Some Tasks in Peruvian Economic History, 1830-1930
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The significant, fruitful contributions to Peruvian economic history are varied in style and approach. It may, therefore, seem presumptuous to say the least, that this paper undertakes the task of setting an agenda for research, of saying what the tasks of economic historians ought to be. Such effort can be socially useful for two reasons, however. First, the economic historians who really do the work, laboring in archives, grappling with primary sources, producing the monographs that provide the foundation of our knowledge, are generally trained as historians. The viewpoint of an economist reviewing past work and suggesting future inquiries may be useful to them. Second, the paper attempts to define research goals on a very broad level, so that different research styles, methodologies, and ideologies can be accommodated, aided in some small way by the framework proposed here. This at least is the intention.

To begin, I propose that economic historians give emphasis to the same fundamental issue that today confronts governments and their economic advisors. This is the issue of economic growth and structural change, the process by which

*This paper was written as part of a larger study of Peruvian economic history being undertaken by Pablo Macera and me within a project sponsored by the Joint Committee on Latin American Studies of the American Council of Learned Societies. The larger study consists of an annotated bibliography of some 700 items, a survey of archival and other primary sources, and a two-part essay that surveys the history and historiography of the period in question and advances an agenda for research. The first part of the essay tackles these questions from the historian's viewpoint, the second part from the economist's. The second part is reproduced in this discussion paper. I am grateful to Pablo Macera, Stephen Stein, and Stanley Stein for criticisms of an earlier version of this paper, which was presented to a conference at Austin, Texas, in March 1971. I also express my great appreciation to Mrs. Jirina Rybacek for outstanding research assistance, and to Felix Denegri Luna for sharing with me much of his bibliographic wisdom.
an impoverished colonial economy may be transformed into one that is productive, prosperous and in some sense diversified. Terminology and outlook may differ; the process may be called economic growth, economic development, modernization, or the achieving of economic independence. The concern is common and obvious, however. The policy advisor is concerned with how to make it happen; the historian should wish to assess the extent to which the process has or has not taken place over various periods, and why.

Peru has indeed passed through several decades of growth and structural change, and yet it remains an underdeveloped economy, markedly dualistic, with most of the population enduring a poverty that has always been stark and made only more degrading by the relative prosperity of urban middle and upper classes. Clearly Peru has not gained much out of the opportunities presented by 150 years of politically independent but economically dependent association with the expanding capitalist world economy.

1 Peru is characterized as a dualistic economy despite Stavenhagen's justly famous caveat that the term is often fallaciously applied to Latin America. (Rodolfo Stavenhagen, "Siete tesesarroneas sobre America Latina," El Día, June 1965. Reprinted as "Seven Fallacies about Latin America," in James Petras and Maurice Zeitlin, editors, Latin America, Reform or Revolution? (New York: Fawcett, 1968). Stavenhagen's complaint applies to sociological descriptions of dualism that overlook intimate relations between the two sectors operating through labor markets, viz., the poverty of the traditional sector causes wages to be depressed in the modern sector. Economic analyses of dualism focus on just this relationship, however. To characterize Peru as a dual economy merely states that one part of the economy functions with technologically advanced production processes and produces substantial profits available for reinvestment, while another part of the economy functions with primitive technology and produces very little reinvestible surplus. This view is elaborated by W.A. Lewis, "Economic Development with Unlimited Supplies of Labor," in A.N. Agarwala and S.P. Singh, editors, The Economics of Underdevelopment (London: Oxford University Press, 1958), and "Reflections and Unlimited Labor," Woodrow Wilson School, Princeton University, mimeo, 1968.
The growth and structural change that have taken place must therefore be traced out and explained, but, in addition, historians are also confronted with the challenge of explaining why this change has been so limited. I therefore propose two questions as the fundamental issues of Peruvian economic history in the first century of political independence. First, what are the facts of economic change? Second, what are the obstacles that prevented the Peruvian economy from undergoing a more rapid development?

**The facts of economic change**

The facts of economic change that one would like to learn are fundamentally statistical: how has the volume and composition of output changed over the history of the Peruvian republic? How has the volume and distribution of consumption changed as well?

These questions pose agonizing but not impossible challenges to students of Peruvian history. As yet, very little has been attempted, but a great deal of unused statistical material is available.

Consider first estimates of the volume of output on a purely aggregative level. This involves national product, which has been estimated annually by the Banco Central de Reserva since 1942.² Peru was thus one of the first Latin American countries to develop national accounts, but over the years no government agency has interested itself in backward projections.

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The only attempt at earlier estimates comes from Schydowsky, who correlated monetary data with real GNP in the post-1942 period and then used the same equation with earlier monetary data to estimate real GNP annually from 1910 to 1941. For all its ingenuity, Schydowsky’s study remains a casual first effort; the really careful job that can be done, given the data available, has yet to be started.

