these decrees have been related to budgetary and economic policy (including tax reforms and trade policies), followed by national defense and security.

While the ability of the Executive to assume legislative powers has been facilitated by pro-government majorities in Congress, minority presidents have also justified such measures as necessary and expedient, for responding to crisis and enacting certain important and controversial policy initiatives. Even during the heightened executive-legislative conflict of the 1990-1992 period, for example, *92 percent of all legislation involved executive decree authority*, including the initial agenda of liberal economic reforms. Other major initiatives launched by Fujimori through delegation of power by the opposition-led Congress were the reorganization of the national tax authority (SUNAT), the creation of a national social compensation fund (FONCODES), the liberalization of prices and the enactment of measures encouraging private investors to participate in public firms. Peru's international creditors also encouraged this trend, for similar reasons of expediency and efficiency in achieving policy objectives.²⁸

²⁵ See Payne et al. (2002). Peru appears second overall in presidential powers among Latin America.

²⁶ For a thorough discussion of the budget process see Morón et al. (2003).

²⁷ Article 118 (19) of the 1993 Constitution authorizes the President "to dictate extraordinary measures, through **urgency decrees with the force of law**, in economic and financial matters, when so required by the national interest and with the duty to give notice (*dar cuenta*) to Congress" (boldface added by authors). The Congress may subsequently modify or derogate these measures. Although the 1979 Constitution did not formally contemplate the urgency decree authority with the force of law, the Belaunde government relied on a similar passage in Article 211(20) that did allow the President to dictate extraordinary measures on economic and financial matters, and in practice these were treated as laws. Schmidt (1998:116).

²⁸ In the 1990s, the World Bank and other IFI involvement in Peru included support for structural adjustment programs that generated high costs in political and social terms, which many legislators may have deemed necessary but did not want to take direct responsibility for. See Nelson (1997), and Campodónico (1997).

The President also has greater veto power over actions of Congress that he did in past eras. Legislation approved by congressional majority, for example, may be vetoed in whole or part by the president within 15 days. Formally this veto is weak, in that an absolute majority of Congress is sufficient to override it. In practice, however, such overrides have been rare (Table 4). Meanwhile, most laws passed by Congress cannot be implemented without comprehensive administrative regulations (*reglamentos*) formulated by the Executive branch (Schmidt 2004, Kenney 2004).

Formally, the Constitution requires the validation of all presidential acts through a process of ministerial oversight. The President of the Council of Ministers (PCM) must authorize (*refrendar*) urgency and legislative decrees, and ministers are legally responsible for the presidential acts that they countersign. Unlike the Prime Minister in a parliamentary system, the PCM and all other cabinet members are appointed and removed by the President, and they do not have independent political authority. They are also accountable to Congress, as described below, and legislators frequently hold cabinet posts. At times of heavy criticism or protest against unpopular policies, cabinet members also become easy targets for blame by both Presidents and their opponents. The average span of a Minister in office since 1980 has been 13.7 months, and the average duration of the PCM is just 10.4 months.

2. The Congress

The Peruvian Congress had two houses and 240 members from 1980 to 1992, and was downsized to a single chamber with 120 members after 1993. In both cases, members of Congress have been elected concurrently with the President for five year terms.²⁹ Formally, the Congress has considerable powers -- to debate and pass legislation, approve the national budget, create investigative commissions, censure and impeach cabinet members, impeach the president or declare the presidency vacant. However, the exercise of such powers has been intermittent and limited by other political and institutional variables.

While only the president may initiate expenditure bills, Congress can amend his proposals during the appropriations process, and a Permanent Commission must approve any supplementary spending bills or modifications to the budget while Congress is in recess. As mentioned above, Congress can also override presidential vetoes on legislation with a simple majority. Thus, a majority of legislators can repeal a decree issued under legislative delegation, and may also annul or modify decrees of urgency by passing resolutions that cannot be vetoed. The Constitution itself can be amended by a simple majority and a national referendum, or by two thirds of the members of Congress in two successive legislative sessions (Schmidt 2004: 55).

Although the president selects the cabinet, the Prime Minister and other cabinet members are subject to congressional confidence and can be interpellated and censured. The President, cabinet members and other high officials can also be impeached by a simple majority of the Permanent Commission and convicted by a simple majority of the remaining legislators (*ibid*, 55). If the Congress censures two consecutive cabinets, the President may dissolve Congress and convoke new elections, albeit not during his final year in office. In turn, by a simple majority the Congress may declare the presidency vacant due to “permanent moral or physical

²⁹ Sources for this section include Sanborn, Eguiguren and Kay (2000), Schmidt (1998) and Carey (2003).

incapacity". This occurred after Fujimori's flight to Japan in 2000, and was discussed as early as 2003 as a way to end Toledo's unpopular presidency (his formal mandate ends in 2006).

