

FUNCTIONAL-DIALECTICAL ANALYSIS OF THE
EVOLUTION OF THE IMPLEMENTATION OF THE LAW OF INDUSTRIAL
COMMUNITIES IN THE REFORMED PRIVATE SECTOR OF THE PERUVIAN
INDUSTRY

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Patricia Roberts Yaeger

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ABSTRACT

Peru has a pluralistic economy, which means the existence of multiple and competing organizations characterized by different forms of property. An industrial enterprise can participate in any of them; social, state, reformed private and fully private.

This thesis is about the reformed private sector which provides for worker participation in profits, management and ownership of the company. The workers will eventually own 50 per cent of the stock holders equity of the company at which they work. The industrial community is the institution created by the government in all companies with five or more workers or with a net profit beyond a certain amount. This institution is self-managed and it is placed in a private company in order to bring about co-management.

The author hypothesizes that due to group pressures there has been an evolution in the implementation of the law of industrial communities although the text of the law has remained unchanged. She demonstrates it through a "functional-dialectical" analysis at three moments in time where the three great actors, identified as the government, the workers and the original owners of capital, come together for a moment of balance. This balance is every time lost because of the pressures of one of the groups involved.

The methodology is that of functional analysis but the emphasis is on the dysfunctions of the system, from there the word "dialectical", those occurrences that make for change and evolution.

This study is approached from three perspectives in order to give each of the three groups a fair share; their understanding of the industrial community and its implementation in each case responds to each group's different socialization, goals and commitments. By the same token the conclusions are of three kinds depending on which vantage point we take. They are not contradictory with each other, only partial. In order to gain a global understanding of the process being studied it is necessary to consider them all.

TABLE OF CONTENTS

Introduction	1
Chapter I	
The Methodology Behind the "Functional-Dialectical Analysis	5
Chapter II	
The General Theory of "Self-management and Participation	10
PART II	
The Peruvian Model of Co-management	30
Chapter III	
Historical Aspects Leading Towards the Industrial Community	31
Chapter IV	
The Peruvian Revolution	45
Chapter V	
The Peruvian Model of Co-management	66
PART III	
Dialectical Analysis	79
Chapter VI	
The Actors	81
Chapter VII	
Conflicts and Their Solutions	101
Conclusions	115
Tables	124
Acronyms	130
General Bibliography	131

INTRODUCTION

This thesis is about industrial democracy in the Peruvian model of "co-management." The Peruvian model of "co-management" is unique as it is the only one to include stock ownership by the workers as a group. The study of the evolution of "co-management" in Peru is interesting not only because of its unusual features but also because more advanced countries such as Great Britain and Sweden are considering implementing systems similar to the Peruvian model in their industrial economies.(1)

In Peru the industrial sector is the leading one integrated into the modern economy of the country and a common belief is that industrial progress will bring the country to a faster stage of development.

Peru has a pluralistic economy, which means the existence of multiple, competing organizations, characterized by different forms of property. An industrial enterprise can participate in any of them: social, state, reformed and fully private. The social property sector may engage in any activity not specifically reserved for the state. All basic and strategic industrial enterprises are state owned and operated. The private sector has been reformed to include the industrial community where workers share not only in the profits but also in the management and capital of a company. The fully private which at the beginning of the reforms included only those companies with five or less workers and a gross profit of one million soles has recently been changed (2) to include all small enterprises with a gross annual income of less than a fixed amount

of soles.(3) They function in the traditional capitalist manner except for the profit sharing of 25% among all employees.

The reformed private sector employs 250,000 people with 3,600 Industrial Communities (4) all over the country. Seventy per cent of both the employees and the Industrial Communities are in Lima. All these people live in urban areas and may be called industrial proletariats. An idea of the size of private companies and the number of workers employed can be obtained by referring to tables 1, 2, 3, 4, 5 and 6 in Chapter V. Tables 1 and 2 give statistics about the proportion of population economically active.

My interest in studying the evolution of the implementation of the Law of Industrial Communities in Peru, springs from the political and economic fact that the Industrial Community; e.i. the Peruvian Model of co-management, is basic to the Peruvian concept of self-development. To create the new social order the government wants, it is absolutely necessary to change the infrastructure of property ownership so that a social democracy of full participation can be attained. The reform of private industry is being accomplished through legal measures which are interpreted, reinterpreted, obstructed, supported and finally applied by three great actors involved in the process: the state, the workers and the original owners of the capital. My approach to understand the process of evolution is through selective interviews of official representatives of these three groups and then, through content analysis of their organizations' pronouncements I attempt to do a "functional-dialectical" analysis of the process. My basic objective is to determine what each of the three groups understands by the Law of Industrial Communities. Another

aim is to see if the implementation of the Law of Industrial Communities has changed in practice due to pressures from the groups involved.

The period being analyzed is from July 28, 1970, with the promulgation of General Law of Industries to July 28, 1976, with President Morales Bermudez message to the Nation. In his message the President suggested new great changes in the revolutionary process. There will also be some reference to the New Decree Law of the Private Reformed Sector, still being discussed at ministerial level, which will replace the present Law for Mercantile Companies.

Specific objectives of this study are:

1) To see how or if the implementation of the Law of Industrial Communities has undergone evolution because of the participating groups' pressures.

2) To define what is the conceptual model that the government pretends to implement and contrast it with reality at different moments in time.

3) To show the unanticipated consequences that distort or change the implementation of the ideal model.

4) To make a realistic diagnosis of the present situation.

One basic hypothesis is that there have been modifications in the implementation of the Law of Industrial Communities (5); that although the text of the law remains the same there have been other laws, decrees and informal interpretations that have redefined what is being implemented today; that there has been a dialectical evolution over the years determined by important conjunctions, where the three great actors came together for a moment of balance, only to become unbalanced again by the

anthithesis created by one of the groups involved. The study is in three parts. The First Part includes the Introduction and Chapters I and II, Chapter I contains the description of the "functional-dialectical" model and Chapter II, the general theory behind "self-management and participation" as seen and implemented in various countries. Both Chapters are interrelated; Chapter I provides the frame work and Chapter II, the substance. The industrial organization will be seen as an open system where serendipitous findings will direct the final outcome.

In the Second Part, Chapter IV describes the Peruvian model, an account of the antecedents, the Revolution of 1968, and its ideological platform to the present. Chapter III sketches the history of labor participation in industry. Finally, Chapter V tells us in abstract the text of the Law of Industrial Communities that created the model of "co-management" in Peru.

Part III contains the heart of the research. In Chapter VI the three great actors are identified with their vested interests and previous commitments providing an understanding of how each views the implementation of the Law of Industrial Communities. In Chapter VII the occurrence of three important conjunctions - when the Law of Industrial Communities was given, when CONACI was formed and when the Law for Small Enterprise was promulgated - will exemplify the dialectic play of group forces in the redefinition and reimplementation of the original law and how disregard for previous commitments makes for unanticipated and sometimes serendipitous consequences turning the process in unexpected, anomalous and strategic ways.

CHAPTER I

The Methodology Behind the "Functional-Dialectical" Analysis.

This study is limited to the reformed private sector of Peruvian Industry. In order to generalize the concepts, all data has been compiled into three large sections representing the three great actors of the process: the state, labor and the original owners of the capital. The state gives the law its official interpretation through its spokesmen, the President of the Republic and the Minister of Industry and Tourism. The workers are originally represented by workers movements and later by CONACI (the national confederation of IC). The original owners of the capital have multiple organizations, the most outstanding being the National Society of Industries and the Regional Chambers of Commerce and Industry.

Definition of Terms:

Those in government are members of the Peruvian Armed Forces and they are introduced in Chapter IV where the stage for later developments in the industry is set. The workers are all those people who are permanently and fully employed in the industry sector, no matter what they do (6). Workers are the only ones who can belong to an industrial community and a sketch of their history together with that of the traditional capitalists is described in Chapter III. The industrial workers organized themselves in what is known as the National Confederation of Industrial Communities (CONACI). However, not all workers identify with the goals of CONACI, nor are active in their Industrial Communities.

Moreover, some feel closer to the interests of the capitalists. The capitalists are those owners of capital that is not state owned. In the model of co-management they gradually yield up to 50% of a company's stock to the Industrial Community which purchases it with 15% gross profit allotted by law.

The industrial community is a new type of organization created by law for all industrial enterprises with either six or more workers or with a gross profit of more than one million soles (7). I consider this organization neutral and the stage where the two great actors, workers and capitalists struggle with each other to dominate the IC to use it for profit and to serve their precommitted goals, while the government defines and redefines the raison d'etre of the IC. A detailed description is given in Chapter V where the Law of IC is explained.

The data were collected over a period of two summers in Peru. Initially, I just tried to learn what the process was about; then, I structured a working hypothesis, and defined the three great actors and began interviewing people considered at representative organizations: Such as the Ministry of Industries and Tourism (MIT), CONACI, Unions and the Chamber of Commerce in Arequipa. At the same time I collected official pronouncements from the organizations and from local newspapers. To aid my work I visited researchers in self-management at several universities: Universidad del Pacifico, Universidad Catolica, Escuela Superior de Negocios Para Graduados, Universidad Villareal. I also visited people studying self-management in Peru at DESCO, (Center for Studies and Promotion for Development).

After gathering data the protocol I attempt to follow is that of

functional analysis. I call it dialectical because of the emphasis on the disfunctions of the system and the unanticipated consequences. The focus is on the dynamics of social change through historically developed forms. It is seen in three moments in time (when the Law of IC was given in 1970, when CONACI was created in 1973, and when the Law of Small Enterprises was given in 1976). Each conjunction will be understood as defining itself from the contradictions, conflicts or antithesis created by the pressures of the groups involved.

Robert K. Merton summarized the functional procedure as follows: (8)

"1) Location of participants in the pattern within the social structure--differential participation".

That is, I begin with a description of the individuals and groups involved to discern the social items that will be subjected to functional analysis. In Chapter IV I describe the general situation of the country giving emphasis to the military government who is one of the three actors. In Chapter III the other two actors, labor and capital, are introduced through a brief overview of their histories up to the time the Law of IC was given. Chapter V describes the items of analysis the location of the participants in the pattern.

"2) Consideration of alternative modes of behavior excluded by emphasis on the observed pattern (i.e. attention not only to what occurs but also to what is neglected by virtue of the existing pattern.)"

Attention will be given here to those alternative patterns which would come up if the present structure had not been imposed. Previous socialization of the members integrating capital and labor would have led to different and logical, for them, outcomes if left alone. The alternative

outcomes will be understood when examining in detail the three great groups.

"3) The emotive and cognitive meanings attached by participants to the pattern."

In order to understand the motives of actors, why conflict was prevalent at all times and that disfunctions more than functions determined the road of the evolution, attention must be given to previous socialization and commitments of the actors, as well as their ideologies. This section is the heart of the research and is tackled in the second part of the study in Chapter VI where each group is identified by its self-definition and how it views and understands the process.

"4) A distinction between the motivations for participating in the pattern and the objective behavior involved in the pattern."