The aggregating of everything into a handsome number called GNP can, however, produce a deceptive result after an unnecessary struggle. The component parts are perhaps more valuable in and of themselves; a more useful goal lies in estimating output series in basic sectors, as has been done in Chile by Davis and Ballesteros. Again, the raw material is quite abundant in some

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2 (cont’d.)

3 Schydowsky (79). Note: Numbers in parentheses in this and subsequent footnotes refer to the bibliography at the end of this study.

4 Much earlier contemporary estimates of total income at provincial or departmental level are found in Choquehuanca (8); Cordova y Urrutia (13); and Sarachaga et al. (67).

sectors, and some of the work is already done. The recent study of Bonilla (5) is perhaps the first to assemble sectoral production statistics and trace out a pattern of sectoral growth. The export sector that he dealt with is of course the easiest to handle, since data are more readily available, but even the export sector presented substantial data problems in the nineteenth century.

As for other sectors, annual estimates of total mining production were begun in 1903, and many incomplete estimates exist before that date. Agricultural output estimates for sugar, rice, cotton, and wheat are also available, beginning in the period 1911-1913. The first three remain the basic crops of coastal agriculture, so the evolution of this most commercialized of regions can be traced out with accuracy.

Besides these crop-specific annual estimates, there exist a few valuable benchmark studies that attempt to cover the full range of agricultural output. Working at the Compañía Administradora del Guano Lavalle produced national estimates for 1915-1917, in an effort that remained unmatched until the first national agricultural census in 1929. Earlier statistical efforts

6 Bonilla (5).


8 Output estimates of government smelting houses in Cerro de Pasco and a number of other mining districts are available for the 1830's, but beyond 1840 only the Cerro smelting house remained open, and even there the contraband trade was not insignificant. Official estimates are in Mariano Felipe Paz Soldán. (55)


10 Lavalle (33); Compañía Administradora del Guano (11); Perú. Ministerio de Fomento (61).
of considerable value were confined to specific crops or regions.\textsuperscript{11} Annual agricultural output estimates of all crops were not established permanently as part of the nation's statistical output until the late 1940's.

A similar scattering of valuable data exists for industry. As with agriculture and the national accounts, regular statistical surveys began only in the 1940's,\textsuperscript{12} even though the Peruvian government had interested itself in industrial development from the beginning of the century when the Ministerio de Fomento published a number of industrial surveys for promotional purposes.\textsuperscript{13} Subsequent industrial surveys of the Lima - Callao area give benchmark statistics for 1918, 1921, and 1933.\textsuperscript{14} Since even today practically all modern industry is found in this one metropolitan area, industrial growth can be traced out in some detail. Nevertheless, the presently published studies of Peru's industrial development provide only general description without statistical rigor.\textsuperscript{15}

Sectoral production estimates are the raw material from which one may build an understanding of the structural change through which the Peruvian economy has passed. We may be aided in this understanding by statistics on the occupational distribution of the labor force, available nationally in the censuses of 1876 and 1940, and for Lima in the regional censuses of 1903, 1920,

\begin{itemize}
  \item \textsuperscript{11} For example, Carranza (7); Francisco Málaga (44, 45); Fermín Málaga (46); Dueñas (18, 19); Ferreyros (23); Moreno (53); Sutton (82); Garland (26).
  \item \textsuperscript{12} Perú. Dirección de Industrias, \textit{Estadística Industrial}. Periodic, first issue in 1942.
  \item \textsuperscript{13} Garland (28, 29); Cisneros (9); Perú. Ministerio de Fomento (67).
  \item \textsuperscript{14} Jiménez (34); Perú. Dirección de Estadística (58); Hohagen (33).
  \item \textsuperscript{15} For example, Rippy (72).
\end{itemize}
and 1931. Unfortunately the occupational classifications of these various censuses require many adjustments before they correspond to the economic sectors that interest us in questions of structural change.

Indeed this type of difficulty presents itself even in the most up-to-date national accounts; the structural changes that interest us involve not only the expansion of manufacturing relative to agriculture, but also the expansion of modern factory output relative to artisan production, and of foreign-owned relative to nationally-owned enterprise. Published statistics almost completely overlook these latter two divisions, yet a good case can be made for asserting that the traditional agriculture-industry-services division is the least interesting of the three. The task of effecting these more interesting divisions, the better to trace the more important structural changes, presents a heady challenge for national accounts statisticians working in the present, and an even more difficult task for economic historians working in the past.

Production trends are interesting mostly for what they imply about consumption trends, since we generally view consumption as the final goal of economic activity. Independent estimates of aggregate consumption are lacking in Peru today, and we have little hope of their being estimated for the past. The trend in aggregate production may be considered an acceptable surrogate for the trend in aggregate consumption, the only difference being a term of trade effect.

