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AGRICULTURAL PRICE POLICY IN PERU

by

Luis Paz*

I. INTRODUCTION

What do we mean by price policy? Can a price policy be similar for countries which have different goals, different economic systems, or different concepts of development? Can a price policy be the same for different stages of development, or during different points in the structural transformation of a country? What do we think of as fairness, and what do we mean when we speak about fair prices? Can social justice be achieved only through price control? How important are non-monetary factors to the welfare and development of a community?

Some economists are of the opinion that prices have three main functions: 1) to serve as a guide for the efficient use of resources (in this case it is necessary to establish what is understood by efficient use of resources, and the relationship which exists between the concepts of efficiency and ownership of resources); 2) to help to define the form in which income is distributed among different sectors of the economy, among different regions, or, simply, among different groups of people (in this instance we should determine whether or not when looking at income distribution among sectors of the economy, it is also necessary to examine income distribution within a single sector; or when examining regional income distribution, if we can ignore the quality and quantity of resources per capita in each region, without contradicting the first function of prices, that of efficient utilization of resources). The third function is intimately linked with the second, and has to do with the influence that prices have on capital formation.

Certain comments regarding the three functions ascribed to prices will help to answer the questions posed at the outset.

The first function of prices, "to serve as a guide for the efficient utilization of resources," should be examined in its individual parts. First, let us ask "to serve as a guide" for whom? Prices act as a guide for both producers and consumers: (a) for producers so that they may produce those products which yield them the largest profit, by using those resources which by virtue of their abundance can be

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obtained for the relatively lowest prices; and, (b) for the consumers so that they might acquire those products which are also relatively lowest priced. But what does this achieve? If the abundant resource is labor, then according to the above, the producer-entrepreneur will utilize relatively more workers, paying them a low salary or "price" for their services; and if an attempt is made to produce whatever yields the greatest profit, because of its relatively high price, the producer-entrepreneur will be guided by prices in producing certain products. Thus, the criterion of "efficient utilization of resources" would cause entrepreneurs to be guided by prices in paying little for abundant resources and producing goods with the relatively greatest price advantage.

"Efficient utilization" does not take into account the welfare of the workers, any possible negative external impact on the enterprise, nor the possible destruction of resources with future negative repercussions for the country as well as the entire world.

As prices are also influenced by demand, and demand is tied to purchasing power, relatively small, high income groups within the population can also be influential by putting pressure on prices and thereby "guiding" producers to utilize those resources in producing goods which yield relatively higher profits, but not those articles which are needed by the majority of the population. The term "efficiency" should be clarified here. Efficiency can be economic, technical or social. Economic efficiency is directed towards the best use of resources from the point of view of greatest income for the producer; but what is economically efficient may contradict or oppose what is technically or socially efficient. Can a high income activity be called economically efficient although technically it is destroying a resource or creating pollution problems which endanger society; or although in the social context it is using resources to produce luxury or superfluous goods, or simply those of greater processing instead of producing goods to satisfy basic needs?

Thus, an examination of the second function of prices shows that it is completely contradictory to the first function; assuming, of course, that what is meant by income distribution is not greater concentration of wealth but rather the lessening of differences in monetary and non-monetary income among members of a given society. The best distribution of income cannot be realized through the concept of economic efficiency and, therefore, two contradictory functions cannot be ascribed to the same system or mechanism called "prices."

Accordingly, a price policy has to be in agreement with the first function, that is, with the achievement of maximum economic efficiency, or directed towards greater income distribution, although in a period of transition there may occur some mixing of the two situations.

If the goal of the government is to achieve social justice, and if one of its components is understood to be the development of a society

with a minimum of inequality of monetary and non-monetary income among its members, then the price mechanism alone is inadequate to realize such justice.

The achievement of social justice requires profound changes in the ideological, political, economic, social and cultural structures within countries, and in their relations with other countries.

Thus, it is not through the prices of agricultural products that improvement in income distribution will be accomplished if ownership of the land is concentrated in a few hands, or if the farmer's land is only used to satisfy his own needs. Under such conditions relatively high prices for agricultural products only serve to benefit the landowners, bringing about a redistribution of income from low income urban and rural consumers to these landowners. The social cost of such a policy is very high if one considers that it is precisely these low income individuals who have to reduce their consumption of foods whose prices have increased or, alternatively, substitute them for products of lesser quality, or reduce their expenditures on food in proportion to the reduction of their purchasing power.

The internal price structure of a country, dominated by the capitalist system, reflects the power struggle among different sectors of the economy and among the individuals within these sectors in the same way that world market prices reflect the power struggle among countries, and among transnational enterprises and governments.

The result of the power struggle is manifested in the distribution of employment and in labor earnings within each of the economic sectors of a country, or among countries. Thus, the terms of trade between the industrial and agricultural sectors of a country, the urban and rural sectors, or the industrialized countries and those that are raw material producers, is reflected by the wages received by their respective workers. Within each country or among groups of workers within the same economic or regional sector, there also exists inequality in income distribution and in workers' compensation.

According to the theory of supply and demand, the price which gives the lowest social cost of production is the one which occurs when demand is equal to supply. How absolute is this statement? To what do "price," "supply" and "demand" refer? Is what is taught in economics true, that there is an "invisible hand" in a "free economy" which, by virtue of the egotism of countries and individuals, regulates prices for the "benefit of all" and directs production and trade to satisfy the needs of the population? Is it or is it not possible that this "invisible hand" is controlled by a government or an enterprise for its own benefit, without being concerned over satisfying the basic needs of the population?