Having analyzed the three actors in the process and the meanings attached to their behavior, we can now see their motives for conformity or deviation from the prescribed norms. We can assess the psychological "needs" served (or not served) by the pattern in the three conjunctions mentioned above. The dialectical interplay of the three actors as they tip the scale of equilibrium one way or another is interesting to see.

"5) Regularities of behavior not recognized by the participants but which are nonetheless associated with the central pattern of behavior."

There are regularities in the pattern of behavior that go unnoticed by those involved but which have consequences for everyone involved and go even beyond the social system under study. The regularities comprise the latent functions, and if understood, can enlighten the entire process and

aid in determining if the aims of the revolutionary ideology are being fulfilled. In the concluding chapter I make some predictions based on the conclusions of my studies.

CHAPTER II

The General Theory of "Self-Management and Participation"

The idea that workers should share in the decisions which govern the life of the enterprise in which they work found varied expression in the teachings of nineteenth century social thinkers; however, only toward the end of the First World War did the idea take practical shape with the establishment, in various countries, of joint committees or workers' councils.

After making progress for some years, the movement for workers' participation in management decision-making lost its vigor and dropped out of the limelight for more than ten years. The efforts made in certain countries to induce employers to recognize trade unions, although directed toward obtaining for unions the right to share in the handling of problems of immediate concern to workers, tended to emphasize the clash of interests between workers and employers rather than the desirability of cooperating in the solution of problems arising in the day-to-day existence of the enterprise.

During the Second World War and the years immediately following, the problem of workers' participation in decision making again rose to prominence in the field of industrial relations. Workers' councils or committees were being established or re-established in various European countries, by legislative action or collective bargaining. In Western Germany a system of joint management with dual Boards of Directors was introduced in the large mining and steel-making concerns. (2)

At the present time there is a notable upsurge of interest in workers' participation in management. In the resolution adopted in 1966 on participation by workers, the International Labour Conference observed that: "in various countries with different economic and social systems, efforts and experiments are being made to enable the workers to take part in the decisions taken in their enterprise, especially when these decisions affect their employment and their conditions of life and work."(3)

"In several western European countries, this interest has been manifested in various different ways in recent years; for example, by the establishment of special committees to analyze certain aspects of this problem (in France the Masselin Committee on workers' participation in the enterprise and the Mathey Committee on the workers' share in self-financing of enterprises; in Norway, the Aspengren Committee; in the Netherlands, the Verdam Committee); by the revision of the national agreements relating to workers' collaboration in enterprise in Norway and Sweden; by a change in the legislation (1966) relating to works committees in France, and the launching of schemes whereby "the old idea of the Divine Right of Employers and of endless demands will be replaced by the sharing of all in both profits and responsibilities"; and by the consideration of a system whereby the workers will have the right to participate in the management of the National Steel Corporation, in the United Kingdom of Great Britain and Northern Ireland. In addition to which the question of workers' participation in the enterprise has been on the agenda of many congresses, conferences and seminars. Nevertheless, the fact remains that in certain countries, along with the growing interest

in the idea of workers' participation, an increasingly definite and vigorous opposition from the employers has developed towards at least certain forms of participation."(4)

In the Union of Soviet Socialist Republics, and in the Central European countries with a planned economy, workers' participation is presented in theory as an essential part of the system of production.(5) "The principle of the individual responsibility of managers and of the collective participation of workers in the management of socialist public enterprises must be applied jointly and in co-ordinated fashion," writes the author of a report on economic reforms to the Central Committee of the Hungarian Socialist Workers' Party. A Czechoslovak author stresses that "if the workers are really to share in the profits and losses in a way which will affect their pay, it would be anti-democratic not to offer them the legal means of influencing the decisions taken by the management whenever such decisions affect the workers' future remuneration." In Poland, according to the Central Trade Union Council: "The self-management of enterprises means giving the staff a greater say in management," and "allowing the staff a greater share in supervising the way the enterprise is managed."(6) In Yugoslavia, a country which since 1950 has devised an elaborate system for workers' self-management, participation by the workers in solving problem confronting an enterprise is a major political objective.

In the United States and Canada, observers of the system of collective bargaining as generally practiced in these countries have emphasized the extent to which this system gives rise to workers' participation and how democratically it works.

Workers' participation in the developing countries is frequently depicted as essential if schemes for industrialization are to succeed. For example, in the third Indian Five-Year Plan, we read: "As it develops, workers' participation may become a highly significant step in the adaptation of the private sector to fit into the framework of a socialist order. It can serve to bridge the gulf between labor and management, create better mutual enterprise and facilitate the adoption, on both sides, of an objective approach towards the problems of industry and the workers. The success or failure of an enterprise is not the concern of management alone. For the peaceful evolution of the economic system on a democratic basis, it is essential that workers' participation in management should be accepted as a fundamental principle and an urgent need." (Abstracts from Paragraphs XIII and XIV, Chapter XV) In Ceylon, the Government has workers' participation as part of its platform, and a committee set up to examine the problems arising from settlement of workers' grievances and disputes has included the matter in its agenda. In Mali, the 1963 Act relating to state enterprises provides that "the trade union authorities in the enterprise shall organize the participation of all workers in the management thereof." In Algeria, the United Arab Republic and Syria, laws have also been promulgated during the last few years to provide for system of workers' management of workers' participation on boards of directors of enterprises. In Tanzania, a law in 1964 set up workers' councils.(7)

While these examples may suffice to show the keen interest at present in workers' participation, they also indicate that "participation" tends to mean very different things in different contexts.

Objectives of Workers' Participation

The aims pursued by the means of workers' participation in decision-making, the methods whereby participation is to be achieved in practice, and the fields in which participation is feasible vary considerably.

Generally the political and social objectives are presented under the label of "industrial democracy". These objectives are based on the observation that while, in a democracy, the worker has exactly the same political rights as any other citizen, it is paradoxical that the worker is not normally entitled to have a say in decisions taken within the enterprise in which he works, and which directly affect him in his job much more immediately than the exercise of his political rights.

Accordingly, those who wish to give the workers a say in decisions and to ensure "industrial democracy" in practice as well as in theory often affirm their intention of radically changing the manner of decision-making with individual enterprises.

The notion of "industrial democracy" is in keeping with a conception of man and human rights and dignity of which the Universal Declaration of Human Rights (1948) is probably the most widely accepted definition. "All human beings are born free and equal in dignity and rights. They are endowed with reason and conscience and should act towards one another in a spirit of brotherhood." (8)

Sometimes the introduction of "industrial democracy" into individual enterprises is conceived of as part of a broader objective, namely, the transformation of the economy as a whole. In Belgium, for example, works councils were introduced by an enactment of a general nature "relating to organization of the economy," which also set up joint in-

dustrial councils and a central economic council. The Basic Programme of German Trade Union Federation (1963) emphasizes this aspect very strongly.

In other cases, the social objectives advanced in favor of workers' participation are more limited. The advocates of participation may, for example claim that such participation is necessary to improve the atmosphere in the enterprise, or to encourage better relations between management and staff. Less emphasis is placed on the introduction of industrial democracy than on the desirability of integrating the worker into the enterprise.

Most economic objectives are linked, directly or indirectly, with making the enterprise more efficient, and with the contribution the worker can make to this end. One significant example of the importance attached to economic efficiency and of the recognition of the role which workers can play in improving methods of organizing work is the recent trend toward "productivity bargaining" in Great Britain.

In Peru the objectives are ethical, to develop the person to his full potential and make him more human by removing alienation; social and political, to create a social democracy of full participation at all levels, and in all areas of human activity; and economic, to harmonize capital and labor through co-determination for greater productivity.

Methods of Worker Participation

While in the strictly individual sense, the very fact that a man works in a certain enterprise implies that he shares in its activities, workers' participation in decision-making within an enterprise is usually through a collective participation which goes beyond performance of

the specific job assigned to each worker.

The methods whereby collective participation is brought about depend upon the political, economic, social and cultural conditions in each country, and also upon particular aims of the governmental authorities (e.g. the Legislative) or political parties when establishing the institutions or procedures of participation. "Participation can mean employees, directly or through their representatives, taking some part in reaching decisions that affect them. This may include being asked to give advice before a decision is taken (i.e. consultation) or being a party to a joint management/trade union decision (i.e. negotiation), or, in the case of employees serving on Group Boards as part-time Directors, sharing responsibility for a management decision." (9)

When there is participation through negotiation and bargaining we may say that there is "co-decision," but not "co-management," for the decisions in question relate to specific matters and not to all the problems connected with the management of the enterprise. In the theory of industrial relations there is a tendency to contrast or at least to make a distinction between "negotiation," dealing with questions in which workers' and employers' interests differ, and "participation," dealing with matters of common interest. (10)

A third way in which workers may share in decision-making, is by representation in managerial bodies, such as the board of directors for a limited liability company. This method is "participation in management," properly so called, since the bodies in question have the ultimate responsibility and usually deal with the range of problems which arise in the running of an enterprise.

Sometimes the workers' representatives in these bodies constitute a minority; for example, in a number of nationalized enterprises in France, and under the system introduced in the Federal Republic of Germany in 1952, whereby the workers' representatives are allotted one-third of the seats in supervisory councils.

When workers and shareholders are represented on boards in equal numbers, the term generally used is "co-determination." An important example is that of the big coal mining and steel concerns in the Federal Republic of Germany. Under legislation given in 1951 the workers' representatives, the majority of whom are directly appointed by the competent union, occupy half the seats in the supervisory council or board concerned, the other half being reserved for shareholders, while one independent member (often referred to as the "eleventh man"), is elected by the members of the supervisory council, acts as chairman. Another feature of the system is that the managerial team comprises a Director of Labor who can be appointed only with the assent of the worker members of the supervisory body. Needless to say, in such a system the workers' participation affects the very nature of private enterprise. "...The aim in the final analysis is to place on the same footing in the exercise of authority those enjoying the rights of ownership, and those whose work has been hired for the purpose of operating the enterprise."(11)

Lastly, workers alone may elect the members of the councils called upon to manage the enterprise. This is the system of "self-management," utilized by the Yugoslavian experiment under way since 1950 which makes the workers responsible for the management of public enterprises.

The Peruvian model of co-determination is unique in method because

the workers buy stock of the companies and elect their representatives to governing board as shareholders, and enjoy the same rights and responsibilities as the other shareholders. However, under the Peruvian method of co-management, workers through the Industrial Community can purchase only up to 50% of a company's stock. The Peruvian model is examined in detail in Chapter V.

Types of Decisions:

Decisions in industrial enterprises fall into three major categories: those which relate to technical problems (production, organization and working procedures), those which relate to employment and those which relate to the economic and financial policy of the enterprise (forecasts of the future sales, investments, programmes and so on).