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17 This exercise is nearly completed, however, and will be presented shortly in another paper.
but aggregates have their limits here as well, we cannot assume that trends on aggregate consumption or production accurately depict consumption trends for component groups in society. Our perceptions of welfare and power relationships require that we study consumption trends for various groups more directly, even though we must again fall back on the use of income as a surrogate for consumption. Thus we arrive at the imperative of producing statistical studies of income distribution, even though definitional and measurement problems are intense, and yield no completely satisfactory answers. For example, it often makes a substantial difference whether we treat the family or the individual, as the unit of measurement, whether measured income included unrealized capital gains, and whether adjustments are made for different price structures in different regions. Only in the last few years have economists and statisticians confronted the challenge of measuring income distribution in Latin America. At least one carefully done estimate now exists for most countries, thanks largely to the efforts of ECLA. In the case of Peru, three estimates have been published, but they must be approached with extreme caution. One begins with improbable data showing that the average campesino earns more than the average white collar worker, another gives no information whatsoever on computation methods, and a third presumes income distribution out of the distribution of land holdings, although we know very little about the relationship between these

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18 For example, the decision whether to evaluate subsistence food production at farm price or urban retail price is crucially important for estimating regional income distribution. For an elaboration of the problem, see Dan Usher, The Price Mechanism and the Meaning of National Income Statistics (Oxford: Clarendon Press, 1968).

two distributions. These statistical studies have advanced us very little beyond the insights of casual empiricism: that in Peru a few people are very rich and a lot of people are very poor.

Although a reliable estimate of income distribution at a given time would be nice to have, much of its significance is lost without some idea of changes in income distribution over time. Therefore, we really need distributional measures at two or more points of time. This substantially more difficult task has been attempted recently in only a few Latin American countries, and only over the last 20 years at that. Nevertheless, the challenge of tracing out changes in the distribution of income over the last 150 years demands particular attention from the quantitative economic historian.

Evidently the job will have to be done on a partial basis, through studying trends in real wages and incomes of particular social groups. It will take a great deal of work just digging up wage series, but the quantity of easily available data suggests that series can be constructed for such groups as miners, coastal agricultural workers, and textile workers. Similar opportunities and difficulties exist for price indices. Prices themselves are perhaps

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somewhat more readily available; official price series were begun in 1910, and
the work of Macera on the eighteenth century and Lohmann on the sixteenth gives
promise that similar series can be produced for 1830-1910. The problem of
quantity weights is a good deal thornier, however, and may have to be solved
merely by trying a range of weights in the hope that fundamental conclusions
are not altered.

There are, of course, many non-statistical facts of economic change
that we would like to know, but also many that we know already thanks to the
presently existing monographic literature. Here the statistical facts have
been emphasized because they are important, because they have been neglected,
and because the raw material is there. The framework proposed here also relates
to non-statistical, institutional studies, however. Such studies acquire
particular value by showing how a particular institution has either contributed
to increased production and improved distribution, or has helped maintain some
of the obstacles to development that are discussed in the next section.

22 Perú. Dirección General de Estadística (60). Guillermo Lohmann Villena,
"Apuntaciones sobre el curso de los precios de los artículos de primera necesidad
on eighteenth century prices is not yet published.

23 A sampling of outstanding monographic studies deserves mention:
On banking, Camprubi (6); on monetary systems, Ferrero (22), and Moll and Berreto
(52); on taxation, Rodríguez (74) and McQueen (43); on foreign indebtedness,
Wynne (85); and Yrigoyen (86); on the guano age, Rodríguez (75), Levin (39), and
Copello and Petricomi (12); on commerce, Basadre and Ferrero (2); on the campesino
Piel (71); on agriculture in general, Martinet (49); on sugar, Garland (26),
Klinge (37), and Klaren (36); on irrigation, Moreno (53), and Sutton (83); on
Chinese indentured immigration, Stewart (81); on mining, Dávalos y Lissón (17) and
Jiménez (35); on nitrates, Bermúdez (4); on railroads, Costa y Laurent (14); on
general economic conditions, Datos e informes ... (16), Rowe (77), and Dunn (21),
and Dancuart and Rodríguez (15).
The obstacles to past growth and transformation of production

The proximate causes of output stagnation are identified through a production function: insufficient factor accumulation and inefficient factor use. The former refers specifically to slow expansion of the capital stock, the labor force, and the skills embodied in that labor force; with the latter our concern lies more with technological change and entrepreneurship than with the static efficiency of resource allocation. These elements determine the volume of output provided by a given bundle of factors. Let us examine them one by one, beginning with the issues of factor use: technology and entrepreneurship.

We have no real understanding of the mechanisms whereby technological change is introduced into the Peruvian economy. The few instances of technological improvement generated by intensive research and experimentation within Peru are exceptional. In general, Peruvian agriculture and industry have spent very little on research and development, and technological change has come mostly from improvements embodied in imported machinery.

