

Sir W. Arthur Lewis's Institutional Perspective: Implications for the Analysis of the Incorporation of Peasants to Market Economies.

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This paper aims to trace Lewis thought on institutions and the linkages with economic growth. Based on three of his master pieces from 1954, 1955 and 1978, I present first a revision of his work to acknowledge his influence on the understanding of the multiple institutional factors which condition growth, affect the participation of some groups from local societies, and provoke duality. The second part exposes the growth pattern that the Peru's economy has followed in the last century within Lewis's framework. The discussion has focus on the way in what growth took place as a result of the interplay of economic and political forces for defining property rights, that is who got access to resources, how those rights were entitled and what the consequences for those who have not got access –essentially peasant population from the highlands. As a conclusion I suggest that Lewis's contribution in the institutional grounds is to have made explicit the institutional mechanisms that are in place, which determine the existence and reinforcement of a traditional sector. The Peruvian case shows that the institutions which suit growth explain well the existence and functionality of a traditional sector –essentially referred to peasant communities of the country- who were confined to be kept traditional and poor.

The concise presentation made by Lewis in his Nobel work from 1954 (Lewis 1954) has the absolute advantage of being simple and clear for understanding economic growth within a model of a dual economy. That is, the generation of economic growth based in a modern industrial sector capable of taking advantage of the favorable conditions in the labor market, where no limitations on labor supply are observed. The absence of constraints in the labor market would be the result of the existence of a traditional sector characterized by zero labor marginal productivity that, in turn, justifies workers' predisposition for adjusting at the minimum their wage requirements in the modern sector. As such, Lewis's model imply assumptions on human behavior and on the way in what markets and society are organized which, in my opinion, are narrowly described in his paper. Such apparent misconception, however, is utterly supplemented in his "*Theory of Economic Growth*" (Lewis 1955). In that sense, both master pieces become inseparable to the reader since, together, contain the elements of his model and the reasoning that supports his assumptions and conclusions based in an absolute coherent combination of theoretical approach with evidence. Furthermore, such combination includes an incontestable

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historical and geographical approach that ends by sitting the political economy of growth on an institutional perspective.

Lewis's institutional perspective is what, I believe, lets him to link so successfully the 'micro' and the 'macro' around growth and development. Growth, by nature, is a macroeconomic category; however, the forces which drive to growth cannot be fully understood unless we go onto its micro foundations, that is, on the forms individuals (whether as part of households, or of firms or corporations) make decisions, and how these decisions complement, collude, or contradict each other. It is from the interplay of the macro and the micro –of individuals and collectivities- that Lewis raises the role of institutions in growth. Then, the regulatory apparatus that governs to and emerges from the state, as well as those that rule family and local collectivities are in the base of his dual theory. Rights to reward, property, organization, individualism and collective action, family, freedom to trade, religion and institutional change constitute central categories of analysis for his contribution on growth and development. Furthermore, the close connection he does between the micro and the macro throughout an institutional approach enables him to highlight the likely contradictions between growth and development.

Admittedly, Lewis here is to be distinguished from other brilliant Development economists –as Hirschman, Leibenstein, Myint, Fei, Ranis, Myrdal, Nurkse and those within the ECLA School- who took the institutional factor as an important dimension of developmental problems, but with an exogenous character. To Lewis institutions are endogenous to growth and development.

Institutional basics for growth

To Lewis (1955) growth arises from three basic elements: individuals' willingness for growth, trade and specialization, and economic freedom. But, growth is neither a random nor a linear process of logic and subsequent steps; it is rather a complex process where the *engine of growth* –capital accumulation and knowledge- is mediated by institutions. Consequently, the point of departure for any society who seeks economic growth is set by the way in which institutions protect and incentive individuals, promote specialization, and supply conditions for freedom of manoeuvre. For Lewis argues that:

“Growth is the result of human effort and men will not make effort unless the fruit of that effort is assured to themselves or to those whose claims they recognize” (1955:57);

And,

“Differences between countries ... may be traced to three distinct causes, namely to differences in the valuation of material goods relatively to the effort required to get them, to differences in available opportunities, and to differences in the extent to which institutions encourage effort, either by removing obstacles in its way, or by ensuring to the individual the fruit of his effort. Many of the observed differences in effort are due to institutional defects, and social reformers who wish to promote economic growth are mainly concerned with seeking to bring about appropriate changes in institutions, whether by propaganda or by law” (1955:23).

If institutions are so relevant to economic growth, immediate questions that arise from the statement above are: First, what are those essential institutions? Secondly, how do institutions facilitate or constrain the passage from individual's efforts for growth to collective achievements? As we will see below, the answers that Lewis offers to these questions are insightful. Indeed, given his approach of a dual economy, his analysis of the dichotomy in which societies evolve locates the Economics in the locus of the Political Philosophy, namely, in the confrontation between individualism and collectivism, between economic freedom through the market and planning by direction, and between specialization and diversification. Moreover, what is remarkable in Lewis is that he did not just discuss all different options with absolute clarity; most of all he took and defended his position in each case.

Property rights: Individualism or Communalism?

Individualism and communalism appear as opposite options in two situations: when a society has to be organized for production, and in the organization required for the management of property. In both situations, the definitions of property rights and of the institutions that legitimate those rights become central.

In regard to societal organization for production, Lewis starts his *“Theory of Economic Growth”* suggesting that the right to adequate material reward is central in human's decisions. In spite of altruism and willingness for participation from some individuals in any society, the *leit motif* for individual's effort is to be materially compensated. Hence, in so far as economic growth requires changes in the kinds and quantities of work done by different individuals, it is natural and desirable to observe differentials in compensation. And differences in effort and differentials in

compensation reinforce individualism. As much as that becomes general for all members of a society, the logical consequence is that individualism results essential to economic growth.

Communalism, by opposition, becomes to Lewis a desirable option of economic organization only in situations where the scale of collective action still allows the identification of those who make a contribution and of those who profit from the outcome. In such sense, communalism would be possible only at very small scale. Moreover, as at the end the establishment of boundaries with regard to those who make part of a community relies on each individual's judgement, based on his own contribution and on his recognition of who should profit from his work, boundaries become very subjective, and communalism becomes less adequate to produce economic growth at large scale. In addition, given that communalism requires of an external agent for organizing tasks and providing incentives, it becomes hardly conceivable that communalism constitutes an adequate strategy for growth.

In this discussion about individualism and communalism, Lewis concludes:

“... once we move out of stable into changing conditions (implying growth), it is doubtful whether a sense of one's communal obligations is adequate to bring forth the necessary adaptations, in the absence of a close relationship between individual effort and reward. It is equally doubtful whether this sense of obligations can survive opportunities for individual profit. Individualism seems to make great strides in all societies which are subjected to accelerated economic change, and this seems to be inevitable. (1955: 60).

Two implications derive from this conclusion. First, if growth essentially relies on individualism, there is in Lewis's argument direct critic to what has been done by development interventions in traditional sectors, typically agriculture, in many developing countries in the last 30 years. Secondly, institutions that seek to produce and reinforce collectivism at larger scales than desirable may produce counter effects to growth.

In regard to societal organization for property rights, the collateral aspect of rights to rewards is property, and the premise is that the way in what property will be defined will determine the likelihood for growth. In this aspect, what is in discussion is not only ownership on possessions (capital or any other physical asset) but also on the proceeds of one's work. To Lewis, capital formation as an essential condition for growth can only be possible if the law of property –that is, the right of exclusion- is assured. Furthermore, when resources become scarce the legal

protection of property is essential. In this situation the management of property, whatever asset is concerned, has only two alternative options, namely: *privatization* or *careful regulation* (1955:61).