The degree of participation may vary with the kind of decision. Thus, within one and the same enterprise, there may be a system of joint decision making on working conditions by virtue of collective bargaining and consultation of the workers regarding the organization of work, while upon matters concerning economic policy, participation may mean no more than that the workers are kept informed. In practice, all degrees of participation tend to equalize. For example, it has been observed that discussions concerned with ways and means of giving workers a bigger stake in the enterprise (discussions which initially had a limited objective of establishing a specific method of remuneration that ensure workers had a financial interest in the benefits of increased productivity) tend to expand very quickly to cover the field of management decisions. (12)

A system of profit-sharing or acquisition of capital (for example,

through the distribution of shares) does not, necessarily entail participation of workers in decisions, since it may be set up and put into operation solely by the initiative of the employers. It may, however, include participation in decisions to the extent that its method of operation is decided upon after consultation or in agreement with the workers' representatives. Participation very largely depends on individual attitudes to it. It has been said that: "members of an organization sometimes give the impression that they don't know their own minds in this matter. Following a natural desire to mould their own environment as far as possible, they are willing to participate, but at the same time they are afraid of participating in decision-making in so far as this may entail losing their independence by so doing, or finding themselves bound and restricted by their partners in the process. It's far easier to keep one's independence and integrity by holding aloof than by agreeing to share the responsibility for decisions. Hence workers rarely agree to share in the decision-taking unless offered a very substantial inducement."(13)

Hence any generalization must necessarily be hazardous. It has, in fact, been observed that those who claim to favor reforms leading to a greater participation of workers in decisions are increasingly aware of the diversity of situations and thus of the need for comparable diversity in the systems to be created.

In any case, to be in a position to have an effective voice, either on management boards, through joint consultations or bargaining negotiations, workers' representatives should be able to understand the nature of the problems discussed and the effects of the decisions to be taken.

The wide range of basic concepts governing workers' participation, the aims and objections which have been briefly reviewed are reflected in the equally wide range of machinery for participation which exists under various national schemes or in particular enterprises. These various types of machinery differ not only as regards their institutional forms, their scope and terms of reference, but also as regards their formal powers in regard to the decision-making process within the enterprise. They must also be clearly differentiated according to the legal status and the extent of the particular enterprise's autonomy within the economy, the characteristics of the management as well as the general features of the industrial relations system and the role of employers' and workers' organizations of the country or industry concerned. In addition to these various factors which are directly linked with the workers' role within the enterprises, the system of workers' participation will in practice be strongly influenced by the constitutional and political system governing the society at large, by the level of economic, social and of cultural development, by the relations existing between the various social groups which form the society, by its history, the entrepreneurial motivation of the population and other related socio-cultural factors.

Systems of Workers Participation

There are many forms of workers participation in enterprise. Systems based on workers' self-management within enterprises represent no doubt the most far-reaching attempt at directly involving the workers in the decision-making process and in the responsibilities of management. While Yugoslavia offers the oldest example of a nation-wide system of

workers' management which has been in operation for a number of years in all enterprises throughout a country, similar methods of management covering major sectors of the economy have been introduced more recently in several other countries, including Poland, Algeria and Peru.

The main features common to these systems are generally the following. They are based on general legislation applicable to enterprises which belong to the public sector of the economy and in respect of which only management rights, and not ownership, have been transferred to workers. The workers entitled to participate include all those actually engaged in the enterprise, workers and employees alike; no management rights are retained by those who, for whatever reason, cease to work in the enterprise. The main management function of the workers' collectivity are usually exercised through a body elected by the workers and generally known as the "workers' council." The competence of the workers' management bodies extends to all decisions taken within the enterprise, although special rules of procedure and for supervision may be laid down by legislation in order to avoid arbitrary action and to ensure the observance of certain specific standards. The entrepreneurial motivation of the worker-managements is linked with their right to dispose of the profits or the net income of the enterprise, or of a part thereof, including the allocation of such funds for reinvestment, social and cultural purposes or their direct distribution in the form of extra remuneration.

Another form of system is where workers' representatives are admitted to participate as full members of the collective supervisory or management bodies which administer the company, enterprise or undertaking where they are employed. These schemes, often referred to as management

participation systems, present a number of distinctive features which differentiate them from the workers' self-management mentioned above.

Workers' representatives in the various boards represent normally a minority of, and in any event not more than half the membership of the management bodies. The status of the company or enterprise, public or private, remains basically unaltered. There are usually no specific provisions for direct participation by the workers in profits or incomes. However, where workers are granted parity of representation on the Board, workers' representatives are expected to influence and to modify in the light of the workers' interests management policies in general, including decisions affecting profits and income distribution, their influence being intimately blended with that of the other members of the Board, through a continuous process of discussion and search for compromise. The Board sittings are generally private, publicity being ruled out; hence, direct participation of individual workers within the enterprise is generally not aimed at. Nor are there as a rule specially built in facilities for such wider participation.

Systems of workers' participation in the governing or supervisory boards of the enterprises differ according to whether they apply to a whole branch of the economy, including the private sector, or whether they only apply to publicly-owned companies.

The co-determination system of joint participation in management which prevails in the Federal Republic of Germany - and which provides for equal or minority representation of workers in the supervisory boards of enterprises, according to the economic branch concerned - is certainly one of the most widely known systems of participation in decision making

and one of those which have attracted greatest attention both at the policy making and research levels within the country as well as abroad. Participation in management is applied not at the level of establishment (production units) but at that of the company or industrial concern which is a legal body or entity.(14)

General policy guidance and supervision is vested in a supervisory board elected by the shareholders' assembly; the supervisory board in turn designates the management board, which usually comprises three full-time directors who form a collective top management organ of the company and are responsible for all current business matters.(15)

Under the general provisions of the law of 1952, the workers appoint one-third of the membership of the supervisory board in all public or private companies of a certain importance where such collective organs exist or may be brought into existence.(16)

The workers' representatives are elected by direct and secret ballot by all workers and employees of each company; if there are two or more seats to be filled, at least two of the workers' representatives must belong to the company's staff, one at least being a "worker" (wage earner) and one a (salaried) "employee." The workers' representatives are full members of the boards, enjoying all rights and emoluments pertaining to such office and taking part in all deliberations and decisions. To sum up the position, it would appear that the co-determination bodies are operating smoothly and regularly, within the framework of the legal provisions recalled above, in practically all the companies concerned. Although the appeal and arbitration procedures have been made use of in a limited number of cases, no major breakdown of the new management struc-

ture has been reported. Indeed, it is the common finding that the workers' representatives in most companies have found it possible to join quite closely with the other members in the elaboration of policies and in the decision making process.

In Austria, two representatives of the workers are elected by the workers councils in both public and private companies as full members of the statutory boards thereof. The main objection to this type of scheme, which is voiced by the workers' side also in other countries, is that the majority representing the shareholders may solve major policy problems outside the board room, the formal sessions being then reduced to mere formality.

Under French legislation two workers' representatives are entitled to participate, in a consultative capacity, in the deliberations of the management boards of joint stock companies. Little attention is generally given to this provision the practical impact of which remained quite limited.(17)

Limited workers' representation on boards of joint stock and similar companies has also been provided for under recent legislation of Spain. Under this legislation, at least one workers' representative must sit on any permanent subcommittee or panel dealing with matters other than routine business and which may have a direct bearing on workers' interests. Decisions of boards of directors which do not duly incorporate the workers' representatives are null and void. In the Netherlands the Joint Action programme of the three Dutch national trade union centers provides that "the composition of the board of directors must reflect the interests both of the suppliers of capital and of the workers" and that "the workers,

just as much as the shareholders, must have the right of investigation. They must be entitled to exercise this right if they have justified doubts as to the efficient management of the enterprise and the smooth running of operations."(18)

In the Congo (Kinshasa), the trade unions made in 1965 a vigorous claim for their association in management of the major concerns exploiting the country's mineral resources, several leading trade unionists were later appointed, in January 1967, as members of the newly formed management board of the State Holding Company (Generale Congolaise de Minerais) which took over the responsibility for mineral mining and processing industry.(19)

The appointment of leading trade unionists on the boards of nationalized or of public industries generally is a well established practice in several other countries, including the United Kingdom and Ireland.

In the United Arab Republic, there is parity in the Board of Directors since 1966 for the public sector. All companies which belong to the public sector are administered by an Administrative Council with a maximum membership of nine (including the chairman), half of which represent the workers while the other members as well as the Chairman are appointed by the President of the Republic. The workers' members are elected directly by the workers in a secret ballot held under the supervision of the Ministry of Labor. A workers education institute was recently established to provide special training for the worker members of the administrative councils. In the Syrian Arab Republic, a Decree provides for the setting up of a Board of Directors which comprises four representatives of the workers, one of the trade union, one of the Executive Committee of

the Arab Socialist Resurgence Party (Baas) and two government representatives, one of whom is the Chairman of the Board and the Managing Director of the enterprise. His Deputy, however, who has to countersign all such decisions as may be specified by the Board, has to be chosen from among the workers' representatives. The workers' members of the Board are selected by a "workers' committee" which includes two representatives of each sector (department) of the enterprise elected directly by the workers. Decisions which are singled out as being reserved to the Board include - subject to the approval of the Minister of Labor - the drawing up of the rules of employment, questions of remuneration and wage supplements as well as conditions of work.

In Mali, enterprises of the public sector - which include practically all major enterprises of the country - are placed under the management of Boards of Directors of 5 to 11 members including the principal managers and members of the trade union committee within the enterprise; the Board is assisted in its work by a delegate of the Party. In actual fact, the composition of the Boards varies quite considerably as does the scope and nature of their activities. Legally, the reserved powers of the Boards include all questions relating to the organization of work, productivity and remuneration of work, recruitment and lay-offs.(20)

Work councils are the most wide spread and best known forms of associating workers in the decision-making process within the enterprises, with a system related to, but different in principle from the trade union organizations.

Generally speaking, the powers of the works councils or committees are merely consultative and extend to the three key areas of enterprise

management covering economic, personnel and social matters. However, while some national systems go scarcely beyond this general consultative status (e.g. in Finland and the Netherlands), others reserve to the councils or committees certain specific functions in respect of which their advice or co-operation is mandatory and which tend to associate them more closely with the management so that, they may become an indispensable part thereof.

The works councils or committees are the bodies which generally elect workers' representatives on the supervisory or management boards of joint stock and similar companies in countries where such representation is provided for under national legislation.

In a number of countries however, where there are no binding statutory provisions concerning participation in or collaboration with management at the enterprise level, labor-management committees have been established on voluntary bases in most or at least in a significant number of enterprises.

I have dwelt on the model of workers' participation in the Supervisory and Management Boards of enterprises more than on any of the others because this is the model that with its unique characteristics will be analyzed in the Peruvian Private Industry.

NOTES FROM THE INTRODUCTION AND CHAPTER I

- 1) Vision, Vol 47, No. 1, June 15, 1976 (Inter-American Magazines).
- 2) Decree Law 21435 Small Enterprises, January 24, 1976.
- 3) Soles is the Peruvian currency. The rate of exchange was 43.50 to one dollar at the time of the reforms. It has recently been devaluated to 65 soles to a dollar.
- 4) Interview with Rene Rodriguez, Director of CONAPS representing the MIT (July, 1976 tape).
- 5) Decree Law 18350 created the IC in July 28, 1970.
Decree Law 18384 explained how the IC was going to function. September 1st, 1970.
- 6) This is how they are defined in the Law of ICs 18384 Art. 1.
- 7) Since January 24, 1976 this has been changed. See Decree Law 21435 for Small Enterprises. It is not retroactive.
- 8) Merton, Robert K. Social Theory and Social Structure (Free Press, 1968).