In theory, the open list, PR system of electing members of Congress should enhance their responsiveness and accountability to the voters. Such accountability may be further enhanced by such elements as electronic voting boards and a congressional website, established in the late 1990s, where citizens can follow legislative decisions and members' voting records (Carey 2003). In practice, however, the public approval ratings of Congress since 1980 have remained among the lowest of all public institutions and the turnover of individual legislators is fairly high.³⁰ Since 1980 the average legislative experience of a member of Congress has been 4.4 years. In 1985 only 25 percent of the members of Congress had been reelected, in 1990 only 23 percent, and only 22 individuals participated in all three consecutive democratic congresses between 1980 and 1992. The current Congress is composed by a majority of individuals with no prior experience in this arena.³¹ For its part, on a normal basis the media pays little attention to the voting records of individual members of Congress and few voters have access (or motivation) to check the website.³²

The downsizing and restructuring of Congress after 1993 are also cited by some analysts as contributing to its lack of responsiveness to the electorate. In 1990 there was one member of Congress for every 30,000 voters. In 1995 the ratio rose to one per 111,345 voters (or 206,675 residents), the highest ratio among the Andean countries, and by 2001 it had increased to 122,087. Because the number of members is constitutionally fixed at 120, the distance between citizens and their representatives continues to widen. During 1993-2000, the transformation of the country into one single voting district also appears to have decreased constituency service, as well as the presence of the provinces in Congress. While this shifted back to the creation of 25 districts in 2001, some political analysts believe that the size and density of these jurisdictions remains a handicap.

What do Peruvian legislators actually do, and why do they do it? Why is their performance so poorly evaluated? These are not easy questions to answer, and there is a notable lack of empirical research in this case to help one do so. We do know that legislators do not always legislate -- as Table 4 shows, over half of all legislation from 1980 to 2001 was issued by the Executive, including most major public policies affecting the economy, the labor market and the provision of social services -- in other words, those policies that directly impact voters' daily lives. Congress also tends to function poorly as a forum for effective public debate of major policy issues -- delegation of legislative authority means ducking public deliberation. When congressmen do legislate, as in the "pro-active" post-2001 Congress, they invest large amounts of time initiating laws of minor policy importance, as well as producing numerous "projects" that have little chance of being passed.³³ Congressional rules allowing legislators to initiate projects individually, rather than by party blocs, appear to favor this trend. At the same time, legislators do not have spending initiative and thus cannot deliver the "pork" or public works that many voters expect, except by drawing on contacts and favors from the Executive.

³⁰In 2003 Congress had a public approval rating of 10 to 12%, and its member parties just 6 to 9%. By late 2004 Congress itself slipped into single digits. In 1989 approval was 20% for Congress and 17% for the parties. See APOYO, *Informe de Opinión*, various years.

³¹ 62 percent of current legislators had never served in Congress before their election in 2001, and 85% have less than five years experience.

³² While the media shows little interest in following voting records, it gives considerable attention to "scandalous" increases in congressional salaries and benefits, reinforcing public perceptions that members are basically rent-seekers rather than public servants.

³³ In the last three years over 10,000 *proyectos de ley* have been presented (and 1,200 approved) in the "pro-active", post-2001 Congress, in contrast to less than a thousand in Colombia or less than 300 in Chile.

Polls and qualitative evidence suggest that citizens in Peru today perceive most legislators as ineffective, and 60 percent of the public perceives them as corrupt (APOYO 2004). The stereotype is an individuals who aspires to parliament in order to enrich him or herself (as quickly as possible, given the volatility of politics per se), obtain jobs for friends and family members and secure other sources of income and power through political contacts or outright corruption. Although individual members' motivations are more complex (and some are indeed motivated by ideology, party militancy or commitment to public service), the widespread clientelism and corruption of the parties in power during the past 24 years tends to confirm these impressions.

3. The Judiciary

The Peruvian judicial system has been historically characterized by under-funding, inefficiency, corruption and political manipulation. Despite important constitutional changes in 1979 and again in 1993, this pattern largely remained through the 1980s and 1990s. Because political control by the Executive – backed by a complicit Congress—also tended to be the norm, it remained difficult for the judiciary to undertake necessary institutional reforms and play an autonomous role in the PMP.

The judicial branch is organized into a Supreme Court and a set of superior courts in each judicial district, with judges of the first instance, and justices of the peace who are called upon to adjudicate minor infractions. According to Schmidt, the 1979 constitution first established the principle of constitutional supremacy, and created a hybrid judiciary combining a European-style constitutional court with U.S.-style, litigation-based review in the regular courts (Schmidt 2004: 55). The 1979 Constitution also established the Public Ministry as an autonomous organ of the judicial branch, and assigned it the task of leading criminal investigations and heading up penal actions, among other functions.

The administration of justice under both Belaunde and Garcia was slow and corrupt, with regular cases backlogged for years. As cases of terrorism and human rights abuses began to mount in the latter part of the Belaunde administration, the courts could not begin to cope and insecurity mounted (Sanborn 1991: 233; Americas Watch 1984:19). The Garcia administration allegedly packed the courts with APRA party loyalists, without improving its general efficiency or capacity to contribute to the counterinsurgency effort. Although the judiciary did attempt to exert independence in 1987 by issuing injunctions against the Garcia administration's takeover of private banks (and again in the early 1990s, by ruling that several decrees issued by Fujimori before the *autogolpe* were unconstitutional), its capacity for action was limited by its politicization and incompetence (Schmidt 2004: 56). These factors were cited by Fujimori to justify intervention of this branch in 1992.