In Lewis's dual model the option for private ownership applies basically to the modern sector where, from the angle of economic growth, a potential investor must believe that is in a position to get appropriate return, and also in a position to make the *right* decisions for the improvement of his property. Furthermore, as is the case of communalism for production, Lewis suggests that collective property and collective management of property entail problems of ambiguity and of conflict of interests among several shareholders. Therefore, cooperativist solutions are not desirable. However, he also acknowledges that private ownership –under the form of large corporations- does not constitute an optimal solution since the problem of conflict of interests would persist, this time between capital owners, workers, and managers. Additionally, since in large corporations the management of property and the decisions on new investments basically rely on managers, problems of incentive and authority come up.

The organizational impasse that appears from the definition of the way in what property is to be managed is even greater in societies experiencing economic growth. Furthermore, as far as growth takes place and both, capitalists and workers, claim for enlarging their share in the outcome, which increases the organizational impasse. The solution to this, Lewis suggests, relies on the interplay between the execution of authority from top and the implementation of representation from below, i.e. in the continuous negotiation between parties. However, the interplay is not a zero sum game, but a game with winners and losers. The extent of dissatisfaction and the reduction of conflict rely on managerial abilities and on the norms the society establishes and reinforces in order to avoid conflict and enhance opportunities for economic growth.

Norms, however, can respond to particular interests within a society. To this regard Lewis suggests that in any system there is a dominant interest either for maintaining the current order or for introducing a particular change. Indeed, for him, the role played by active minorities for provoking changes in ownership or shareholding which go against dominant interests can finally be offset by the use of propaganda or by constant negotiations where state, church, ruling class and trade union end by lining up for persuading workers of the advantages of the current system. There are, then, permanent attempts from the state and/or the ruling class for seizing leaders from the minorities. Why leaders from the workers class become functional to the ruling

class, whether under the form of managers or of union negotiators, is something that Lewis does not explore beyond the implicit suggestion that transaction costs involved in changes of the current property system might be higher, and the explicit affirmation that there is a natural low willingness for active participation from workers; as he said: *(workers) prefer to have things run for them* (1955: 69).

Institutions for economic freedom

According to Lewis, trade, specialization, and economic freedom are inseparable categories that, together, determine the rate of growth. The mechanism he suggests is based on the stimulus trade means for specialization and, therefore, for the division of labor. Consequently, a larger market induces a greater level of specialization. On the other hand, as trade stimulates demand, it also increases the desire to work more or more effectively. However, Lewis also foresees about the associated costs that specialization bears (1955) and advocates for preventing over-specialization (1966). Indeed, as far as specialization increases, the need for occupational mobility rises, vulnerability to external shocks becomes higher, there is a lack of biological balance (in natural and human domains), and problems of cooperation arise. Nevertheless, within the Lewis growth equation, specialization, knowledge, and capital grow together, and how much they grow depends upon the size of the market. In Lewis's words: *"The greater the market, the greater the possibilities of specialization"* (1955:72).

What then determines the size of the market? Lewis's discussion of this question relies insightfully on an institutional framework where family, norms, customs, and transaction costs configure a set of factors that conditionate the size of the market, both by the supply side as by the demand. Indeed, for him, *the degree of household self-sufficiency* is what in first place influences the decision of entry into markets, that degree being completely subjective to the family. A second factor is *the size of the population* which, although by convention an exogenous variable, also proceeds from intra-household decisions. A third factor is the dimension of each social class within the society which, in turn, influence the *standardization of tastes* (a bigger middle class would imply mass consumption). A fourth factor arises from the *degree of isolation and self-sufficiency of the community* which, in turn, depends upon its geographical characteristics. A fifth factor is *the man-made barriers to trade* which proceeds out of collective action. The last factor, but not the least, is the wealth of the community.

The main implication of making the size of the market to be depended upon all the factors cited above is that any attempt to promote economic growth, through increasing the size of the market, may not solely produce effects on specialization, but also impact the internal organization of the household and of the society (Lewis 1955; Ranis and Fei 1982). Particular attention deserves Lewis's assertion about the role of women in growth. For him, "*self sufficiency of the household is associated mainly with the status of women*" (1955:72). In that sense, Lewis suggests that specialization liberates women from home work and transfers her abilities into the labor market, breaking taboos and increasing her freedom. How far can this suggestion is supported by evidence is hard to say. Consequently, Lewis's sensitive observation of the possible beneficial effects of growth over women throughout her incorporation into the labor market may be reviewed to the light of the facts in each context. Nevertheless, the point here is that specialization and trade might affect gender relationships within households which would be a profound institutional change.

As a final point, the golden brooch in Lewis's theory of economic growth is his assertion on economic freedom. For growth of income per head is rightly associated with the expansion of economic freedom. This implies, in a broad sense, the right to free competition between individuals –both in terms of access to resources and of consumption- and a particular role for the government. Indeed, in face of institutional obstacles to economic freedom, such as those that estipulate controls on the use of resources, collective action under the form of government is called to guarantee adequate conditions for private entrepreneurship and to cover the private sector's weaknesses in providing what the society needs.

Lewis's defense of economic freedom can be found along his work (Lewis 1955; Lewis 1966; Lewis 1979) and it is seen, as Bhagwati (1982) suggests, one of Lewis's main contributions of thought within Political Economy. Economic freedom means for him freedom of markets and freedom for mobility. In both concepts, however, he does not exclude governmental action, since it is necessary for growth and essential for development in any possible political scenario, but as he said,

"...the role of government depends to some extent on the quantity and quality of private entrepreneurship" (1955:p.79); and if in some cases governments are corrupt and inefficient, then "*the laissez faire, laissez passer is the best recipe for economic growth*" (1955:p. 83).

Furthermore, given informational problems, multiplicity of individual's aims, and rigidity of centralized planning, the price mechanism seems to be the best solution to avoid *inflexibility* and *procrustean* conduct (Lewis 1949), which in current language could be rephrased as 'improving efficiency by redirecting the sense of accountability'. Therefore, if the private sector is to gain access to productive resources by means of its own effort, it could be expected that, in order to grow, the best allocation of resources will be achieved. In such interest for allocative efficiency, Lewis suggests that economic growth requires men should be free to hire resources and to enter trades; in the same way, economies of specialization and trade require that the entrepreneur should be able to buy, borrow, or hire factors of production (1955:90). The mobility of factors of production appears, then, essential to growth.

Among the different factors of production, Lewis strongly advocates for access to land at least under the form of a secure lease with long tenure or, at the best, with clarified titles. To this regard, institutions play a double role: Institutions can constrain efficient allocation if land tenure responds to other concerns different from productive use¹ or, on the other hand, amid a complex interplay of individual and social interests, institutions can improve land mobility by removing restrictions. In regard to access to labor as a resource, Lewis advocates for a price-mechanism option, and suggests:

"If the economies of large scale production are to be enjoyed, it is necessary to be able to organize large numbers of workers under central control, whether in collective, in state or in private enterprises... Democratic societies rely on market processes...and, in practice, labor is mobile only in so far as it is dependent on wage employment" (1955:92).

"...to reinforce labor mobility, any restrictive institution (for instance racial, social and religious prejudices, but also the extended family system or generous social security provisions) ought to be removed" (1955:p.93).