Now, more so than at any other time, it is possible to confirm that prices, supply, demand and, therefore, the relationships which exist among these three variables, can be directly controlled. This can be seen in the case of price fixing for petroleum, in the inflationary measures taken by the industrialized countries, in the devaluation of the dollar or the revaluation of gold, all of which are measures which alter the terms of trade between countries.

Clearly, the price policy of a country cannot be arrived at without considering the management of supply, demand and prices pursued by the governments of the industrialized countries and the multinational corporations. In the latter instance, when they act as middlemen in transactions between countries the volumes with which the transnational corporations deal are so large they can speculate on a world level, and the unfair increase in their profits is a consequence of the "balanced price between supply and demand." In this way the social cost of production is never kept to a minimum, and even demonstrates the necessity of establishing a new worldwide economic order, in which neither producers nor consumers are exploited by the directly speculative actions of governments or transnational enterprises, or indirectly by monetary measures which contribute to a deterioration of terms of trade between countries.

It is impossible to analyze, much less understand, the price policy of a government if some of the basic characteristics of that country are not known: such as, its resource potential; its economic, political, social and cultural structure; and the basic goals which motivate the actions of its government.

For this reason, this paper includes a section which deals with the goals of the Government of Peru, and another which deals with the characteristics and changes taking place economically, politically, culturally and socially, as they relate to the agricultural price policy of the present government, from the time it came to power in 1968.

II. THE GOVERNMENT'S GOALS*

The Peruvian Revolution is an independent process working to change the political, economic and social structure of the country; it is working to bring an end to our status as an underdeveloped, capitalist and oligarchic society, prey to the interests of imperialism. The aim of the Revolution is to build a social democracy in which all Peruvians can fulfill their lives through total participation in the exercise of the popular will, within a truly sovereign national community.

* Taken from "Ideological Bases of the Peruvian Revolution."

The Peruvian Revolution can be defined as being nationalist and independent, based on a doctrine of revolutionary humanism, clearly opposed to all systems of social exploitation and to those who preach dogmatism and totalitarianism. Thus, it challenges both the capitalist and communist systems.

By basing itself on a doctrine of revolutionary humanism, it considers the individual as an end rather than a means; it seeks fulfillment of the individual, holding liberty and justice as inseparable values, rejecting all forms of exploitation; it aspires to the building of a truly human society based on solidarity; it promotes the freedom of the individual from all forms of domination and, therefore, rejects the existence of any type of oligarchy; it advocates an ethic for action based on the relationship between ends and means; and it recognizes tolerance as a value, rejecting, therefore, dogmatism and the use of violence.

Revolutionary humanism is derived from socialist, libertarian and christian ideas:

Revolutionary humanism is nourished by the socialist legacy - neither dogmatic nor totalitarian - which: a) declares that work is the fundamental source of wealth; b) states that within a pluralist economy the means of production belong to the people; c) promotes the position that that which belongs to the State is for the benefit of the national community; and d) aspires to achieve a system in which the goods produced by the people benefit those who produce them and all of society, as well.

Revolutionary humanism inherits from libertarian thought the proposition that within a unified society the freedom to be an individual in the face of any arbitrariness or imposition is an inviolate right; it declares that power, and the decisions that derive therefrom, shall with the least intervention possible, emanate from the people and be in accord with the interests of the entire nation; and it fosters among individuals and groups a sense of their autonomy and social responsibility to take their own decisions.

Revolutionary humanism is inspired by christian thought: to uphold the essential equality of all men, the foundation of fraternity of man, and to reject, therefore, all forms of social and economic injustice; to celebrate the value of solidarity and propound the elimination of the conditions which historically have lead to inequality, hate and conflict among Peruvians; to affirm that only by building a just society can men enjoy true freedom and be able to develop the full dimensions of their personalities; to work for the attainment of a true collective effort to achieve a society without exploited or exploiters, the only real basis for harmony among all Peruvians; and to recognize the family as the cornerstone of society and the source for the richest sense of humanity.

The Peruvian Revolution considers as its ultimate goal the building of a fully participatory social democracy whose essential features are: a) a participatory political system with popular support; b) a pluralistic economic system based on the priority sector of community property; and c) a social system supported by a union of ethical values and conduct which embrace justice, freedom, work, participation, community, creativity, honor and respect for the dignity of the individual.

III. CHANGES IN PERU'S AGRARIAN SECTOR, 1969-1974

What do we mean by progress in agriculture? Can we say that only because there have been increases in production there has been progress in agriculture? Is the growth of agricultural exports an index of progress in agriculture? What importance do we assign to the preservation and way economic benefits are used which result from the utilization of resources when we measure agricultural progress? Is it possible to separate agricultural progress from rural development? Is it possible to have progress in agriculture without improvement in the quality of life for the agricultural worker or rural dweller?

These and other similar questions have been posed for analyzing fully, albeit in summarized form, agricultural progress in Peru over the last five years.

Much has been said about the concepts of development, progress and growth, but thus far the only agreement that has been reached on the definition of these terms has been to satisfy academic needs. However, not reaching agreement on the definition of these terms does not frighten us since any definition we embrace would be derived from the complex set of values of the individual, government or political group supporting each definition.

In the capitalist countries, regardless of which of the terms is defined - progress, development or growth - reference is always made exclusively to increases in combined goods and services of the society, without ascribing importance to the form in which these goods and services are distributed among its members, and without analyzing the effects of production and use of these goods on the conservation of resources and on human conduct. Only in recent years, faced with the massive destruction of resources by the uncontrollable "technical and entrepreneurial efficiency" of the "businessmen" of the so-called developed countries, have the governments of these countries, as well as the international organizations which they control, called for increased international conferences to take up these problems and their implications.