In its present condition of external dependance, the basic technological challenge faced by Peru lies not in creating entirely new technologies, but in creating the capability to take advantage of foreign technologies, adapting them to be more appropriate to local conditions. This adaptive process is no small challenge; in some degree it is always present, even with the process of installing a newly imported machine. A substantially more demanding adaptive process exists in the case of agricultural technology; we need to know more about the success of this adaptive process, through the study of agricultural experiment stations and other key points
for the dissemination of new techniques.  

I suggest that the main question to be addressed in the study of technology is why dissemination and adaptation have been so limited. The answer to this question may be closely connected to a key question of entrepreneurship: Why have those Peruvian manufacturing firms not controlled by foreigners generally been controlled by families of recent immigrants? Have immigrant families had greater access to foreign technology? While migrating to Peru, they may well have maintained close financial and technological contacts in their native land. By contrast, Peruvians of longer standing may have remained out of touch with opportunity partly for lack of such contacts, partly for lack of training required for successful technological adaptation.

An entirely different explanation can be put forward based on cultural factors. Possibly immigrant families have been more effective in borrowing foreign technology and undertaking industrial enterprises not because of previous contacts but because of more active entrepreneurial behavior. Successful industrial entrepreneurship may have derived either from their distinctive cultural background or from their having been denied access to high social status through the traditional routes of landowning, politics, and commercial enterprise. Thus we have competing (but not mutually exclusive) explanations: one based on discriminatory access to information and finance, the other on cultural factors. We need to know more about the

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Apart from the problems of acquiring technology, entrepreneurship requires study as a separate and highly important factor in economic growth. In other economic sectors as well as in industry, we have conflicting views on the nature of Peruvian entrepreneurship. On the one hand we see evidence of substantial deficiencies. For example, the acerbic Englishman A. J. Duffield unburdened himself in 1877 as follows:

"The land is not cultivated: The things, for the most part, which are taken to market, are those which grow spontaneously, without art or industry. The people who supply the Lima market are chiefly Italians ... Idleness among the upper classes, i.e., the whole white population ... is the order of the day, and is punished by no one."

This is only one idiosyncratic foreigner's judgment, but the judgment carries weight precisely because it came from a representative of the Victorian culture whose norms were exceedingly well adjusted to the imperatives of capitalist development. We get a similar view of the particular absence of entrepreneurship in Peruvian culture by considering the extraordinary progress of Chinese and Japanese immigrant communities in Peru. These communities, begun as collections of impoverished indentured laborers, have forged ahead economically

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26 Duffield (20), pp. 9-11.
without outside capital assistance in a span of 5 or 6 decades. One noteworthy example, a Japanese farmer in the valley of Chancay, rose from indentured laborer to become the most powerful landowner in a wealthy valley. 27

On the other hand, a good deal of evidence has been accumulated from around the world showing that peasants are indeed economic men, responding rationally to economic incentives. An active market economy permeates practically all less developed countries, including Peru, and the actors in these markets, be they producers or traders, are sensitive to price fluctuations and to new opportunities as they perceive them. How then can failure of entrepreneurship be represented as an important obstacle in Peru's past development? The answer is not certain, but we suggest that if such failure can be represented as an important obstacle to development, it has presented obstacles particularly in managing large enterprises, or in acquiring large-scale financing, or in gaining access to modern technology.

We next turn to the development obstacles created by failures of factor accumulation, beginning with skills embodied in the labor force, i.e., education. The history of Peruvian education from an economic standpoint has yet to be written. It will not be a happy history, however, but one of inadequate effort and uncertain or even pernicious purpose. The effort has been quite impressive in recent years; from 1956 onward the pace of expansion in educational expenditures and the percent of school-age cohort groups actually in school have increased appreciably, while the illiteracy rate has fallen steadily. 28 But in the first century of independence the situation was quite

27 Hatos Mar (51), pp. 348-352.

28 Education expenditure consumed 1.77% of GNP during 1950-55, but this share rose to 3.60% ten years later, an educational effort exceeded only by Cuba and Puerto Rico among Latin American countries. The illiteracy rate for the adult population (age 15 and over) declined from 57.6% in 1940 to 38.9%
different the illiteracy rate was measured at 79% in 1876; by 1940 it had declined only to 57.6%. This did represent some progress, of course, and detailed study of the means by which it was achieved is indeed a worthy pursuit that will be made easier by the few pioneering works in the field.