We can clearly see in this reflection how Lewis perceived the unavoidable linkage between growth and institutional change. In addition, since land and labor mobility are inter-dependent, such linkage is what allows understanding how economic systems engaged into growth processes evolve towards situations of inequality and exclusion. Indeed, following his reasoning on land mobility, if self-sufficiency in land is highly constraining labor mobility and growth, then the achievement of growth depends upon *"the creation of a landless class"* (1955:92). Laws and

overpopulation would complement each other to generate such landless class, and that is, as he concludes, a phenomenon not confined to capitalism.

To close the circle around economic freedom, Lewis proposes the right of consumers to competitive markets as a condition for economic growth. However, since many resources have limitations to adapt to the changing environment introduced by growth (for instance, skilled labor may find difficulties to shift between industries, or land to be used in different activities), at the same time that emergent industries ought to be protected, he also suggests institutional protection to monopoly, though in a very strict limited period. After the initial phase, institutions should promote competition and be strong enough to offset the emergence of organizations whose seek is to protect their members from competition. It is noteworthy that in his analysis of growth initial phases, Lewis makes also a contribution on the identification of the roots of organization making. Indeed, to Lewis, men seek to create organizations as an *instinctive reaction* to protect them from competition, and through organizations establish institutions which rationale is to deter competition.

Finally, to fully recognize Lewis's prolific institutional perspective, it has to be said that his conceptions on mobility go beyond a 'simple' reasoning around production factors and market forces. For, he introduced the concept of *vertical mobility* to suggest that (social) *classes* need to be *refreshed* if growth is to be pursuit. As by classes Lewis means the way in which any society is organized where "*there are always people set in authority over other people*" (1955:84), it is the principle of authority what makes the difference for growth. In this respect, anticipating the discussion on human capital and growth produced decades latter, he set up the principle of authority on two basics: education and training. But the key point is that he did not just make the link between education and growth, but he also linked education-growth with power in a unique framework. The trilogy education-growth-power makes understandable why (social) stationary states, though politically justifiable, may not necessarily harmonise with growth. As Lewis wrote, changes in power positions ought to be observed as a condition for stable growth. However, changes may not be possible unless the current structure of power is to be broken and/or the allocation of factors that enable power (i.e. education) is to be reverted. In either case, growth is subjected to institutional change.

These insights are among the major contributions Lewis offered for the understanding of economic growth, within national borders and in the global economy, as a phenomenon that

arises from the institutional embeddedness of the economy with the politics. Without doubt, such rich combination of institutional economics with political economy perspectives relies also on his historical approach.

Interpretation of Peru's Economy under Lewis's Economic Growth Theory

Until now we have seen Lewis's wide comprehension of economic growth and the underlying forces for the existence of a dual economy with implications on the supply of labor. In this section I present the evolution of the Peruvian economy within Lewis's framework as a case to discuss about the role played by institutional factors in the formation of *dualism* and growth. The purpose is not to see if the Peruvian case 'fits' in Lewis's model, but to observe what elements from his general theory on economic growth can be useful to learn about the formation and reinforcement of the traditional sector in Peru's economic evolution. Though with many data restrictions on the traditional sector, a brief review of the years before 1950 helps to contextualize historically the emergence of the dual economy, but the focus is on the 1950s to nowadays with the aim of analyzing more deeply the persistent character of stagnation of one of the essential components of the *traditional* sector: the peasantry. This section is based on literature review and on case studies of peasant organizations in Southern Peru².

The Roots of Dualism: Historical overview until 1950

In general terms, it could be said that the Peruvian economy since became a Spanish colony has basically been converted in primary exporter mainly of minerals and raw materials. After its independence in 1821 its major link was with the United Kingdom and from the ninetieth century with the United States. By its structure the economy could be fairly typified as dual, though duality shall be understood as the co-existence of a set aggregate of modern sectors and a set aggregate of traditional sectors. The modern sectors have been export oriented sectors (agriculture, mining and fishery) together with an emergent industrial sector. The traditional sectors have been constituted of small producers spread on almost all primary and tertiary activities but also of large units within the agriculture of some regions. In that sense, dualism in the whole economy and intra-sectors has been defined *a la* Lewis, that is, the economy divided in two sectors based on productivity differences which result from differences in organizational rules in each sector (Lewis 1955; Ranis and Fei 1982). Additionally, duality has acquired in Peru a geographical connotation. Indeed, as we will see, in time, traditional sectors have been

concentrated in the highlands and the jungle while modern sectors have been principally located in coastal areas.

Although geographically the country is clearly split in three regions, it did not mean a particular concentration of production until half of the last century. Export products and raw materials proceeded from different regions, based more upon comparative advantages in resources and cheap labor than on a transport network. Indeed, at different times, each region or, more precisely, places within regions played a particular role in the prosperity of the national economy: the jungle with the rubber in the second half of the eighteenth century; the Sierra all along the eighteenth and nineteenth centuries with the exploitation of minerals and the production of wool; and, the coast in the era of guano in the eighteenth century, then with cotton, sugar and petroleum in the nineteenth century. Production oriented to domestic markets has also been spread in all zones with a pretty fair regional self-sufficiency supplemented by traditional ways of exchange among regions. Geographical differences in terms of economic dualism did basically appear with the emergence of the industrial sector oriented to the domestic market by the late 1800s and were reinforced by government investments in infrastructure (railways, roads and electricity) in coastal areas during the early 1900s. Until 1950 the population was also dispersedly settled along the national territory with an almost imperceptible concentration in some towns on the coast and in the highlands.(Thorp and Bertram 1978; Fitzgerald 1979).

A common conclusion among authors who have studied Peru's economic history is that there would have been some particular periods when Peru had the opportunity for developing stable autonomous growth and development models which might shape the emergence of dualism. Favorable conditions for such models would have been observed between the post-war reconstruction until 1920 and from 1950 to 1960 when sustained growth was observed. In the meantime economic and social stability was observed and much of disturbances proceeded from the political arena, both domestically and in Peru's relations with bordering countries. Domestically, successive government changes with alternating political and civil groups introduced conflict and disorder in the management of fiscal accounts (Fitzgerald 1979). Externally, the War of the Pacific (1879-83) appears as the major disaster of the époque for its implications in Chilean annexation of part of the Atacama Desert which contained the top export product for the last quarter of the eighteenth century (sodium nitrate) (Lewis 1978; Thorp and Bertram 1978), the loss of thousands of people and much infrastructure and property, and the

impact on the solidity of central government and the shape of local societies (Chirinos Soto 1994).³

In spite of inertias and disturbances, by the end of the 1940s Peru's economy showed positive indicators in terms of growth and exports. Lewis indicates an exports growth rate of 3.7 per cent per annum between 1883 and 1913, locating the country in the third place among tropical countries; industrialization, though low, was comparatively superior to other Latin American countries (except of Mexico and Brazil) (Lewis 1978). The period between 1914 and 1948 was of economic debacle for the tropics due to the First World War, the deterioration of terms of trade in successive phases since 1920, the Great Depression, and finally the Second World War (Lewis 1978). However, despite the importance of core countries' performance for the periphery in a dual model, Thorp and Bertram (Thorp and Bertram 1978) observe that Peru had strong supply responses in face of external market opportunities along that period (with a boom during WWI) and a sustained export growth rate with export quantum and value indices that grew at an average annual rate of nearly seven per cent from 1890 to 1929. Furthermore, from 1930 to 1948 the absence of new foreign investment meant an opportunity for local enterprises to enter into mining fishery and the industrial sectors with considerable potential for improving inter-sector linkages. It is also noticeable that such acceptable performance was essentially based on the modern part of the economy, both the export and the industrial sector, and on the existence of an almost free labor market due to increasing supply produced by high migration rates and the inactivity of worker unions.⁴