In Peru, we have over the last five years matured and we continue to do so, largely in terms of the role of the individual in the development process and how it relates to those who surround him. We believe that in order to grow, progress and develop we have to produce more. But we are also convinced that we must exercise great care in determining what we need to produce, who will benefit from the use or consumption of what is produced, and to what extent.

In order to talk about agricultural progress in Peru, we must first deal with what would be called, according to our understanding, agricultural backwardness. Following this we can see whether or not over the last five years we have stood still or have moved away from that backward state.

But we should not deal with what has been or with the changes that have occurred in Peru's agriculture as an isolated national problem, for the agrarian condition of a country is only a result of changes in ideologic, economic and juridico-political structure.

The Peruvian Plan for 1971-1975, in its treatment of the fundamental aspects of national problems states that "Peruvian society is underdeveloped and dependent on the capitalist system." Both are basic structural characteristics which derive from the nature and organization of the domestic economy and its relationship to the world economy, of which it is part. Both characteristics indicate political and cultural dimensions of a much broader nature. Economic dependence is manifested by the subordination of Peru's economy to the needs and interests of the international capitalist system, which in foreign capitals has taken basic decisions which affect domestic economic life and whose goals often disagree or even oppose the objectives of the country. Subjection to these forces produces political pressures that undermine the sovereignty of Peru.

"Dependence is intimately related to underdevelopment, although historically both are, in fact, equivalent." But just as dependence can be seen in the imbalances which induce subordination at the international level, so underdevelopment is manifested by deep seated structural imbalances within a country which cause some social groups to become subordinated to others. Thus, internal structural imbalances bring about problems of coexistence between small sectors of the population where there is a concentration of power, and large areas on the fringe of society where power appears to be diffuse and inarticulate. Obviously, it is within the sector where power is concentrated that the basic decisions are taken which affect the course of the entire population. Such a role is virtually denied to the majority of the communities, considered to be on the border of society which underdevelopment creates.

Out of the structural situation which has been described briefly in the foregoing paragraphs, there emerge certain specific problems that have special importance in the Peruvian case. The task of development will consist in tracing and solving these problems, which, in short, can be summarized as follows:

1. The existence of a rigid economic structure characterized by sharp differences in the distribution of wealth, and access to goods and services produced by the population. The resultant large differences between segments of the population makes it impossible to create a truly unified national image.

2. The dismantling of an economic apparatus whose productive capacity is just in the process of formation and whose effects are barely measurable. The dismantling of an economic apparatus tends to bring with it a regional dissimulation, both phenomena being counterproductive to an effective integration of the country and its economy.

3. The subordination of the Peruvian economy to foreign decision-making centers, from which emanate decisions that affect profoundly the economic life of the country and hold back its own development process which is directed towards the achievement of national goals.

"These important problems are what determine in the final analysis the structure of the entire population and how it is of benefit to the privileged classes, and in whose hands the power and means of production of the country are concentrated. For all practical purposes, therefore, the government and institutional systems of the country are markedly selective and discriminatory and tend to perpetuate the rigidity of a social structure whose own tenets contribute to maintaining vast differences among its members."

These basic features of the national problem can be seen in each of the economic sectors; and if this is done it is possible to see that the same characteristics are repeated with greater intensity within the agricultural sector. They are characteristics which belong to a "backward" society, and in the specific case of the agricultural sector they show just how backward it is. We believe that progress cannot be achieved in a society, much less in the agricultural sector, if drastic changes in the ideological, economic and politico-juridical structure do not take place, since they are at the root of the backward state.

Within this general framework, we will examine Peru's agricultural resources, to whom they belonged, how they were used and what was derived from their use. Following this we will look at the most important changes which have taken place over the past five years and, finally, the extent to which we have advanced from the backward state that existed beforehand.

The land area of Peru is 1,285,215.6 km², of which only 304,840 km² (23.6%) is being exploited for agricultural purposes. Of this amount, 28,740 km² are devoted to farming and the remaining 276,100 km² to natural pasture land, generally of a poor quality.

This low utilization of our land is due to various limitations within the three regions into which the country is traditionally divided.

In the 52 valleys found along the coast, only 8,000 km² are dedicated to agricultural uses. This results from a scarcity of water and a lack of infrastructure projects to provide irrigation and the regulation of the flow of water that is made available.

Each time that such infrastructure projects are carried out they prove indispensable, except in the case of steady flowing rivers. In the mountains the area under cultivation comes to only 16,740 km², of which 95% requires irrigation, and is limited by the high altitude and climatic and topographic conditions. In the tropical region, which represents some 60% of the country, 4,000 km² have been put under cultivation. In this region the main problems are of access and the wet tropical climate which hampers development.

The natural pastureland, which is the main food source for livestock, is located almost entirely in the mountains.

Of the total estimated population of 13,586,300, 43% live along the Coast, 47% in the mountainous region, and 10% in the upper and lower tropical zone. The population density coefficient for land in use is as follows:

<u>Region</u>	<u>Hectares per Inhabitant</u>
Coast	0.14
Mountains	0.26
Tropics	0.29
Country total	0.21

Our country has one of the lowest population density coefficients, not only compared to other Latin American countries, but on a world-wide basis. Bolivia, Chile and Ecuador, for example, have coefficients almost double that of Peru. Peru's coefficient is similar to that of mainland China.

The prospects for expanding Peru's agricultural frontier over the next 20 years have been estimated as follows:

<u>Region</u>	<u>Hectares</u>
Coast	600,000
Mountains	400,000
Tropics	1,600,000
Total	2,600,000

Over the same 20-year period, Peru's population is estimated to grow to a level of 24,736,700.