In theory, the 1993 Constitution and an ambitious 1995 reform program introduced important changes into the judicial system, including the elimination of the president's role in appointing magistrates and judges (Schmidt 2004). Instead, a National Judicial Council (CNM) was charged with monitoring the designation, promotion and dismissal of judges. Council members were to be designated by the Supreme Court, supreme attorneys, public and private university presidents, and the Peruvian Bar Association, theoretically excluding the direct participation of the Executive and Legislature in the process. A National Judicial Academy

was charged with the selection of applicants to judgeships and promotions, and the training judges at all levels. The Tribunal of Constitutional Guarantees (TC) was to rule on the constitutionality of laws passed. Formally outside the Judiciary, a new *Defensoria del Pueblo* (Ombudsman) was entrusted with the defense and protection of civil rights, with oversight over the public administration and provision of public services.

In practice, however, congressional majorities and the demand for urgent reform, allowed Fujimori to retain a high degree of political intervention in the judiciary through 2000. After the *auto-golpe* the Executive disbanded the Judiciary, expelled thirteen members of the Supreme Court, named a large number of provisional judges, and formally placed the Judiciary under Executive control. By 1997, 73 percent of the judges had been shifted to provisional status, making them subject to dismissal by the government at any time and hence highly susceptible to political and economic pressures (McMillan and Zoido 2004:13). Under the post-1992 regime, members of the judiciary were coerced, intimidated and bribed in order to advance the political objectives of the President and his core group of advisors.

Even the Constitutional Tribunal was politically vulnerable, and has not had the kind of power to reverse government policies as that of its counterparts in Brazil and elsewhere. The seven TC members are elected by Congress, serve five year terms that coincide with the President and Congress, cannot be immediately reelected, and may be removed through impeachment by Congress. In 1996, a majority in Congress passed a law requiring that the TC obtain six votes out of seven to declare a law unconstitutional. This cleared the way for Congress to pass a countervailing law of arguable constitutionality and thus assure enforcement of its own legislation. Furthermore, any ruling of unconstitutionality made by the TC has to be determined within six months of the enactment of the law. The Ombudsman also serves a five year term and can be dismissed or impeached by a congressional majority.

The most notorious manipulation of the TC involved efforts to clear the way for the President Fujimori's second reelection. In August 1996, the Congress passed a so-called "Law of Authentic Interpretation" of Article 112 of the Constitution, which classified the 1995-2000 term as Fujimori's first term, thus allowing him to stand for office again in 2000. When three of the seven TC members dared to declare the law unconstitutional, the President retaliated by having them dismissed, thus blocking the Tribunal's ability to operate for ten years. Only in 2002 did the Congress reinstate these three members.

Under the interim government of President Valentin Paniagua (2000-2001), the Executive Commission in control of the Judiciary was deactivated, and another Temporary Council was charged with reforming this branch. Major anti-corruption proceedings were also initiated against leading political and military figures of the 1990s, led by respected special prosecutors who were named by the Executive and continued to operate through 2004, when they began to be replaced by new figures (allegedly due to their efforts to initiate anti-corruption investigations of the current administration). Since January 2003, under a new Supreme Court President, judicial reform has again taken priority, lead by a *Comisión de Reestructuración del Poder Judicial*. This has led to a number of positive steps, including a significant reduction in the number of provisional judges. By the end of Fujimori's period, 67 percent of the magistrates and the 73% of the prosecutors were temporary; but since the re-establishment of democracy, the average index of provisional magistrates and prosecutors has decreased to 30 percent (Villavicencio 2003).

Yet the resource limitations and case backlogs remain acute, along with poorly qualified judges and attorneys and the continued use of outdated procedures and technology. The incentives to corruption remain great, and experts suggest that it will take considerable time before independent behavior by the courts can become the norm.³⁴

4. Political Parties

Formally, the President and Congress are elected by and accountable to the voters, through a process of electoral competition among candidates fielded by various political parties and movements. Yet as discussed above, Peru has never had a strong and cohesive party system, in which parties with strong roots in society negotiate, engage in sustained alliances, make inter-temporal agreements and assure compliance with them. While levels of association and collective action in general are high in Peru, partisan identification is low and parties are highly unpopular even by Latin American standards. Indeed, comparative analyses rank Peru as having the weakest party system in the region (Mainwaring and Scully 1995:16-17; Payne et al. 2002:143).

For most of the 20th century there was only one party with a nationwide organization, disciplined cadres and consistent leadership – the APRA. As with the Partido Justicialista in Argentina, the APRA has always counted on a core of fervent supporters and a hierarchical organization, but this cohort never surpassed a third of the electorate, while the party's pact making efforts have been ill-fated and anti-APRA forces in society and in the Armed Forces have been equally staunch in their opposition. By the 1960s, new reform and radical parties to the left of APRA emerged to compete for younger voters, but their development was truncated by the military regime.