We can suggest now that the three basic elements for growth that Lewis suggested (willingness to growth, specialization, and economic freedom) were observed in some extent, at least in urban and modern coastal areas. However, the market incentives of increasing external demand had counter productive results in the attempts for developing capitalist relations of production in more traditional sectors. Indeed, those attempts would have found resistance among the extended peasantry (for instance in the Southern Sierra) attributable to peasants willingness for gaining increased access to natural resources, at that time basically grazing lands. The few favorable responses to market induced growth from small Indian herdsmen might have been offset by increases in population (Thorp and Bertram 1978). It is noteworthy in this case that Lewis's proposition on the conflicts that growth entails between groups for enlarging their share on the control of factor of production anticipate the conflict on the proceeds of growth. Indeed, the dispute between the 'more' and the 'less' traditional groups (the peasantry and the latifundia)

arises from their willingness to growth but with opposite aims. Ones –the latifundia- seek for more land to increase their share in the market. Others –the peasant communities- seek for preserving their territory. It would be hard to suggest that peasants' reaction respond only to the attachment to land (that, for instance, Lewis observed in other contexts) since there is not enough information to support that hypothesis beyond what is known about the long run conflicts between peasants and landlords; but, it is not too risky to suggest that peasants' resistance to growth in a market economy would respond to the institutional insecurity they would perceive in a context where no institutional change that accompanied growth was observed, or, still worst, where institutional changes resulted adverse to peasants in other sectors, for instance mining.

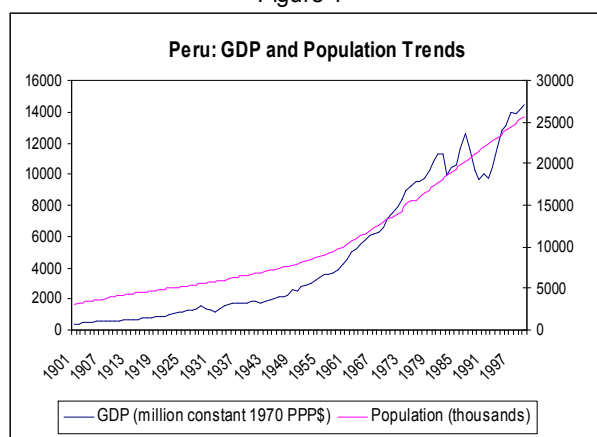
Indeed, the essential institutional change quoted for that period is basically referred to the 1877 Peruvian Mining Law which entitled companies with free long-term access to any mineral deposit (or fuel) subject to the sole condition of a surface-based annual tax (Fitzgerald 1979). That became particularly advantageous for foreign companies (mostly from the U.S.) and local ruling groups (who had control over successive government); both, in alliance, took control over almost all mineral resources, excluding others to enter into the sector for almost a century. That law had also significant implications for the role played by the mining sector in weakening any opportunity Peru had to base its growth in such an essential export sector. Instead, the mining sector ended by developing enclaves in all regions rich in minerals and petroleum (Thorp and Bertram 1978).

Consequently, opportunities created by external markets did not have any significant effect on traditional sectors from the highlands. Property rights on farm lands remained officially unchanged until the 1960s. High productive estates located in irrigated coastal areas were owned by large private units –the *oligarquia terrateniente*. In the highlands large estates oriented to livestock and domestic market crops were also owned by large *terratenientes*. Though much smaller than landlords in the coast –and popularly never recognized as oligarcas- landlords in mountainous territories coexisted with *feudatarios* and *arrendires*, who had access to land but not to ownership. At the same time, large property units were constituted by *comunidades* – traditional collective forms of ownership. In the jungle, despite the existence of many native populations, land was basically owned by the state and given *in concession* to private *colonos*. It is under this last form that many areas in the tropical forest close to the Andes have evolved in private estates after the social movements for land in the 1960s.

The consolidation of dualism: Peru after the 1950s

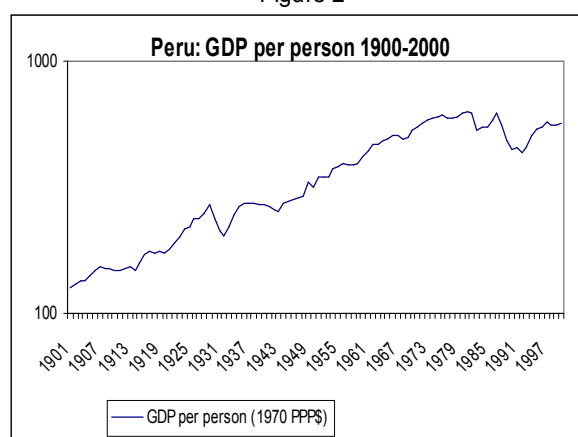
The collapse of populist policies which attempted to build up a non-export-based model in the Peruvian economy ended by the establishment of a military government in 1948, legitimated by vote two years later. The renewed emphasis on export-led growth coincided with a period of rising prices on the world market at the same time that political stability attracted increased national and foreign investment, particularly in the manufacturing sector. Successive military, civil, and military-civil governments conducted the economy until late 1960s towards free market and exchange with the most orthodox policies seen in Latin America. (Fitzgerald 1979). The result was export-led sustained growth both in absolute and per capita terms at high significant rates as can be observed in figures 1 and 2 in a long-term perspective⁵.

Figure 1



Source: From LAC - Oxford University (2004).

Figure 2



Source: From LAC - Oxford University (2004).

Among export sectors mining continued to be the most important. It registered a rate growth of output ranging between 13 per cent a year up to the early 1960s; thereafter it dropped consistently. The petroleum sector observed more or less the same pattern. (Thorp and Bertram 1978:221). In turn, manufacturing output rose at approximately 7 per cent per annum. As a result, its share of GDP increased from 14 per cent in 1950 to 22 per cent in 1972. (Central Bank 1976, quoted in Scott 1994).

An important factor from that period, with implications for rural population migration into urban areas, was the increasing public expending in roads and public schools from the 1950s. Though there is not evidence that peasants were accessing to those services immediately they moved to towns, it is clear that it was a great incentive and certainly increased significantly the weight of

urban population (from 35 per cent in 1940 to 55 per cent in 1968). Furthermore, employment opportunities created in the industrial labor market had the effect of concentrating the immigration in Lima reaching to almost 72 per cent of the manual labor force in 1972⁶. However, as Scott (1994) suggests, the migration process was highly selective, drawing in the more skilled and those with previous experience of wage labor. At the same time, it was highly institutionalized, with information and resources passing through extended familial networks and migrant associations.

Differences in education, training and labor experience were clearly reflected in productivity differences between sectors, revealing the dual structure of the economy. In modern sectors the ratio added value to economic active population was 1.3 while in traditional sectors was 0.43 (0.33 in food agriculture)⁷. The so called *informal sector* emerged and grew in the 1970s and although is difficult to adventure figures about its dimension, it could be assumed that much of the labor force in hide unemployment or under-employment was there⁸. On the other hand, what is interesting to remark from this category of analysis (the informal sector) is Scott's statement about the high heterogeneity within the sector and the existence of significant barriers to entry. Those barriers would have been related to skills levels and to the strength of networks at familial, social or market levels that particular groups would have developed in their process of incorporation to the new places.

Under all those multiple factors (increasing concentration of property, high immigration rates, and productivity differences) the growth rate started to slow down in the mid 1960s carrying out popular dissatisfaction. At that time, part of the failure of the model was attributed to the large extent of foreign ownership within modern sectors and to the highly unequal distribution of land in the highlands. Accordingly to it, draft legislation on land reform was introduced by the 1962-63 military government and the first law was promulgated years later which subdivided highland estates. However, it was not until 1969 that a full land reform took place encompassing the modernist movements throughout Latin America. Together with the land reform a set of ownership changes were carried out throughout all sectors of the economy affecting both foreign capitalist companies and traditional national ruling class.