Illiteracy rates are important measures of educational quantity, but the problem of educational quality presents an equally important challenge. Generally problems of quality have been finessed in economists' estimates of educational capital stock, and such estimates are thus reduced to a rather sterile numbers game. Quality is both a policy problem and a measurement problem in all countries; in the case of Peru, we note the recent critique produced by an official committee charged with planning educational reform:

"Mucho podría decirse acerca de la ausencia de contenidos significativos en las diversas ramas y niveles de nuestra educación, del exagerado intelectualismo o memorismo que prevalece en la práctica didáctica y en el aprendizaje, del casi total olvido del sentido creador que debe tener toda educación. Los educandos no adquieren ni siquiera las habilidades básicas, como la lectura inteligente y el pensamiento reflexivo, ni son capacitados para ninguna actividad útil y productiva."  

28 (cont'd.)

29 Peru. Ministerio de Gobierno. Dirección General de Estadística, (69). Vol. 7 Apéndice, pp. 48, 50; Dirección Nacional de Estadística, Censo Nacional de Población y Ocupación, Vol. 1, Tables 6 and 68. The 1876 census fails to classify illiteracy by age; the 79% figure comes from assuming that all children under 10 are illiterate, and that the illiteracy rate for the population age 10-15 is the same as for the population over 15 years.

30 Cisneros (10); Lockey (41); MacLean y Estenos (42); Basadre (1); Peru. Dirección de Primera Enseñanza (59).

These have remained the curses of Peruvian education throughout the decades. Even when curricula have been deliberately geared to economic needs, these same shortcomings have persisted. Perhaps the first noteworthy effort was the Escuela de Minas, founded in 1876, but even this attempted innovation received the following judgment: \(^{32}\)

"Cuando los alumnos se convirtieron en ingenieros, y se lanzaron a la vida práctica, ... no llevaban nada del verdadero contingente que exige la labor minera. La mayor parte de su tiempo, lo habían pasado en aprenderse de memoria, una nomenclatura pesada e indigesta;"

The point of this critique is that all aspects of educational history, even pedagogical technique, are important to economic history, for in education, or the lack of it, one finds a key obstacle to development. One also finds a key mechanism by which unequal income and opportunity have been perpetuated.

Some implicit consideration has already been given to capital accumulation, since it is so closely associated with entrepreneurial spirit and the introduction of technological change. Nevertheless, capital accumulation also requires separate attention through the study of savings behavior. One often sees the argument that Latin America's social structure, with income and power concentrated in the hands of a few, is pernicious to economic development precisely because of the discouragement to savings. \(^{33}\) The wealthy of Latin America are often accused of lavish consumption standards, partly induced by social obligation, to the detriment of economic growth. This may indeed be the case. However, our evidence on this proposition is very weak. It is not enough to observe the lavish consumption standards of the well-to-do and infer that their savings propensities are low. The really wealthy of the western world have found it within their power to live regally and accumulate capital at the same time.

\(^{32}\) Dévalos y Liñón (17), p. 78.

There is to my knowledge only one piece of direct evidence in all Latin America on the question of savings rates among the upper class: a survey of twenty Chilean hacendados, done in the early 1960's, that showed their savings rate to be 16% of disposable income.\textsuperscript{34} This is a low figure; it may be compared with informal estimates that Pakistani industrial entrepreneurs have saved over 50% of their income.\textsuperscript{35} The point to note, however, is not that the Chilean rate is low, but that so important a factor in Latin American economic thought is given empirical substantiation through only one study of twenty households. To be sure, obtaining such data from the well-to-do presents great difficulty, since tax evasion makes respondents reluctant to give answers. Turning to the past, however, a great opportunity awaits the economic historian who locates the account books that surely exist among family papers in innumerable private archives.

A final element to be studied among failures of factor accumulation is labor itself. This may seem paradoxical, since development is generally defined on a per capita basis, therefore involving the accumulation of other factors relative to the expansion of population and the labor force. Nevertheless, one often sees it argued that in certain countries in certain periods labor shortages become the binding constraint to economic expansion. Furtado has elaborated


this thesis in his survey of Brazil's coffee economy in the nineteenth
century.\textsuperscript{36} In Peru during the nineteenth century a shortage labor was
commonly identified as the chief obstacle to expansion of coastal agriculture
in general and the sugar industry in particular.\textsuperscript{37} It remains unclear, however,
how labor markets could have functioned for this situation to come about. Did
coastal hacendados confront a highly inelastic labor supply curve, such that
use of chattel slavery, indentured servitude, and debt peonage represented the
only means of mobilizing labor, or did these various devices merely serve to
lower labor costs and avoid paying higher wages?

\textbf{Fundamental explanations of stagnation.}

The challenge of economic history lies in examining not merely the
evolution of factor accumulation and efficiency of factor use, i.e., the
proximate causes of output growth, but also the forces influencing and
underlying these proximate causes. We can identify three fundamental explanations:
The nature of merchandise trade between Republican Peru and her industrialized
trading partners, the character of international capital flows, and the
conditions of internal social and economic structure inherited from the Spanish
colonial system. Each of these explanations contains a number of variations, all
of which can be assimilated into the concept of external dependence.

