The Transformation of Business-Government Relations
Under Fujimori

(First draft).

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To invest here was sheer madness, but that is no longer true.

Alberto Fujimori, 1993.

From 1968 to 1990, business people[1] in Peru suffered from unusually high levels of uncertainty. Political instability and policy swings, constant cabinet changes, factors often combined with recessionary trends and escalating violence, made this period one the most unstable of Peruvian history. Political events played such a crucial role in business decisions that firms and trade associations got used to read every morning *El Peruano*, the official gazette, to verify if the rules of the game were still valid. In the same token, they held off investment decisions until the president delivered the state of the union address every July 28. Extreme caution proved right in 1987, when President García abruptly announced the nationalization of the banking system and Peru entered a period of ungovernability.

This pattern of negative, unstable business-government relations was reversed by president Alberto Fujimori. In 1990 a new charismatic leader came to power with an agenda of "order and progress" that coincided with business interests. President Fujimori succeeded in controlling most sources of business uncertainty. The concentration of executive power after the 1992 self-coup collaborated to this end. By 1995, when he was reelected as an "effective leader," counting with both elite and popular support, business-government relations stabilized. Higher credibility in government reduced business anxieties, and the economy was able to initiate a period of stable growth.

A number of questions concerning business-government relations arise from the Peruvian case. What factors and circumstances generated such a high degree of political uncertainty? Why business efforts to control uncertainty through political means failed for a prolonged period of

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[1] In this paper, terms such as business, business people, the private sector, capitalists, and investors all refer to property-owners and managers of private firms. The term business leaders refers to those heads of trade associations or firms who play a key role in defending and representing business interests. The internal differentiation of business is based on specialization (economic sectors) and size (big, medium and small-sized segments). For a discussion on business as sector and firm, see Maxfield and Schneider (1997, 42-45).

time? How this negative pattern of business-government relations was suddenly reversed? Is a semi-authoritarian regime best suited to defend business interests? Is presidentialism a main cause of uncertainty? Can business-government relations be institutionalized in the long-run under democratic regimes?

The questions stated above are part of a broadening field of inquiry on business-government relations that, coming from different perspectives, deal with the connection between economics and politics. One perspective studies how political outcomes, in particular sociopolitical stability, influence economic decisions and macroeconomic performance (Cukierman 1980, McIntyre 1983, Stewart and Venieris 1985, Barzelay 1986, Brunetti and Weder 1994, Dixit and Pyndick 1994, IADB 1995). Another perspective looks at the role of business in the policy and political processes, analyzing how the defense of economic interests affects democracy and institutional development (Payne and Bartell 1994, Conaghan and Malloy 1994, Spalding 1994, O'Donnell 1994, Maxfield and Schneider 1997). This paper argues that the two perspectives are necessary to adequately explain the dynamics of uncertainty (raised by the former) and business responses to it (more adequately explained by the latter).

Business political uncertainty is a feeling of unsureness about investment decisions caused by macropolitical and macroeconomic policy outcomes. Uncertainty poses a challenge. When business collaborates in creating a positive political climate, participation in the policy-making process becomes more effective and business uncertainty is controlled. In this circumstances, however, business-government relations can either be collusive (based on rent-seeking) or collaborative (conducive to development) (Maxfield and Schneider 1997, 5-6). A collusive relationship is based on short-term gains and is potentially unstable. A collaborative relationship is institutionally and provides the basis for political stability and sustained growth. If business cannot influence the political process, hostile governmental decisions are more likely to occur, and threatening social movements cannot be controlled. In this scenario, investor's uncertainty increases, the pattern of relations with government becomes negative, and business is forced to look for new political alternatives. The concept of uncertainty, then, can help explain the political behavior of business.[2]

Business uncertainty, according to some scholars, is caused by excessive executive power. Presidentialism leads to arbitrary decisions that affect business interests.[3] These decisions, it must be pointed out, are often inspired by ideology. Hostile presidential decisions are usually taken by political elites who embrace anti-business ideas. These ideas, in turn, are supported by social forces who seek to limit, punish, or eliminate business power. Thus, the relationship between business and government is influenced by a more complex interaction between business and society. Business social insulation, a trait typical of Latin American societies, poor and culturally diverse, with a wealthy class of European origin, can be solved by establishing a close relationship with government. When this connection is lost and business becomes politically isolated, hostile presidential decisions and violence that threaten property interests are more likely to occur. To control them, business must reestablish close, stable relations with government and generate conditions to influence policy decisions (agenda-setting, policy formulation and implementation).

Business action to manage political uncertainty takes place in two different but complementary levels: politics and policies. At the political level, the most important one, business sectors and leaders seek political inclusion and attempt to build stable coalitions. The pact can be established with different regimes (authoritarian, democratic or an intermediate form). It defines under what conditions, around what issues, and with what degree of openness business can access and influence the policy-making process..[4] This coalitional dimension is critical to understand business uncertainty because it places the emphasis, as several scholars have pointed out, at a higher level. Politics arranges the larger space where policy-making takes place (Cardoso and Faletto 1969, 16). At this level, business struggles to establish a pattern of relations with the state

2. The literature refers to three main sources of uncertainty: economic climate, technological change, and business-government relations. The latter, according to McIntyre (1983, 16), "often increases the costs and risks of product development and marketing." The concept is used in economics, sociology, psychology and international relations.

3. Brunetti and Weder (1994) argue that governmental failure to provide credibility to investors is the major obstacle to performance in less developed countries. Investors' confidence is affected by political factors, in particular the discretionary powers of the executive under democracies or dictatorships.

4. For a theoretical discussion on coalitions, see Kenworthy (1970).

that is best suited to cope with uncertainty. Loss of control on government is particularly dangerous. The Latin American business class, as Nathaniel Leff has pointed out, is politically vulnerable: it is "a big fish in a small pool," whose extreme wealth causes envy.[5]

At the policy level, business acts as a social force capable of devising private mechanisms (networks established by firms) and collective strategies (through movement-like behavior and sectoral and encompassing associations) to access and influence the state.[6] Participation in the policy process, in particular one that leads to collaborative business-government relations, implies strong institutional development from both actors. In the case of business, it should rest on encompassing, professionally oriented business associations. In the case of government, it should rest on modern, merit-based bureaucratic bodies. If private, collusive networks predominate as the preferred business mechanism to deal with weak, predatory states, the result is corruptive rent-seeking, a type of behavior that generates not only envy but intense anger. Rent-seeking of a corrupt type can also enhance the government's room to maneuver over business because it rewards free riders and prevents collective action. When both business and government are institutionally strong as to reinforce collective or public interests, the relationship is more positive for development (Maxfield and Schneider 1997, Bates and Krueger 1993, Evans 1992).[7]

The first part of this paper studies how business-government relations deteriorated in the 1968-1975 and 1975-1990 periods. In 1968, a military revolutionary government restructured business-government relations from above. Business was unable to effectively regain control of the political process. In the 1975-1990 period, under military and democratic regimes and in a context of ongoing crisis, business political uncertainty assumed new forms and even aggravated.

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5. Leff argues that big business in Third World nations generate "envy," which leads to hostile governmental decisions. I have argued elsewhere that the Latin American business class suffers from "solitude" because it insulates itself from the masses and lacks legitimacy (Durand 1996). Politics, in this context, is an important source of uncertainty.

6. For an exhaustive review on networks and business behavior, see Powell and Smith-Doer (1994). For a more holistic perspective on varied mechanisms used by business to deal with policy, see Hollinsworth, Schmitter and Streeck (1994).

7. State agencies need to be insulated from particularistic demands, but "embedded" in society as to benefit from business participation in the policy-making process. The state needs to be institutionally strong to produce collaborative relations with business that is conducive to development.