In 1970, the economically active population of the country stood at 3,926,700, of which almost half (48%), 1,901,000, was involved in agriculture.

In terms of land area actually under cultivation, the coefficient comes to 1.42 hectares per individual actively engaged in agriculture; and if the natural pastureland is included, the coefficient comes to 1.62 hectares. These figures are dramatic evidence of the country's scarcity of land, and of the urgent need to eliminate anything that stands in the way of putting it to maximum use.

Knowing that arable land for crop and cattle production is so limited, it is easier to appreciate just how important the degree of concentration and type of land and water resource ownership is for Peru. Every political decision, including those related to agricultural prices, must take into account the structural changes that have taken place from the time the agrarian reform was begun until the present time.

The imperfect pattern of land ownership, tenancy, use and farming methods have been the principal obstacle not only to the development of the agricultural sector but to that of the country as well.

In the land tenure study of Peru, which the Inter-American Committee for Agricultural Development (CIDA) undertook in 1961, the extent of concentrated ownership could be seen. The study indicated that of a total of 851,937 agricultural units comprising 18,604,500 hectares, only 3,972, or 0.4%, of the units accounted for 14,064,694 hectares, or some 75.9% of total arable land. On the other hand, 708,257 units, or 83.2%, held 1,054,720 hectares, just 5.5% of the total.

This excessive concentration of land in so few units and the great number of small holdings was not unique to that moment, but had, in fact, been the case since the era of the Viceroyalty. In different ways, generally related to the concentration of political and economic power, a few agricultural enterprises in each valley or region grew in size while continuing to be surrounded by small farms, forming a "latifundio-mini fundio" complex. Thus, there developed a system of domination by a few landowners over a large number of workers, both from their own estates

as well as the owners and tenants of the small farms. It was by virtue of this cheap labor that the large landowners were able to accumulate their fortunes. For the most part these fortunes were not invested in the country, nor were they used for domestic consumption; instead, they were invested in Lima, foreign countries and luxury goods. Therefore, increases in productivity and production have not contributed to the development of the rural area and consequently, by not generating employment, have created an increasing migration of the younger population towards the capital.

Over the years Lima has become a drawing center for the population, and has consequently brought about an over-concentration of families there who require employment and services. This will remain one of the more important problems to be solved, requiring the adoption of policies that will slow down the migration, which in itself has contributed to the country's deficient land tenure structure.

Who have been the landowners in Peru? The most important and largest estates found along the Coast and in the mountainous regions have been held mostly by foreign capitalists, with management decisions being made outside of the country without the participation of the workers or the government of Peru.

Just as in other countries of the Third World, Peru's large estates have served the imperialist expansion of capitalism, producing only for the export market and, by so doing, serving wholly as the hand-servants of foreign economies. Evidence of this can be seen in the fact that foreign participation in the agro-industrial complex reached 65%; in some firms ownership by foreign consortia was 100%. This was true in the case of one of the country's largest livestock enterprises, located in the central mountain region. The firm, Cerro de Pasco Corporation, a foreign owned business, was involved mostly in mining activities but it also owned more than 146,000 hectares of farmland in a large and densely populated region of the country. Thus, it was able to dominate absolutely the supply of meat to that region.

In the past, arguing that these types of enterprise had high productivity and were important for the domestic economy, it was decided to exclude them from the agrarian reform process. It was hoped that this would perpetuate an inexplicable dependence on foreign influences, justifying it on the basis of high productivity but at the same time hiding the negative economic effects of this type of exploitation which concentrates in the hands of a few a very high proportion of the income produced by this sector. An effort was also made to maintain the subordination of the workers that resulted from the existence of land monopolies which were able to impose whatever conditions they wanted, by bribing political and labor leaders.

In these large enterprises, as well as in the so-called medium sized estates, there have prevailed pre-capitalist forms of land tenure which have given rise to unfair remuneration practices. Moreover, to make the workers' situation even worse, the dominance of a single crop agriculture and poor use of scarce land and water has created the phenomena of seasonal or migrant labor making it difficult to organize the workers for the protection of their own interests. This explains the frequency with which these enterprises have broken laws that have been on the books for 40 years, requiring them to provide housing, and health and education services to the workers. Serious family problems also occur when the husband must spend long periods working in different valleys, far from his loved ones.

With a knowledge of what have been the features of our agriculture, within a framework of underdevelopment and dependence on the part of Peru's population, as well as the directions that have been taken to bring about substantial changes in the organization of our society, it should be possible to understand something of what has been accomplished in Peru's agrarian sector.

It should be made clear that when we refer to the agrarian sector, it includes not only farming and cattle raising. Because we consider the individual not as a means but as an end, we also take into account all actions related to the individual who forms a part of that sector, e.g., his education, recreation, housing, etc., as well as his relationships with other economic sectors - such as industry, for example - and with the urban environment.

According to the Peruvian Plan for 1971-1975, the aforementioned lines of action have been mounted basically in three directions:

"The first is in relation to the need to affect a transfer of economic power from the few hands in which it is concentrated, to the majority. Since the structural imbalances of the social order are related to the presence of a ruling class, any changes in the social order will presumably affect that class."

Thus, on June 24, 1969, the Revolutionary Government of the Armed Forces promulgated the Agrarian Reform Act, applying it immediately against the large sugar holdings. The molding of a new agrarian structure in Peru was begun.

Peru's agrarian reform centers about the principle that rights over the land and the goods produced on it are based on work. Land must provide the basis of economic stability for the farmer who works it, the foundation of his welfare, and the guarantee of his dignity and freedom.