Merchandise trade relations have presented obstacles through the
world market forces that press upon an economy specialized in the export of
primary products. In its classic form these forces are elaborated in the


\textsuperscript{37} Garland (26); Klinge (37); Ugarte (84).
structuralism of Prebisch and ECLA, which shows how a primary exporting nation consistently loses the gains from international specialization through declining terms of trade, and thus stagnates.  

The reasons adduced for this unhappy situation boil down essentially to two: that technological improvement in export industries increases supply and lowers export prices, and that demand conditions for primary products show continuing weakness. These arguments have been put forward at the most aggregative level, for all of Latin America or for all of the Third World; they have not been examined and tested with care in the case of particular Latin America countries. In the Peruvian case, such a test should involve not only a calculation of the terms of trade, but also study of the relation between wage trends and productivity increases in export sectors, and the evolution of world market conditions for Peru's exports.

Even if it should turn out that Peru's exports have enjoyed unusually buoyant world market conditions, possible benefit could have been lost if export sectors have existed in relative isolation, with few linkages to the domestic economy. Empirical studies of export enclaves are particularly needed in the case of Peru, since the Peruvian experience with guano has been used as the classic example in world history of an enclave whose riches were exhausted without benefit to the domestic economy.  

Aside from guano, work dealing with

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39 Levin (39).
the economic impact of other export industries is almost entirely lacking. Only Garland’s work on sugar and an excellent but nonhistorical study of the fishmeal industry come to mind. In the case of copper, the industries of Chile and Zambia have been analyzed in detail with particular emphasis on the evolving structure of income flows and gains to the domestic economy. The Peruvian copper industry is a clear candidate for similar study.

The social organization associated with specializing in the export of primary products can also present obstacles by generating behavioral patterns inimical to further development. An extreme case lies in the traditional plantation economy, totally geared for export production through efficient use of local factors, but almost surely headed for eventual stagnation. The West Indies, allegedly drugged into the lassitude of the "sugar mentality", represents a classic case. So does the southern United States, originally more prosperous than the resource-poor but entrepreneurially motivated North.

The mechanisms by which particular types of export specialization can lead development to a dead end are often mentioned, but generally through casual reference unsupported by research. One such mechanism works through education. If a system of production generates a social structure with wide gulfs between classes, that class structure probably will not support mass

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education. The stifling of educational opportunity may be the most pernicious economic factor working to effect eventual stagnation. Beyond that, savings rates are often thought to be depressed by the extravagant consumption of the wealthy in such societies, with industry stunted by the absence of a mass market for those simple manufactured products that constitute the beginnings of national industrial development. Implicit in this last point lies the assumption that Latin American national markets are presently too small for efficient production, or, to put it the other way around, economies of scale in modern industries are so great as to inhibit industrial development on a national basis.

Such arguments function, however, with no apparent sense of the magnitudes involved. Furtado has doubted that the domestic market of nineteenth century Brazil was large enough to sustain substantial industrial development, yet Pinto expressed no such hesitation in his study of nineteenth century Chile. These issues may be directed to the case of nineteenth century Peru: What was optimal production size for a given industry in a given epoch? How much higher would costs have been if industry had operated at only half that optimum size? One quarter? One tenth? Could such cost differentials have been covered by tariffs? How much greater would the market have been after a given redistribution of income? The questions are easy to produce, but the answers are not.

These impersonal economic obstacles to industrial development -- structure of demand, size of market, economies of scale -- have been reinforced

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42 See, for example, Pinto, pp. 86-88; Max Nolff, "Industria manufactuera," in Corporación de Fomento de la Producción, Geografía económica de Chile (Santiago, 1965), p. 512.

43 Furtado, p. 117; Pinto, pp. 34-43, 49.
by the power of economic imperialism. This much-abused term merits a
definition: Economic imperialism refers to the exercise of political power
by a strong nation in order to gain economic advantage in its dealings with
weaker nations. This exercise of power should be seen as a deliberate
political act, not merely the exercise of monopolistic power in a market.

Throughout the nineteenth century the focal point of imperialist
pressure was tariff policy. Latin America lay within the informal empire
of the United Kingdom, which used every opportunity to push its advocacy of
free trade. Historians in Chile and Brazil point to the low tariff policies
of those countries as the quintessence of imperialism's triumph. The
mechanisms whereby imperialist power was exercised varied; Direct negotiation
established the Anglo-Brazilian trade treaties under which Brazil could not
raise tariffs until 1844; in the case of Chile, British finance is alleged
to have played an important role in the overthrow of the one Chilean president
who wished to follow a more autarchic policy.