At the time of the reform, accordingly to the export-led growth model developed for more than a century, coastal estates were fully capitalist enterprises using reproducible capital and engaged in wage relations, while those in the highlands retained 'feudal' practices (labor payment in kind,

rents paid in labor services, labor-intensive production) (Fitzgerald, 1979). Through the land reform it was expected that commercial farms could stimulate agricultural growth and widen the domestic market for manufactures. However, as Caballero (1980) points out, the land reform seems would have been an institutional change with political orientation instead of an economic purpose. The following statement from a *luchador de izquierda* (Left partisan) of that time, corroborates that suggestion:

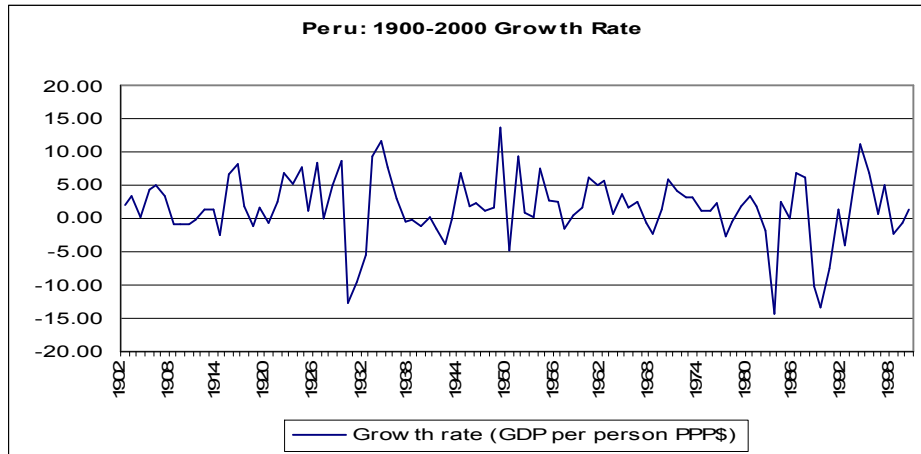
“...el objetivo era quitarles la tierra a los hacendados, después de eso ni nosotros mismos sabemos que íbamos a hacer.”

(...the aim was to take out the landlords' land, after that not even we [the political elite who conducted the movement] knew what to do).⁹

In that sense, neither the internal market strength nor the increasing of rural productivity was achieved. Instead, the large group of *comunidades* (peasant communities) remained with their original lands, though new ones –the post reform *comunidades*- appeared in order to secure the access to land, but also to access to state development programs. For some authors, the limited role of the agricultural reform in both the technological and organizational development of peasant communities was attributed to the reform's failure to accompany the distribution of land with the extension of credit and technology to small producers and to its attempt to impose bureaucratic forms of cooperation on traditional ones (Caballero 1980, Alvarez 1983). For others the institutional change simply did not reach peasant communities (Gonzales de Olarte, 1994).

Twenty five years after such institutional changes, there is no consensus on the effects over the economy. Successive economic crisis from the 1980s and the debacle produced by the emergence of *Sendero Luminoso* (Shining path), which in itself may also be understood as a sample of the perverse effects of dualism (Comisión de la Verdad y la Reconciliación 2003), make unclear whether or not those structural changes were helpful for growth and for social peace. As much as can be saw from a long-term perspective, growth rates seem to follow the same characteristic cyclical pattern observed in the last hundred years, though with particularities between specific periods (INEI, 1996). The land reform and the set of structural reforms seems would not have had a significant effect.

Figure 3



Source: From LAC - Oxford University (2004).

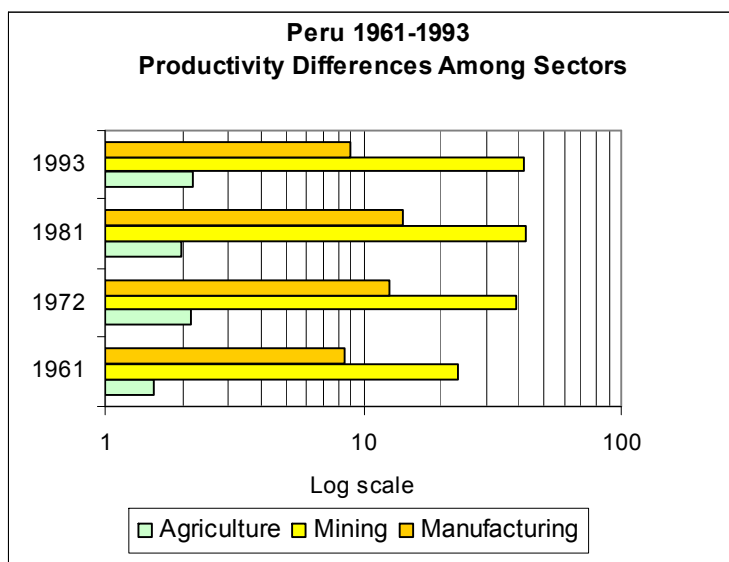
Table 1
Cycles in the Peruvian economy between 1951 and 1995

Cycles	Expansion	Recession
Cycle 1: 1951 - 1959	1951 – 1957	1958-1959
Growth average rate	5.64	1.55
Cycle 2: 1960 – 1969	1960 - 1966	1967-1969
Growth average rate	7.36	2.64
Cycle 3: 1970 - 1978	1970-1974	1975-1978
Growth average rate	5.51	1.51
Cycle 4: 1979-1983	1979-1981	1982-1983
Growth average rate	4.90	-6.20
Cycle 5: 1984-1992	1984-1987	1988-1992
Growth average rate	6.66	-5.02
Cycle 6: 1993-1995	1993-1995	
Growth average rate	8.77	

Source: From INEI (1996).

Lewis's condition of factors mobility was barely obtained. Instead, state monopolies substituted private ones in modern sectors (mining and fuel) and gaps in productivity among the whole economy increased. Indeed, estimates of the evolution of productivity differences between sectors show that from 1961 to 1981 (the period comprising institutional changes) the mean product per worker grew nearly by 28 per cent in agriculture, 84 per cent in mining and 68 per cent in manufacturing. Consequently, the gap between agriculture and mining in that period passed from 1 to 15 to 1 to 22, and between agriculture and manufacturing from 1 to 5 to 1 to 7. (Jurado, 2000)¹⁰.

Figure 4



Source: From Jurado (2000).

However, it is important to counterbalance the economic point of view with regard to effects of changes in property with a different perspective based on what those institutional changes meant for local populations, beyond their measurable effects in terms of economic aggregates. In discussing this point, a peasant leader from the South Highlands noted that,

“... claro que con la reforma no hemos ganado mucha tierra, pero ya no estamos bajo el poder gamonal; ahora somos libres aunque sea con chiquititas parcelas. Entre nosotros pelearnos, como en cualquier otro sitio se puede ver, pero igual entre nosotros nos entendemos y no tenemos que servir ni obedecer órdenes como en la época de la hacienda. Ahora somos gente con derechos y depende de nosotros nomás que crezcamos o que salgamos adelante”. T.H.¹¹

(It is true that with the land reform we (peasants) did not have significant gain of lands, but we are not anymore under the gamonal power. We are now free even if our plots are small. There are disputes between us, as there are in other groups. However we always arrive to understandings. We do not need to be at the landlord's beck and call. Now we are people with rights and our success depends upon ourselves).

