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JOSÉ CARLOS ORIHUELA / JOSÉ IGNACIO TÁVARA
(editores)

PENSAMIENTO ECONÓMICO Y CAMBIO SOCIAL: HOMENAJE A JAVIER IGUÍÑIZ



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José Carlos Orihuela y José Ignacio Távara (editores)

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Av. Universitaria 1801, Lima 32, Perú
Teléfono: (51 1) 626-2650
Fax: (51 1) 626-2913
feditor@pucp.edu.pe
www.fondoeditorial.pucp.edu.pe

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«FLATTENING THE ANDES»: GROWTH POINTS,
SPREAD EFFECTS AND PERVERSE INSTITUTIONS

Maritza Paredes and Rosemary Thorp

Throughout Javier's career his sensitivity to and commitment to the position of the poor and marginalised of the Andes have both been notable. We admire this aspect of his life as an economist, a political actor and a human being. We also admire the optimism which runs through his life and work. In a volume published in the 1990s, «*Aplanar Los Andes*» —Flattening the Andes— he sees very clearly the potential of the Andean highlands, the future of which for him is centred in their cities. Healthy decentralisation policies that can facilitate local economic and political life, can create the «critical mass» in their main cities; this critical mass could take the Andes forward. In an interview in the 1990s, he talks of the point at which local life —political, economic and civic— has enough dynamism that the technical and managerial strong players feel they can stay there and still be connected to the rest of the world —indeed that they can move elsewhere and not feel that it is a definitive departure but that they will return (Iguíñiz, 1998).

We honour this vision, and indeed we share it, and in that spirit we offer the following to this volume in Javier's honour. The paper explores historically what has prevented the spread of development in the highlands, even once a potential «growth point» has arisen¹. Today it is clear that there are growth points, usually regional capitals benefiting from strong primary product growth —typically mining. What is needed for this growth to spread and «flatten the Andes»? We assume Javier's agreement with our obsession —that «flattening» can only be said to occur if highland inequalities are significantly reduced, a challenge which implies taking on group or «horizontal» inequality between regions and between ethnic groups².

Economists focus on demand and supply. What ensures that the potential demand represented by a growth point is indeed directed at the local area? And profoundly, what can allow the supply response? The neo-classical «trickle down» mechanism we know does not work efficiently—but why not? At one level, we need to look at all the reasons why the underpinning institutions needed for a well-functioning market mechanism are either absent or ineffective or perverse. At another,

¹ We draw in part on our earlier work published as *Ethnicity and the Persistence of Inequality: the case of Peru*, Palgrave-Macmillan 2010 (published in Spanish by the Instituto de Estudios Peruanos, as *La etnicidad y la persistencia de la desigualdad*, 2011). We are very grateful to Lorena de la Puente for research assistance.

² See Stewart 2011 for development of the concept of «horizontal» or group inequalities, contrasted with vertical or individual inequalities. In Peru, the definition of such ethnic groups presents a serious challenge for social scientists, for various reasons including denial, constant processes of transformation, and imprecise data and definitions (Thorp and Paredes 2010). But this in no way diminishes the importance of taking such inequalities into account. Scholars are increasingly and creatively revealing how common and internalized are practices of discrimination and marginalisation targeting certain groups. See for instance the interesting work of Francisco Galarza, Liuba Kogan and Gustavo Yamada (2012) who through an experimental study detect sex and ethnic labour discrimination, and the work of Nestor Valdivia (2012) on discrimination in the health sector in the Mantaro Valley (2012).

we need to look at why collective political action does not succeed in pressing for such institutions.

The «underpinning institutions» cover a huge spectrum: everything from the physical dimensions such as the institutions to provide and regulate transport, to the institutions which need to be absent, or at least diminished —e.g. informal institutions of cultures of discrimination. On the positive side, institutions are needed to create, integrate and regulate markets, by providing flows of information and goods and enabling supplies of factors of production —credit being fundamental. Institutions are needed to underpin economic activity, e.g. by the rule of law and a reasonable system of justice; and institutions are needed to facilitate supply response through a wide-ranging building of capacities.

On the side of the «absences», in our historical work we were concerned about the need for the elimination (or at least significant reduction) of institutions that prevent such flows or capacity-building, for example power structures that prevent the building of schools, or allow teacher attitudes that prevent children learning. We noted the impact of institutions disabling response, such as a contract binding a person to work to repay debt; informal institutions such as a culture of discrimination leading to the internalisation of inferiority and low self esteem —aspects affecting both demand and supply in the labour market and entrepreneurial supply; and finally the lack of institutions for providing enough certainty about the security of access to an opportunity to facilitate the taking of risks. Many of these concerns are still relevant today, but perhaps the most noticeable one here and now is the absence of policies to encourage good teachers to stay in the highlands —or venture there in the first instance.

It will be clear that creating the appropriate institutional context locally —one that is «good enough» for local spread effects to achieve a flattening role— places huge demands on state capacity, both at the national and at the local level, to lead, enable, reform and build.