With these principles, the deficient land tenure structure, which made it possible for Peru to sustain the "latifundio-minifundio" complex,

is being replaced by a new agrarian order which guarantees social justice for the rural population and gives to the farmer (that is, to half of all Peruvians) access to full participation in the economic and political life of the country.

The new agrarian structure being built by the revolutionary process has features derived from the reality of the domestic situation, including its topography, economy and politics, and corresponds to the model of society proposed by the Government. In accordance with these principles, the institutional forms of ownership, tenancy, business organization, and agrarian labor dealt with in the Agrarian Reform Act are substantially different from those favored by capitalism or communism.

At the core of the new agrarian structure will be the associated enterprises owned and managed by the farmers. They may take two forms: agrarian producer cooperatives or agrarian associations.

Together with these forms of farm ownership and management, the new agrarian structure also includes the small and medium estates as well as the farm communities that have been reorganized in terms of their administrative set-up and land tenure.

An important aspect is the way in which the workers who are employed on individual farms and the members of associations may share in the profits. In the former case, they must receive no less than 20%; and in the latter, up to 50%. All workers have the right to be members of an association, and therefore, are entitled to participate in its management.

Whenever the number of participants warrants it, as well as taking into account the acreage and quality of the soil or the economic importance of the crops that have been or are about to be designated, assignment of land is made in accordance with Rural Settlement Projects Office (Proyectos Integrales de Asentamiento Rural-PIAR).

The territory of these projects can encompass an entire valley, a single geo-economic zone or smaller sized units.

An important element in these projects is the establishment of an integrated system of enterprises which are tied together by a second tier organization called the Center, whose main functions are: 1) to plan the development of the enterprises which comprise the system, bringing into alignment all the proposals of the members regarding their annual plans, including both those of a medium and long term nature; 2) to market the output of the members, as the basis for purchasing for them all supplies necessary for production; 3) to set up and operate agro-industrial processing plants; and 4) to centralize and handle credit needs for all members of the system. The Rural Settlement Projects Office was created by the Peruvian Agrarian Reform, and responds to the goal of

taking advantage of economies of scale while pursuing the principle of total participation, a fundamental tenet of our Revolution.

While all of the projects undertaken prior to the establishment of PIAR have been handled by entities of the Ministry of Agriculture in coordination with SINAMOS (Sistema Nacional de Apoyo a la Movilización Social), the farmers are encouraged to participate actively in all the studies and decision making. And when the projects are deemed ready to begin functioning, the farmers assume full control of them. At the end of the first stage, government action takes the form of technical and credit assistance, within the framework of the plans approved for the sector.

In compliance with the Agrarian Reform Act, the transfer of all property must be concluded by June 1976.

As an adjunct to the Agrarian Reform Act of July 24, 1969, the General Water Act (Ley General de Aguas) was passed. It is based on the principle that all water, without exception, is the property of the State and, therefore, eliminates entirely the so-called acquired rights over water, such as those of "free use," "head-water privileges," etc.

These two basic laws for the modification of the agrarian structure have been supported over time by other actions and related legislation. Thus, on September 17, 1969, the Agrarian Tribunal was installed; on November 3 of the same year the Superintendent and Research Center for Agrarian Reform (Centro de Capacitación e Investigación para la Reforma Agraria) was created; on April 3, 1973, Public Law (Decreto Ley) 19977 was issued, whereby titles for land parcels were given without cost to the farmers who had worked for the large estates that had been broken up, with a limit of 5 hectares for land under irrigation, 10 hectares for dry land and 30 hectares for natural pastureland.

On June 24, 1974, the Law for Indigenous Communities and the Promotion of Agriculture in the Tropical and Bordering Regions (la Ley de Comunidades Nativas y de Promoción Agropecuaria de las Regiones de la Selva y Ceja de Selva) was put into force. It is based on the same principles as the Agrarian Reform Act, with appropriate adjustments for the special conditions of these areas.

Another area of action contained in the Peruvian Plan for 1971-1975 deals with the creation of conditions to "stimulate and promote the mobilization of majority groups, so that they might assume responsibility for involvement in the formulation and application of basic decisions at all levels of social life."

The line of action has been pursued in the Agrarian Sector, as can be understood from the revised concept of PIAR if fully applied, such as in its organization of cooperatives, agrarian associations and cooperative centers.

In January 1972, Law 19400 was promulgated in order to orient farmers towards forming themselves into leagues and federations, with the ultimate purpose being to establish the National Agrarian Confederation. As of December 31, 1974, 18 agrarian federations have been established, representing 122 agrarian leagues. These 122 leagues are based on 1,198 farm communities, 306 agrarian producer cooperatives, 44 agrarian service cooperatives, 44 agricultural associations for social concerns (SAIS), and 51 director associations.

Whereas political power is a determinant of economic power, simultaneously with the transfer of ownership of the resources (the land from the landholders to the agricultural workers, and the water from the landholders to the State), an intensive movement was undertaken by the farmers, based on the following position:

As of December 31, 1974, as a result of the adjudication process, 1,068 farm enterprises have been established, and distributed in the following way:

Agrarian production cooperatives	385
Farm communities	105
Communal production cooperatives	27
Farmers groups	312
SAIS	44
Cooperative centers	28
Agrarian service cooperatives	8
In special management committees	34
In provisional adjudication commissions	<u>125</u>
TOTAL	1,068

The size of the enterprises allows the participation of farmers in the production and marketing committees, for the formulation, execution and control of the Agricultural Development Plan, and facilitates the establishment of nurseries, research demonstrations, the training of farmers, distribution of supplies, formulation and approval of credit applications, marketing and processing of products, and the coordination of sales and purchases with public and non-public entities, or among the agricultural enterprises themselves.