The introduction of universal suffrage in 1980 further changed the arena for competition. During the 1980s, three main parties and one alliance (the Marxist United Left front) claimed the majority of votes, and each had the chance to govern or share power at some point during that decade.³⁵ Yet each was troubled with acute internal divisions, personalist and *candillista* leadership, and the predominance of short-term electoral calculations over the advancement of programmatic goals or the strengthening of party structures. By the time the 1990 elections came about, none retained truly strong roots in civil society and none proved capable of governing effectively.

It was in this context that Peru's disgruntled voters turned *en masse* to new political movements and "outsider" candidates. Citizens first chose popular television personality Ricardo Belmont as Mayor of Lima in 1989, and his makeshift *Movimiento Obras* (as in "*obras y no palabras*", or "deeds not words") swept numerous other municipalities across the country. While the low barriers to entry and other electoral rules facilitated these movements, it was voter disgust with the performance of the so-called "traditional parties" that made such movements more attractive.

³⁴ Less than 2% of the national budget goes to justice in all its forms. See Lovatón (2003), Hernandez (2003) and Lawyers Committee for Human Rights (2000).

³⁵ AP held the presidency in 1980-1985, allying with PPC to form a congressional majority and share cabinet posts. APRA held the presidency and a congressional majority in 1985-1990. The IU won the Mayorship of Lima and a significant number of other municipal governments in the 1980s, and was the second national vote winner in the 1985 elections.

In 1990, the virtually unknown Alberto Fujimori captured the presidency with a platform that was critical of all existing parties, and proposed to replace them with a more efficient Executive and mechanisms of “direct democracy” that would link the President directly with the masses. This proposal resonated with the electorate, and from 1992 onward Fujimori and his allies proceeded to carry it out –by reducing the size and representative capacity of Congress and by encouraging the multiplication of looser movements.

As a result, Peru entered the 21st century with a fragmented multi-party system in which the virtue of pluralism is overshadowed by the weakness and volatility of the actors, traits that are perpetuated by the electoral system and other elements of the political game. In varying degrees, parties revolve around personalities, have weak roots in society and are largely electoral vehicles, and their leaders have few incentives to aggregate interests and forge clear programmatic and policy alternatives.³⁶ Even longstanding parties have been characterized by a lack of internal democracy, transparency or true institutional life. The majority of Peruvian citizens does not participate in or even identify with any specific party, and voting behavior is quite volatile. These traits, in turn, reinforce the political weakness of civil society and the lack of government responsiveness to organized social demands. Hence it remains the case that teachers, doctors, community groups and other citizens with legitimate grievances believe they must go on strike, or hold media-oriented protests, so as to be heard by their government.

This is also a system in which it may be increasingly difficult to forge working majorities, or successfully implement national accords among leading competitors. Fujimori ruled with disciplined majorities from 1992 to 2000, but within the context of a semi-authoritarian regime based on corruption and coercion. While the more experienced APRA, AP and PPC parties returned to the electoral fray in 2001 (the latter as part of the Unidad Nacional coalition), they face greater competition from a multiplicity of smaller movements whose appeal is largely media-based.³⁷ President Alejandro Toledo himself was an inexperienced outsider, and his Peru Posible movement remains a loose amalgam of divergent interests.

For twenty years, proposals for stronger legislation to reform the party system (including campaign financing) have been thwarted in Congress. According to political scientist and former *Oficina Nacional de Procesos Electorales (ONPE)* head Fernando Tuesta, there was an implicit pact among all competitors to avoid setting clearer and stricter rules in this arena (Tuesta 1996). In 2003, however, Congress passed a new Law of Political Parties which, if effectively implemented over time, could have a rationalizing impact on future competition. This law is designed to raise the barriers to new party formation and competition, encourage alliances among smaller and locally based movements, encourage internal democracy and leadership rotation, and require greater transparency and accountability in the area of campaign financing. In practice, some 24 parties and movements have qualified for the first round of registration for the 2006 elections, and at least 13 have already passed subsequent requirements (in 2001 there were eight presidential candidates and 13 congressional lists). Yet some argue that the current party system is still in transition and may consolidate over time –assuming the regime itself is able to do so.

³⁶ Even the APRA reflects these traits, as witnessed by higher level of support that voters give the party when its charismatic leader Alan García is a candidate, and when he is not.

³⁷ An average of 11 parties and movements has been represented in Congress since 1992. Toledo’s Peru Posible movement won 39.2% of congressional seats in 2001, followed by APRA with 23.3 and the center-right Unidad Nacional with 12.5%.