Internal divisions and difficulties to pact with governments made difficult for business to control uncertainty. The second part focuses on the gradual internal, economic and associational transformation of business in the late 1980s. Conglomeration and economic integration among business sectors, and the development of a peak business association, facilitated a normalization of business-government relations in the 1990s. On this basis, business established a lasting pact with Fujimori. The third part studies how Fujimori's semi-authoritarian regime accumulated executive powers to set a firm policy course, defeat terrorism, and generate higher business confidence on government. The political dilemmas of business in the late 1990s are analyzed in the fourth part. Although business has benefitted from caudillo rule, it is unlikely that ti will keep supporting fujimorismo. Thanks to a more institutionalized, collaborative pattern of relations with the state, and because of deep ideological changes in favor of business values, business seems better disposed to support democratization. The last part presents a brief comparative perspective and summarizes the findings. It shows that business uncertainty is best understood in a relational perspective, looking at ideo-political changes and institutional development in both business and government.

Dynamics of Political Uncertainty

A coup organized by General Juan Velasco in October 1968 suddenly cut business access from power and induced the most profound policy shift of the century. The military revolution left a legacy of troubled business-government relations that lasted until 1990.

Military Revolution: 1968-1975

The Velasco government attempted to reduce dependence on foreign capital, eliminate oligarchic power, and accelerate industrial development. To accomplish these goals, the military empowered the state. All cabinet positions (ministers and viceministers) and state agencies, with the sole exception of the Central Bank, were occupied by high ranking active officers. Policy-makers enjoyed a high degree of discretionary power and developed a tradition of bureaucratic insularity (Palmer 1980, 101; Cleaves and Pease 1983, 209 and 222). Extensive regulatory and promotional policies were issued to spur state-led domestic industrialization. As a result of this process, state participation in the GDP for the 1968-1975 period rose from 13 to 23 percent (INP 1980, 101). The state apparatus was modernized and expanded; new branches and agencies were created. All those factors led to a significant reduction of state structural dependence on private capital and an exceptional degree of state autonomy.

State empowerment was possible in part because business lost access to the decision-making centers. In 1968, all forms of business participation in state agencies were terminated. The new state elites redefined from above relations with firms, trade associations, and business leaders. The loss of political influence facilitated a governmental assault on private property, the rise of labor power, and extended state intervention in the economy and civil society. Out of 170 state owned firms, 109 were the result of expropriations and confiscations that removed or diminished private influence in sectors such as agriculture, mining, oil, energy, fishing, communications, international trade, transportation, the mass media, and strategic manufacturing industries (Durand 1994, 39). Another source of business anxiety was the adoption of the "entrepreneurial reform" and pro labor legislation. The reform was a co-property and co-management experiment that applied to the mining and manufacturing sector. It dictated the creation of "labor communities" comprised by all workers with job stability. Through an annual profit redistribution mechanism, the labor community could gradually acquire up to 50 percent of the company's shares. In 1975, as a result of the reform, 2,882 industrial communities representing 165,194 workers controlled 26 percent of the capital in the manufacturing sector. In the mining sector, 89 communities representing 48,253 workers controlled 3.9 percent of the sector's capital (SINAMOS 1975, 8). The scope of the reform was vast. It applied even to firms with more than four workers, a fact that raised anxiety among small businesses. Other policies also aimed at enhancing labor union power. In the Velasco period, the government granted legal recognition to 1,987 unions, and sponsored the creation of three labor and peasant confederations (CTRP, CNA. CONACI), more than any previous government (Sulmont 1977, 317).

Although the Velasco revolution inevitably generated a high degree of business uncertainty, it did so in contradictory ways. State empowerment, the modification of the property structure, the reduction of private sector influence, the entrepreneurial reform and labor policies, all provoked concern among investors. These policies generated fear, especially among landowners, who self-exiled themselves to neighboring countries. Nevertheless, protectionist and promotional policies and some nationalist policies (for example, the possibility to acquire shares owned by multinationals and foreigners in banks), offered attractive business opportunities (Conaghan and Malloy 1994, 60). Some firms profited extensively from rent-seeking. The Nicolini food empire, for example, benefited from governmental preference in the distribution of wheat and corn quotas bought by a governmental agency abroad and sold on credit at reduced prices to a handful of firms. Nicolini obtained about 50 percent of the these quotas and became the dominant agribusiness conglomerate for two decades (Malpica 1989, 172-73).

Under Velasco, business responses to their waning influence, and the economic and social reforms sponsored by the military, was varied. For most of the 1968-1975 period, business political action was poorly coordinated. A general, collective response was difficult. Business lacked an encompassing association, had no political experience as to effectively confront a strong; people's opinions on the economic elites was negative and welcomed expropriations and controls. A governmental strategy of selective incorporation of business leaders into government agencies also prevented collective action. At first, business was totally caught by surprise and decided to let the agrarian oligarchy and some multinationals be expropriated in silence. Some business leaders, like industrialist Enrique Dibós, even welcomed it as a "modernization" attempt. Dibós was later appointed by the government as major of Lima. Other business leaders and groups (big business and some sectors) preferred accommodation. It was a recognition of business inability to dictate the terms under which business-government relations could be reestablished. Acceptance of the new rules implied some access to discuss policies and a limited degree of influence in policy implementation. Resistance implied isolation, even persecution from the government.

The Association of Exporters (ADEX, formed in 1973), together with the mine-owners, banking, fishing and construction associations, opted for accommodation. A similar strategy was followed by Instituto Peruano de Administración de Empresas (IPAE), an educational institute run by big business. IPAE managed to organize the Annual Conference of Executive (CADE), the only public forum where policy and business elites from different sectors could dialogue with the government (Bamat 1978, 212-15). Private networks became the preferred form of action of domestic conglomerates and multinationals. A select group of conglomerate leaders managed to gather informally during the weekends and holidays with the president and the generals who controlled key cabinet and military positions (Malpica 1987). Some business leaders were nominated to the Board of Directors of development banks and ministerial advisory councils. A few even attended courses in the military college to establish personal networks. Big firms hired retired military officers to assure access to government.

Industrialists benefited more than exporters from protectionist and interventionist economic policies, but ended up adopting a confrontational approach (Bamat 1978, 212). Headed by the National Industrial Society (SNI), industrialists battled more intensely to put an end to regulations, expropriations, and labor legislation. In early 1973, at the time the government issued a labor stability law, industrialists elected Raymundo Duharte, a leader supported by small and medium-sized firms. Duharte initiated his term openly criticizing the military government, portraying it as a communist threat, and denouncing the "big finger" policy of appointing individual businessman to advisory councils. Under his leadership, SNI attempted to create a front of trade associations when the fishing industry was nationalized. SNI even conspired with opposition forces (part of the navy, the conservative press and anti-government political parties) against Velasco. As a response to Duharte's strategy, the government cut relations with SNI leaders. In the midst of this confrontation, Duharte expressed well the situation: "Relations are frozen. There is no form to access the Minister of Industry. I have solicited interviews through the phone and sent letters without being able to accomplish anything" (Sociedad de Industrias 1977, 201). The conflict escalated when SNI rejected a corporatist government proposal to include representatives of labor communities in the association's board of directors. Soon after, SNI was forced to drop the "N" when a decree law denied its recognition as a "national" institution. In November 1973, Duharte was denied entry to the country after a business trip to Ecuador.

In the last years of the Velasco government, business leaders succeeded in making alliances with conservative forces within the government, at a time when military factions began to emerge, a factor that opened more spaces for policy bargaining. A silent strategy "to let a general depose another general"[8] paved the way for governmental changes in 1975, when General Francisco Bermúdez, former Minister of Economy and Finance, organized a coup against Velasco.

Unsettled Relations: 1975-1990

When the Velasco government fell, business was better positioned to participate in political arrangements and to establish closer relations with the state. The external debt accumulated since 1973 and declining growth rates debilitated state power and gradually enhanced the role of the private sector as an economic agent. In 1975, business leaders were better politically connected to conservative military officers. In 1978, political parties sought business financial support once the transition to democracy was pacted. Access to government was varied, subject to changes, but in any case better than in the previous period. Businessman participation in cabinet positions started, a fact that indicated a governmental willingness to have closer relations. Yet, business encountered many obstacles to exert influence on government and to control the varied, more complex type of uncertainty that emerged in this period.