NOTES FROM CHAPTER II

- 2) Labor relations Series No. 33 (International Labor Organization, Geneva, 1969) p. 2.
- 3) Idem. - p. 3
- 4) Idem. - p. 3
- 5) Idem. - p. 4
- 6) Idem. - p. 4
- 7) Idem. - p. 7
- 8) Declaration of Human Rights Art. 1. United Nations, 1948.
- 9) Labor Relations Series. - Op. Cit. p. 9
- 10) Idem. - p. 14

- 11) Idem. - p. 16
- 12) Idem. - p. 18
- 13) Idem. - p. 26
- 14) Idem. - p. 44
- 15) Idem. - p. 45
- 16) Idem. - p. 45
- 17) Idem. - p. 48
- 18) Idem. - p. 49
- 19) Idem. - p. 49
- 20) Idem. - p. 53

PART II

THE PERUVIAN MODEL OF CO-MANAGEMENT

In this section I present the three main actors affected by the reform of the enterprise and the mechanism of "co-management." This corresponds to the first step in the functional analysis. A description of "what is." The military, capital and labor have a history, they all have been subject to different socializations, their goals in life have also been different. The purpose of the next three chapters is to present these three groups as they see themselves in order to understand why they reacted the way they did when the enterprise was changed. If we understand their commitments we shall not be surprised to see them in later chapters react creating conflict.

The item of analysis is the mechanism of "co-management" by describing it and projecting its logical development we shall be able to understand why capital and labor reacted they way they did.

CHAPTER III

Historical Aspects Leading Towards the Industrial Community.

In order to understand who the people affected by the Law of Industrial Communities are, it is necessary to review the history of capital and labor before 1970.

The Capital

Peru is an underdeveloped country because it is a dominated country (1): Spain had colonized the greater part of today's Latin-American countries towards the end of the 16th century. The economic policy of imperial Spain was to exploit as much as possible the agricultural and mining resources of the colonies. The political power of the crown was placed without reserve at the service of the Spanish bourgeoisie resident in the metropolis. This merchant bourgeoisie until the end of the 18th century, prevented Spain from any kind of industrial development. The colonies, by consequence, were even less in a position to initiate a process of industrialization, since the metropolis blocked the way by its monopolistic policy of import-export of raw materials. In Peru during the colonial period a group of national pioneers (Criollos) started to form. Its function was to serve the Spanish crown in the colonies in exchange for big salaries, agricultural concessions and socio-political privileges.

At the end of the 18th century this indigenous bourgeoisie, called consular bourgeoisie because of its dependent nature, began to grow conscious of its role. It began to question supposed advantages of continuing dependence on the Spanish crown. All American commercial activities

were monitored by the European metropolitan bourgeoisie which imposed the prices, forbidding trade with anyone else. At the beginning of the 19th century the situation became intolerable. The wars of independence finally broke out and in 1821 Peru achieved its independence.

Now the Peruvian bourgeoisie was free to sell its products to the highest bidder. At that time the highest bidder was England. Through various mechanisms, the English bourgeoisie, now industrial, came to dominate the Peruvian bourgeoisie and transform it once again into a consular bourgeoisie. The situation was the same, only the name of the metropolis had changed, and a little national freedom had been won: formal independence, democracy on paper. During 1920's the United States initiated a policy of neo-imperialism. Capital intensive industries were started disregarding Peru is cheap and abundant in unskilled labor creating the phenomenon called marginalization. Traditional economic activities became subordinate to the new, modern sector. All who could modernize joined in an "oligo-imperialist" coalition. Until 1968, 80% of the Peruvian exports (2) were controlled by six American firms whose policy was clear: exploit the natural resources and pay prices fixed by themselves.

During the Second World War imports diminished in Peru, but not exports. National industries with foreign capital were started. The American companies set the prices, salaries, credits, taxes. Political changes originated from this dominance, many foreign enterprises that belonged to the "enemy" were eliminated (Peru was an ally).

Industry developed faster after the Second World War and especially during the Korean War. International markets influenced the direction of the Peruvian economy for political as much as economic reasons, prices

were raised or dropped, products made, according to their demands in world markets without regard to the internal needs of the country.

Approximately a quarter of the manufacturing output of Peru is concentrated in processing export products (minerals, sugar, fishmeal) and about half is in traditional consumer goods (food processing, textiles, etc.); the remaining quarter in basic support industry (steel, cement, fertilizers, etc.). A process of import substitution has been under way for two decades but this has involved the "typical" multinational assembly plants preventing the formation of a true capital goods sector. Manufacturing is sharply divided between large capitalist enterprises, which account for about two thirds of output, and artisan production, which accounts for about two thirds of the work-force. Industry as a whole is not intersectorially integrated, and thus extremely dependent upon imported materials and capital goods.(3)

In conclusion the industrial modern sector (capital intensive and low in work force) belonged to a few nationals together with foreigners; 40% was totally American owned. This highly concentrated ownership of the modern sector, and in particular the external dependence of the structure, resulted in the outflow of surplus, the alienation of decision-making power and the absence of either domestic technology or capital goods industry.(4)

During the Korean war there was growth in the GNP; however, the distribution was not equitable. The INP (National Institute of Planification) reports in 1962: "The participation of the private entrepreneur between 1950/60 has increased while that of the worker has diminished... the gains for the private entrepreneurs have increased 304% while those of

the workers have only increased by 191%."(5)

The local entrepreneur and capitalist can be lumped together with the foreign investor since he only thinks about benefiting himself and not developing the country. Richard Bath and Dilmus D. James advance an interesting thesis that there is no class consciousness of being upper class, or elite or ruling class. All those who are on top of the social ladder do not interact between themselves but respond to individual foreign interests (6).

Industrialists are not opposed to foreign investment, nor are they particularly linked with any developmental ideology; industrialists are neither nationalist nor progressive in their basic orientations, they lack a sense of group identification, they are fragmented...the demands they make on the political system are normally made through personal contact rather than institutional channels. They lack perception of class interests and feel privileged within their own society, disregarding the fact that they are servants of foreign imperialism.(7) The logic development of this mentality would be to insist on profits for individual gains assuming all the risks and taking responsibility for the consequences.

Labor (8)

The Peruvian working class movement was organized around the urban proletariat of Lima-Callao at the beginning of this century. They developed as an independent class with an anarchist/syndicalist ideology under the leadership of the socialist group headed by Jose Carlos Mariategui. During the first three decades of this century the workers' movement was small and vulnerable but very active against the oligo-imperialist state of the economy. It had two directions: that of Haya de la Torre that saw

it as a popular front centered in the small bourgeoisie, and that of Mariategui that insisted on making it representative of the Indians and peasants as well.

In this scenario labor can be defined as a "class" in the Marxist sense of people sharing similar relationships to the means of production. This definition, however, will become irrelevant once we consider labor in the context of the industrial community, because in the law of industrial communities workers are "all persons who work in the industry permanently and at full-time."(9) That would mean different incomes, different social statuses, different perceptions of oneself.

In this preview of the state of the working class prior to 1970 we shall consider only two classes: workers or the proletariat, and capitalists. It would be interesting to note that there have always co-existed groups that cannot be categorized as a "class": students, bureaucrats, military, peasants, domestic servants, etc. The so called "middle-class" cannot be considered a class either. It includes too many separate groups that do not share a consciousness. Our study, therefore, is narrowed down to address labor in the modern sector of industry and its counterpart, the capitalists. In this context the Marxist approach is relevant.

The development of the workers' movement as a class movement was suddenly interrupted by the economic and political crisis of the 1930's. Their main stream socialist orientation was replaced by a populist ideology with nationalist and reformist orientations. The working class was attracted towards a movement composed of several groups allied to fight against the oligarchic and pro-imperialist power of the local bourgeoisie. For a while the workers lost their hegemony as a class movement and found

some action through the Alianza Popular Revolucionaria Americana (APRA) (10) party which had to respond to many interests besides those of labor and slowly it drifted away from the radical orientation that brought labor to its fold. Nevertheless, the workers' movement identified with APRA during the 30's and 40's and its history is that of the APRA party. The Communist party did not present an important alternative at that time. After the Second World War APRA slowly lost control of the workers' movement. The populist orientation of the party was polarized into conservative and leftist factions, there was turmoil within. Labor became fractured searching for its identity as a class again.

Historical Review

At the end of the 1800's the penetration of foreign capital in the sugar plantations, mines, cotton fields and oil reserves created deep changes in the social structure of these places. A new class of land-owners, traders and intermediaries was created; together with the new technicians and professionals they became the new dominant class supportive of imperialism. Its counterpart, the proletariat was born in Peru. It grew out of peasants and Indians leaving their land to work in the large agro-industrial concerns as wage earners; they began selling their labor, for short periods at a time, to pay their debts in order to remain independent small land holders. Basically peasants at heart, these people had mixed feeling about working for wages for their ideal was to return to the land permanently. Those who made the final move to the city still wanted to remain independent and their ideal then was to be a truck or bus driver, a small merchant.

The first urban proletariat was formed around Lima-Callao at the beginning of this century by workers in the reduced manufacturing sector and in services. They were joined by the displaced people from the traditional sector. As many activities became obsolete, artisans changed their activities, some sold their labor, others became small bosses. Workers began to organize around syndicalist/anarchist ideologies. These were the seeds of the future Peruvian labor movement. These people did not look back at the agrarian society as their reference group but at the urban middle-class.

The first great boom of the Peruvian industry was in the manufacture of textiles at the beginning of the century. It was accomplished with foreign and local investments. The average working day was of 10 to 15 hours. Workers in other countries were beginning to demand the 8 hours' work day; which also became the most important cause for the Peruvian working force. It was won in 1919. But with the introduction of technology and machines workers began to be paid by piece rate and not by hours of work. Dangerous working conditions caused many accidents. Labor legislation was started making management responsible for accidents at the workplace. It was the first law of this kind for Latin America. There was no minimum salary, and women and children were paid less than men. By 1929 there were 29,000 industrial workers in Peru.

The World Perspective

The Peruvian workers' movement responded to world events. After World War I the capitalist powers had divided the world among themselves in an unequal way. The international market determined what the periferic countries would charge for their raw materials and how much they would pay

for the manufactured products from the central powers.

At this time there were many revolutionary movements: the Mexican Revolution, Chinese Nationalism, Indian Independence and most importantly the Russian Revolution of 1917, and the creation of the first socialist state.

In 1919 Lenin and the organizations familiar with the Soviet experience created the "Third International." In the syndicalist environment it was called the "Red International Syndicalist." Part of the workers who had been organized internationally in the Second International defected to form the Third International. Now there were two sources of workers' movements but the Communist party wanted to dominate and demanded allegiance from branches all over the world in a centralized fashion, quite the opposite to the Second International that was socialist/anarchist and decentralizing. There were repercussions from both movements among the Peruvian labor groups. Intellectuals who travelled abroad returned to Peru with new ideas; university students and journalists joined the workers in their pleas.