What aspects make the failure to deal with the inappropriate institutional underpinning of the market so pervasive? We find two factors constantly recurring in our historical analysis which we summarise below³. The first dimension concerns state capacity and the impact of the productive structure over time on opportunities to build this capacity. In Peru, the evolution of the productive structure over time has had discriminatory implications, regionally and ethnically. This has direct implications for the reproduction of inequality via employment and the nature of income opportunities. But it also has an indirect and crucial impact through its effect on the building of state capacities, and the creation of a coherent bureaucracy, its reach and its autonomy from local powers. This has repercussions for institutional change. This is precisely the obverse of the Iguíñiz recipe for success—the attaining of a critical mass—and helps to make it clear why he is right to stress this.

The critical mass is central to reversing the most noxious of vicious circles—education and migration. Educating people in itself, without facilitating economic and social opportunities for them and their families, leads to migration and the lack of the virtuous circles needed to make sense of investment in education over time. Thus, even with increased provision of education, a deprived region will never start to provide its own teachers and a viable civil service to staff local government, since a significant percentage of the more educated migrate, and the process does not become self-sustaining. Similar circumstances operate in the case of health policy. While not directly related to group rather than individual inequalities, such vicious circles tend to be most in evidence when group inequalities of ethnicity and geography overlap⁴.

³ See Thorp and Paredes (2010) for the full version which we are summarising here.

⁴ This is an important conclusion of Thorp and Paredes (2010).

The second dimension of the persistent failure to deal with institutional requirements concerns the way inherited structures of patronage have a strong impact on people's participation, even when 'voice' becomes a fundamental and visible part of the policy design. In the cases we have assessed, a response to voice was only achieved with much mobilization of groups, and the weakness of voice is notable in historically subordinate or marginalised groups. It became part of the design of new formal institutions because of this mobilization, and because it progressively became a key instrument of much modern social policy. There is a strong literature that has demonstrated that both participation and voice are central to a justice strategy, as a part of people's right to decide their own future and to have fair opportunities, but also as a key component of effectiveness in allocating resources, and as instruments in monitoring the use of resources and in generating ownership of programmes and thereby energy in participating and benefiting⁵.

The formal insertion of voice, however, in countries with weak institutions or rule of law, does not guarantee real negotiation for the implementation and success of these policies (Abers & Keck, 2009). In a well-functioning political system, horizontal (local government, political parties) or vertical intermediaries (unions, social organisations and other associations) bring an awareness and understanding of wider macro issues to groups at the local level to guide their activity. Intermediaries can facilitate connections to other levels, can take concerns up and down the system, can negotiate and engage. This role of political intermediation is all the more important in a country like Peru, since the state is typically seen by its citizens as *«lejano y ajeno»*—far away and foreign (Ansion & Tubino, 2004). In areas where

⁵ This literature has focused on the significance of voice in different contexts and provides a good analysis of the theoretical implication of voice. See Tandler (1997) for the case of Brazil, Wade (1988) for India and Fox (1990, 1994) for Mexico.

state-society relations tend to be dominated by patronage instead of being mediated by institutionalized intermediaries, citizens either have no effective means of holding government accountable (other than periodic and imperfect elections) or are reduced to being dependent clients. In the absence of clear and rule-bound procedures for political «voice», only a minority can access the local state or engage with it as independent bearers of civic and political rights. Furthermore, citizens will have difficulties associating beyond their local community. Peru has endowed citizens with formal rights, but pervasive inequalities within society limit the capacity of citizens to act out their rights effectively.

In brief, in Peru participatory policies have encountered the reproduction of relations of patronage within society, in a way that limits the capacity of disadvantaged groups to act out their collective rights effectively, even when policies open a formal opportunity. The effect of this failure has been the reproduction of a wide range of exclusions. As we shall show, this history has marked progress in health and education, key components of «flattening» strategies. Further, our analysis leads us to an understanding of the weakness of an indigenous voice at most levels in Peruvian society and polity⁶.

In this paper we explore in part 1 the historical roots of the marginalisation of the highlands, and with that the inadequate or perverse presence of the state. In part 2 we show the deficiencies of this model in the pre-conditions for trickle-down, and the weak or perverse nature of local politics. In part 3 we use this analysis to explore a remarkable contemporary instance of developmental initiative in the highlands, which has ultimately been intensely disappointing in its outcomes, and we ask what the barriers and failures were: this is the case of Espinar.

⁶ With some notable recent exceptions, such as a number of strong indigenous mayors and several strong indigenous women in the Congress.

THE HIGHLANDS' «INSTITUTIONAL DEFICIT» FORMED OVER TIME

The history of the highlands' institutional deficit began centuries ago, with the colonial period. The legacy of the colonial period was one of subordination of the indigenous population, initially even as inferior beings, and of their value as a cheap and docile labour force. With Independence, the gradual centring of Peru on the coast—first with the choice of Lima as the capital, then with the guano era and the growing importance of the coast's natural resources (sugar, oil and cotton)—left the highlands as an important supplier of labour to the coast which did not require modernisation. In the nineteenth century there were still profitable opportunities for some highlands products—though the evolution of an unequal redistribution of assets left indigenous peoples benefiting relatively little. This was nowhere more vivid than in the wool boom of Peru's south at the close of the century (Larson, 2004). But from then on the economic importance of the highlands steadily declined, aggravated by food policies which favoured imported food for the coastal population.