The nomination of business leaders in cabinet positions was a governmental tactic to make explicit a connection with the private sector.[9] During the administrations of Morales Bermúdez (1975-1980) and Belaúnde (1980-1985), businessmen occupied MEF in four different opportunities. The first to become Minister of Economy and Finance was Walter Piazza (May to July 1977), CEO of COSAPI, Peru's major construction conglomerate. The second and third, Manuel Ulloa (July 1980-January 1983) and Carlos Rodríguez (January 1983-March 1984), were neoliberal financiers closely linked to the international business community (Pease 1981, 25). Beginning in 1978 when the Morales Bermúdez government decided to open government positions to business, the Minister of Industry (MI) became almost a permanent "business seat." Both Belaúnde and García (1985-1990) appointed a majority of businessman in that position: out

8. Interview with Alfredo Canepa Tabini, an influential industrialist who headed ADEX. Lima, July 1982.

9. Information on business participation in the cabinet comes from Tuesta (1994) and media sources.

of eleven (appointed at a rate of more than one a year, at the rhythm of cabinet crises), nine were businessman and two economists. Trust in government somehow increased thanks to this opening, but policy pendularity reduced its beneficial effects as a political gesture to calm down business anxiety.[10]

In spite of more favorable conditions for business (higher state dependence on capital and closer relations to decision-makers), politics ran often out of control and economic and non-economic uncertainty intensified. The political context of the post Velasco period was characterized by an ongoing recession, escalating sociopolitical violence, and high levels of policy and political instability.

The period of continuing crisis that started in 1975-1976 and lasted, with ups and downs, until 1990, was the worst of the century in terms of its durability and its devastating social and economic impact. The economy experienced three major recessions. The first occurred in 1976 and 1977, when the GDP rate dropped to less than one percent. The second in 1983, when it plunged to -12.3 percent. And the third in 1988 and 1989, when rates plunged again to –8.2 percent and -11.8 percent respectively. In the midst of the recession, prices gradually got out of control passing from two to four digit figures. The average annual growth rate of consumer prices jumped from 2,775 percent in 1990 to 7,649 percent the next year (Wise 1997, 72). This scenario was aggravated by rising levels of political and social violence, a trend that grew at the rhythm of the economic crisis. Between 1980 and 1989, two highly violent guerrilla groups launched 17,350 armed attacks, damaged 756 electric towers, and killed 1,286 officers (Webb and Fernández Baca 1992, 335). Violence was aimed at both the government and the private sector. Company towns, banks, and industries were attacked or bombed; infrastructure sabotaged. Business people were forced to provide "protection money," or make generous contributions to liberate abducted executives.[11] Street crime also increased dramatically. The number of thefts jumped from 5,724 in

[10]. To what extent business participation in cabinet expresses a close governmental connection with economic interests? Empirical evidence shows that some business ministers are free riders while others seek leadership roles for whole economic sectors. The argument that the inclusion of business people in cabinet positions automatically expresses "class representation" in government is an inadequate, although politically tempting, explanation.

[11]. The Tupac Amaru Revolutionary Movement became specialized in kidnapping. Several wealthy business people (Hiraoka, Romero, Vera Gutierrez, Benavides de la Quintana, Delgado-Parker) suffered abductions and paid

1976 to 15, 134 in 1982. Bank robberies passed for the same period from 29 to 189, and armed assaults from 5, 132 to 10, 545 (Gorriti 1985, 165). Cases of police-gang collaboration to split the proceeds of joint operations (in particular kidnapping of wealthy people) became rather common, a sign of state institutional degradation particularly threatening to elite and property interests.

In this context of recession and sociopolitical violence, governments were weak, and political arrangements short-lived because decision-makers were trapped in a stalemate. Between 1975 and 1990, competing forces took turns to move policies in different directions. Some opposed neoliberalism, and resisted pressures to restructure the economy, while others attempted to induce market reforms (Ortiz de Zevallos 1989, Gonzales de Oliart and Samamé 1991). Business was partially responsible for policy pendularity. It was trapped in sectoral clashes over policy changes, and competing for corruptive forms of rent seeking.

Policy pendularity was initiated after Velasco's downfall. When the economic crisis erupted in 1976, the government attempted twice, in early 1976 and mid 1977, to adopt short-lived stabilization plans. Resistance in the government (the military), and a wave of strikes and social movements against it, prevented its full implementation. In May 1978, once Morales Bermúdez gathered enough strength to purge the government of radical military officers, and confront by force the labor union movement, the likelihood of policy stability improved for a while. The adjustment plan, negotiated with the International Monetary Fund (IMF) and consulted with big business, was implemented despite labor resistance. But when the military withdrew from power, democratic participation, and a continuing recession, made even more unpredictable the prospects of neoliberal policy implementation. When Fernando Belaúnde campaigned for the presidency in 1980, he offered populist programs to generate employment opportunities and privatization policies. Once in power, Belaunde endorsed the type of free-market restructuring advocated by the IMF without any consultation process, a decision that divided business interests. Three years later, during the 1983 recession, in a context of growing opposition from his own party and civil society, Belaúnde abandoned neoliberalism and attempted to rearrange relations

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ransoms. The Shining Path demanded protection money to small and medium-sized firms. On the Shining Path, see Palmer (1992). Revolutionary violence aimed at economic elites has not been sufficiently studied.

with business. The shift to heterodox policies accelerated after the 1985 general elections. The García government adopted a set of protectionist, nationalist, and demand-stimulation policies. His plan was to bail out domestic investors and limit external debt payments. Increased fiscal resources could be used to reactivate the domestic economy and create positive conditions for private investors. The reactivation plan brought a short-lived bonanza. However, despite the policy incentives, investment in new plants was not implemented at the pace and scale the government expected. The government's disappointment with big investors led to a sudden policy shift. In July 28 1987, the president announced the nationalization of the banking sector in order to "democratize credit." Given the fact that bank nationalization failed, the fiscal crisis worsened, and private investment stalled, what followed was a generalized recession. From then on and until 1990 several stabilization plans adopted to cope with the crisis failed to produce any results. Business uncertainty at this point reached its highest level: expropriatory fears, constant cabinet changes, intense policy pendularity, and escalating sociopolitical violence, all occurring at a time of economic stagnation and hyperinflation. The consequence was a total loss of business confidence on government, a situation that accelerated capital flight, aggravated deinvestment, and provoked a wave of business migration to North America and neighboring countries.[12]

Policy pendularity in this period was combined with constant cabinet changes, two interrelated factors that prevented a normalization of business-government relations.[13] The process can be followed by looking at the nomination rate of the key cabinet position, the Ministry of Economy and Finance (MEF). Between 1976 and 1990 MEF occupants lasted little more than a year. Given the fact that MEF was instrumental in designing and implementing tax and budget policies, firms and trade associations struggled hard to reestablish contacts with the new policy leaders and their advisory boards that came and went with the ministers. Political

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12. Between July 1987 and 1988, more than 230,000 Peruvians, mostly upper and middle class, migrated to neighboring countries and the U.S. More than 50 percent of the migrants had higher education (*El Comercio*, October 9, 1990). See also *l Quehacer* (May-June 1988, 74-95)

13. According to McIntyre, rapid turnover of personnel at top levels generate discontinuity (1983, 39). Short tenure occurring in a context of economic crisis and ungovernability quickly shorten the horizons of investors and prevent strategic planning.

instability thus impeded the normalization of policy bargaining mechanisms.[14]