Victor Raul Haya de la Torre from Trujillo became the leader for students and workers in his hometown and later in Lima, the capital. He organized the fight for the eight-hour workday and helped create popular universities where university students taught workers about syndicalism. During the 1920's workers' groups were repressed by the government of Leguia, their universities closed, and their leaders prosecuted. Haya was exiled to Panama.

Jose Carlos Mariategui the other brilliant intellectual of this movement was influenced by anarchism and socialism while in Europe and pro-

moted the notion that the workers' movement be international. It is questionable if he joined the Third International since he died the year of its founding; however, a fraction of his movement joined it. He had broken from APRA.

The depression of the 1930's was strongly felt by workers in Peru. Jobs were lost, strikes went unnoticed, massive discharges and lock-outs abounded. Workers' groups decided to join a political party.

The influence of Fascism was also felt in Peru. Politicians worked through government to repress workers pleas, lowered their salaries and overworked them. But during World War II Peru joined the allies and all workers in Russia as well as in the USA, France or Peru, joined forces to fight against fascism. Longer hours were required to produce the goods necessary to win the war. Strikes and workers' pleas were postponed temporarily. Peru was governed by Manuel Prado who came from the rich bourgeoisie but who also was pro-communist. During his presidential campaign he was greeted in Cusco as the "Peruvian Lenin."

At the end of the war and as the cold war between Russia and the USA intensified, workers became divided, especially in the capitalist countries. A new kind of "free" syndicalism was born; this one not only opposed fascism but all kinds of totalitarianism, including communism. The American Federation of Labor and the Congress of Industrial Organizations are the American expression of it. In Peru the APRA faction of the workers' movement joined them.

The Second World War stimulated the industrial activity of Peru and created the condition for the development of a strong working class. The workers' grassroots became dynamic and powerful enough to demand political

changes in their favor. There was a proliferation of unions in all branches of industry and a surge of pleas for improvements in workers' conditions long delayed because of the war.

In 1946 white collar workers also organized in a union, the General Federation of Employees, later changed to the "Central Sindical de Empleados Particulares del Peru." It included civil servants, teachers, bank and commercial employees, salesmen and others.

As we have seen during the Korean war and afterwards, industry developed faster in Peru, thanks to the growth of USA's economic imperialism, the law of free enterprise and the abundance of foreign currency. Politically the country was ruled by the dictator Odria and supported by the landed and export-oriented oligarchy. The number of proletariat multiplied, but not their activities. The most productive sectors continued to be the economic enclaves. Odria followed a social policy designed to appease the masses without changing the structures. He built hospitals and schools, distributed toys and food in the slums and created the National Committee for Social Assistance, (Junta Nacional de Asistencia Social). More labor legislation was produced, and the Ministry of Labor created.

Not all workers belonged to unions but those who did developed a class consciousness and pressed for their rights not only in the workplace but also through government. Although government responded mainly to the interests of money there were important representatives that advocated for workers' rights and some legislation was given. The logical projection of this type of socialization would be an insistence on better salaries, better working conditions, better rest periods, in short, the opposite of becoming involved in risk taking and responsibility in management.

Evolution of the Labor Legislation Towards Participation

In the Peruvian Constitution of 1932 article 45 reads: "The state will support a regime of participation in the benefits of private enterprise for employees and workers. It will legislate relations between companies and employees and will defend them in general." (12) This article remained inactive for several years; no actual implementation or legislation took place.

In 1945 the socialist representative Luciano Castillo resurrected article 45 and proposed its implementation, he specifically asked that workers be paid for work holidays celebrating the end of the war and the victory of the allies. He also asked that all companies with more than 20 workers should share 10% of their net profits among their workers. Furious debates followed. Castillo did not win. Only the pay for the Victory holidays was approved. Castillo, then, presented another project for companies with yearly profits of more than 6,000 soles. When Castillo's project was debated in Congress there was public reaction from the National Society of Industries, the Chambers of Commerce all over the country, the National Society of Agriculture, the National Society of Mining, etc. They were all against it. It was called "a social reform of dangerous prospectives...an obsolete and inefficient system...the right to participate was seen as an interference into management since in order to know that they were receiving their rightful 10% they would have had to know the state of the company; they would have had to act as controllers or auditors." Strong pressure was administered so that article 45 be interpreted as optional and Castillo's project did not pass.

In 1948 almost immediately after taking over Odría resurrected

article 45. He did it as a populist measure to gain the workers' support but in the end it remained optional. Those representing employers requested the Supreme Court to be allowed to discuss it together with representatives of Labor and with the supervision of Government in order to come out with a regulation in which everybody would agree. This was granted but it so happened that there were no representatives from Labor. The Peruvian Confederation of Workers was being repressed and the majority of its leaders were either underground or exiled. A year later an executive decree was promulgated changing the entire idea of profit sharing and making it a bonus given to the workers according to their salary and years in the job. Employees would receive proportionally many times more than blue collar workers. This extra bonus could be discounted as a pre tax expense from the company's books. Capitalists accepted it. There was no objection either when a law was introduced whereby if a worker had worked 6 days in a week he was paid the 7th. It was assumed that workers would be more reliable in order to deserve the Sunday pay.

The political platform of the Christian Democrats in 1962 advocated a reform of private enterprises that "would bring the workers and capitalists to the same table to manage the enterprise, to divide profits and to make every employee an owner."(13) Elections were annulled that year. In 1963 the platform of the alliance Popular Action/Christian Democrats (AP/DC) presented a less advanced reform. The AP/DC won the elections and once in power they presented a project of reform for all those agro-industrial concerns not touched by the Aprista agrarian reform. Among the project's articles was one asking not only for profit sharing but also for participation in the decision making process by workers.

Congress did not pass the Christian Democrat project and the agro-industrial concerns of the Coast were left untouched.

The Social Progressive Movement, a less significant political party, inspired in the socialist humanist ideology, also had in its 1962 platform a proposal to reform private enterprises. It called for self-management in an evolutionary fashion, passing through a range of co-management stages first, it rejected individualism and totalitarian statism, and treated capital as one more element of production. Capital was accepted in return for fixed interest-bearing securities. Needless to say, this proposal did not prosper either.

In February 1968 the Christian Democrats presented yet another proposal to reform private enterprises along the line of their first model. The political situation of the country was of great crisis and the project did not have a chance to even be discussed. On October 3rd, 1968 the joint military forces of Peru took over the control of government and started the social, political, economic and cultural revolution which will be the subject of the next chapter.

NOTES FROM CHAPTER III

- 1) Rodriguez, Rene. Peru: A Strategy for Development (MIT, 1973, paper presented at a conference in Oslo, Norway.)
- 2) Ibid. p. 3
- 3) Fitzgerald, E.V.K. The State and Economic Development: Peru Since 1968 (Cambridge University Press, London) p. 11
- 4) Ibid.
- 5) Ponce, Fernando. La Ciudad en el Peru (INIDE, Lima, Peru, 1975)
- 6) Bath, Richard and James Dimus D. "Dependency Analysis of Latin American" in Latin American Research Review. (Vol. XI, No. 3, 1976) pp. 1-37
- 7) Ibid.
- 8) Sulmont, Denis. El Movimiento Obrero en el Peru: 1900-1956 (Pontificia Universidad Catolica del Peru, Fondo Editorial, Lima, Peru, 1975) The main data for this section comes from here.
- 9) D. L. 18384, Art. 1 Ley de Comunidades Industriales, September 1970
- 10) Alianza Popular Revolucionaria. See Chaplin - Peruvian Nationalism (Transaction Books, New Jersey, 1976) p. 7
- 11) Santistevan, Jorge. "Aproximacion Historica a la Comunidad Industrial" in Apuntes (Año III, No. 5, 1976, Universidad del Pacifico, Centro de Investigacion, Lima, Peru
- 12) Ibid. p. 4 It should be noted that at that time there was distinction between white collar and blue collar worker and each one had a separate legislation.
- 13) Cornejo Chavez, Hector. Que se Propone la Democracia Cristiana (Ed. del Sol, Lima, Peru, 1962)

CHAPTER IV

The Peruvian Revolution. Immediate Aspects Leading to the Industrial Communities.

An analysis of the situation in Peru since 1968 is a challenge to the sociological imagination. For some it is an experiment (1) for others "a peculiar revolution" (2), for others finally "a fast catching up with development" (3). Yet for those interested in the subject, it is an experience worth investigating, regardless of how it is labeled.

On October 3rd, 1968, the bourgeoisie democratic government of Peru, led by Fernando Belaunde Terry, was overthrown by a left-wing, nationalistic, socialistic, joint military "coup d'etat." This was an unprecedented occurrence, because although Latin America is paved with military dictatorships most of them are right-wing, law and order, and reactionary (4). During its independent republican life Peru has had more "de facto" military governments than democratically elected civilian ones. This coup is the sixth in thirty years (Monteforee 1973), although of a very different kind.

The total ideological change that the revolution (as the "coup" was called from the start) proposed caught everybody by surprise--the right as well as the left. This radical ideological approach to economic development and societal structuring brought to light and questioned the traditional models as stereotypes of developed societies. These traditional models were considered to be insufficient to solve Third World problems because they stemmed from the realities of advanced societies and not from

those dependent, conflictive and unequal ones inherent to Peru.

Antecedents

Belaunde was elected president of Peru in 1963, for six years, by popular vote and with the support of the Army. It looked as though the new government was going to be a "developing" (desarrollista) one, utilizing modern economics, inclined towards social change and justice for all including the workers and peasants. Such had been Belaunde's political platform.

From the advent it was a weak government, dominated by the conservative opposition in Congress. This opposition was led by the reactionary APRA-Odria (5) alliance and by the Military, both of which at that time believed in supporting the "status quo."

Among the unfulfilled promises of the Belaunde presidential platform were the nationalization of the International Petroleum Company within 90 days of his taking office and the agrarian reform which was started but not completed in the radical way that had been promised.

According to Mario Manteforte Toledo (6), the negative balance of Belaunde's presidency was that:

a. Only a few were enriched through the "developmental" model, while the majority of the people remained poor.

b. The national reserves were exhausted in unrealistic projects (such as the marginal highway in the jungle), while disregarding the people's priorities.

c. Belaunde left the country deeply in debt.

d. He permitted foreign capital to buy even more Peruvian industries and dominate vital economic activities. According to Fitzgerald (7) three-

fourths of mining, one-half of the fishing industry, two-thirds of the sugar capital and one-half of the cotton and wool processing plants were controlled by foreign enterprises. To these figures should be added one-half of all commercial banking, one-third of manufacturing and the ownership of key enterprises in communications, power and trade, and two-thirds control over all exports.

e. Belaunde did not solve any of the problems created by underdevelopment (dual economy, unemployment, enormous discrepancies between rich and poor, lack of technology, etc.).