A crucial role in the economic marginalisation of the highlands was—and still is—played by the mining sector. At the national level, the logic of international capital interacted with the shaping of the Peruvian state and elite interests to produce firstly, a state with a relatively small developmental role and secondly, a constellation of political interests happy to go on ignoring the modernisation of the highlands. The lack of incentives to a developmental state came from the export model as it developed over time. The export economy model had consistently allowed space to national groups to participate in the booming export sectors, sometimes in their own right, as with oil, and sometimes in symbiotic relationship with large foreign firms, as with Cerro de Pasco Copper Corporation and the capable Peruvian mining sector over several decades. This strong partnership allowed the foreigner to play roles which elsewhere national groups looked to the state

to play — notably the building of infrastructure and the provision of professional marketing services⁷. Domestic elites also found rewarding opportunities in the export sector and lacked incentives to lobby for protection or other support to diversification⁸. The result over time was a political economy model which managed export bonanzas reasonably and provided a good environment for foreign capital, but did not acquire experience in building a diversified economic base, capable of resisting when the export motor faltered. Institutional developments reflected this, providing security for foreign capital and support to foreign trade, but little support to non-export sectors.

Thus the multinationals involved were playing their own «developmental» role —the mining companies providing the vital railway links to the ports, for instance— and had no incentive to start the long haul of local development required for them to source locally. They used their international circuits to purchase internationally, efficiently and conveniently.

The negative role of multinationals in regard to spread effects, among other things, was evident, for example, in the purchasing policies of Leche Gloria, the huge milk processing facility in Arequipa dating from 1941 when it was formed by the General Milk Company, subsequently owned by Carnation and then by Nestlé. For the multinational owners, it was simpler and more secure to purchase imported powdered milk through Lima than to wrestle with the complexity of building up a stable quality of local milk supply. The result was the gradual decline

⁷ Colombia provides a sharp contrast here: from the 1920s onwards the need of the coffee sector for a strong supportive relationship with the state was at the heart of the growth of the Coffee Federation and the development of a collaborative relationship between the state and private sectors, which was to yield returns in sophisticated and finely-tuned policies over the years.

⁸ Here the contrast is with Chile, where the foreign-owned copper sector dominated for decades and excluded local elites, who were therefore more interested in early industrial policies.

of milk production by small producers in the highlands of Arequipa and into Cajamarca. This effect has continued up to today. With the liberalisation of imports in the 1990s, small-scale milk production in the highlands entered into deeper crisis, along with many other small producers.

With time, the role of international capital in the marginalisation of the highlands has grown, since technical trends in mining have aggravated the situation. A reasonable assumption would appear to be that with development, a country should find itself with more capacity to increase returned value. Unfortunately in mining the technological factor tends to pull in the opposite direction. Technology has taken a step up in scale and complexity, with new methods of opencast mining and extraction on site (Kuramoto, 1999, p. 27). But the increasing prevalence of just-in-time management works in the opposite direction, generating a new interest in local suppliers of inputs to facilitate low inventories. However, this brings us to a key factor, the limited supply capability of the local economy.

An evocative illustration of this is the case of the Yanacocha gold mine in Cajamarca, the largest in Latin America. The project was initiated in an unpromising manner in 1992, since the investors thought at that point that the mine's profitable life was some seven years, and they opted for a low profile and minimum investment in community relations. By the time further exploration was beginning to signal a very different story, bad relations and suspicions were already building up. Even once the company recognised the political value of local purchases, its efforts to encourage a local group to organise an earth-moving company (CONGECASA) ended in disaster. Local capacities for organisation, entrepreneurship and levels of experience were not adequate to take advantage of the situation, with the result that even food tends to be brought in from outside. The mine needs to purchase in bulk for economic reasons. It would have required a very systematic

and coherent supportive development policy to produce an adequate supply response⁹.

A strong policy of decentralisation and capacity-building over some years would be required to have a chance of producing such a change. Unfortunately the whole tenor of the model over time has been to increase central control. This went deeper than the particular economic model, and has been thoroughly analysed as a product of the evolution of political and economic structures in Peru over many decades (Gonzales de Olarte, 1982, 1992, 2000; Iguíñiz, 1984; Cotler, 1994). The result was that a primary product export model with potentially strong regional benefits had those effects almost totally negated by the lack of effective decentralised structures capable of supporting regional supply initiatives, and of demanding reasonable terms for the enterprises' local presence and often significant negative externalities.

THE POLITICAL AND SOCIAL CONSEQUENCES OF MARGINALISATION: THE CASE OF EDUCATION IN THE EARLY TWENTIETH CENTURY

We have mentioned how, following its independence, Peru was gradually centred on the coast, first with the choice of Lima as the capital, then with the guano era, and the growing importance of the natural resources of the coast. In political terms, in the nineteenth century the shift of political and economic focus to the coast allowed the continued dominance and renewal of the traditional power-brokers in the highlands, unchallenged by forces of «modernisation». So «*gamonalismo*» emerged and embedded itself —establishing a mixed race: *mestizos* who were between two worlds but who held the local

⁹ That this is not impossible can be seen from a Chilean case study. In Rancagua, a group of small firms supported by SERCOTEC, the National Agency for Technical Support, formed an association called AEMET, «to (politely) attack CODELCO». They have succeeded, and the effort has transformed their way of working. Now they are finding other customers (Angell, Lowden & Thorp, 2001).

monopoly of power¹⁰. The roots of this system had already begun during the colonial period with a multi-layered «embedding» of prejudice and discrimination. The ambiguity of those «in the middle» was also already creating the incipient norms of *mestizaje*, a phenomenon at the heart of our analysis. The core of their efforts to build their lives was the distance they could create from those «below» them: thus discrimination and prejudice moved to being functional in a new sense—to the maintenance of the social system.