5. Civil Society

Political theory and historical experience suggest that the development of a strong and autonomous civil society is fundamental to sustaining democracy and effective, representative government. In Peru as in much of South America, organized labor and civic associations of many kinds played an important role in pressing for the transition to democracy in the 1970s and again in the late 1990s. In the past two decades the amount of civil society organization overall appears to have increased, and Peru has among the highest levels of voluntary associative activity in the region (Sanborn 2001). Given the decline in credibility of most governmental institutions and parties, in the past decade there have also been increased expectations that this dense civil society will assume greater responsibility for the expansion of participation and the articulation of interests in the public sphere.

In terms of their influence on the PMP, however, most civil society organizations in Peru have only a limited capacity to do so. A complete explanation for this lies beyond the framework of this report.³⁸ In part, this is due to the historical legacy mentioned above, namely, the disparities and fragmentation of society itself. The weakness of the party system in terms of organizing and representing broad sectors of society is also a contributing factor. Furthermore, the combined impact of prolonged recession and economic crisis in the 1980s, and dramatic structural adjustment in the 1990s, served to undermine the structural bases of the most important labor, peasant and urban popular organizations of prior years.

As in many Latin American countries, the power of labor unions in particular has eroded in the last two decades, although certain union leaders and confederations retained political presence in the marches against Fujimori (and now Toledo) and a seat at the table in the National Accord and other venues. Their decline in real power is due in part to broader economic reforms, including labor market deregulation, and in part to deliberate political action. Unions were hit hard by the recession and crisis of the 1980s, the market-oriented policies of the 1990s, and the demise of the Leftist parties that dominated their leadership. Union membership dropped from over 17 percent of the labor force in 1981-1982 to approximately 7 percent in 2000 (or approximately 250,000 members), and this contraction of union members has been exacerbated by the increasing share of the work force now residing in the informal sector (estimated at two-thirds of the total). Tellingly, the Ministry of Labor has ceased to play a prominent role in resolving disputes between private employers and workers., and although the basic right to unionize, earn a minimum wage, have safe working conditions and to access health and pension benefits are still guaranteed by the Constitution, these rights are routinely violated in the private (and public) sectors.

While unions have lost most of their power in recent years, the strength and presence of business associations (*gremios*) increased in the late 1980s and 1990s. Historically, organized business was not been very influential in the policy making process, as large multinational firms and the country's wealthiest families preferred to wield informal influence behind the scenes. While some business leaders were prominent critics of the GRFA in the 1970s and even supported national strikes against the military government, the *gremios* per se kept a lower profile in the early years of the new civilian regime. With the establishment of the National

³⁸ For more in-depth analysis of civil society in Peru, in comparative regional context, see Panfichi ed. (2002), especially Kahatt (2002: 449-483), and Sanborn (2001).

Confederation of Private Business (CONFIEP) in 1984, this situation began to change. In the wake of a 1987 bank nationalization attempt, CONFIEP became a vigorous defender of private property rights and strong backer of the Vargas Llosa candidacy. With generous support from USAID, the World Bank and other external donors, the CONFIEP also professionalized its operations and expanded its profile in society. Its more powerful members include the National Society of Mining and Petroleum, the Association of Exporters (ADEX) and the National Industrialists Society (SNI).

In the 1990s, the opening of markets and privatization of public enterprises brought increased vigor to certain sectors of private enterprise. The Fujimori government proved to be strongly pro-business, and CONFIEP leaders played a prominent role in the Cabinet, in economic policy posts, and among pro-government forces in Congress. In turn, the CONFIEP publicly supported the *auto-golpe* of 1992, and many business leaders encouraged the president's re-election in 2000. By hitching their star to the Fujimori bandwagon, however, business leaders lost public credibility among pro-democracy actors and had to scramble to rebuild confidence after Fujimori resigned. Meanwhile, the allegations of corruption and favoritism surrounding the privatization efforts, the awarding of tax stability and other contracts, and the emergence of videotapes of leading business figures negotiating privately with Montesinos to further their particular interests, and provide clandestine support to the reelection effort, demonstrated that lobbying behind the scenes remained a common form of doing business.

In contrast to the decline of conventional interest groups, a variety of newer civic and social organizations have gained policy influence in specific spheres. These include more than 65,000 social base organizations that distribute food aid and other services to poor members, peasant self-defense leagues or *rondas* that provide security in rural areas (estimated 400,000 members in 2001), and over 1,600 development-oriented NGOs, staffed largely by middle class professionals and offering a variety of services in such areas as urban and rural development, education, health, micro enterprise, local government and legal aid, as well as legal and political advocacy (Portocarrero, Sanborn et al 2002). Their visibility has increased in recent years as both international financial institutions (IFIs) and government authorities find them attractive partners in various policy initiatives.

Peru's significant human rights community, with over 65 grassroots organizations nationwide grouped in the *Coordinadora Nacional de Derechos Humanos*, is another important player on the political scene. Backed by sectors of the Catholic Church and international allies, rights groups and leaders have been fundamental to defending rule of law, promoting judicial, military and police reforms and spearheading the anti-corruption effort (Sanborn 2001).