The transference of ownership and the establishment of an agrarian structure based on this type of enterprise is bringing about a significant change in the utilization of production surpluses, and the financial resources derived therefrom.

Previously, income from land, income from capital, profit from entrepreneurial activities, and the sum of social benefits not paid to the workers, contributed to increasing flight of capital not only from the region, but from the country as well, and impeded rural development

initiatives by this same population. Now, gradually, as a result of initiatives by the enterprises themselves, individually and in association with other enterprises, efforts are being made to employ the aforementioned surplus, investing it in industry, mining, fisheries, and at the same time in schools and housing.

In order to be representative and in accordance with Law 19400, the different enterprises have organized into leagues and federations at the local level, and at the national level, into the National Agrarian Confederation (Confederación Nacional Agraria).

As of December 31, 1974, 122 leagues with the following members were in existence: 1,198 farm communities, 306 agrarian production cooperatives, 44 agrarian service cooperatives, 44 agricultural associations for social concerns (SAIS) and 51 director associations.

The 122 agrarian leagues have formed 18 agrarian federations at the departmental level, and these, in turn, founded the National Agrarian Confederation in October 1974.

At the various levels, these organizations represent the farmers in their relations with agencies in the national public sector.

In order to facilitate communications among members of the principal sectors, the various newspapers of the country are being transferred to these different areas of the national community. The daily El Comercio has been assigned to the farming sector, and although the total transfer has not as yet taken place, a number of the sections of the paper are already dedicated exclusively to agricultural information. One section deals solely with the activities of the associated enterprises, leagues, agrarian federations, and the National Agrarian Confederation.

The Production and Marketing Councils (Consejos de Producción y Comercialización) are presently being standardized in terms of organization and membership to provide different levels of participation. They enjoy the representation of all the public organizations which are involved in the production and marketing of agricultural products, with equal representation on the part of farmers, according to the crop grown or herd raised and its importance in his area or the agricultural zone.

The goals of the Agricultural Plan broken down at the zonal and local levels are revised and readjusted by these councils, and responsibilities are ascribed to each public institution and enterprise for the achievement of approved goals. One of the issues which the councils consider relates to purchase prices for agricultural supplies, and the prices for the goods the farmers sell.

While speaking about the participation of the farmer, we must not fail to mention women farmers. The Women Farmers Cooperation Association (Asociación de Cooperación de la Mujer Campesina-ACOMUC) has been

working to set up and train organizations that not only seek to improve participation of women in traditional activities, but also in activities which directly support the development of their communities. Thus, for example, the Handicraft Fairs for Farm Women has already become traditional, as have the organization of work groups at the local level.

Still another line of action contained in the Peruvian plan for 1971-1975, calls on the State to "manage the transfer of political, economic and social power, strengthening its own actions and assuming control of the vital mechanisms of the economy." It continues saying, "the State should institutionalize access of the different social groups to the decision making apparatus of government by means of representative organizations in the economic and social fields.

This will make it possible for the State to reflect the interests of majority groups - who traditionally had been dominated - and eliminate the risk of falling prey to hegemony or the all-powerful influence of a technocracy.

In relation to this line of action, the Government has promulgated two additional organic laws, one for the agrarian sector and the other for the food sector which, in addition to the previously mentioned Law 19400, will complement the network of farmers organizations.

The outstanding feature of the organization of the agrarian public sector prior to 1969 was that the Ministry of Agriculture lacked authority to direct policy within its sector.

The different offices which comprised the agrarian public sector operated almost autonomously and without coordination among them. Duplication and inconsistent action was notorious and gave rise to a squandering of resources in some of them, and a complete lack of funds in others. This characteristic was as common of the offices in Lima, as those in the agricultural zones.

The decision making bodies, i.e., the councils or boards of the various institutions, were made up of representatives of different political suasion or of powerful groups from the private sector who did not speak for the majority within their sector.

The National Agrarian Council, for example, which had in addition to employees of various public sector offices and the Minister (who acted as President of the Council), representatives from the National Agrarian Society, and from an organization of farmers which was not representative and was managed by leaders of one of the political parties. Within this council the minister lacked the power to make decisions, and any of his initiatives could be disapproved by the majority of the council, or by simple vote of a Senator or Deputy in Congress, who was also a member of the Council, so designated by Congress.

The Agricultural Development Bank (Banco de Fomento Agropecuario), which had no defined authority, had a board of directors made up of representatives from the National Agrarian Society and labor organizations, but not from either the Ministry of Agriculture or the Ministry of Economics and Finance. Moreover, the principal advisers to the Board were concurrently advisers to large multinational and national companies which were involved in either the purchase of agricultural products or the sale of agricultural supplies. These advisers generally belonged to the same political party as the Government.

The National Supply Corporation of Peru (Corporación Nacional de Abastecimientos del Perú), an agency created to enter into the marketing of agricultural products, also had a board of directors which contained a mixture of representatives from the various political parties. Their roles seem to have been mostly to block any initiatives taken by the staff, in the event that they proved to contradict private group interests or the political interests of the opposition parties.

This institution was used as the target of attack by Congress against the food and price policies of the Government, and was artfully utilized to intimidate the Ministers by means of a torrent of questions and political appeals in the Congress.