The working out of power relations proved a forceful method of co-optation, sucking in individuals who then saw the route to their own advancement as through the displacement of their countrymen. Thus a «double horizontal inequality» emerged, based on regional and ethnic hierarchies. The *gamonal*, even more than his or her predecessor in the colonial period¹¹, relied on discrimination and differentiation for social prestige and for personal opportunity, in other words on the maintenance of horizontal inequalities. Thus the system was embedding such inequalities increasingly strongly with the passing of time.

Naturally, as the prosperity of the highlands waned, people opted to migrate, so further embedding the divide, while complicating the social and cultural panorama. The movement of population can be seen in table 1. What the aggregate figures do not show is the significance of who migrated. First, the *mestizo* elites, who might have lobbied for better infrastructure and services in the highlands, increasingly based themselves in Lima. The work of Portocarrero provides insight into

¹⁰ The term *gamonal* is first located in use in 1863, in the *Revista Americana* in Lima. See Ibarra (2002), also Burga and Flores-Galindo (1991).

¹¹ The power relations of the colonial period had been based on a strong European racial discrimination (Indians as not fully human), and the need for labour and for extraction of surplus dictated an exploitative regime with strong elements of non-market forces to bind in the indigenous population. A set of norms which relegated the Indian to a subordinate status, incapable of independent initiatives, was part of the mind-set of the colonisers, but was also functional to the running of the system.

the process (Portocarrero, 2006)¹². The study analyses the 800 largest fortunes in Peru left by those who died between 1916 and 1960. Of these, only 12 per cent belonged to people born in the highlands—and none in the jungle, not surprisingly. But more tellingly, the detailed analysis of the 100 largest fortunes yields only seven Peruvians born in the highlands, three of whom had invested their wealth in coastal urban property or land¹³.

Table 1. Regional Distribution of Population

	Percentage distribution		Average annual growth rates	
	1876	1961	1876 to 1940	1940 to 1961
Highlands	69	50.6	1.2	1.2
Jungle	8.2	11.1	1.6	2.8
Coast	22.7	38.2	1.6	3.9
Major coastal valleys			1.6	2.0
Lima-Callao			2.2	5.1

Note: the regional distribution is as follows.

Coast: Callao, Ica, La Libertad, Lambayeque, Lima, Moquegua, Piura, Tacna and Tumbes

Highlands: Ancash, Apurímac, Arequipa, Ayacucho, Cajamarca, Cusco, Huancavelica, Junín, Pasco and Puno

Jungle: Amazonas, Huanuco, Loreto, Madre de Dios and San Martín.

Source: Hunt (1977).

Second, it was the more educated and entrepreneurial of the indigenous non-elite population who moved, first to small highland towns and then by the 1940s in great numbers to the coast and Lima.

¹² The archive comprises wills but also documents such as valuations.

¹³ The three who left land in the highlands to their descendants were all women who died in Lima or abroad. The remaining one was the key mining entrepreneur, Proaño, whose battles were fought exclusively around protection of his mining interests. (Fernandini also appears in the list and might be thought to count, as the highlands provided him with his mining wealth. He was in fact born in Ica, and had substantial coastal interests.)

The Spaniards had already targeted indigenous leaders in their reprisals following rebellion; the damage done was now compounded by the dynamics of economic growth after Independence, and more strongly as the decades passed. The interaction of economics and politics meant that indigenous people saw the route to prosperity as one of migration, to seek education and coastal jobs, so weakening endogenous forces for change that might have fought for a stronger autonomous role of the highlands. This process fragmented the indigenous population over time. It also led to the common identification of «indigenous» and «highland», an association resented by the non-indigenous Andean population, aspiring to upward mobility and themselves using discrimination as a pathway. Moreover, a new and crucial gap developed within the indigenous-origin population itself, between the Andean peasant and the «*cholos*»: the urban mixed-race population. The embedding of vested interests in within-group differentiation now became stronger, as the urban *cholo* population needed to make its way in a new context. Migrants typically lived a contradictory reality: identifying as «Andean indigenous» but tending to reject the «uncivilised» rural country folk they had left behind. Thus each element of the interaction worked to further entrench horizontal inequalities, with added elements of ambiguity and prejudice as the indigenous population itself fragmented.

The implications for social policies

The deep-rootedness of the power structures affected even apparently reasonable policies aimed at improving the position of the indigenous population. A clear example of this is health and education policy in the early twentieth century. The governments of the late nineteenth and early twentieth century knew they had to «civilize the Indian», as part of making him (and her) a more productive source of labour (Contreras, 1996; Larson, 2004). The heart of the approach was

education and hygiene. The latter was important to increase the birth rate and improve the health of the labour force. Governments were driven partly by fear (a major resource war with Chile towards the end of the nineteenth century had found indigenous people fighting on both sides: the indigenous population became the scapegoat for defeat but also now a perceived threat to existing power structures in the highlands). However, the political result of the «Indian threat» was a new bonding of Lima with regional elites, whose need for reinforcement to deal with the threat was suddenly vividly perceived. This helped to consolidate the emerging institution of *gamonalismo*.