6. The Public Bureaucracy

What we call the public bureaucracy includes the longstanding line ministries (Economy and Finance, Education, Health) and also the so-called "autonomous agencies" established during the last decade. In the 1980s, the line ministries played little direct role in the PMP. This stems in part from the fact that Peru does not have a highly qualified, professional civil service as in Chile or Brazil, and instead governments use public sector employment blatantly as a source of party and client patronage. Having inherited an already inflated public sector from the military government in 1980, the Belaunde and Garcia governments proceeded to triple

again the size of the bureaucracy, a trend most notable under the APRA regime when the number of public employees rose from 282,400 in 1985 to 833,000 in 1990.

In the 1990s, the Fujimori administration partially changed this situation, through the creation and extensive reliance on special autonomous public agencies to undertake and monitor priority reforms. Originally created to support market reforms and to compensate for the historical deficiencies of the public sector, these new “islands of efficiency” had their own revenues and special labor and administrative regimes, and were managed by the *Oficina de Organismos e Instituciones del Estado* (OIOE now FONAFE) within the Ministry of Economy and Finance (Ugarte 2000: 401). Yet as Wise and others have noted, with this process the state apparatus in Peru took on a dual nature. On one hand lies a highly capable upper tier of small agencies with administrative and financial autonomy, qualified professionals at the helm and a small and educated workforce with salaries that run two to six times higher than those paid by the line ministries. On the other hand lies a lower tier of line ministries whose inefficiencies, resource limitations and low staff morale have changed little over time. (Wise 2003).

Beyond the performance of specific agencies, the creation of this new tier of institutions was not part of a coherent or consistent state reform process, but was instead an almost inadvertent endeavor. New agencies were created in an erratic fashion, each somewhat distinct from the other (hence the “island” analogy is quite apt), and for the purposes of implementing market reform goals defined elsewhere. To some degree, their development also reflects the divergent priorities of the various multilateral creditors that helped to finance them. Hence, they were established for rationalizing public finances, enforcing property rights and facilitating the short-term delivery of certain public goods, but not for undertaking educational reform, improving labor conditions or other long-term social changes. While each of these institutions provided technical input into the drafting of new rules, and was in charge of enforcing those approved, their overall contribution to the PMP will remain limited until these “islands” were more closely integrated into the broader public bureaucracy.

With the exception of the Ministry of Economics and Finance (MEF), which has been renovated into a “super ministry” (and has now internalized the same dualistic structure in-house), and to a lesser extent the Ministry of Trade and Industry, much of the remaining public bureaucracy mirrors Peru’s traditional sector of the economy: underpaid, inefficient, poorly utilized and, if anything, an obstacle to the effective functioning of the PMP in the sense of blocking the implementation and enforcement phases. Despite a 1996 IFI-backed initiative to modernize the line ministries and their outdated employment practices, Fujimori shelved the plan for fear of the political costs of further downsizing.

During the 1990s, the President promoted “autonomous” agencies for pragmatic, short-term reasons, not because he was committed to institution building or state reform (Wise 2003). And he encouraged mediocrity in the rest of the central government for the same reasons that he encouraged a weak Congress—because it eliminated possible challenges to his authority. Meanwhile, by revamping the Ministry of the Presidency and using it his personal patronage fund, he was able to further circumvent public accountability and political competition. The legacy of this pattern is particularly notable in the area of human capital investment, where longstanding neglect of the line ministries in health and education constitutes an enormous obstacle for the current government’s commitment to promote job creation and improve real living standards.

7. The Armed Forces

No discussion of the PMP in Peru would be complete without mention of the Armed Forces, which have ruled the country for longer periods than any civilian government and have retained considerable policy influence even while out of power. In the last two decades, however, both the policy stances and relative power of the military have been as volatile as that of civilian actors.³⁹

When the military left power in 1980, it had become significantly divided by its twelve years in government, and discredited by poor economic performance and repression of social protest. Nonetheless, in the 1980s the Armed Forces retained considerable power and autonomy, while their dominant role in combating guerrilla insurgents rendered them largely immune to civilian control. In 1992, just twelve years after the military regime ended, the generals returned to power, but now as a fundamental component of Fujimori's reign. Analysts have characterized this unorthodox relationship as a civil-military *pact*, brokered in large part by the National Intelligence Service (SIN). This pact enabled the President to execute the 1992 *auto-golpe*, thwart a subsequent coup attempt and defeat the Shining Path. A loyal military leadership stood by the President in exchange for protection against prosecution for corruption, drug trafficking and human rights violations. At the same time, Fujimori, with the aid of security advisor Vladimiro Montesinos, used the SIN to identify and promote loyal officers, retire disloyal ones, and distribute patronage and opportunities for illicit enrichment. Key institutional reforms also afforded Fujimori greater latitude with respect to military policy.⁴⁰

In the wake of the Fujimori debacle and videotaped revelations of corruption among the military hierarchy, the power and credibility of the military eroded once again. To date, most of the generals who backed the regime are in prison or exile. Taking advantage of this situation, interim President Valentin Paniagua began to restructure the Armed Forces, removing officers who had collaborated with the past regime and eliciting a formal apology to the Peruvian electorate for the 1992 coup. The Truth and Reconciliation Commission, also convened in 2001, held public hearings where atrocities committed by both the military and the Shining Path in the 1980s were investigated. Hence, two full generations of military leaders have fallen into disrepute and many still await trial for human rights violations in the 1980s and early 1990s, and for widespread corruption in the 1990s.