The difficulties to normalize business-government relations, and the political failure to control more effectively the sources of uncertainty, were also a result of deep divisions within the business class. The only policy domain were business influence was initially capable of inducing substantive policy modifications was on labor issues and property laws. A strong degree of consensus within business, and between business and the 1975 military government, changes also supported by the IMF, explains this rather unusual outcome. As part of this process, the Morales Bermúdez government phased out the agrarian reform, changed and limited the nature of the labor communities, controlled labor unionism, and partially modified the labor stability law more accordingly to business demands, a trend that continued with president Belaúnde. On the rest of policy domains, business stances were varied and policy pendularity high.[15] On issues such as the scope and speed of privatization policies, deregulation, and the government's role to give special treatment to sectors considered critical to the success of the different economic plans, business was divided and economic sectors clashed on policy orientations. Industrialists opposed the first turn to orthodox policies in 1978 and, in alliance with non-traditional exporters (who lost a tax rebate subsidy, CERTEX, in 1980), criticized the deepening of neoliberalism advocated by the Belaúnde administration until 1983. Then, in the midst of a recession, the government abandoned policy orthodoxy and moved in the direction of adopting short-term "reactivation" policies. The shift was supported by industrialists (benefitting from higher tariffs), by heavily indebted mine-owners (bailed out by the government), and bankers (threatened by a wave of bankruptcies). When García came to power in 1985, the system of policy controls and subsidies benefited bankers (lower taxes), industrialists (higher tariffs), non-traditional exporters (a more generous tax rebate was reinstated), and even importers (through multiple exchange rates and cheap dollars sold by the Central Bank). Special incentives (lower taxes, cheap credit) were designed to lure conglomerates to initiate large investment projects (Campodónico, Castillo and Quispe 1994,

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14. Instability was facilitated by a systemic trait of Peruvian politics: discretionary executive powers. Most policy decisions were designed and implemented by MEF thanks to provisions approved in the 1978 constitution. Congress can authorize the executive the use of "extraordinary powers" to legislate by decree (de Soto 1989, 196).

15. The author closely followed up events in this period by attending several CADE conferences.

310-313; Durand 1994, 136-141). Traditional exporters and multinationals were against controllist, populits policies. After the 1987 nationalization attempt, relations with business were broken and most trade associations (with the exception of small-business associations) opposed the government. Business unity however, was weakened by rent seeking. Despite the bank nationalization attempt, several conglomerates (Nicolini, Cogorno, Ferreyros, Romero) avoided an open confrontation with García.[16] Conglomerates dealt with state agencies on a regular basis to obtain favorable treatment. In the last years of the García government, corruption at high levels, including the Central Bank, the most prestigious institution, was rampant. Thanks to it, corrupt policy elites and some firms profited extensively.[17]

It is interesting to point out that although García's policy orientation favored several business sectors, and more concretely the conglomerates, the strongest investors, governmental generosity did not dissipate distrust. APRA was perceived as a pro-labor populist party. Business leaders who knew the president considered him a capricious politician.[18] President García's formula toward business, "leave politics to me," generated concern even among business leaders closely related to him, because it implied lack of consultation on political matters (*The Peru Report* September 1987, 2). Policies, thus, could not help create a more positive investment climate because confidence on government was low.[19] Soon after, in July 1987, president García

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16. The most clear manifestation of this unwillingness to confront the president is the interview given by Dionisio Romero, CEO of Banco de Credito, the first in line to be expropriated. See interview in *La República* (August 14 1987, 17-18).

17. President García and several cabinet members were accused of corruption by the press and the Congress. For a detailed account of these accusations, see Cateriano (1994).

18. Felipe Ortiz de Zeballos, a business consultant who collaborated with García during the 1985 campaign, describes the president in the following way: "As a politician, he is unpredictable, a complex mixture of a rational statesman and emotional revolutionary" (1989, 19).

19. Another important gap existed between policy design and policy implementation. Juan F. Raffo, one of the closest collaborators of the García government, a member of the group of "12 apostles" that enjoyed promotional investment policies tailored for conglomerates, showed little confidence on García's governmental plans. Lack of consistency between general policy plans and specific policy implementation was his main concern: "People hear this marvelous stuff about concertation and the Investment Fund, but when you go to the Development Funding Corporation and the Central Bank you get a negative response" (Thorp and Durand 1997, 228). Leaders of the Confederation of Private Entrepreneurial Institutions (CONFIEP), an encompassing association formed in late 1984, also sensed policy inconsistencies: "frequent meetings were held with the government's economic team. Unfortunately, ... the government limited itself to explaining measures and did not listen to important practical suggestions presented by the

suddenly decided to nationalize the financial sector, a decision that confirmed business fears.

The nationalization attempt further politicized business elites and helped spark a collective business counteroffensive that succeeded in stopping its implementation. CONFIEP, the business confederation, effectively used several mechanisms to stop it: pressure on congress, an aggressive media campaign, lawsuits, street demonstrations, and disclosure of governmental scandals.[20] In 1988, president García abandoned the idea to nationalize the banks and business scored its major political victory. The breakdown of relations with APRA and president García helped accelerate business ideological reconversion to neoliberalism.

The Internal Transformation of Business

In the early 1990s, a pattern of negative, unstable, occasionally antagonistic, often collusive business-government relations, was reversed. Higher confidence on government decisions and policy stability helped generate positive conditions for economic growth. Two major sets of factors account for this transformation. First, the internal restructuring of business, both economically and organizationally. Second, the emergence of an independent caudillo, Fujimori, who ended the political stalemate typical of the 1980s and established a lasting pact with business.

The internal restructuring of business was a gradual process induced by market forces and the continuing recession. In the 1970s, manufacturers were the driving force of the import-substitution industrialization model advocated by the military government (Anaya 1974). In contrast, exporters (mining, fishing, oil) and import/export merchants played a secondary role. In the early 1990s, after 15 years of continuing crisis, and several attempts to liberalize the economy, the internal power map of domestic business changed. Power gradually shifted back toward traditional exporters, non traditional exporters, importers, and the newly formed diversified banking conglomerates. A new pro-exporting coalition gradually developed with the support of

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Confederation leaders" (CONFIEP 1987, 50).

20. A detailed chronology of the bank take-over illustrates the political dynamics of this period. See *Andean Report* (August 1987, 149 and ff.).

external organizations (IMF and its sister organization, the World Bank) and international banks. Both exporters and external forces questioned the old model, advocated adjustment policies, debt payment, and free-market restructuring. The conglomerates were in a peculiar position. Thanks to their quasimonopolic role in the national economy, privileged access to financial resources, greater political influence, and rent-seeking versatility, conglomerates could more easily restructure their multifirm organizations to the new economic order (Campodónico, Castillo and Quispe 1994, 137 and ff; Durand 1998, 111-167). This transition greatly contributed to broaden business support to neoliberalism.

Another critical development was the strengthening of intrabusiness linkages through capital market operations. Since the mid 1970s, a closer interconnection among capitalists was developed through the Lima stock exchange (Soberón 1987). Between 1980 and 1984, the volume of shares negotiated passed from US$ 144 million in 1980 to US$ 256 million in 1986, but halted in 1987 and 1989 because of the bank nationalization. In 1989 and 1990, when president García was ending his term, volumes negotiated jumped to US$ 651 and US$ 591 million respectively (Webb and Fernández Baca 1992, 1007). The complex web that linked elite families and shareholders of different size are evident in the financial sector. In 1987, Banco de Credito's largest shareholder was Uberseenbank A.G. (13.6 percent). Major shareholders comprised seven elites families (Brescia, Ferreyros, Nicolini, Massa, Raffo, Romero, Verme) representing 53.3 percent of the shares. A third of the shares was in the hands of 466 shareholders, and the remaining 10 percent disseminated among 5,734 small shareholders.[21] Banco Wiese, the second largest, was largely owned by two families with kinship ties (Wiese and Arias Schreiber), but also included four other families (Berckemeyer, Picasso, Velarde, Letts) and comprised a total of 549 shareholders. Being the flagship of multifirm empires, these two banking conglomerates controlled shares in 14 and 25 firms respectively. The major eight insurance companies were also controlled by the same conglomerates who owned the banks (Brescia, Nicolini, Picasso, Olaechea, Romero, Wiese) and comprised a total of 1,307 shareholders. These insurance companies owned shares, in percentages oscillating from 90 percent to five percent, in

[21]. Information on shareholders of banks and insurance companies comes from the Superintendency of Banks. See also Malpica (1989).

four real estate companies, eleven manufacturing firms, three construction companies and ten others in the service sector (*1/2 de Cambio,* September 1987, 12).