The consequences of these previous failures, leading to the 1968 revolution, were:

a. The annual income per capita was \$90 in the country, and \$260 in the city. These figures, however, have no practical meaning. The acquisitive power of money is different in Peru and many people do not live by the monetary system but by "barter."

b. Unemployment rose to 25% of the total work force and 75% of all new entrants into the labor force.

c. Industry grew 10% while production of food-stuffs remained stationary, causing Peru to have to import \$150 million dollars in food in 1966.

d. Eight companies controlled 90% of all agrarian production, and 43% of all exports were in unprocessed minerals.

e. Imports increased by 13% annually and the national money reserves fell from \$151 million in 1966 to \$75 million in 1968.

f. The public debt grew fourfold in five years, until it reached \$742 million in 1968.

g. The cost of living rose 91.8% in five years.

h. Public expenditure grew but not the country's production, nor consumption, creating inflation and fiscal debt. Export growth slowed down, as did manufacturing and the economy as a whole. Meanwhile the pressure of internal demand (and thus import growth) was sustained leading to the balance of payments crisis and devaluation of 1967. From 28 soles to a dollar to 43.50.

Due to the enormous economic crisis, special powers were conferred upon Congress to cope with the situation and save the country. Taxes began to climb in all areas, public expenditure was reduced by \$24 million, and for the first time there was agreement (or compromise) between the Executive and the Legislative powers. But, according to Cotler (8), the experiment did not work because the state of crisis was universal and not confined only to the high economic strata.

The state of dependency has been repeatedly emphasized as a characteristic of this epoch. (9) This dependency is obvious in the following areas:

- a. Foreign ownership of the mean of production.
- b. Foreign power of decision making.
- c. Export of capital surplus.
- d. Technological control.
- e. The creation of consumer demands, which can only be satisfied with foreign technology or imports.
- f. Control over sources of international finance particularly official loans.

During this period there were some changes in the countryside and in the city. Due to the penetration of the market economy in the country,

the peasants became aware of other realities and fled to the cities, bringing with them their ancestral customs and creating the social phenomenon known as "ruralization of the cities." They were unskilled and settled in slums around the urban areas, increasing the number of unemployed and under-employed. Peru presently has a population of 13,600,000, 41% of which live in the cities, 20% in the capital, Lima. Forty-five percent of the population is under 16 years of age, and only 4,340,000 of those over 16 are active in the labor force.(10) Quijano states (11) that at this time (1963-68) the economic dependency had switched from agriculture to industry and mining, leaving the masses of peasants unemployed and causing very low salaries to be paid to the workers, while the gross profits were exported to the United States. Ismael Frias (12) says, for example, that "between 1950 and 1965 North American enterprises in Peru invested \$279 million and shipped back to their own country \$628 million".

There was also social unrest in the cities, created by popular awakening, which the police found difficult to control. Belaunde's doctrine of social justice and popular cooperation had permeated the masses through the educational system, but no real action had been taken to implement them. So, although there was more education, there was also more social unrest, discontent and disillusionment. The "mestizo" (Spanish and Indian) became conscious of his class and demanded his rights. This has been called "Cholificacion" by Cotler (13). The extreme left declared its opposition to the regime as well. Many landowners, in consequence of this turmoil, divided their properties among their workers in fear of peasant take over, for already some 300 haciendas had been invaded by frustrated "campesinos" who could not wait any longer. They took justice into their

own hands. Indeed, Guerilla warfare sprouted in several different parts of the Sierra. It was called a "Communist upheaval," but the Communist party denied participation, and on the contrary, claimed that the "guerrilleros" were acting contrary to the workers' rights to defend themselves through legal channels. The peasant movements and the guerrillas were violently and totally repressed by the military.

Meanwhile, the industrial sector had increased and become politicized by the left. Everybody had become disillusioned and critical of the system, but there was not one opposition party strong enough to respond to the challenge of the situation. The Marxists were divided, so were the Democraata Cristianos (Christian Democrats) and the Accion Popular (Belaunde's party). APRA was the only large and strong party that remained together, but the military had an ancient antipathy for it, which was reciprocated, and consequently would not allow the APRA leadership of the country.

It was "vox populi" that the conservative congress and those surrounding the President were filling their pockets with the wealth of the country and with "contributions" made by the elites to procure governmental support and inaction on basic reforms. During all of its independent life until 1968, Peru has been ruled by a minority of oligarchic individuals who managed to influence government.

But nothing set the stage for the final showdown more than the "infamous" Pacto de Talara, in which all the representatives of the country (government, civilians and military) sold the national interests to foreign imperialists. In summary, the "Pacto" stated that the International Petroleum Company would return to the Peruvian nation all the oil wells it had been exploiting since the beginning of this century (and which were

by now almost exhausted), in exchange for the annulment of their debt for unpaid taxes (the debt amounted to \$690 million dollars). In addition, the Peruvian government would allot the I.P.C. 1,000,000 Km² in the Amazon jungle for further exploration and extraction. The I.P.C. would retain the concession of the oil refinery and buy all the oil from the Peruvian government at a price set by the I.P.C. But this was not all. The scandal reached a climax when page No. 11 of the final contract (on which the price at which the oil was to be sold was stated) was "lost." The government insisted on signing the "Pacto" without it. Belaunde was unable to satisfactorily account for all this, and the thought of a military "coup" began to be in everybody's minds and conversations. People believed that they could not be in a worse situation than they were already in.

The Revolution:

According to Augusto Zimmerman (14) the military takeover of October 3rd, 1968 was not improvised because of the unbearable circumstances. It was a revolution meticulously planned in advance. Its goal was to return to the people the ownership of the natural resources and of the means of production. In addition, it would reestablish national sovereignty, doing away with foreign imperialism and the domestic oligarchy. There is a chapter in the Peruvian constitution which justifies such a takeover when the rights of the people are being abused. This "protection against abuse" clause has been the excuse for previous military "coups d'etat" as well.

In their first communique the joint command of the Armed Forces (Army, Navy and Air Force) explained why it had had no choice but to take over command of the government of the country. Among its reasons were the econ-

omic and political crises caused by unworthy Peruvians who had joined with imperialistic interests to frustrate the rightful wishes of the common people for social justice and needed structural change. An additional reason was the immorality of the politicians in all branches of government, who had betrayed, through their actions, the faith of the people who had elected them. The day of the coup, the famous Comunicado No. 1 was issued:

Comunicado No. 1 (15): The Armed Forces have observed with increasing patriotic concern how the country has been overburdened with political, economic and moral crises. We had hoped that through the democratic process, the joining of all forces would bring about the necessary changes, but this has not happened. We are disillusioned.

In addition to all these misdeeds, the unconstitutional powers granted to the Executive and the selling of our natural resources to the I.P.C., cause us to foresee uncontrollable consequences. This is only an example of the moral decomposition of the country. And this is why the Armed Forces, in fulfilling its constitutional right to defend the country and its wealth for the Peruvians...has no choice but to take hold of the government with the goal of transforming the present social, economic and cultural structures, maintaining a nationalistic attitude, a clear independent position against imperialism of any kind, restoring the principle of authority and respect for the law, bringing back the reign of justice and of morality in all fields of national activity.

The Revolutionary Government declares that it will honor all previous international agreements signed by Peru with other countries and that we will be faithful to the western and Christian tradition that we will encourage foreign investment that would abide by the laws and needs of this nation.

The Revolutionary Government calls the people to join with the Armed Forces in order to work for social justice, dynamic national development, and the restoration of our moral values.

After this first pronouncement several broadcasts followed, specifying the ideology and directions the revolutionary government would take.

The goal was said to be "a social democracy of full participation." This type of ideological orientation, originating as it did from the military, was completely unheard of in Latin America. The military now was stressing basic structural change, and not the maintenance of the "status quo"; of helping the masses and not those in economic power; of getting back the natural resources; of defying international retaliation. The military said it was assuming power as a governing institution for an indefinite period of time, with a clear anti-imperialistic orientation. They specifically said: "We are not capitalists nor are we communists." They oriented their ideology and activities toward socialism and reformism, basing their economy on a pluralistic approach, but maintaining the State as the main entrepreneur.

The Military, mainly through its spokesman President Velasco (16), has justified its procedure by saying that it took over to end the exploitation of the people by the oligarchy and their selling of the country to foreign imperialism. It took power in order to bring the needed social, economic and cultural changes that the Oligarchy was obstructing. Here is a sample of the revolution's ideology.

Our position is defined in terms of a revolutionary humanism.... This position picks up the best of the legacies of the Christian, libertarian, and socialist traditions ... [and] represents the confluence of the most illustrious streams of revolutionary thought of our own historic tradition. It constitutes the basis for a new socio-political conceptualization in Peru ... which has as its object the construction of a fully participatory social democracy ... a system based on a moral order of solidarity, not individualism ... [In such a system] the means of production are predominantly social property, under the direct control of those who generate the wealth from their work. [Within the] political order [of such a system] the power of decision ... is diffuse and rests essentially in social, economic, and political institutions

which are conducted by the men and women who make them up, with a minimum of intermediaries, or with no intermediaries whatsoever.... (17)

Those of the Military who took over power were middle class people who had undergone training not only in the martial arts, but also in economics, political science, sociology, etc., at the CAEM (Academia de Altos Estudios Militares), the most important center for the development of Peruvian national security strategy (18), the school of Intelligence, the school of War and other similar military academies. Peruvian military are known for their emphasis on education. They are among the best when attending foreign graduate schools. The CAEM has been given much credit for preparing the military personnel, for making them aware of the social, economic and political situation of the country. However, it should be stated that the CAEM is only a one-year training school and nobody could know everything the military knew when the "golpe" was given, from that limited instruction.

Nonetheless the new more unconventional ideological orientation of the military take over can perhaps be explained through an investigation into the orientations many of the military received at the CAEM and later developed in post graduate studies. The CAEM was created some 25 years ago, for the purpose of studying the country to better understand its problems, in order to defend Peru if and when war might break out. Ideologically the students were influenced by two schools of thought. First of all, the literature they were exposed to was openly anti-communist. A few Marxist books were selectively chosen, while North American anti-insurgent literature was abundant. The second influence involved the teachings of Father Lebreton, a French dominican priest, and founder of the

school of thought known as "Economics and Humanism." He had done socio-economic studies in the area of his specialty in Peru, he broadly lectured to many audiences, including, most importantly, the CAEM.

In spite of all these orientations, the CAEM graduates were regarded by the rest of the Armed Forces as "leftists." Many continued their studies in France and the U.S.A. Although the CAEM was not directly involved in the 1968 "coup" (19), the training the Institute had provided its officers contributed toward a more egalitarian perspective, which is illustrated both in the studies which emanated from these students, and their reactions to later governmental edicts, as will be seen. Military officers at the CAEM studied a wide range of special problems. These included questions of land reform, tax structure, foreign policy and insurgency, and involved the formulation of policies and reforms. The result was that military policy became closely linked to political policy.

As the military students of the CAEM progressed in their research into the country's situation, they discovered that a state of "latent insurgency" existed because 0.6% of the population owned 20% of the land, and that 90% of the people, conversely, only owned 10% of it (20). They wrote, however, many important reports to Congress illustrating the problems and making suggestions for change. These reports were disregarded.

Another important occurrence also helped the students to reassess their roles. During the time of the guerrilla movement and peasant revolts, the military was requested to eliminate the insurgents. However, as they became deeply involved with the people and their problems, they realized that they were helping restore a social order of injustice and exploitation--that they were serving only the privileged few. They were

restoring the "status quo."