Today the military is on the defensive, with relatively low public legitimacy, low morale, and serious budgetary restrictions. Engaged in campaigns against drug traffickers, the remnants of the Shining Path and other small insurgent groups, for the time being the military itself is not seen as the main threat to constitutional rule. Yet the fundamental issue of military respect for the rule of law remains an open question. It is not clear how deep the current reform efforts can go, and it remains to be seen whether a new generation of officials will emerge with greater commitment to constitutional rule than its predecessors.

³⁹ This section is based largely on Obando (1999) and Sanborn et al (2000).

⁴⁰ In 1991, Fujimori eliminated the promotional system based on seniority, and succeeded in getting a law passed that allowed the President to name the military commander-in-chief and permit the appointee to serve as long as the President saw fit.

V. Conclusions

Since the late 1970s, the drafters of Peru's constitutions and electoral rules have sought to encourage strong and legitimate civilian presidents, who could effectively lead the country and undertake much-needed social and economic reforms, while avoiding the political impasses and military interventions of the past. They have also sought to design congresses that could provide necessary checks and balances on executive authority, and have encouraged a plural, multi-party system that could represent the country's large and socially diverse electorate. Following on the dramatic social transformations of the 1970s, it was hoped that such changes could lead to a democracy that was both more inclusive and more effective than past efforts.

Unfortunately, the decisions made since that time helped to perpetuate the historical legacies of authoritarianism and personalism, social inequality and conflict. As we have seen, in this context a formally strong president can also become an "unbridled" one, with a docile majority in congress and weak channels of political accountability. This situation can generate widespread abuses of power and the perpetuation of misguided policies, as was the case with Garcia in 1985-1990 and even more so with Fujimori after 1992. Alternatively, a president without a majority may face opponents with few incentives to cooperate for longer-term policy objectives, leading to political standoffs reminiscent of the past. In both cases, the likelihood of regime crises and turnover persist.

In the post-Fujimori period, however, it may be difficult for future presidents to win majorities, sustain alliances, and govern in the autocratic style to which they were becoming accustomed. This could be a positive turn of events, to the extent that it requires greater public deliberation and negotiation rather than arbitrary exercise of power. Specific reforms introduced since 2001 may also help to improve the quality of political representation and competition, both of which are important for the PMP. These include the introduction of 25 geographical districts in Congress, the establishment of regional governments and transfer of new resources and programs to the regional level (where there is potentially more direct citizen oversight), and new legislation on political parties which aims to raise barriers to competition, promote institutionalization, and encourage fewer and more transparent organizations. However, it is too early to predict the impact of these reforms on the dynamics mentioned above. Unfortunately, opinion polls suggest that Peruvians are already fed up with the entire lot of current contenders and looking for another "savior" - the possible choices include both Fujimori and García.

Other reforms that are under debate include the elimination of the preferential vote, which if combined with the new party law (requiring transparent primary elections for party candidates), might increase party unity without reinforcing the *caudillismo* of the past. In terms of improving the independence and responsiveness of Congress, reforms under debate include renovation by thirds (also seen as a way to force parties to have a more active life between presidential elections), expanding the number of voting districts, and returning to a dual chamber system. Currently, however, public opinion about such reforms is also negative.

Ultimately, despite the existence of design problems that could theoretically be addressed by political engineering, we want to stress that in the Peruvian case the constant change of rules and regimes per se has been a deterrent to longer-term institutional building and inter-temporal

collaboration. Since high-order change has been the norm rather than the exception, the horizons of all participants in this game are fairly short. When critical junctures and new opportunities to reverse the historical tide present themselves, the actors have been unable to overcome this sort of “volatility curse”. Hence it is difficult to predict whether the pitfalls of policymaking in Peru will be filled, or whether the road to democracy and development will remain bumpy indeed.

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Appendix I: Cases to Understand the Peruvian PMP

1. The Social Assistance Programs: Political vs. Technical Incentives⁴¹

After the economic stabilization package of 1990, the Peruvian government was forced to create a series of social compensation programs to offset the negative impact of these measures on the poorest sectors of the country. The story of how these programs evolved over the 1990s reflects several of the general PMP characteristics mentioned at the outset.

First of all, these programs began with a serious “birth defect”. While objectively necessary as a social stabilizer, they were not something that President Fujimori or his advisors had initially contemplated, and were reluctantly adopted due to pressures from the IFIs. Because Fujimori did not come up through the ranks of party competition, he did not initially see these as sources of political capital either. Nonetheless, over the decade they evolved from their original emergency purposes into an ongoing mechanism for channeling public funds to the poor, and a preferred means for political patronage. The resources assigned to these programs increased from 12 dollars per capita in 1990 to 85 per capita in 1997. This fact not only responded to the growing ambition of these initiatives but also the President’s desire to increase his popular support and win reelection.