Two key issues confront the economic historian wishing to assess the
role of imperialist power in establishing tariff policy in Peru. First, the
political history of tariff setting demands intensive study for every period of
Peru's republican history. Second, we need a better sense of the importance

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44 Pinto, pp. 34-38; Hernán Ramírez Necochea, Historia del imperialismo en
Gunder Frank, Capitalism and Underdevelopment in Latin America (New York: Monthly

45 Hernán Ramírez Necochea, Balámaca y la contrarevolución de 1891
Frank, pp. 82-3.

46 Portions of Peru's tariff history may be found in Dancuart and
Rodriguez (15), Mathew (50), and Rivera Serna (73).
of tariff policy as a possible means of escaping market size constraints to industrial development. We might heed the warning of Celso Furtado, who doubted the significance of the Anglo-Brazilian trade treaties for Brazilian industrial development, thereby colliding with conventional wisdom. Furtado's argument calls for reevaluation, since it is an aggregative generalization, and the essence of tariff policy lies in differential rates providing production incentive in particular lines. Nevertheless, it remains an important reminder that the connection between tariffs and industrial development is not at all clear.

Merchandise trade with Europe resulted in the importation of European goods, European power, and European ideas. The imperialism of free trade carried with it a force of ideas -- sometimes called cultural imperialism -- that is well documented in the case of Chile, where laissez-faire ideology dominated economic thought in the closing decades of the nineteenth century. Its influence was strengthened through being used as justification for the conquest of Peru's nitrate provinces: Chilean laissez-faire, it was held, would undertake a progressive development which Peruvian statism could never have achieved.

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47 Furtado, p. 107.


49 Mamalakis, p. 204.
Peruvian history gives us innumerable instances of the uncritical absorption of foreign ideas and models. Laissez faire has had its advocates in Peru as well over the years, but beyond that particular foreign idea one must recognize the oppressive sense of cultural inferiority that gripped nineteenth century Peru, making it eager for European immigration, European ideas, any contact with Europe as its only path of salvation. The development of these attitudes and their impact on economic policy and economic development form an important unwritten chapter in Peruvian history.

The exercise of foreign controls over Peru's export trade presents another series of problems requiring analysis. As in so many other cases, this concern was perhaps best expressed by Mariátegui when he wrote the following diagnosis of the Peruvian economy:

Su movimiento, su desarrollo, están subordinados a los intereses y a las necesidades de los mercados de Londres y de New York. Estos mercados miran en el Perú un depósito de materias primas y una plaza para sus manufacturas. La agricultura peruana obtiene, por eso, créditos y transportes sólo para los productos que puede ofrecer con ventaja en los grandes mercados. La finanza extranjera se interesa un día por el caucho, otro día por el algodón, otro día por el azúcar. El día en que Londres puede recibir un producto a mejor precio

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50 For example, Silva Santistéban (80), Garland (24, 25, 27), Gubbins (30, 31, 32.), and Rodríguez (76).

51 Palma (54); Pazos Varela (56).

52 Mariátegui (57), 13th edition, p. 80.
y en cantidad suficiente de la India o del Egipto, abandona instantáneamente a
su propia suerte a sus proveedores del Perú. Nuestros latifundistas, nuestros
terratenientes, cualesquiera que sean las ilusiones que se hagan de su in-
dependencia, no actúan en realidad sino como intermediarios o agentes del
capitalismo extranjero.

In these comments Mariátegui secured the agreement of the Catholic
traditionalist Víctor Andrés Belaunde, who commented: "Pavorosa y exacta
la pintura que (Mariátegui) nos hace de una producción agrícola orientada
hacia el mercado extranjero y controlada por éste."53

Yet is it not precisely clear what makes a coastal agriculture oriented
towards export production so fearful a sight. Is it merely the fear of
uncertainty which besets an overspecialized sector, worried about losing its
exports markets to lower cost competitors? Then economic historians are
presented the interesting challenge of examining the intensity of fluctuations
in Peru's export markets and the flexibility of Peruvian producers and factors
of production in adjusting to such changes. More than that, however, at
various time social commentators have also been concerned that Peru has been
victimized by price fixing and monopsony control in these markets. Certainly
many Peruvians have felt themselves victimized. For example, resentment and
hostility towards buying agents for international commodity markets, especially
cotton, remain intense. Yet another task for economic historians therefore lies
in examining these market structures, how they operate, how they have changed
over time, and how much Peru has lost.

Turning from the structure of merchandise trade flows, we identified a
second category of fundamental obstacles to development in the character of

international capital flows, particularly the typical twentieth century form of direct foreign investment. The advantages that direct foreign investment presents to the receiving country are well known and obvious: The country has additional factors of production made available for the expansion of center sectors. Against this must be set a number of disadvantages, such as the displacement of national enterprise and national entrepreneurship, loss of savings potential through the increased influence of foreigners' consumption standards, and a disturbing sense of national subordination to foreign economic direction.  