The ideology of the revolution was widely publicized throughout the media from the beginning. There was not, however, an institution specially in charge of teaching the people what was meant by a "social democracy of full participation," why political parties were not necessary any more nor elections for official positions. As a matter of fact only those literate adults had been voting thus far. How the gradual decentralization and transference of power to the people, until all workers took over the management of their enterprises and the government itself, was not explained, and this was perhaps a weakness in the plan of the new government. Organized instruction did not occur until, in 1971, when SINAMOS was created (the National System for Support of Social Mobilization). It was a government organization divided into six branches in charge of organizing the masses at the base in agriculture, industry, urban areas, squatter settlements and educational centers. The head of all six branches in each region was the Military Regional General Commander.

"Furthermore, the ideology asserts that the participation is to be achieved within Peruvian Hispanic traditions ... In terms of implementing this ideology, government agencies rather than political parties become the means of transmission for the expression and resolution of citizen consensus." (20a) All local units of participation are included. The people increasingly participate in the decision-implementing process at the local and regional levels, but always in concordance with government officials at that same level. Basic policies confined to be determined by the governing apparatus at the center.

Carlos Franco, one of the official ideologists of the Revolution,

explains SINAMOS and the politicizing process (21).

SINAMOS is created to politicize the masses. According to Franco, SINAMOS is not a political party, because it does not want to obtain power--it already has it. SINAMOS' main purpose is to provide official coordination, channeling for all initiatives relating to citizen participation. It wants the people to take over through their awareness of their rights and responsibilities in a social democracy of full participation. The political structure behind SINAMOS is:

a. SINAMOS is a state institution. It includes already existing government institutions whose responsibility relates to participation.

b. The state is a political, judicial, administrative, economic, financial, etc. organization. SINAMOS, as part of the state, supports the infrastructure from within.

c. The state assumes the people's representation because all its reforms are geared toward bringing social justice and benefits to all the workers. The state accomplishes the structural reforms and prepares the people, through SINAMOS, to take over the management of their interests.

d. SINAMOS is deliberately transitory; in the governmental "transmission belt" bypassing serious social bureaucracies, (22) when the people become conscious and responsible for their government it will become inactive. The political power will be progressively transferred to the representatives of the social organizations with minimum intervention by the state.

e. SINAMOS supports all initiative that comes from the people at the base of the organizations.

On the Global Plan 1971-75 for development of Peru we read:

This organization ... must be shaped into horizontal and vertical nets of integration...[in order to take] the decisive step for the construction of a society of solidarity.... This organization provides the bases for effective participation ... and a rational structure of communication with the Government assists the process.... But special mechanisms will be needed to promote the direct and effective participation of the population in the process of decision-making and the carrying out of programs and projects of development. These go along with the formal instruments to be established at the level of administrative regions and municipal organization. This refers specifically to the organization of the bases of a system of interaction, consultation, and joint programming among the development services and the organized population. (23)

The above outlines the official doctrine pertaining to this politicizing organism. SINAMOS is perhaps the least understood of all the revolutionary creations--one that has penetrated all social and economic institutions with the aims previously stated, but which has also been perhaps misused by established politicians (communists especially) who seemed unable to leave their personal and previous beliefs behind and work for the stated ideology of the revolution.

The Reforms

Although the Military started the structural changes it believed the country needed immediately after taking power, it did not reveal its secret plan until July 28th, 1974. This plan was called the "Plan Inca," and according to Zimmermann, (26) Press Secretary during the Velasco Regime, it had been meticulously prepared well in advance of the "coup." There is much controversy as to the accuracy of this statement, since no draft copy of the plan was ever available. However, perhaps too much time has been lost in speculation when the truth is that with the actual plan or merely with guidelines, the structural reforms were introduced and continue to be implemented. The military's own statement seems to corroborate this hypoth-

esis that there were only general guidelines and that the circumstances as they presented themselves made for reconsideration of the goals. The much repeated declaration, when the military are asked about their road, or where the revolution is going is invariably, "Our road is looking back at what we have accomplished, we are making the road, breaking through new soil. There is no road ahead but what we open."

The main thrust of the development program concerned the transference of the real economic power, decision and policy making, from the entrepreneur and investors to the workers themselves. This transference was to create a proportional balance between capital and labor in order to attain a communitarian society in which capital and labor would be equally balanced and the state would serve them both. The first public pronouncement by the new regime regarding economic organization was by Premier Minister Montagne on December 1968. He specified that the goal of the government was to reform the firm, orienting it toward worker participation in profits and management to protect cooperative firms organized by their workers to prevent it from falling into foreign debtors hands. (25)

The first step in the plan was the nationalization of the I.P.C. but shortly after, all natural energy sources came under government control. Limited control of all industrial production was planned, but other industries such as the fishing industry, were forced by special circumstances into nationalization: Ecological changes made this industry collapse and the government thereafter took it over.

The government also took over certain strategic industries to reduce dependency on foreign capital. The indifference of the domestic bourgeoisie towards its involvement in private investment likewise enlarged the state

ownership of the means of production. The expansion of state enterprises is seen as a means rather than an end in itself. Eventually the state gained control of over one-third of industrial output and one-fifth of all the workforce (27) in the productive modern sector (excluding public service employees). The state regarded itself as the "leader" of the economic process rather than the "state capitalist."

There has been an obvious shift in capital ownership. The foreign and domestic private capital has declined, while the state and group-ownership by the workers, has increased. This redistribution, however, involved only that one-third of the modern economic sector which was already organized. The main burden of this economic transformation and capital accumulation in the public sector has been borne by the state enterprises. The success of the Peruvian economy depends on its effectiveness. The state owns forty-five companies covering many sectors: energy, exports, marketing, fishing, services, shipping, railway, communications, housing, etc. Many of them already existed prior to 1968. To insure success, the state has borrowed from foreign and domestic private capital and lent it to the managers of these state enterprises. This is a form of reallocation of development finances.

Most of the banking system is under state ownership as well, and the remainder is state controlled. Credit has been channelled away from commerce and speculation.

When Peru nationalized the I.P.C. without compensation the International Bank for Regional Development cut all credits to the country, although in this isolated case, nationalization involved specific reasons.

The U.S.A. also cut its sugar quota to Peru. Arms supplies and foreign aid were also frozen. This effectively denied Peru all access to external credit except the most expensive international sources. Other government nationalizations were retaliated against by a greater constriction of external credit. The U.S.A. intervened so that international sources of credit such as the "Paris Club" also withdrew their loans to Peru (28). North American foreign policy thus revealed its domination by capitalist private enterprises.

In 1972 tense Peruvian-U.S.A. relations eased. The external debt was renegotiated, the sugar quota was raised and new trade agreements were signed. Some say it was because Peru has large natural reserves that United States need, while others because there was a secret payment for the nationalization of the I.P.C. In 1975 it was possible again to refinance the external debt. U.S.A. signed favorable contracts with the Peruvian government to exploit the oil and copper reserves. It would appear that the Peruvian "generosity" in this case was aroused by the need, indeed, desperation, to settle other issues and continue the development reforms. Foreign capital has been excluded from all natural resource industries, communications and power, but it still remains to a considerable extent in manufacturing sectors.

In the domestic arena the principal reforms concerned the structure of the land tenure and industrial ownership. The agrarian reform under President Velasco was the most radical reform in Latin America. It did not parcel large industrial states but formed cooperatives and agrarian societies (Agrarian Production Cooperatives and Agricultural Society of Social Interest) to continue exploitation with modern technology. Ex-

owners were paid in cash for their cattle and in government bonds payable over 20 years at 5% interest for the land. These bonds could be used as collateral for raising industrial investment finance.

The bulk of the agricultural work force, however, has not been benefitted by the reform; some 60% work their own small plots and 15% are seasonal labor. (They have not been benefitted by the reform either.)

The land reform has changed the pattern of ownership but not the structure of allocation of land to labor. Only one-fourth of the rural population is permanently employed and has benefitted. The trade of food for merchandise continues much the same. Surplus is reinvested and retained as labor income in agriculture, instead of being diverted to other sectors.

Industrial crops are well organized, while food crops are technologically backward, poorly organized and lacking finance. Through state intervention (SINAMOS) the new owners are learning how to manage their land.

The industrial or enterprise reform provides workers a share not only in profits but also in management. Workers within each firm employing six or more workers receive a fixed percentage of their company's profits, some distributed immediately in cash, but more retained as commonly owned stock, which is eventually to be half-owned by the "labor community" (the collectivity of the firm's workers). The community's representatives have the right to participate in management decisions, audit the company's books and records, and generally to assure that the workers' actual and prospective interests are being protected.(30) Similar mechanisms exist in the mining, fishing and telecommunications sectors. But since these are government owned, the workers are not given shares in those companies but instead receive government bonds.(31)

Workers' participation is considered by the government to be the

central aspect of popular democracy of full participation. This reform serves 38% of the labor force, which is in the modern sector.(32)

Social property is a new mode of production since 1974. Society owns the enterprise, and all workers share responsibility in managing and policy making as well as in profits. To start, they draw seed money from a common government fund which they have to repay. It was expected that the social property sector would be predominant in the years to come: But after June 28, 1976, it is considered another form of economic pluralism; it is not priority anymore within the country.

Summarizing, we can see that Peru has a pluralistic economy, with four types of enterprises: state, social property, reformed private (with labor community) and unreformed private (for small-scale firms).

Notwithstanding all the structural reforms, Peru is still an underdeveloped country with a small and inarticulate industrial base, export-emphasized dynamics and dual economy (a modern industrial sector and a backward, nonintegrated artisan and craft sector). The diversified primary export sector is the prime mover of the economic activity and accounts for most of the investment profits, tax revenues and foreign exchange. This sector comprises one-fifth of the GNP and one-fourth of the modern sector output. It still depends highly on imported technology (33).

Throughout the reform period there has been a continuous conflict between state and foreign capital, between the desire to reduce dependence and to acquire foreign cooperation for specific state projects. There is still the desire to maintain economic growth and negotiations to extract oil and copper while nationalizing foreign enterprises, and to rationalize the basic industry and encourage private domestic interest at the same time.

NOTES FROM CHAPTER IV

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- 8) Monteforte cites Cotler. See also Cotler in Lowenthal. Op. Cit. "New Mode of Political Dominations" in Chaplin. Op. Cit. "The Mechanics of Internal Domination."
- 9) Fitzgerald. Op. Cit., Cotler. Op. Cit. and Quijano, Anibal. Nacionalismo Neo-Imperialismo y Militarismo en el Peru (Ed. Periferia, Buenos Aires, Argentina, 1971).
- 10) From several sources mainly Fitzgerald. Op. Cit. Ministry of Industries directly.
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- 14) Zimmermann, Augusto. El Plan Inca: Objetivo Revolucion Peruana (Empresa Editorial del Diario Oficial El Peruano, Lima, Peru, 1973?).
- 15) Comunicado No. 1 Oficina Nacional de Informacion, Octubre, 1968.
- 16) Velasco, Alvarado, Juan. La Voz de la Revolucion (OMI, Lima 1972) also Chaplin. Op. Cit. p. 930 and 931.