In 1993 the government created the CIAS (*Comisión Inter-ministerial de Asuntos Sociales*), which was charged of the coordination of all such social policies. Between 1991 and 1995 this agency exhibited a good performance, and the social compensation programs were credited with helping to reduce poverty from 55 percent to 45 percent in this period. Nonetheless, targeting problems were present from the outside, and more than 60 percent of resources were destined to people who were not considered “extremely poor”. In 1996, these programs entered a new phase involving more explicit targeting of intended beneficiaries. Highly qualified professional staff was hired to define new objectives for these efforts: to improve efficiency in social expenditure and increase investment in basic infrastructure (provision of water, sewage, etcetera). Yet perhaps not surprisingly, the recommendations made by politically naïve technocrats were not implemented, and the programs remained a source of political patronage and clientelism.

One example is the PRONAA or National Food Administration Program, charged with administering food assistance to meet the basic nutritional needs of the extremely poor. In 1996, a new group of technocrats narrowed the target population more explicitly, to 0-to-3-year-old children and nursing mothers living in extreme poverty. This was intended to prioritize longer term social needs over short-term demands from the voting-age population, including those of the highly-organized *comedores populares* (community dining halls) that were also part of the anti-poverty effort. However, this effort faced political resistance since the food distribution itself had become a key component in the pro-government clientele network. Through PRONAA, the government rewarded the support of politically loyal *comedores* and mother clubs, and also favored loyal farmers and firms by purchasing foodstuff from them. Hence although state-of-the art information systems were implemented, impact indicators

⁴¹ Based in Portocarrero et al. (2000), chapter 4.

were defined and measures to decentralize the execution of the programs were formulated, most of these changes were of little use in improving nutritional standards, and dismantled when the technocrats were forced to resign.

The same kind of political incentives are documented by Schady (2000) with respect to the Peruvian Social Fund (FONCODES). At the beginning this program became a darling of the IFIs and a model of how to design a social fund. Yet Schady found that: (i) expenditures increased significantly before national elections, and; (ii) FONCODES projects were directed at provinces in which the marginal political effect of expenditures was likely to be largest.

2. Private Pension Reform under Attack: The Effect of Latent Volatility⁴²

The fundamental problem of volatility lies in its unpredictability. One can imagine a case in which an economy switches every year from policy A to policy Z with a probability equal to one. In that case, the certainty of this policy switch will allow everyone affected by this change to react appropriately. The main reason behind the type of volatility in Peruvian policies is the high degree of arbitrariness in the decisions to adopt them in the first place. The lack of checks and balances over executive policymakers, leads to an equilibrium in which an arbitrary policy is temporarily maintained but there is a strong perception that a policy reversal can occur. One case that illustrates this point is the constant threat of reforming the private pension system.

The history of this reform is remarkable, as Peru was the second country in the world which adopted a private pension system (1993) after Chile (1983). As in many countries, the public pension system had severe governance and transparency problems. This pay-as-you-go (PAYG) system was routinely used as a source of funding for the central government. As the funds did not belong to anyone in particular, government authorities used them arbitrarily for whatever they deemed important.

No surprisingly the funds of the PAYG were decimated by the hyperinflation of 1988-90 and pensions were reduced accordingly. This situation motivated a policy initiative to move from the PAYG to a fully-funded system as in Chile, administered by private firms (AFP)⁴³. In contrast to what happened in many countries in which a private pension system has been introduced, in Peru the public pension system (SNP) remained side by side with the new AFPs. This produced a tension that is not present in other countries: a permanent threat to return to the old regime. The main cost of this threat is that long run investment decisions are blurred by the political tensions.

It is important to emphasize that government policymakers have many ways to reduce the “privateness” of this privatization process. They can force AFP to accept public bonds with high default risk, or overtly confiscate the intangible individual funds by transferring to a common pool fund as the PAYG system.

Why do some actors continue to promote changes in this system? The answer, in part, is that the short-run payoff for politicians is high. AFP are seen as a easy target to attack and have media attention. An ever growing private fund along with a cash-strapped government is an

⁴² This is largely based on Carranza and Morón (2003) review of the first ten years of the private pension system reform.

⁴³ A very detailed account of the process of adopting this policy decision is found in Roggero (1994).

explosive mix. The possibility of having access to these funds might be enough for the Executive to let a supportive Congress play with the idea of a significant policy reversal. Another way to understand why this permanent threat of policy reversal is attractive to members of Congress, is that the number of potential beneficiaries of the use of those funds is larger than group of current beneficiaries of the policy.

Clearly, many of these reform initiatives clash with efficiency, property rights and fiscal sustainability. Yet these arguments are not enough for legislators who need to attract public attention, and see this kind of issue as a way to advance their political careers. Such opportunism may explain there have been so many legislative initiatives to change the nature of the private pension system, and so little progress on actually helping workers and their families protect themselves after retirement.