So the new philosophy became civilisation and assimilation through education, meaning schools but also wider elements, such as education in hygiene as a way of dealing with health issues, and issues of nutrition. Better hygiene (hand-washing, boiling water) was already seen as important in improving many aspects of health, such as child mortality and the containment of epidemics. The result was a focus on the assimilation of indigenous peoples via railways, roads, education and hygiene. The increase in spending on education took the share of the national budget from 1 per cent in 1900 to some 10 per cent by the 1940s and 15 per cent by the 1950s.

But the results were poor, as seen in table 2. The average illiteracy rate in the southern highlands was still 80% by 1940: the rate for indigenous people can only have been higher. More shocking still, the percentage of 6-14 year-olds receiving instruction fell in Ayacucho, Huancavelica and Puno and remained constant in Cusco (Contreras, 1996, table 7, p. 41)¹⁴. The average illiteracy rate by 1960 for the southern highlands was still 62%.

¹⁴ The source for expenditure data is the Ministry of Justice and Education. The data on illiteracy is taken from the national censuses.

Table 2. Illiteracy Rates^a by Region^b
(Percentage of adult population)

Year	Lima	Other Coast	North and Central Highlands	Southern Highlands	Jungle
1876	45.4	74.0	85.8	91.8	85.8
1940	10.6	40.6	66.2	79.8	51.0
1961	10.5	28.3	50.8	61.8	39.3
1972	10.3	23.0	43.8	49.6	34.4

Notes: (a) Illiteracy rates: I_{1876} = do not read or write / total population; I_{1940} and I_{1961} = do not read or write and older than 6 / population older than 6; I_{1972} = do not read or write and older than 5 / population older than 5. (b) The regional split has been made at the provincial level. Lima = Lima and Callao provinces; northern and central highlands = highland provinces of the departments of Lima, Junin and departments north of them; southern highlands = southern and central highlands. The coast is taken to be those coastal provinces with mean altitude below 1,001 meters above sea level. As «jungle» we classified all Amazonas, Loreto, Ucayali, San Martín, and Madre de Dios provinces, and the provinces of Jaén, Leoncio Prado and Satipo. The results do not change significantly if Andean provinces with both highlands and rainforest are reclassified from highlands to jungle.

Source: Thorp and Paredes (2010, formulated with data from the national censuses of the *Dirección Nacional de Estadística* over several years).

The reason for such poor results lay in the embedding of education in the *gamonal* system —and here is the heart of our argument. Local authorities —typically the sub-prefect level— would collude with local bosses to prevent schools being built. But even when they were built, the education delivered was shaped by the attitudes of teachers and parents. Given the economic marginalisation of the highlands, there was no need of an educated indigenous worker for the local bosses. The problem was that spending was occurring without the wider changes in the institution of *gamonalismo* needed to give such expenditure a chance. The traditional approach in rural Andean communities was that schooling «would make your child disrespectful». The failure of education policy in the early twentieth century is a clear example that even when the state pushed in one direction, the power structure

in which its agency was embedded undermined these efforts and therefore the opportunity to reduce inequalities.

Added to *gamonalismo* was the gender discrimination to be expected at such a date: girls in particular were felt to be at risk, and indeed sexual abuse by teachers is well documented¹⁵. A powerful intergenerational illustration from a later period is given by García. The author is talking to Gloria, now a parent herself, who was raped at school by her male teacher.

Ashamed, she had never told her parents about his abuse, but she had also refused to return to school, and because of this she had been severely punished by her father. She continues: «My brothers also took advantage of the fact that my father hit me, so they would beat me up too and call me stupid because I did not go to school. But I knew it would be worse if they knew why I did not want to go. I was afraid they would hit me harder for that (2003, p. 81).

Because of this she was now only sending her sons to school. Abuse deprived two generations of girls of access to education.

As a result of all these characteristics, and in the absence of a broad-based development policy for the highlands, the most gifted teachers might with reason prefer urban jobs and the private sector, so compounding the problem of quality. Teaching was typically by rote and the use of fear. Outside school, in a highland rural community, there would typically be no books or newspapers to encourage literacy skills.

Policies in this field were thus often well-intentioned but ineffective, largely because those promoting them did not grasp how far something more radical was required than policies of education and hygiene by themselves. Institutional structures that distorted incentives and made people fearful and incapable of availing themselves of opportunities

¹⁵ See the monographs written in the 1960s by the Instituto Indigenista Peruana.

needed to be challenged: the state was not ready for this, and certainly was not putting in place the broader development policies that might have led to the establishment of a committed bureaucracy and corps of teachers¹⁶. By the 1960s, the indigenous people of the highlands had low levels of literacy and minimal access to health care, and this outcome was built into the institutions, which would continue to be responsible for the delivery of this precious capability.