At the present time the Minister of Agriculture is in charge of structural changes in the agrarian sector, the development and use of natural resources, and the expansion of the agricultural frontier; the Minister of Food is in charge of the research, production and marketing of the output of this sector. The boards of directors of public entities are made up of public officials with responsibilities within their respective sectors. Thus, for example, the Board of Directors of the Agricultural Development Bank is made up of two directors from the Ministry of Agriculture, two from the Ministry of Food, and four from the Ministry of Economics and Finance. Imports of foodstuffs are controlled by state enterprises, and in this way, the supply of imported materials for industry is regulated by the state.

We have also achieved significant advances in the provision of inputs and machinery for agriculture. By the end of May of this year we will produce the first tractor to be assembled in Peru, and in June we will increase the production of nitrogen from 27,800 metric tons to 100,000 metric tons. Beginning in 1978 and 1979, we will be self-sufficient in potassium and phosphorus.

All of the changes that have taken place in the public as well as non-public agrarian sector have established the bases to develop and apply policies not only to bring about increases in productivity and production, but also to achieve the distribution of benefits among agricultural workers, so that they can increase their consumption of goods and services, and there can be an expansion of investment in the rural environment.

It is because of the changes in the agrarian sector, which are part of the changes taking place throughout all of Peruvian society, that we are able to confirm that the bases for achieving the goals of the Government have been established.

IV. PRICE POLICY

After the foregoing it is understandable that the price policy decisions which Peru takes must be directed toward the achievement of the goals presented in Chapter II. Progress in transferring ownership of the land has made it possible to gradually readjust such decisions toward the State's objectives.

If the goal of a government is simply to expand production without being concerned over the distribution of such an increase, it can be brought about quickly through technological developments and price policy. However, the only thing that will really be achieved is that the landowners will become richer and they will increase their economic and political power; and the low income urban populations (which disposes of some 50-70% of its income on food) will contribute to this enrichment.

If price policy is to achieve improved income distribution among sectors and groups within those sectors, then it is essential that changes be brought about in the ownership of resources and in the relationship of production within and between sectors.

The following guidelines are being followed in Peru: first, that it was necessary to transfer ownership of the land from the landlords to the agricultural workers prior to establishing a price policy that would favor agriculture. Had it not been done in this way a price policy favorable to agriculture would have given more economic and political power to the landowners, and would have made agrarian reform more difficult.

The present policy is to gradually readjust prices and improve agriculture's terms of trade, taking into account that expropriation of the large estates is almost concluded and that during 1976 it will be completed with the expropriation of the remaining agricultural units that are subject to the agrarian reform law.

We believe that as price policy measures should contribute to a fairer distribution of income, they also should help to modify consumption patterns of the population. Clearly, while policies have been set forth to achieve the stated goals, the process will take a number of years.

Below some of the policy measures relating to prices are described, according to the following groupings: (1) Products whose domestic production satisfies the internal market; (2) Products whose domestic production satisfies and exceeds the needs of the internal market; and (3) Products whose production falls below the requirements of the internal market.

1. Products whose domestic production satisfies the internal market

Ecological differences within Peru make it possible for the same product to be harvested at different times of the year in different parts of the country. The supply of these products fluctuates seasonally, with price fluctuations reflecting this. But there does not exist, as in most countries, a single crop season, following which the supply of a product is dependent on either storage or importation.

The following are examples of products in this category. In some instances a product is mentioned as representative of its group:

- a. Garden vegetables (onion, garlic, tomato) and fruits (orange, lemon)
- b. Tubers (potato, sweet potato, yucca)
- c. Legumes (beans, pallares)
- d. Rice

Policy measures vary according to the characteristics of production and storage of each of these products, as indicated below:

a. Garden vegetables and fruits

Prices for these products are unregulated. Therefore, they fluctuate according to the conditions of the market. There does exist, however, the Price Regulation Board of Lima (Junta Reguladora de Precios de Lima-JURPAL), which publishes weekly information on the supply and wholesale prices. It is at times distorted, especially during periods of abundance or scarcity. As is well known, the prices of garden vegetables fluctuate rapidly, from day to day and even from hour to hour. Thus, it is practically impossible to have weekly information that is accurate or reflects the current market condition. The duration and form of operation of the Board is presently under review.

In order to regulate supplies and prices, the following actions are being taken:

1. Market and price information

The Market and Price Information Service (Servicio de Información de Mercados y Precios-SIMAP) provides daily information about supply and wholesale prices in markets of 14 cities of the country. This

information is tabulated and prepared for dissemination the same day by radio, and the next day in national and local newspapers.

At the end of February of this year a telex service was instituted which covers 42 locations within the country, and permits the expansion and improvement of this service at the national level.

2. Research on varieties with different growing periods so as to diversify production zones

Making use of the different ecological features of the country, and taking into account the distances, the rolling terrain, and the frequent climatic and geological changes, it is necessary to diminish dependence on supplies coming from the different regions of the country. With this in mind, research is underway to vary harvesting periods and so that new zones can produce crops which for some reason have not been grown until now.

3. Storage and processing

Studies are presently being conducted on storage and processing of these products. It is believed these types of investments should be carried out by the cooperative centers, and consequently should be located in the rural zone.

b. Tubers

Potatoes are one of the staples of the Peruvian diet. The price of white potatoes is controlled, and serves as a regulator for the prices of other varieties of potato (which in Peru are numerous), as well as for sweet potatoes and yucca. Recently, potato growers from the south and central regions of the country participated directly, through their representative organizations, in raising the price of their crop, which had remained unchanged for four years, and had been based originally on plantings and the black market at different marketing levels.

In a manner similar to that for vegetables, the Market and Price Information Service conducts research on vegetable varieties with different growing periods, and develops studies and investments on storage and processing.

As for storage, the Government is considering investments in the principal population centers, but in relatively small amounts since the risks of limited supplies only occur in interval periods of the coastal and mountain harvests, during January and July.