The ongoing recession initiated in 1976 also generated new patterns of social change that strengthened capitalist interests. Unemployment forced the middle class and the urban poor to seek new alternatives through the creation of informal and small businesses (de Soto 1989). The incorporation of these two groups in a market economy broadened the pro-business social base as the "popular" entrepreneurs became carriers of market values. The prolongued recession also modified the landscape of economic interest groups. While labor unions shrunk in membership, informal and formal small business associations bloomed. A Federation of Small Industries, FENAPI, led by Máximo San Román, formed in 1984 as a peak association representing the emerging popular business sector (*Quehacer,* November-December 1987, 27-31).

In the same period, as a parallel development, business institutions representing the economic elites experimented a leap forward. CONFIEP became the official voice of the private sector during the bank nationalization, the collective shield that effectively protected business property rights. As of late 1987, in response to the nationalization threat, it quickly expanded its representational role from seven to 22 trade associations. In 1997, CONFIEP incorporated into its umbrella CONAMYPE, a confederation of small business federations, gaining broader representational power, a signal the economic elites were articulating themselves to the "popular" entrepreneurs. CONFIEP quickly matured over the years. It became capable of mediating sectoral disputes and of generating a wider business consensus around key issues. It also became professionalized thanks to the formation of specialized committees and the hiring of policy experts. This process accelerated in 1995 when CONFIEP and the leading conglomerates helped finance the formation of a think tank, the Political Economy Institute (IPE) (*Presencia,* March-April 1994, 8). The committees and IPE facilitated the elaboration of policy recommendations and sharpened the negotiating skills of business leaders to discuss both short- and long-term issues.

These combination of factors (the integration of the business class, its rupture with populism and the formation of an exporting coalition, business broader acceptance of neoliberalism, and the development of an encompassing association), all helped to reverse the centrifugal tendencies that prevailed during the 1970s and 1980s. Rather then being thorn by policy polarization, business associations and firms became more concerned about negotiating its adaptation to the new economic model. In the 1990s, relations with government passed through different channels (firms and trade associations, and the CADE conferences). CONFIEP leaders met regularly with high governmental circles in representation of the private sector as a whole, in a manner that complemented rather than antagonized diverse business interests. In 1987 collective action and business politicization stopped for the first time the implementation of expropriatory policies. Business was able to control this source of uncertainty. Policy pendularity and broken relations with the government continued until 1990. When Fujimori was elected, business was better prepared to pact, to support policy stability, and to establish collaborative relations with government.

Business Under Fujimori: 1990-2000

Business's political strategy in early 1990 centered around support to Mario Vargas Llosa, head of FREDEMO, a pro-business, conservative coalition formed during the 1987 battle of the banks. Key business leaders, including two former CONFIEP presidents (Ricardo Vega Llona and Miguel Vega Alvear) belonged to Libertad, Vargas Llosa's movement, and run successfully as senatorial candidates. At this time, most business people endorsed Vargas Llosa and his neoliberal platform, an indication of a broader consensus on policy orientations. Fujimori only became the center of business attention in April 1990, when he surprisingly obtained 25 percent of the votes in the first round of elections (Tuesta 1994, 155). Contacts with business leaders not openly related to FREDEMO were established in an effort to rearrange the coalitional strategy in case Vargas Llosa lost. CONFIEP's image of being a neutral and collective representative of business facilitated the encounter. Fujimori, an unknown, unexperienced, independent candidate, with no organized base of support, badly needed business backing. He already had the support of FENAPI and small businesses through San Román, his vicepresidential partner, and was willing to extend his reach to the economic elites represented by CONFIEP.[22] To accomplish this goal, Fujimori

[22]. During the 1992 coup San Román broke relations with Fujimori. In the 1995 elections, Fujimori chose Alfredo Márquez, a "popular" entrepreneur who became SNI leader, as his running mate. Márquez contacted small

quickly offered assurances that his first priority was the restoration of order and the promotion of economic progress. Thanks to the support of anti-FREDEMO forces, Fujimori was elected with 62 percent of the votes in the June runoff elections. Immediately after, Fujimori contacted the CEOs of the leading conglomerates and CONFIEP directors. A pact to restore the connection between business and government lost in 1968 was in the making, a process that needs to be more carefully analyzed.

According to Alfredo Tello, CONFIEP's manager in 1994, "CONFIEP's board of directors went to visit Fujimori after the election and offered to collaborate. A discussion about changes followed and we agreed to support the government. Fujimori offered us participation in cabinet positions."[23] President Fujimori's speeches in CADE'90 and CADE'91 helped enlarged business support to the new government. In CADE'90, Fujimori's first speech to the business community, he described how the connection developed: "During the campaign, after the election, and later on, once in office, I have established contact with entrepreneurs many times with the purpose of knowing what they think on the possible alternatives our country has to overcome the grave social, economic and political crisis" (IPAE 1990, 251). Fujimori also emphasized that presidential powers could be used on behalf of business interests: "I am in favor of giving the state the authority it needs. I do not conceive the state as controlist or interventionist, but as promoter of private productive activities....If to some this sounds as authoritarian it is because they are too used to chaos and ungovernability...." (IPAE 1990, 252). The question of how to obtain the power necessary to put forward his agenda became clear by late 1991. At that time, Fujimori was already confronting the Congress and the courts for blocking the economic reforms, and criticizing the latter for being corrupt and soft on terrorism. In CADE '91, a more confident Fujimori (inflation and the fiscal deficit were being reduced and his approval ratings improving), unveiled a semi-authoritarian plan to face the crisis: "What Peru might need is an emperor. One that could spend time solving problems for at least ten years."[24] The understanding between

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business associations and served as a liaison with the private sector.

[23] Interview, Lima, July 15, 1995.

[24]. For a critical reaction against this declaration, see *OIGA* (April 20, 1992, 18.)

business and government was expressed in the following way: "We have cleared the road. This has been both tough and costly, but the obstacles have been removed. The government has done its part and it is now time for you to assume a responsibility. That responsibility must be translated into confidence to assume risks, to initiate all those investment projects that you surely had in mind years ago" (IPAE 1991, 476). The empathy between the business agenda and the government is quite evident. They both coincided in the need to generate governability and positive political conditions for growth. The formula to proceed was semi-authoritarian because "democracy" for business, Fujimori, and even public opinion, could not generate "order."[25] As Tello remarked in an interview, "Yes, we need democracy but first lets put order."