Moreover, the receiving country has frequently paid a very high price for the capital and management factors thus acquired, particularly since the amount of foreign capital received is limited by the tendency of foreign firms to finance their expansion by drawing on domestic sources of savings. In several recent studies the price has been assessed in terms of balance of payments impact: total capital inflow compared to the eventual outflow of repatriated profits and amortization. This comparison is hindered by a number of interpretive difficulties, however. Evaluative studies would be more meaningful if directed to calculations of profit rates, i.e., profits as a percent of invested capital. Direct foreign investment has been assisted in its twentieth century penetration of Latin America by the changing character of imperialist pressure. In the first place, restrictions on commodity flows through tariffs ceased to be a major issue. Latin American countries established their right to tariff protection to the point of pushing rates up to the world's highest levels. However, as tariffs provided increasingly secure protection to local industry, this industry increasingly fell into foreign hands, since few attempts were made to control the inflow of foreign capital. Thus the twentieth century witnessed a strange evolution of policy in which nation states were generally conceded the right to control the international flow of commodities and of one

55 For example, Malpica (47), pp. 80-86; Dos Santos, op. cit., p. 442; Keith Griffin, Underdevelopment in Spanish America (London: Allen and Unwin, 1969), pp. 145-147.

factor of production (labor) but not of the other factor (capital). In the second place, a major shift occurred in the focal point of imperialist power, from England to the United States. Thus the United States was left to exercise its political influence in support of this curious new set of rules for the game of international commerce.

With these changes, the instrument of penetration has shifted from the merchant to the U.S.-based multinational corporation. Such corporations are powers in and of themselves, but only recently have researchers developed some understanding of the nature of this power and its relation to U.S. national power.

These various effects of direct foreign investment immediately suggest an agenda for research: To establish the historical record of profit rates earned by foreign companies in Peru, to study the sources and uses of

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57 The General Agreement on Tariffs and Trade (GATT) has placed some restrictions on a nation's freedom to manipulate international flows of commodities. However, its restrictions have been evaded repeatedly as nations have developed numerous non-tariff barriers to trade. Also, Third World countries have generally been exempted from GATT restrictions.

investment funds and the role of local financing sources, to undertake case studies showing the process by which local firms were displaced to make room for foreign enterprises, to examine the mechanisms by which foreign-based multinational corporations have exerted power, paying particular regard to the distinctive differences in the exercise of power by foreign as opposed to domestic companies, and to examine the impact of foreign managers and technicians on the social structure of the environment in which they placed themselves.

Apart from these various external obstacles, we are left with a third and final fundamental explanation for slow growth and weak structural change in Peru. This consists of the internal weakness inherent in the social and economic structure inherited from the colonial period, slow to change and be righted even without pernicious external influences. We may best distinguish this from preceding explanations by asking: What would have happened to an independent Peruvian Republic in the nineteenth century if there had been no foreign investment, no expanding world economy, and therefore an essentially autarchic economic system?

The externally focused arguments suggest that an autarchic Peru would have enjoyed considerable prosperity. After all, a flourishing economic life had existed in seventeenth century colonial Peru, despite miserable treatment of the workers, with an abundance of textile workshops (obrajes), a diversified coastal agriculture, and a vigorous commerce in food and clothing stretching through the Sierra in service to various mining regions. Such a system very

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possibly contained a class of small entrepreneurs who could have formed the foundation of future development along similar lines.

The internal weakness argument suggests rather than an autarchic nineteenth century Peru would have stagnated, for lack of sufficient strength in these entrepreneurial qualities. The historian can not examine this argument in isolation, however, since in historical context these weaknesses existed in an environment of foreign influence, where only with great difficulty can one trace the connections between that influence and the observed internal weakness. This final explanation is perhaps best viewed merely as a negation of the two previously described explanations, i.e., that external obstacles were not so great but rather that internal adjustment to economic opportunity was slow and halting.

Conclusion

The burning social and economic issues of the present have their roots in the past. As Peru seeks its own restructuring for a future of greater prosperity, dignity and justice, it also seeks the insights of history, the better to understand its present difficulties. Thus interest in Peruvian economic history has flourished as never before; the discipline is now entering its most exciting period.

I believe that this new era will be marked by the introduction into historical studies of a few new economics and quantitative techniques, but not the escalation of technique associated with the "New Economic History" in the United States. Linear programming and general equilibrium models are not needed, in part because the issues that seem most important can be handled with simpler methods, in part because the fancier techniques of economics derive mostly from the fundamental paradigm of allocative efficiency, which is not a key issue
in Peruvian history. The fundamental characteristic of this new period of study will not be new technique, but new relevance.

I have attempted to point out the fields of study that seem most relevant. The range is wide, covering studies of output and income, education, entrepreneurship, savings behavior, export enclaves, terms of trade, interactions between economic structure and social structure, behavior of foreign investment, tariff policy, and the exercise of imperialist power through government, multinational corporations, and commodity markets. There is plenty of work for everybody.
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