A CONTEMPORARY CASE STUDY OF DEVELOPMENTAL FAILURE: THE TINTAYA STORY

The following section aims to show how similar mechanisms to those described previously still undermine the will to bring about change today. To the economic marginalisation of the highlands and the persistent failure to deal with institutional requirements, the failure of «voice» can be added, even when the latter becomes a fundamental and visible part of the policy design as a key instrument of much modern social policy. The section draws on an earlier case study which began with the hypothesis that it was the weakness of collective action among marginal communities that accounted in part for the persistence of non-developmental institutional structures (Muñoz, Paredes & Thorp, 2007)¹⁷. We rapidly found this to be false: although we encountered situations where collective action was weak, there were many where it was strong. We found that the «Olsonian» free-rider problems could be overcome by the construction of common identity and by leadership,

¹⁶ Ainsworth, an American academic and good friend of the Cusco and Lima intellectuals who espoused these policies. He supported the policies as far as they went but predicted their failure, arguing that for example the proposed Bureau of Indigenous Affairs would have neither the appetite nor the means to take away the *gamonales'* powers (Ainsworth, 1920).

¹⁷ We are grateful to Ismael Muñoz and to *World Development* for permission to use this material freely.

group memory and learning¹⁸. However, local organisations find it extremely difficult to relate to a wider, «meso», formal political framework, or alternatively to form their own social coalitions, and ultimately fail to achieve impact¹⁹. The reasons, we find, lie precisely and principally in the nature of the political system which groups are trying to penetrate, though the cases vary. Sometimes it is the nature of «meso» social organisations, which actively prevent the escalation of groups. Here Tilly's concept of «repertoires of contestation» (2004) emphasizes the significance of the structure of power and the culture of daily politics in shaping and reshaping collective action. It is not only that the interaction between contesters and the authorities affects the internal behaviour of the group, as they exchange and learn from each other (rhetoric, models of action and organisation frameworks); but also that it is within this political environment that the groups need to have impact. For successful meso-level collective action, there must be actors with whom one can interact and structures through which groups can communicate and disseminate ideas, with a certain degree of coherence in the institutional framework.

Espinar, Cusco

In the historical analysis we have presented above, we have highlighted the weakness of local political organisation, indigenous politics, or indeed any politics at local level. Patronage and dependency twinned with ethnic suspicion and discrimination readily account for the

¹⁸ See Olson (1965) for the problems, and Ostrom (1990) for stimulating work on how they are overcome.

¹⁹ Here we draw on Tarrow's useful focus on how coalitions function as action moves to the meso-level. She develops the difference between the face-to-face contacts of a «primary» group concerned only with organising actions within its boundaries, and the more impersonal contacts needed as a group begins to relate to a wider political context with «trans-communal» coalitions. She also emphasizes the ability of the group to evolve from one set of issues to the next (1998).

weakness of popular organisation. The second element we have highlighted concerns the numerous anti-developmental characteristics of growth periods based on the expansion of mining and petroleum—in fact resource extractives in general. The third is the lack of state capacity and even motivation.

In the case study of thwarted development which follows, we have deliberately chosen an example in which at least some of these characteristics were less pronounced than is typical in Peru. It combines a history of local organisation, unusual for Peru, with a singular story of a multinational opting for a policy which seriously attempted to favour community development. Yet still, the Andes were not flattened. What happened?

The case in question is that of Espinar and focuses on the potential growth point of the Tintaya mine. In the first half of the twentieth century, Espinar was one of the provinces of the high Andes affected by the boom in wool and drawn into often violent conflicts between landlords and peasants over access to pasture land. There were uprisings in Canas and Espinar in the early 1920s (Brooke, 2004; Montoya, 1989). These movements led to the strengthening of a peasant movement and subsequently were part of the basis for a notable growth of left-wing parties. The land reforms of presidents Belaunde and Velasco gave a spur to the reclaiming of land and the migration of former land-owners to the cities, strengthening the process of social change based around indigenous communities.

Responding to this degree of social change and upheaval, some of the most important estates had already been broken up, with their lands distributed among their workers before the land reform. It was simply not possible for the reform to create the large collective estates (SAIS) that were being created in neighbouring provinces²⁸. Furthermore, the rapid links which were developing with the market of Arequipa via Espinar began to create a merchant sector in Espinar which formed a bridge between it and the other highland provinces. Another relevant

factor was the action of progressive elements of the Roman Catholic Church and among NGOs, both supporting the claims of peasants to regain their land. Two important peasant confederations were founded in this period in Espinar²⁰.

Thus by the 1980s, there was a strong sense of ethnic identity based in community ownership with vigorous popular organisations. However, modernisation and integration into urban culture is generally considered to be weakening this sense of ethnic identity. In the 1990s, nevertheless, a new manifestation of this historical sense of identity emerged with middle-class and urban leaders, in the form of a political party called Mink'a, a movement seeking to re-establish the original K'ana identity, the civilization which had prevailed in the area before the Incas. During the crucial period of collective action which we explore here, the mayor of Espinar belonged to the Mink'a party.

We now turn to the copper and gold mine of Tintaya. The mine was nationalised during the regime of General Velasco (1969-1975). The state company followed a policy of expropriation of peasant community lands, with inadequate compensation and poor alternative provision. The community of Tintaya Marquiri lost all its lands. The collective memory is that they «took us out of our houses and destroyed them». From the 1980s, the mine became the focus of collective action, with confusion between the responsibilities of the state-owned mining company and the state proper.