As time passed, and Fujimori gradually consolidated a governmental coalition, business relations with government were normalized around institutional channels. As in the past, the CADE's, provided a much needed space to present governmental programs and discuss policy issues. CONFIEP, however, played a more important role. In 1991, thanks to generous USAID funding, CONFIEP accepted Fujimori's gesture to participate in policy changes. Policy experts hired by CONFIEP worked together with local and international policy experts to elaborate a wave of legislative changes: 126 executive decrees were approved in four months (Torres y Torres Lara 1992, 155-156). The legislative changes aimed at empowering the private sector and at stimulating investment in a broad range of policy domains: promotion of foreign investment (DL 662), private investment in state firms (DL 647), infrastructure (DL 758), agriculture (DL 653), mining (DL 708), promotion of international trade (DL 668), renovation of the financial system (DL 637), changes in employment legislation (DL 728), and the opening of the pension fund system to private investors (DL 252987) (Boza 1994, 21-31). Other decisions, equally important to business interests, broadened executive powers to fight terrorism (Rospigliosi 1996, 55-58). This was the first time in several decades where some degree of collaboration to shape

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[25]. For a discussion on governability, see the forum organized by INTERCENTROS (*Página Libre*, August 1990, 17-23.) Julio Cotler, one of the discussants, centers the alternatives around a truce and a pacting process, and asks himself "who pacts and on what we pact?" At the end, it was Fujimori, the military and business who pacted, and they did it on an agenda of "order and progress." For a critique on Fujimori's semi-authoritarian government, see Cotler (1994) and Cameron (1998).

policy decisions between policy elites and business experts took place.[26] Since business leaders and trade associations were consulted and collaborated with policy experts, the measures met less resistance. In the case of industrialists, the segment most opposed to neoliberalism because it lost subsidies, and was forced to compete with foreign capital and imports, tensions were reduce through dialoguing. In 1991, a meeting with Minister Boloña took place at SNI headquarters. Industrialists made clear they supported the economic orientation, but complained about excessive taxes and rigid labor legislation, two areas where the government promised changes (*Caretas*, November 11, 1991).[27] To the rest of business interests, pacting assured more access at higher governmental levels on critical macroeconomic policy decisions, and assurances that implementation could be discussed and eventually negotiated. Business leaders occasionally complained about the insulation of some key state agencies (SUNAT, the tax administration), lack of effective dialogue with top policy makers, and excessive influence of IMF policy experts. Nevertheless, they acknowledged that access considerably improved compared to past governments (*Cuestión de Estado* 1994, 50-51). In case of policy disagreements over taxes, CONFIEP managed to organize events to discuss major policy issues with top policy makers and gradually generate the conditions to adjust policies (CONFIEP 1995; Durand and Thorp 1998, 145-146). In another front, political violence, the governmental approach to wage a war against terrorism counted with broad business support. CONFIEP, again, participated in shaping the new policy course coordinating firm donations to create a *bolsa*, a special fund privately given to the presidency to fight terrorism.[28]

During the Fujimori administration, rent-seeking as a form of business-government

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26. The literature on the policy-making process disagrees on the extent of business participation. Some scholars consider business almost irrelevant in terms of policy formulation (Bates and Krueger 1993, Haggard and Kauffman 1995). Others argue that, even if business elites are not at center stage, they do participate in agenda-setting and policy evaluation (Durand and Silva 1998).

27. SNI always opposed a drastic, unilateral reduction of trade tariffs *OIGA* (December 30, 1991, 27). In July 1990, Peru had 56 import rates that oscillated from 15 to 108 percent; 539 items were prohibited. Fujimori eliminated the prohibitions and simplified the system to two rates, 15 and 25 percent (Boza 1994, 26-27). As of 1998, SNI still rejected a flat rate, a position the government accepted because "it was better for the government not to create more political problems." See editorial article by Daniel Córdoba (*Expreso*, April 24, 1998).

28. The bolsa directly allocates funds to high government officials. Bolsas have been used to finance coups (1948, 1973), antisubsversive operations (1962, 1991), and, more generally, to guarantee special access to government.

relations based on networking was redefined and became less important. Collusive forms diminished greatly at the rhythm of deregulation and privatization. In some cases, reforms in state agencies (tax administration, customs agency) greatly reduced corruption and forced business to comply with the law instead of bargaining individually to evade or postpone tax payments (Durand and Thorp 1998). Tax simplification led to the elimination of more than 50 promotional taxes adopted under different populist administrations. At the same time, tax evasion and fraud, for the first time, became severely sanctioned. In 1992, Luis Leon Rupp, a typical rent-seeker, was penalized for tax evasion. Rupp bitterly complained against the tax administration and the new policy orientation: "SUNAT's current powers are excessive....Every Peruvian has the obligation to pay taxes, but the state has obligations too. At that period [1991, when his firm was sanctioned] the state did not fulfill its obligations in respect to citizen's security. The state [should] protect depressed areas, give tax breaks or subsidies to those who invest in otherwise unattractive areas. If an industry is in crisis, you exonerate it from a series of burdens (*The Peru Report*, August 1996, 111-12). Rupp's opinions, however, were isolated complaints. For most business leaders and trade associations the times of subsidies were over. Resistance to the tax reform was organized along new lines: reduction of tax rates in accordance with the new macroeconomic orientations.

New forms of rent-seeking, in particular the privatization of state-owned firms, was conducted in a way that reduced corruptive forms of networking. A special commission (CEPRI) was set up to define clear rules and control the bidding process. CEPRI succeeded in creating an atmosphere that stimulated competitiveness and promoted private investment (Alvarez Rodrich 1991). The government placed the entire state sector, 224 companies in total, on the block. By 1996, more than a 150 were sold for a total of US$ 7,022 million (*SBC Warburg Dillon Read*, October 17, 1997, 13). This decision empowered the private sector as an economic agent to levels similar to the pre Velasco era.[29] Old forms of rent-seeking such as the granting of favors to public work contractors, continued, but in a reduced scale. This form of rent-seeking favored some developers, in particular J.J.C., the family company formed by Jorge Camet, who became Minister

[29]. Privatization also stimulated the formation of giant companies where domestic conglomerates and multinationals shared the ownership. For information on this forms of association, see Durand (1997, 132-167).

of Economy and Finance (January 1982-May 1998). Consequently, he was perceived more as a minister interested in developing the family firm and the construction sector than as a business community leader.[30] Although Camet's privileges generated sectoral jealousies, and a dispute inside CONFIEP to control his influence, the cleavage was not strong enough to factionalize the private sector (*Expreso*, March 1998; *La República*, March 8, 1998). Despite Camet's preferences for developers and his family company, he managed to defend private interests in some policy domains (taxes). During his term, business established a close, stable relationship with the neoliberal policy-makers took place. Closer integration occurred thanks to the fusion of elites between policy experts and domestic capitalists that intensified in the 1990s. A case in point, among others, is that of Roberto Abussada, the leading policy advisor during Fujimori's two consecutive administrations. Abussada worked both as Camet's advisor and CEO of Aeroperu, a privatized company. In 1998, he joined the board of directors of Graña y Montero, Peru's second largest construction conglomerate (*Caretas* April 8, 1998). Camet also had close connections with banking conglomerates. Thanks to a *bolsa* provided by the bankers, the minister could pay an extra salary to a selected group of viceministers and advisors. In this way, a more institutionalized form of rent-seeking, and a less primitive form of corruption, was established. Through several mechanisms, minister Camet articulated a network of relations with different economic interests: his family, the construction sector, the bankers, CONFIEP leaders, and neoliberal policy makers.

The permanent inclusion of business leaders in cabinet positions also symbolized a stable link with government. From 1990 to 1998, all MEF ministers were, since the beginning, business people. Camet stayed in that position longer than any other minister: six years and four months. The Ministry of Industry also linked business and government. From 1990 on, the ministry was headed by economists linked to the private sector or leaders of trade associations (Pennano, Camet, before he headed MEF, Bustamante, Canale). Other executive positions were occasionally occupied by business people (Office of Prime Minister, Ministry of Foreign Relations, National Social Compensation Fund, Peruvian Sports Institute).

30. In 1987 J.J.C. ranked 1,285 among Peru's largest firms. In 1993, two years after Camet's nomination as minister, it was ranked among the top 70 (*Caretas*, January 29, 1997).