In this sense, Lewis's condition of vertical mobility was clearly improved and additional institutional changes would have been useful to that aspect. Among the main institutional changes that would have reinforced the sense of peasants' empowerment are the right to vote

for illiterates (which basically meant peasants) in 1978, the institutionalization of elected local governments as a first step of decentralization in 1983, the recognition of Quechua (the native language whose use is extended along the highlands with predominance in the countryside) and bilingual education for rural schools in the highlands. Though, in practice, some of them were *letra muerta* (ineffective laws) for many years, it is noticeable that efforts were made to provoke changes in the dual economic and social structures. It is also noteworthy that some of these changes have had negative response from peasants. That is the case of bilingual education which, given the weaknesses to reinforce the norm and made it effective to improve the quality of education for peasants, instead of implying an element for increasing Lewis's vertical mobility was identified by peasants as an element that reduces their ability to incorporate into the modern society and excludes them from the labor market in modern sectors.

As a summary, we can suggest that although it would be difficult to generalize effects across regions and sectors, at simple observation along the national territory it is clear that the dual character of the economy is still significant. Traditional structures of production and exchange have hardly been changed in the rural area of the highlands over time in a significant way to be clearly perceived in local growth, and communalist views of local development have profited of and reinforced to such practices. Traditional structures have rather been functional to survival strategies in face of the absence of markets, and they have also been functional to development interventions from private and state projects.

The peasantry within a dual economy

Among traditional sectors in Peru, it can be said that the most traditional is the *sector campesino comunero* (peasantry). Accordingly to institutional criteria, peasantry is distinguished from other rural population by the fact of being grouped in communities for exercising property rights. Peasants within a community own collectively large areas of grazing land, of *secano* (non-irrigated) plots for rotating crops, and of non-cultivated forests available for collective use, while small food plots are held individually. Additionally, throughout communities peasants acquire legal recognition by the state as a group subject of public investment.

Nearly 77 per cent of the 4792 of recognized communities are located in the Sierra (highlands between 2000 and 4000 msnm) occupying nearly from 9.2 to 9.6 millions acres with an average per household of 4.2 acres of crops land and 28 acres of grazing land. In terms of economic

aggregates, peasants' contribution to GDP is around 4 per cent, and almost 5 per cent from the national income would be in this sector. (Gonzales de Olarte 1994). Though peasant population may be around 19 per cent of national population, given their low income and high levels of food production for home consumption, peasant's demand is low. All these numbers show the stagnant characteristic of the peasantry and the low potential they would have in respect to economic growth at national level. However, the same numbers can also be used to argue that neither development nor stable growth can be achieved without giving great attention to this group, because of its implications for social peace (essential for investment and growth)¹² and because of an issue of justice in the Peruvian history.

Although that seems to be of general consensus nowadays, it is also remarkable that visions of and actions for shaping peasant's weaknesses can vary in extreme with positions that go from strictly 'poverty alleviation measures' to those that postulate the eradication of peasant's poverty as an outcome of growth; whatever the position peasants seems to be reduced to his dimension of 'poor'. For our purpose, the issue is to analyze the peasantry as a group with particular characteristics in regard to other groups, whose own or imposed institutions sink them into the traditional sector. As Lewis suggests, the existence and reinforcement of those institutions would explain their backwardness and their inability to take advantage of market opportunities (Lewis, 1955).

Undefined property rights for communal territories

As we have seen, one of the basics in Lewis's growth theory is free mobility of factors –land and labor. To peasants, since capital is the scarcest factor, land and labor are essential for their survival and growth possibilities. *Legally*, peasants have never had access to private ownership of 'their' lands and the coexistence of peasant communities with large landlords in neighboring territories, or of peasants inside the landlord's land, has always been conflictive. Appropriations by force and abuse of political power to gain access to land by landlords have also distinguished the social process in which Indians passed to constitute the oppressed sector (cited in Gonzales de Olarte 1994). The Land Reform from 1969 gave to communities the legitimate right to exploit the land where traditionally peasants have been settled and, in few cases, assigned them some additional acres from private or state properties. On the other hand, through Land Reform the state recognized and assigned land to new peasant groups, cooperatives, and rural

associations. After the reform 46 per cent of agriculture land was under private ownership and 64% under collective ownership (Caballero and Alvarez, 1980).

In some sense, the Lewis's condition of "secure lease with long tenure" was then guaranteed by law; however, to the peasantry the mobility of land was highly constrained. Indeed, peasants were given land, but without any possibility of trade with outsiders and with restricted opportunities of exchange among insiders. The implication of these limitations is that any attempt for improvements in the quality of land and the development of economic activities based on the exploitation of land should pass by collective initiative and management. Unfortunately, as seen before, despite the investments made by the state and foreign aid agencies in capitalization of cooperatives and agrarian associations which were born with the reform, collective property ended by undermining any effort for transforming peasants –in such as economic unities- into capitalist farmers. Instead, conflict and frustration were the outcome. These conflicts –between the state, represented by a bureaucracy who ruled the cooperative, and the membership, and between cooperatives and communities- carried out a counter-reform for dividing collective lands into individual plots (Gonzales de Olarte, 1994).

Lack of investments inside peasant communities, this time expected from peasant households, may also find explanation in collective property and in non clarification of titles, though additional factors related to the isolation level of the community shall reinforce the process of collective stagnation. Indeed, case studies done in the Southern Sierra (MASAL-CBC 2003) show that mass investments in soil conservation carried out in the 1990s by the state and NGOs were successful in two cases: In individual farms where the farmer had full ownership over his plots and in plots individually held by peasants inside communities. Investments in collective plots were rarely found effective. Similar conclusions arise from project assessments on irrigation¹³.

Frequent signs of counter-reform, and the fact that investments in the agrarian sector were insufficient to promote growth, induced the state to formulate a new law on land property in 1995 (the so called *Nueva Ley de Tierras*–26505)¹⁴ which aim was to incentivate private investments in the agrarian sector. The law, however, establishes a differential treatment of communities of the coast with regard to communities from the highlands or the jungle. Additional restrictions for the latter constrain their ability to access secure tenure and to provoke scale economies and land concentration. The argument against exposing peasant communities to a land market relies in likely high transaction costs and on the high risk that individual titles may involve exposing

poor populations to the risk of being in very short term a new class of landless. We remember here Lewis's argument on resistance to institutional change, however, in this case, originated from political groups or leaders instead of being a legitimate demand from peasants themselves.

The new law created great expectations for peasants to obtain land titles and throughout to have access to financial markets. Indeed, the demand for advice to NGOs about the procedures to follow in order to obtain the desired titles rose significantly¹⁵. The disenchantment came years later when, encompassing the economic decline, some communities observed that their territories will never be subject of credit given their low profitability. At the same time the strong restrictions the law imposes in respect to the level of agreement that peasants need to reach in order to 'privatize' the community (two tiers in the highlands versus 50 per cent in the coast) discouraged many communities. Other communities, however, based on better possibilities of articulation to markets have found internal ways to adapt themselves to the new conditions created by law. Communities of lower altitude and better articulated to urban markets have divided communal lands and given land to *comuneros* for individual use. In some other cases, peasants are arriving to exchange arrangements for re-concentrating dispersedly plots.¹⁶ In all these cases *ad-hoc* arrangements replace formal procedures dictated for non-communal areas.