In addition, the establishment of warehouses to hold from 60 to 100 tons for the associated enterprises is being promoted. This would assure supplies to the local population and create a network of potato

stores which could be used in the event of any emergency to which the different regions of the country are exposed by virtue of climatic and geological changes. A good commercial information service and a network of relatively small warehouses (taking into account that the size of the domestic crop is only 2 million tons) would contribute to a better regulation of prices.

In the field of processing, research is being done on the possible use of potatoes, sweet potatoes and yucca in the manufacture of flour for bread, in order to lower the reliance on wheat imports and, moreover, contribute to a greater relative stabilizing of prices for these products.

c. Legumes

Only one of the many bean varieties (the frijol castilla) is subject to price control. The prices of the others (caraota, canario, panamito, pallar), are virtually unregulated and, in addition, guaranteed, which means that producers may sell their production to the Government by prearranged contract, if market conditions were to make it advisable.

d. Rice

From the moment that the producer delivers his rice harvest to the mill for a price fixed annually by the Government, until the rice is delivered to the ultimate consumer, everything is under the control of the State Trading Enterprise.

Drastic price fluctuations in the international market has given rise to contraband traffic in this product across the border, and has required the imposition of strict controls. The price paid to the producers is an attractive one, albeit not as high as that which is paid on the international market.

Government policy is to become self-sufficient in rice, and production plans call for goals only slightly higher than domestic needs.

2. Products whose domestic production satisfies and exceeds the needs of the internal market

The Two-Year Plan for 1975-76 establishes that the principal role of the agrarian sector is the production of foodstuffs, leaving to other economic sectors the responsibility for generating foreign exchange through exports. Nevertheless, although its goal is not to generate foreign exchange, the production of some agricultural products exceeds domestic needs. This occurs because of slow implementation of crop changes in each zone, or because of characteristics of the crops themselves.

Among the products that meet this description and therefore furnish a surplus for export are mainly sugar, cotton, coffee and wool.

In the case of sugar, increases in production occur only when there are authorized increases in productivity, or when there are investments by the associated enterprises which are permitted to increase the land area under irrigation, whether it be by more efficient use of water or greater utilization of underground water supplies.

For all of these products a dual price system is being adopted, for the domestic and foreign markets, and loans will be given for the marketing of harvests. The pricing policy is designed to achieve relative stability of prices, with the ultimate goal - as always - of improved income distribution. Thus, the retail price for sugar has been kept stable for almost five years, because the foreign market price has been quite favorable. The greater income realized from exports has made it possible to subsidize the consumer; at the same time, the associated enterprises producing sugar have maintained a good income level thanks to the favorable international market price.

In the case of cotton, the State has assumed all trading in this product, by use of public sector marketing firms. If faced by a drop in world market prices, the price to domestic producers will be maintained at a higher level, on the basis of sales contracts with domestic textile factories.

For both cotton and coffee, marketing loans are presently provided when it is necessary to stock these products in anticipation of higher world market prices.

3. Products whose domestic production falls below the requirements of the internal market

For these products, a policy of providing subsidies was followed during the two year period 1973-74, and is being adjusted for the 1975-76 period. For this bienium a ceiling has been placed on each subsidy for each product in shortage, and simultaneously the prices paid to the producers have been increased. Together with this policy of subsidies and higher prices to producers, an effort is being made to have the public substitute the use of certain products, for example, other meat for beef, and fish oil for vegetable oil. The possibility of substituting wheat is still very limited.

For those products which the Development Plan for 1975-78 considers to be basic or strategic, legislation is being enacted which calls on the production and marketing councils to centralize all contracts for the purchase of supplies and services, or for the sale of all products. The purpose is to have the industrialists and farmers commit themselves to meet the production goals established for these basic products.

Peru has also taken a position in the international field. During the summit conference of the Chiefs of State, which took place in Algeria in September 1973, Peru proposed the organization of a conference on raw materials of non-aligned countries. This conference took place recently in Dakar, on February 3-8 of this year.

Since the Meeting of the 77 in Lima, during the summit meeting in Algeria, and, finally, in Dakar, the Peruvian delegation has maintained the belief that raw material producer associations should be created, in order to amplify the negotiating power of the Third World.

The Third World countries had never met previously for the purpose of formulating a common policy in the area of raw materials. During the Algeria conference, Peru emphasized the necessity of meeting to deal with this subject and to be attended by other non-aligned countries.

This position is part of a new policy concept regarding international cooperation. The idea is not to ask for "help" from the capitalist countries. The capitalists have manipulated the prices of raw materials through their transnational companies, by using a network of brokers and commodity exchanges. It was originally hoped that those who created the problem of dependency on the part of the Third World countries would do away with the undervaluation of raw materials by paying more for them, giving up some of the value-added earnings resulting from the imbalance between the prices of basic commodities and those of goods manufactured from them.

In the past, economic cooperation has been charged with suffering from lack of understanding, egotism or lack of political will. Peru currently believes that, political realism requires that in order to achieve international cooperation, it is first necessary to have power; and that in order to have the power necessary to negotiate, there must be union, through the creation of the associations of raw material producers, in which individual policies are joined together within a superior organization.

Clearly, this is no easy task. Negotiating power is not achieved simply by joining together. Operational mechanisms must be installed that can regulate the supply within the market of each commodity, and this would presume in turn the establishment of production and stock-piling quotas, which also would require considerable financing capacity. It is equally indispensable to establish relative price coefficients between raw materials and manufactured goods that would hinder by means of monetary measures, the continuing deterioration in the terms of trade between the exporters of raw materials and manufactured products.