In sum, business participation in the governmental coalition, an enhanced role of the encompassing association, a diminished role of populist rent-seeking and corruption, the formation of inclusive private networks around MEF, and a steady policy course, all greatly reduced the possibility of hostile governmental decisions and policy pendularity. Trust in government also increased thanks to Fujimori’s leadership qualities, his sense of command in times of crisis, his commitment to honor agreements, and his conviction that private sector support was critical to resume growth.[31] Fujimori's coalition solidified because, in addition to business, military, and external support, he could managed to count with favorable public opinion and multiclass electoral backing (Conaghan 1995, Roberts 1995, Dietz and Dugan 1996, Stokes 1996). The coalition was solid enough to impose the 1992 coup, a decision that broke congressional gridlock and helped the restructuring of the state and the legal system along capitalist lines (McClintock 1996, 57-60; Cameron 1998). Fujimori's popular appeal, together with the ideological shift in favor of market economics, also helped ameliorate the people's opposition to policies that favored elite interests. The caudillo, thus, provided a link with the poor majorities that business lacked.

The turning point of this gradual consolidation of presidential power was the 1992 presidential coup. CONFIEP was the only major interest group to openly manifest support for the coup, arguing that Peru needed to "reestablish order and morality in the short-run, to make possible the restoration of constitutional legality" (*La República*, April 10, 1992).[32] In 1992, this stance was seen as an extraordinary albeit temporary measure to cope with a situation of chaos. When a few months after the coup the Shining Path suffered a critical blow (when Abimael Guzmán, its leader, was captured), the coup was legitimized as a necessary step toward order.

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31. Business confidence is best exemplified by the election of Fujimori as “man of the year” by a *Latin Finance* readers poll. The magazine stated his admiration for Fujimori: "With the determination of a general and a damm-the-torpedoes attitude about opinions of outsiders, the new president set about to forcibly resuscitate the nation. In less than four years, he worked to undo the damage built over the previous two decades. Fujimori's success at changing from financial outcast to foreign investment darling is unprecedented" (April 1994, 25.)

32. Support was contingent upon Boloña's permanence in the cabinet. A few days after the coup, CONFIEP published a public communique endorsing Boloña and arguing that his presence "was indispensable to maintain internal confidence" (*El Comercio*, April 22, 1992, 5). He was replaced in January 1993 by Camet, CONFIEP's former president.

In less than three years Fujimori succeeded in consolidating the government and restoring the kind of political order needed to promote growth by solving Peru's most pressing problems: fiscal deficit, stagnation, hyperinflation, deinvestment, and terrorism. By 1994, the turnaround was evident. Sustained economic recovery started in the second half of 1992, after the coup. GDP went up to 8.5 percent annually over 1993-1995. Tax collection as a percentage of the GDP went up from 4.5 percent in the first semester of 1991 to 14 percent in 1995 (Durand and Thorp 1998, 144). The combined public sector deficit declined from 6.5 percent of GDP in 1990 to about 3 percent over 1991-1994. Peru moved from being a net exporter of capital to net recipient. Short term capital inflows stood at US$ 6 billion over 1991-1994. Inflation slowed from 7,649 percent a year in 1990 to 40 percent in 1994 and about 11 percent in 1995 (World Bank 1996; Wise 1997). The death toll of political victims dropped from 1,500 in 1992 to 750 in 1993 (*New York Times*, February 22, 1994). As the World Bank, one of the supporters of Fujimori's policies, stated: "It was the finale of 30 years of misguided policies, economic mismanagement, and since 1980 rampant and escalating terrorism" (World Bank 1996). With these accomplishments, Fujimori won the 1995 election by a land slide: 65 percent of the votes. Business again played a critical role as a key and generous provider of campaign funds. At the time of Fujimori's reelection, leaders of all trade associations and CONFIEP publicly agreed that his administration contributed to generate "confidence and optimism" among investors (*El Comercio*, April 10, 1; 1995; *Expreso*, April 11 1995). This time the governmental change did not generate any uncertainty, a problem that plagued past administrations. With the 1995 electoral victory, Fujimori assured its continuity in power until the year 2000 with the possibility of extending his rule five more years.

Business Political Dilemmas

Business choices considerably influenced Peru's political outcomes when in April 1992 the presidential coup shifted Peruvian democracy back to authoritarianism. Yet business was also influential in limiting the duration of the 1992 authoritarian regime and, under conditions of electoral competition, contributed in 1995 to Fujimori's reelection. In 1992, CONFIEP and trade associations insisted in calling for elections, fearing isolation from the international community and, to a lesser extent, extreme concentration of presidential powers.[33] These hesitant attitude toward democracy changed over the years thanks to the beneficial effects of normal, stable relations with government. In the 2000 elections, business, once more, will have to face the dilemma of whether to support *continuismo* or favor democratic alternation.

In 1997, Fujimori planned to run one more time and expand his term five more years (2000-2005). In 1996, Congress authorized an interpretation of the 1993 constitution favorable to Fujimori's reelection. The decision was approved by a Supreme Court restructured by the Congress, who followed instructions from the president. In September 1997, Fujimori made a revealing statement about continuity as a cure for instability: "What Peru needs is a symbol that represents the system, an engine, a conductor. We have to see if any figure that can continue [with the process] will emerge. To me what is important is continuity. One of the serious errors in Latin America is the pendular movement of governmental programs. That is what we are trying to correct. We want continuity, persistence (*Expreso*, September 15, 1997).

Fujimori's opinion, typical of caudillo rule, who always aspire to continuity, created a dilemma for business. In 1998, this tension was already visible when elections in CONFIEP polarized the confederation into pro-Camet and "independent" candidates. Several trade associations (SNI and ADEX) wanted to distance themselves from the government (*Gestión*, March 30, 1998). This event occurred at a time when *fujimorismo* (the caudillo and his inner circle of followers) began to show a dangerous feature. Two businessman (Ivcher Baruch and Jaime Mur) faced authoritarian repression because they dared to criticize Vladimiro Montesinos, Fujimori's feared and secretive security advisor, and arbitrary courts decisions. These two cases created increased uneasiness among business about the dangers of authoritarianism (*Gestión*, March 30, 1998). Although Montesino's managed to attend a meeting with CONFIEP to address national security issues and calm down their fears, business remained concerned about possible excesses.

For some business people, the caudillo is still indispensable to guarantee the institutionalization of business-government relations and to assure long-term growth. Others have

33. A business leader considered Fujimori's increased concentration of powers as the "only problem" of his 1995 victory. Interview, Lima, August 1995.

linked themselves to the new policy elites and are unwilling to risk any changes. As long as the caudillo remains popular, and other candidates question the new role of the private sector, the choice for some business people is continuismo. For others, Fujimori's increased powers (and those of the military and the secret service, two pillars of the Fujimori regime) are potentially threatening. In addition, Fujimori's appeal will most likely wear out as time passes.[34] At this point, the trial marriage could come to an end.

Besides these considerations, it must be taken into account that the conditions of the partnership has changed over the years. In 1992 and 1995 business people, with very few exceptions, were convinced "We need a Pinochet and we found one." In the late 1990s, business seems less dependent on caudillo support. The changes induced by Fujimori's stable period can contribute to generate better conditions for a democratic renovation (alternation). The restructuring of business-government relations runs more along institutional lines (CONFIEP and modernized state agencies) and less on collusive forms of rents-seeking. In addition, the state is more structurally dependent on capital than in the past. This situation is less likely to be deeply modified by a new president because it involves a high political cost (deinvestment, business political opposition). The correlation of forces in civil society and the ideological landscape have also changed, helping broaden support to free-market policies. Populist and socialist parties have significantly lost ground, and the poor majorities and the labor unions are today less powerful and confrontational. In the post crisis period, business has less to fear from democratic alternation because most sources of uncertainty are controlled or have been eradicated. Those factors may help busines make a stronger commitment to democracy.