Communal arrangements are important, however they are not enough. Though some may defend the strength of those agreements in terms of local expressions of governance, it is hard to deny their high fragility. All agreements with communal consent are exclusively registered in the *Libro de Actas* (minute's book) from the *Asamblea Comunal* (the upper level for decision making) which is kept by the Board in turn. Apart from that, it is to each *comunero* to keep mental registration upon what is from his own and what is from his neighbors, and that is the case for each one of his dispersedly located plots. In that situation, conflicts for land boundaries between communities, among peasants, and between communities and outsiders are not exceptional. Furthermore, many of the scarce financial resources that the community owns are oriented to pay lawyers and, if needed, to corrupt public servants in case of conflict. It is in this context that Lewis's suggestion on the "need of titles clarification as a necessary step in economic growth" (1955) makes much sense.

Yet, as Lewis remarks, lack of land mobility is not a consequence of formal institutions alone. It also obeys to traditional institutions which reflect the twofold role land has in traditional societies. Indeed, for Peruvian peasants who live in the edge of the informality within the economic

system, land is a basic resource for food and home, as is a means of security in face of external shocks. Peasants from communities who have migrated to cities keep their rights to land through family ties or by lending temporarily or by working *al partir*¹⁷, “just in case things go bad or even for times of elderness”¹⁸. This signs of attachment to land, though completely rational, would also reflect the low opportunity cost that land has in rural areas where there is not an open land market. Furthermore, in all these cases the misuse of the resource decreases its productivity and, similarly to defaults produced by collective ownership, the incentive for investment is significantly reduced. Decrease in productivity has been found in cases where plots are not frequently cultivated, particularly because of its location in non irrigated areas. Lack of investment (for instance, under the form of soil fertilization) has been observed in irrigated areas where “tenants” have no interest other than obtaining the highest output in the current harvest.¹⁹

Agriculturalist and communalist views of peasant development

Pro-communalist visions of development enhanced the idea that peasants are less individualist than other economic agents from the society (Plaza and Francke 1981, Montoya 1980, Mayer and De la Cadena 1989; quoted in Gonzales de Olarte 1994). That idea has produced a particular regulatory body, notably land legislation, and the organization of territorial and productive management in a collective base. The particular treatment of peasants as collectivities, both for resources allocation and for accessing to public and private services, has constrained them on their freedom to production and to consumption in comparison to the rest of the society. Indeed, the isolation in which comuneros and communities have lived, as an effect of state’s absence and of historical and geographical features, has been used as an argument for development interventions at the ‘community level’. Though the argument was absolutely valid and interventions were required many times by the community through leaders or by means of social networks, the way in what development projects and programs were conceived and implemented would have not necessarily been the most adequate within a Lewis’s growth framework.²⁰ Two elements are important to analyze this suggestion: First, an evaluation of the communalist vision of the peasantry; secondly, an evaluation of the agriculturalist vision of the peasant economy. It is noteworthy to remark that the inclusion of development interventions into the analysis of the peasantry as part of a dual economy is essential because, for decades (notably since the early 1970s in the Southern Sierra), aid projects have been the main source of investments in peasant communities; they also have supported the state presence in the countryside.

As we have seen, Lewis discusses the advantages and disadvantages of communalism for growth and concludes that, though communalism may be useful for some tasks, individualism and clear reward to individual effort are what finally drive to, and are reinforced by, growth. The implication of such suggestion is that communalism and still more 'imposed communalism' would have counterproductive effects on growth. From case studies in Southern Peru countryside, I suggest that individualist behavior is dominant among peasants, though individualism acquires in peasant groups a different connotation of what is taken in conventional literature. For economic decisions the definition the individual involves to the immediate familial nucleus in opposition to the definition of the collectivity that involves several familial nucleus – that is the community. This distinction is important for two reasons. First, it reveals the way in what communal institutions define 'the individuo' and allocate resources – basically land. Secondly, the 'head of the family' acquires particular status for representation of, and assumption of responsibilities for, other household members. Indeed, regardless of the family size, the distribution of collective resources is made equal, per family. In the same way, contributions from individuals to community work (in labor hours or in cash) are made in a familial basis. As a consequence, access to state and private services is also frequently in a family basis.

The interplay between individualism, as defined above, and collectivism respond to the family's self-sufficiency level, both in terms of resources (land and labor) and of power, and to the family's perception of the strength of institutions on property rights. That implies that the correlation between 'wealth' and preference for collectivism is not always positive. Indeed, in the absence of formal institutions for recognition of property rights outside the community, both 'wealthy' and 'poor' peasant families will seek to act collectively – examples of this are the community level organizations formed for the defense of lands or livestock. All the same, in face of arrangements inside the community, 'wealthy' families opt for individual arrangements in order to access (to buy or to exchange) to more land or to labor (through traditional forms of non salaried exchange of labor) and, at the same time, if conditions are favorable at communal level, they would also prefer to act collectively; after all, usually their concentration of resources enables them with more power and leadership inside and outside the community. Instead, 'poor' families prefer communal arrangements for land allocation but individual arrangements for labor exchange. For relationships to be established with external organizations the preference is by reaction; that is, if the organization demands communal partnership, peasants act collectively;

but if there is a door to establish individual arrangements, then peasants prefer to act individually. In this same vein, Gonzales de Olarte (1994:194) suggest that, within the peasantry, individualism and collectivism does not appear as antagonic, and they would rather be complementary, but just to the point that collectivist behavior respond strictly to survival strategies. For him, the level of collectivism depends upon three factors: the scale and non-divisibility characteristic of resources, the benefit-cost analysis each family does for each option and the demographic pressure over collective resources.

Despite the fact that economies of scale are important for growth and provide good reasons for associanism and corporativism –which results desirable for the atomized peasant economies- problems arise when collective action is forced for productive investments and becomes a condition for accessing to development projects. Our case studies of peasant economic organizations in the South Sierra show that, even in small groups, lack of definition of ownership and property rights on the inputs and output of collective investments shape the likely success of the project. In those cases, what Lewis suggested about communalism perfectly describes the difficulties these groups have had to produce scale economies and to grow. Things are more complicated when communal resources are compromised and the group does not include to all members from the community. That is, for instance, the case of peasants grouped for eco-tourism projects who pretend to develop a new economic activity based on communal natural resources. In the absence of institutions to regulate the use of those resources for private exploitation with appropriate mechanisms of compensation, the collective reaction of the rest of community membership against the ‘entrepreneurs’, induced by the feeling of being excluded from the benefits of the project, shape their possibilities of taking advantage of market opportunities.

The second aspect is related to the role assigned to agriculture in development and extension projects. As it was a rule, peasantry and agriculture seem to be interchangeable categories. Consequently, investments in peasants have meant investment in agriculture. Indeed, in the last 25 years of development interventions in the Sierra South, it is not daring to suggest that almost all productive projects were oriented to improvements in agriculture; in some cases with the explicit aim of retaining population in the countryside in face of increasing migration to cities; in other cases for making available to peasant communities some elements of modern technology in order to increase their productivity, and recently to articulate improvements in productivity to markets. Thus, whether by inherited background or by lack of assets to develop other productive

activities, peasants have got specialization in farming; the effect of development interventions has been of over-specialization. Though the identification of agriculture with peasants is not unreasonable and their low productivities could easily justify any attempt of improvement through technical change, the paradox is that peasants have got to be specialists in an activity that submerges them precisely into the most traditional of the sectors in the economy and with the least payoffs in the highlands given the significant decreasing trend of agriculture prices and the adverse evolution of relative prices (González de Olarte 1997, Hinojosa and Santa Cruz 2002).