The day remembered in the recent history of the province is 21/5/1990 and it is celebrated every year. Our interviewees told us how between 20 000 and 30 000 people mobilised against the mine, led by FUCAE and the Espinar Defence Front (Frente de Defensa de Espinar). Firebombs were thrown, fire broke out in the mine, mine personnel were

²⁰ FUCAE (Federación Campesina de Espinar) was founded in 1980 when these two entities merged. The Izquierda Unida, a coalition of left-wing parties, was victorious in three of the four municipal elections in Espinar in the 1980s (Lossio & Camacho, 2005).

threatened and three people were taken hostage. No deaths occurred. The attention of the central government was successfully drawn to their problem, and one positive outcome was the electrification of the city of Espinar. However there was no progress on the rural community's problems, such as land access and water pollution.

In the 1990s, the mine was privatised, and eventually sold to BHP Billiton. In this period the rural communities affected began to organize themselves more effectively, and in 1999 created the Regional Coordinator of Communities Affected by Mining (CORECAMI- Cusco). The national organisation of communities affected by mining (CONACAMI) came in to give support. NGOs, both local and international, began to get involved. At the international level, Community Aid Abroad (CAA), the Australian member of Oxfam International, began to work with the parent company, BHP Billiton, on corporate social responsibility. A particularly interesting initiative of CAA was to take a group of top executives on a field trip to India to see the environmental and social consequences of a big mining project at first hand through the eyes of the affected population. The general manager of Tintaya, who went on the visit, describes it as a turning point both for him personally and for the company. On his return he gathered his staff together and explained to them how the whole approach had to change²¹.

Over the three years 2000-2002, against all expectations, dialogue made significant progress. A Forum for Dialogue (*Mesa de Diálogo*) was established, and the company eventually made two agreements, one to make a payment of US\$1.5 million annually to the municipality for local development; the second, made with the communities, was to distribute 2368 hectares, consult communities in future explorations, and provide a fund of US\$300,000 annually for the communities' projects.

²¹ Lucio Rios, interview, Tintaya mine, 9/4/2005.

Two important elements in this success were the relatively strong sense of identity and coherent local leadership. It is important that this was not only external (NGO-based) but also came from the home-grown organisation of the people. A third element is the degree of responsiveness on the side of the company involved.

However, for all the achievement, the true gains have proved fragile and limited until now. In 2005, the 21st May anniversary was marked by a mass demonstration —this time of 2000 people— again with firebombs and threats, and the mayor was taken hostage when he tried to intervene. In 2006 the company was sold to Xstrata²² and while the agreement was continued, the tensions and frustrations were enormous.

In May 2012 a major conflict erupted, with deaths and numerous people wounded. It was motivated by the escalation of many unresolved issues and it ended with the arrest of the mayor, Oscar Mollohuanca, who was later freed from prison to start a new phase of the so-called «dialogue». This led to the creation of three working groups, on environmental issues, productive issues and «social responsibility». While some progress is today reported from the second and third working group, the work of the first is fiercely criticised by the communities as non-participatory and not trustworthy (see Astocóndor).

At the time of writing, this lack of confidence is being fed by the politicised treatment of the results of the environmental study. The results published after a year in June 2013 confirmed the presence of pollution. Nonetheless, the debate was preoccupied with the political interpretation of the results: whether the company was directly responsible for this. The local authorities, including Mayor Mollohuanca, appeared in several media expressing their frustration and stating that they might resume the protest if their demands were not heard.

²² Formally, for reasons of wider corporate strategy, not the events described here.

Several factors account for the recurrent frustration in Espinar in spite of the will for dialogue both on the part of the communities and the company. The first factor is the lack of infrastructure in its widest sense of underpinning the market - not just credit, marketing and transport, but also the building of capabilities, at both regional government and community levels. The different levels of governments have struggled with huge tasks of building consensus and creating viable projects with the enlarged budgets deriving from the canon²³. Initially the canon money could only be spent on approved investment projects, though subsequently some use for education and other categories was allowed. Such payments have been an important element in the political economy of extractives, to persuade local governments and the constituencies behind them that they should welcome large-scale mining. But the result has been that relatively inexperienced local governments have received abrupt increases in investment budgets, under a rigid bureaucratic control from the centre, and with little or no capacity for feasibility studies or monitoring and evaluation. Fearful of low levels of competence and the possibility of corruption, the Ministry of Economy and Finance (MEF) has retained the money as a central fund, disbursed monthly, which creates delays and reduces autonomy. But at the same time, central government appeared to do nothing to create capacity and responsibility at the local level.

²³ Today, 50% of the tax on profits and the entirety of royalties are returned to the region of origin, the larger share going to the regional government and important sums to municipal governments, the latter to respond to the provinces' poverty and infrastructure deficit.

Table 3. Selected regions' total expenditure and investment, and the canon as a percentage of each for 2004-2008 (Million New Soles)

Region/year	2004	2005	2006	2007	2008
<i>Cusco</i>					
A. Total expenditure	441.0	511.0	598.3	686.1	837.6
B. Investment	36.0	50.8	98.1	134.2	214.4
C. Investment <i>per capita</i> (New Soles)	31	43	84	115	183
Canon as percent A	1	5	13	19	32
Canon as percent B	10	53	77	95	125
Percentage of canon budget spent	53	42	41	40	64
<i>Lambayeque</i>					
A. Total expenditure	336.3	371.8	413.1	441.2	519.5
B. Investment	19.9	14.8	35.6	40.6	95.4
C. Investment <i>per capita</i>	18	13	32	36	86
Canon as percent A, B	0	0	0	0	0

Source: Thorp (2012, p. 121; formulated with data from the Ministry of Economy and Finance website).