Comparisons and Conclusions

In this paper, I have studied business-government relations under conditions of extreme political uncertainty. The analysis of the Peruvian case reveals how between 1968 and 1990 several factors negatively affected business interests in the short- and long-term. Hostile executive

[34]. A caudillo can rule until his powers remain strong (Smith 1992, 893).

decisions were taken by both military and democratic regimes. Governments changed and adopted different policy doctrines. A political stalemate between competing forces and the ongoing recession greatly contributed to extreme policy pendularity and constant cabinet changes. This situation limited the governmental ability to deal with increased forms of social and political violence. All these occurred at a time when business lost control of the political process. Their access and influence to the state was unstable and varied, and policy elites could act without facing effective countervailing pressure from business. In 1990, in the midst of a crisis, a pro-business caudillo reestablished order and reversed the pattern of negative, unstable business-government relations. This process occurred at the expense of democratization, but was able to generate conditions for economic growth and institutionalize a more collaborative, less collusive pattern of business-government relations.

The study of the Peruvian case demonstrates the existence of several and complexly connected forms of political uncertainty. Having understood its dynamics, it is convenient to illustrate the peculiarities of the Peruvian case and underline the conclusions of this paper with a brief comparative analysis. As table 1 suggests, Peru, compared to Bolivia, Chile and Colombia, ranks the highest in terms of political uncertainty because all forms were manifested in the period under study.[35]

Table 1. Peru and Neighboring Countries: Comparing Uncertainty.

Country	VIOLENCE		REGIME PENDULARITY	POLICY PENDULARITY	HOSTILE EXECUTIVE DECISIONS
	social	political			
Peru	moderate-high*	high	moderate	high	high
Bolivia	moderate	moderate	high**	moderate	moderate
Colombia	high	high	low	low	low
Chile	low	high in 70s***	low	moderate	high-low

[35]. Conaghan and Malloy (1994) analyze the similarities of business-government relations under conditions of "unsettled democracies" in the Central Andes. This paper sees Peru as a more extreme case of business uncertainty.

* Until 1980, political violence in Peru was moderate.
** Bolivia suffered from policy pendularity mostly because of constant regime changes. This phenomenon, however, became particularly intense during the Siles Suazo administration (1982-1986).
*** Chile manifested high levels of political violence during the Allende administration (1970-1973).

In Peru, unlike other neighboring countries, hostile executive decisions, one key source of political uncertainty, were quite more frequent (under Velasco and García) and intense. In Chile, expropriations, confiscations, or forms of state interventionism that are negative to business interests occurred only under Allende, in the 1970-1973 period. Bolivia suffered intensely this phenomena after the 1952 revolution, but no episodes of this kind emerged later. In Colombia, business elites have managed to retain political influence and have not experienced any major episode of this type.

In terms of policy pendularity, Peru experienced it intensely for more than a decade, until Fujimori stopped the pendulum in 1990. Bolivia had a serious episode of policy pendularity during the Siles Suazo administration (1982-1985), a leftist government who rejected external debt payments and supported labor unionism. Bolivia, however, was able stop the pendulum in 1985, and adopt neoliberal policies earlier than Peru, a case of enduring populism (Mayorga 1997). Colombia, as already explained, is a remarkable case of policy stability (Thorp and Durand 1997). A similar case is Chile, where policies swung for three years in a direction that caused business anxiety only in the 1970s (Frei and Allende), until Pinochet set a firm policy course.

Violence in its varied forms (political and non-political) is certainly much higher and constant in Colombia, but not to a point where it has halted private investment.[36] The threat has not been so intense for business because they have managed to remain closely linked to all governments, liberal and conservative. Political violence in Bolivia has been moderate (with the

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[36]. An empirical study of political instability published in 1968 (Bwy) considers Peru an intermediate case of sociopolitical violence (assassinations, demonstrations, strikes, riots, street crime). In the 1980s, violence sharply increased in Peru, but Colombia continued to be more violent (*Caretas*, April 3, 1997). For indicators of violence (murder or homicides) in the region, see Archer (1984). For a comparison of violence in Peru and Bolivia, see Schmidt and Toranzo (1990). For an analysis of the coexistence of violence with economic growth in Colombia, see Medina (1992).

exception of isolated and failed guerrilla experiences in the 1960s) as well as in Chile (also with the exception of the Allende period). Social violence measured in terms of murder or homicide rates is higher in Bolivia and much lower in Chile. In Peru, both forms of violence suddenly erupted in the 1980s, contributing to elevate sociopolitical instability to unprecedented levels.

In terms of regime pendularity (frequency of coups for the 1968-1998 period), Bolivia is certainly an utmost case since it has experienced eleven episodes. Peru is an intermediate case; it has experienced only three (including Fujimori's self coup). Chile and Colombia are two countries with somehow similar records of political stability. Chile had only one coup for the whole period and none occurred in Colombia.

What this analysis suggests is that Peru is an extreme case of uncertainty because it has experienced all factors that cause business anxiety in a more intense way and for a prolonged period of time. During the García administration it reached its highest expression because three critical forms of political uncertainty were strongly manifested: intense policy pendularity, hostile executive decisions, and unusually high levels of political and social violence. In addition, political uncertainty combined with a deep recession.

Business ability to control uncertainty is a critical variable. In the Peruvian case, business was initially incapable to successfully react to conditions of extreme uncertainty and reverse the pattern of negative business-government relations. Only when Fujimori came to power the Peruvian business class was structurally and politically prepared to support the governing coalition led by a caudillo. These gradual, complex process of internal change began slowly in 1975, at the fall of the Velasco government. Business internal divisions (sectoral clashes and rent-seeking), and lack of an encompassing association, diminished its ability to access and influence the policy process even if the the state became more structurally dependent on capital.

The transformation of business-government relations occurred partially as a result of unifying trends within business and by coincidental political developments, when Fujimori entered the scene and became the center of political power. Business' encounter with the modernizing caudillo, who advocated the need to restore order and favor a more positive investment climate under neoliberal orientations, was understandable. Business desperately needed to establish a pact with a government willing to pursue its agenda and control the different sources of business uncertainty. Fujimori, in turn, also sought business support to stop policy pendularity, and to empower the executive and restore order. The pact was consolidated in the 1992 coup and the 1995 elections. It is at this time that business participation in the cabinet became enhanced and stabilized, and when policy elites fusioned their interests to domestic businesses. In the 1990s, business confidence in government increased, policy pendularity halted, political violence was defeated and, for the first time since 1975, stable conditions for investors were established. The reduction of rent-seeking forms and corruption, and the professionalization of both business associations and key state agencies, helped make business-government relations more stable and transparent.

The normalization of business-government relations involved a high political cost because the 1992 coup reversed the democratization process. The coup, and Fujimori's reelection, empowered the executive and its caudillo. Presidentialism led to the subordination of congress and the court system, facilitated policy changes, and helped restore conditions of governability. That is why in the early 1990s business favored fujimorismo and the continuation of caudillo rule.

The changes induced by fujimorismo (the restoration of order and growth, reduction of rent-seeking, professionalization of state agencies, policy stabilization) may create conditions for greater business support to redemocratization. First, since business-government relations have been normalized and semi-institutionalized, this pattern is more likely to continue with new administrations. Second, the broader acceptance of business ideas and values among political leaders who oppose Fujimori reduces the risk of uncertainty if the government changes hands. Third, the economic and political power of business has increased significantly, a fact that translates into higher bargaining power over politicians and political organizations, and higher influence on the mass media.

A final remark on the question of presidentialism and uncertainty. The Peruvian case indicates that presidentialism as an enduring trait of the political system is not necessarily in itself, as some scholars argue, a main cause of business concern. Under Fujimori, presidentialism provided the basis of a lasting and working pact between business and government. More than presidentialism, what counts is its association with anti-business ideologies and collusive forms of rent-seeking. In the next century, business seems strong enough to limit more effectively abusive executive power. Ideological changes should also contribute to continued policy stability and diminish the risk of hostile executive decisions.

In the final analysis, the question is not so much whether business will contribute to democracy but whether democracy (and the state) can contribute to business interests. It is the nature of the relationship, and how ideology conditions it, rather than traits of one side of the equation, what is key to understand the logic of business uncertainty and its consequences on economic performance.

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