Agricultural bias has not been exclusive to the Southern Andes. Indeed, Escobal (2001) and Reardon et.al. (2001) in their study on rural income diversification in Peru and Latin America respectively conclude that rural development policies along Latin America have been oriented towards agriculture while the evidence showed that progressively the composition of rural households' income become crucially based on nonfarm activities. Both arguments, the adverse macroeconomic conditions to agriculture and the induced response from peasants in terms of diversification of activities –and perhaps the natural desire of rural populations to be (at least temporarily if not permanently) outside agriculture- support the suggestion that somewhat the strong emphasis in agriculture as a privileged strategy for rural development has not been completely adequate. It seems, then, that the missing point has been what Lewis consistently underlined: the indissoluble linkage between specialization and trade and the importance of the market size. To be sure, it is trade what drives to specialization and both to growth; the market objective ought to precede decisions on investment and production and not at the inverse. Say's law is only applicable to autarchic economies and peasant economies are not. The gains obtained from increasing agriculture production were offset by the small size and the absolute openness of local markets.

Furthermore, the combination between communalist and agriculturalist visions within a context of multiple dualisms that has characterized Peru's economy has had also the effect of reducing the mobility of a second factor, labor. Indeed as is the case that labor market in agriculture is small as a consequence of insufficient investments in the country and of traditional institutions that supplement these inefficiencies, the over emphasis in training for agriculture would have affected peasants' ability to develop other productive activities. Our case studies show that the seasonal permanence of peasants in the labor market do not respond to agricultural seasonality alone, but also to their inability to be engaged more permanently in other sectors, notably

modern sectors. The main value that peasants assign to training courses on agriculture is related to the sense of empowerment that access to knowledge provides and to the by-product effect of entering into new networks through training spaces rather than to the learning of a new agricultural technique in itself.²¹ Importantly, the by-product has contributed to Lewis's vertical mobility; however, it was not the goal.

As a conclusion

From the three Lewis's basics of economic growth we can suggest that Peru's economy has observed, at different times and at different spaces, the incomplete presence of some of them. Indeed, if willingness to growth can be taken as granted, the incomplete definition of property rights has undermined specialization and trade opportunities. As an effect, multiple dualisms have arisen in the economy and in the society: dualism at the level of the nation, between modern and traditional sectors; dualism at the interior of each sector, between modern and traditional economic unities; and dualism at the sub regional level with high differences between the rural and the urban and between coastal areas and the rest of the national territory.

Institutions have played the role of reinforcing these dualisms. In this picture, peasants are among the most traditional groups, sectors, and sub regions. Their ability to enter into a market economy has been highly constrained more by 'formal' than by traditional institutions, that is by institutions created within the structure of the modern segment of the Peruvian society and the state. As a consequence, peasants are anchored by an institutional frame of communalism and agriculturalism with long-run implications of path dependence.

With his institutional perspective, the significant contribution Lewis offers in his theory of growth is the endogenous treatment of institutions, which opens a door for breaking path dependences, and positions the responsibility of economic growth onto social actors, trespassing the convention of men as merely 'economic unities'.

Certainly, growth and development are not given by law, but laws and norms support Lewis's essential condition for growth and one of Sen's for development: economic freedom. And, as seen in Peru's economy, if economic freedom is to be enjoyed, it cannot be restricted to a portion of the economy and of the society, namely the modern sector. In a market economy, discrimination in property rights, although supposedly positive discrimination, can only entail

counter productive effects in both, the 'traditional' and the 'modern' –the 'developed' and the 'underdeveloped'.

Lewis's framework does not just allow to learn about duality and to show how in conditions of duality an economy can grow. His contribution lets us understand how institutions from top and from below reinforce duality. The Peruvian case shows that, though growth was observed in several periods, the institutional process that accompanied it explains well the existence and functionality of a traditional sector –essentially referred to peasant communities of the country– which was confined to be kept traditional and poor.

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¹ Lewis cites familiar or political sentiments over land that reduce land mobility as a resource.

² Most of the case studies are part of my Ph.D. dissertation. Other case studies are from assessments to development projects.

³ Additionally, the seven-month civil war ensued at the war's end by several factions from the elite national who claimed to be the legitimate government added to founder the nation economically for decades thereafter. (Basadre, 1999).

⁴ The Ministerio del Trabajo (Labor Cabinet) of Peru was created in 1901. However, it was not until 1949 that it was given autonomy and own fiscal budget. (Ministerio del Trabajo, website). Labor unions had a slow start in the interwar period (1919-40). After a 'glorious' strike in 1919, where basically industrial workers obtained the formal recognition of the 8 hours work, urban workers' movements were not noticeable. (Chirinos Soto 1994).

⁵ Given considerable restrictions in historical data, absolute values should be taken with caution. They clearly differ from source to source. However all sources shows similar patterns in trends and differences among sectors or groups; in that sense, figures are valid to show the general evolution of the economy.

⁶ The Ministry of Labor at that époque estimated 69 per cent of the labor force in Lima Metropolitan was constituted by immigrants in 1972. A high proportion of them were of rural or semi-rural origin. Almost 14 per cent proceeded from isolated areas but all maintained kin relations with peasants. (Scott 1994).

⁷ The 23 per cent of the EAP absorbed in modern sectors of export production and industry produced 30 per cent of the added value, while the 44 per cent of the EAP produced 19 per cent of the added value) (Fitzgerald 1979).

⁸ The definition of informal sector varies among authors and has evolved along time. In terms of labor force it roughly involves wage workers in enterprises with less than five workers, but also self-employment, unpaid family labour, apprentices, paid relatives and home workers. In institutional terms informal activities are those which are at the border of any kind of regulation (tax, work norms, registration in public administration and the like).

⁹ H.B. ex-partisan from the Left party that participated in the land movements in the 1960s in Cusco (December, 2003).

¹⁰ Productivity refers to GDP/EAP.

¹¹ Interview with T.H., current leader from the Federacion Departamental de Campesinos del Cusco (Federation of Peasants in Cusco) (January, 2004).

¹² The high level of inequity and social injustice in rural areas, particularly in peasant populations, was concluded as one of the main causes that produced armed political violence in Peru. (Comisión de la Verdad y de la Reconciliación -the Truth and Reconciliation Committee, 2004).

¹³ Hinojosa, L. Assesment reports of NGO interventions in the South Sierra (unpublished reports).

¹⁴ The Ley de la Inversion Privada en el Desarrollo de las Actividades Económicas en las Tierras del Territorio Nacional y de la Comunidades Campesinas y Nativas was published, without reglamentation, in 1995.

¹⁵ Approximately 80 per cent of demand of information to NGOs that give advice in legal issues to peasants was related to the New Law. After the Law several workshops and seminars were carried out with the aim of disseminating information among peasants. (From fieldwork notes).

¹⁶ Interview with J.C., and PhD fieldwork notes.

¹⁷ Modality of work in which the "owner" gives the plot to another peasant from the same community (or to a foreigner with the consent of the communal Board) with the condition of sharing the harvest. Variations to this modality in terms of sharing labor and inputs also apply to the same term.

¹⁸ From Ph.D. fieldwork notes.

¹⁹ From Ph.D. fieldwork notes.

²⁰ It is noteworthy that eventhough almost all of development interventions are framed within "poverty alleviation programs" and, in that sense, had the general goal of improving the subsistence conditions to peasants, many of them made also explicit suggestion of setting up the necessary conditions for the *take-off* of peasants' and of communities' economic growth. (My own notes from development project assessments and fieldwork).

²¹ This suggestion is similar to Bebbington et.al.'s conclusion in their study of Dutch Cooperation projects in the Andes (Bebbington et.al. 2002).