The sudden increases in income in a mining region such as Cusco and its significance can be seen in the results for Cusco and Lambayeque shown in table 5.1. We see how *per capita* investment could rise abruptly for Cusco, from 31 New Soles *per capita* to 188 New Soles in a single year, while in Lambayeque, a non-canon region, investment languished at 34 New Soles, improving in 2008 as the result of a large foreign loan. In Cusco, the canon was funding a variable amount of the investment expenditure, but never less than 40 per cent and on average some 70%.

As a result of the fluctuations and sudden increases in income, and the difficulty in developing projects acceptable to the central bureaucracy, accumulated unspent balances and expenditure were biased towards tangible infrastructure projects which the monitoring

bureaucracy (the «SNIP»²⁴) could deal with. Cusco was spending on average less than half its canon money. With these results those trying to organise at the local level, in particular in Espinar, where the mine operates, faced intense frustration and a cumulative negative reaction against the mine.

The second factor that accounts for the frustration in Espinar is the nature of the local political system and the communities' lack of confidence in it. This emerged in many interviews: «[...] leaders from political parties make promises during elections but then forget communities». The Mink'a mayor, who was a powerful force for good while in office, is seen as having lost the next election «because the town people didn't like him working so hard for the country people». The next mayor belonged to the Apra party and did not inspire confidence. The communities felt they did not have a say in the fund established via the municipality. Mollohuanca was subsequently re-elected, but the relations with company had been damaged once again.

Over the years, therefore, we do see collective action that brings gains. Both in 1990 and in 2005, ministers flew in and the spotlight of the media was turned on Espinar. More importantly, over years of patient negotiation, communities built up a level of confidence, ability to negotiate and a sense of their own worth which are real «goods». However, relatively little material progress was made. The communities struggled in building consensus on how to manage the money pledged to come directly to them. Reaching consensus on use and accomplishing all the necessary technical specifications proved difficult, especially with respect to the agreement with the province, and money remained unspent.

²⁴ The department within the MEF (the Dirección Nacional de Programación Multianual del Sector Público) is responsible for approving investment of the canon revenues. The system is known as «SNIP», Sistema Nacional de Inversión Pública. It has recently been decentralised in some measure —its first director reports that the decentralisation was carried out in too much haste, in response to «demand», but there was so much demand that it could not be handled well (Miguel Priale, interview, Oxford, 10/12/2009).

CONCLUSION

We started with Javier's insistence that the key instruments to start the process of «flattening the Andes» are buoyant highland cities with vibrant civic life —only then can the quality of human resources be retained and be available, via both public and private sectors, to spread development. We have assumed that «flattening» has to include spreading development in a more egalitarian way than in the past —an assumption totally in line with Javier's other work. We have been concerned in this paper to complement the core idea in *Aplanar Los Andes*, of vibrant cities retaining their talented people, with the insights we have gained from our historical work on the persistence of inequality, particularly that between groups or «horizontal» inequalities, and also from our work on collective action. Our framework has been that the key spreading mechanisms of economics —the multiplier and accelerator generating trickle-down— require quite sophisticated institutions to work well. Only reasonably good infrastructure, well-executed and managed, covering communications, marketing and transport, social infrastructure, and above all quality education, can permit efficient spreading, and even then negative institutions, particularly a culture of discrimination and the internalisation of prejudice, may block the response. We show how historically an effective state able to provide the institutional conditions was far from present. The highlands were increasingly marginalised both politically and economically. The consequences for local politics and power structures were markedly adverse, notably for healthy local politics and for the quality of education. Healthy local politics were almost inconceivable, the quality of education was poor and neither central nor local government had the incentives for creating the necessary institutions which the spread effects needed. Nor did elite interests lead to any pressure in that direction.

We also show how even in the remarkable circumstances of an international company genuinely committed to local development, the limitations of local state capacity, the absence of infrastructure and development agents at the national or regional level and the inherited lack of capacity and experience at the community level, led to a deeply disappointing outcome and in due course more violence.

Nowhere in the world is there a perfect set of institutions. But there are degrees, and our historical study of inequality in Peru has taught us profound lessons about the absence or perversity of institutions, and the lack of power of mechanisms of voice and participation to fill the void. Javier's emphasis is revealed as being of central importance, focusing us as it does on retaining high quality human resources, both political and economic, and thereby improving capacities locally and the degree of commitment to the local context. This opens up the possibility of response to the need of quality institutions and the channelling of and response to voice. But the Espinar case shows how national policies are crucial too. Much is changing today in the highlands, but we cannot emphasize too strongly the need for public policy to understand past deficiencies and the kind of corrective action needed, especially as today the productive structure is moving in a direction which in the past has been very unfavourable to the need for appropriate institutional underpinnings to the market. Without strong public policy, both local and supported from central government, there is every reason to fear that the vicious circles of the past will retain their hold.

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