- 17) Velasco's speech celebrating the 150 years of the Republic.
- 18) Einaudi, Luigi R. "Revolution from Within?" in Chaplin. Op. Cit. p. 406-409.
- 19) Monteforte. Op. Cit.
- 20) Idem. p. 38.
- 20a) Chaplin. Op. Cit. p. 432.
- 21) Franco, Carlos. La Revolucion Participatoria (Editorial Mosca Azul, 1975, Lima, Peru)
- 22) Palmer, David Scott & Middlebrook, Kerin Jay. "Corporatist Participation under Military Rule in Peru in Chaplin. Op. Cit. p. 439.
- 23) Plan Nacional de Desarrollo para 1971 - 1975 Plan Global Vol. 1.
- 24) Zimmermann. Op. Cit.
- 25) Knight, Peter T. "New Reforms in Economic Organization" in Lowenthal Op. Cit. p. 375.
- 26) Ibid. p. 378
- 27) Fitzgerald. Op. Cit.
- 28) Ibid.
- 29) This has been changed since February 1976 when the "Ley de Pequena Empresa" was given.
- 30) An indepth study of the industrial reform will follow.
- 31) Lowenthal. Op. Cit.
- 32) Fitzgerald. Op. Cit.
- 33) Idem.

PART III

CHAPTER V

The Peruvian Model of Co-Management: The Industrial Community.

In July 1970 the Government of Peru promulgated a law (1) introducing a number of important reforms in the industrial sector. Earlier that year a draft of the proposed law had been made public so that the interested parties (industrialists, workers, unions, etc.) would express their opinions and make recommendations. In the draft, however, there was no mention of the most important reform the Law of Industries would bring: The creation of an industrial community, a legal entity which would represent the workers in a private corporation and give them a share in ownership, management and profits. In September of the same year the Law of Industrial Communities (2) was promulgated, defining, clarifying and giving the regulations to implement this new type of institution inside private corporations. Sixty days were allowed for each corporation to form its industrial community.

What is an Industrial Community?

The industrial community of any private corporation is a corporate body having legal personality in private law, to which all full-time employees of the private corporation automatically belong. The corporation must have more than six workers or a net profit of more than a million soles.(3) The IC has three basic components:

a) Profit sharing. All workers participate of 10% of the net profit before taxes of the corporation, half in proportion to their basic salary and half in proportion to the number of months worked during the previous

year.(4) Workers can also share in the dividends from shares owned by the IC. Up to 80% of dividends received by the IC can be distributed individually among the workers according to time worked in the company.

b) Participation in the ownership of the corporation through the allocation by law of 15% of the pretax net profit of the corporation to the IC for the purpose of buying shares of the corporation. When the IC owns 50% of the industries' registered stockholders equity, the IC ceases to increase its shares of equity but continues to receive 15% of the company's pre-tax net income, to be used to purchase additional stock if the capital equity is increased and for other purposes specified in the Law. The IC can acquire its 50% interest in the corporation by buying new shares from the corporation or from other stockholders. When the IC obtains 50% of the outstanding shares it issues participation shares in the IC to each worker in proportion to the time he has worked in the company. The participation shares are not transferable and the IC is obligated to purchase them when the worker ceases to be employed by the corporation. The shares of the corporation remain the collective property of the IC and must be voted as a block. The number of participation in the IC increases as the investment in the parent company increases.(5)

c) Participation in the management of the corporation. The IC participates in the management of the enterprise through the shareholders' meeting and the board of directors. In both bodies the IC votes as a single block. It is represented in the shareholders' meeting by its chairman, who is elected by the membership as a whole, and in the board of directors by one or more nominees appointed annually by the board of the IC.

Each representative of the community on the board of directors of the

enterprise enjoys equal rights with the other members and must be given access to any information he needs for the exercise of his duties. The law expressly authorizes him to examine "all account books and documents relevant to the determination of the company's net income."(6)

The law provides that the IC must be represented on the board of directors as soon as it is established, irrespective of whether it owns shares in the company yet. The number of IC representatives on the board of directors, which at first is limited to one, increases proportionally according to the number shares owned, and so of course does its voting strength. Similarly, the proportion of the shares owned by the IC also determines the influence it can wield, through its chairman, in the shareholders' meeting.

According to the Law of IC's, the objectives of the IC are:

- a) To strengthen private enterprise through joint action of workers in management, production and ownership of the companies in which they work and to promote harmonious interrelation between capital and labor.
- b) To unify the action of workers to defend their rights.
- c) To promote the development of the worker in all aspects: cultural, social, professional and technical.

It is important to note that since the IC is created by law, everybody that works in a company with an IC has the right to belong to it but does not have the right not to belong to it. The ability of the IC to function is based on the profitability of the company. The more revenue the IC receives, the faster it can purchase shares of the company. Thus management remains dependent on property rights as in a traditional capitalist enterprise, although the workers become part owners of the firm. It can be

considered, then, that it is a requirement to qualify for ownership to be a full-time employee.

Mechanisms of Co-Management

The IC is a self-managed organization placed in a private company in order to transform it into a co-managed company. Thus, in the fashion of self-management the IC board of directors or council is subordinate to the general assembly, must follow its recommendations and give account of its actions. In the same way the representatives of the IC to the company board of directors are subject and respond to the council.

Any member of the IC can be elected to the council except for those who own shares individually or union leaders. No council member can serve two consecutive terms, nor can two offices be exercised at the same time. The term of office is two years.

The law of IC's has never been reglamented, however, each IC is requested to make its own statutes and by laws and to abide by them. The legal power of coercion is also missing. There are no penalties in the law for no performance and there is still controversy as to the real meaning of the law's articles.

The Powers of the Council:

Since not all the members of the IC can administer and direct the IC because they are too many a council is elected every 2 years to carry on the representation of the whole. As the executive organ of the IC the council has the power:

- a) To direct and administer the IC and its funds.
- b) To name the IC representatives to the company's board. It also has the power to remove them if they do not follow the instructions of the

council. The representative is only the spokesman for the group.

c) To advise and control the IC representative to the company's board.

d) To call the general assembly.

e) To prepare the books of the IC as for any other corporation the balance.

When leaving the corporation

Those who decide to leave the corporation before the IC has reached the 50% stock ownership, receive an amount equivalent to half the stockholders' equity owned by the IC divided by the number of days everybody has worked multiplying that number by the days the retiring worker has worked. When the IC already owns 50% of the shares outstanding of the company the value of the participation shares owned by the worker tracks the market value of the company stock. The liquidated amount received by the worker upon leaving the company is the market value of his participation shares plus any other patrimony the IC owns divided by the days everybody has worked and multiplied by the number of days worked by the worker who is leaving.

A person who does not work in a company cannot own shares through its IC. In case of death the workers' heirs receive the distribution (amount of his participation in cash).

Co-management when the IC reaches the 50%

The law does not specify who will be chairman of the company's board when the IC reaches the 50% of the capital. There are several alternatives that can be implemented, one is to draw lots every time the chairman needs to be changed, another, to draw lots only the first time to alternate from thereon, (one time the IC representative, the next time the representative of the individual capitalist), a third alternative could be to let

the "fuero privativo" (the legal entity recently created to settle IC problems) make the decision.(8)

When the IC share equally on the board can also request for equal management participation at the general manager's level and even for intervention at lower levels such as work units. The outcome of such co-management would also make for different orientations in the implementation of this model.(9)

The creation of an elite of workers

The IC does not represent a radical change of the capitalist system, it provides opportunity for workers to become capitalists. The goal of any private company is profit. The workers through their IC are shareholders and their goal becomes profit too. While some successful companies have been yielding substantial profits which are being distributed among their workers through the 10% individual profit sharing and the 15% share given to the IC, there are companies that do not yield profits and their workers have not been able to raise their standard of living nor the IC's to buy the companies' stock. This has produced a division among workers themselves who are enticed by the individualist profit motive of capitalist ideology often without regard or interest in their fellow workers in other companies.

In the government owned industries there is a "compensation community fund" where the most profitable companies shares their profits with those which are not so successful. There is not such mechanism in the private reformed sector yet.

Who pays for the 15% allotted to the IC?

According to the Law (11) 15% of the net profit before taxes goes to

the IC to buy into the company's capital. It would seem, therefore, that the original owners of the capital are paying for it. However, since the distribution is before taxes the government is helping to finance the IC's through loss in tax revenues. The corporate tax rate is 25% in Peru thus the government is providing a quarter of the 15%. Furthermore, the workers as they increase their shareholding also increase their share of the pre-tax net profit from which the 15% is deducted.

Illustrating the IC

Following are several "tables" that will give us an idea of the size and type of the companies, the number of workers and the progress they have made in buying stock-holding equities.

Percent Population Economically Active In Peru

Year	1971	1973	1974
Employment			
Unemployed	8.8	7.5	5.5
Underemployed	27.4	22.1	27.8
Adequately Employed	62.8	70.4	66.7
Undetermined	1.0	-	0.5
Totals	100.0	100.0	100.0

Percent Population Economically Active in Peruvian Industry

Year	1971	1973	1974
Unemployed	6.2	5.3	4.7
Underemployed	26.4	18.9	27.0
Adequately Employed	66.9	75.8	68.3
Totals	100.0	100.0	100.0

Number of Industrial Communities and of People Employed
in Them

Year	Industrial Communities	No. Workers
1970	594	63,634
1971	2,942	179,059
1972	3,146	192,395
1973	3,352	195,352
1976	3,600*	250,000*

*Estimated

Source: Ministry of Industries and Tourism.

Companies and Workers by Activity (1973)

<u>Type of Industry</u>	<u>Companies</u>		<u>Workers</u>	
	<u>Number</u>	<u>% of Total</u>	<u>Number</u>	<u>% of Total</u>
20 Food	549	16.38	25,854	13.22
21 Drinks	137	4.09	10,346	5.29
22 Tobacco	4	0.11	780	0.40
23 Textiles	299	8.92	31,899	16.31
24 Ready to wear	384	11.46	16,183	8.28
25 Wood and cork	119	3.55	4,415	2.26
26 Wood furniture	158	4.71	8,249	4.22
27 Paper and products made of paper	40	1.19	3,676	1.88
28 Printing, newspapers	170	8.05	10,129	5.18
29 Leather	57	1.70	4,212	2.15
30 Rubber	17	0.51	1,576	0.81
31 Chemical products	245	4.31	19,323	9.84
33 Minerals not metallic	169	5.04	11,136	5.70
34 Basic metalics	27	0.81	6,976	3.57
35 Metallic products	219	6.53	9,026	4.62
36 Machinery not electric	98	2.92	5,963	3.05
37 Electric industry	68	2.03	5,502	2.81
38 Transportation material	401	11.96	14,562	7.45
Totals	3,352	100.00	195,351	100.00

Source: Ministry of Industries and Tourism.

Note: The sum of the figures is in error by less than 10% but I have copied it exactly as given to me by MIT. This error, however is not important to our purpose here since the point is to obtain an understanding of the approximate size of private companies in Peru and the workers they employ.

OWNERSHIP BY IC'S STOCKHOLDERS' EQUITY (12-31-73)

<u>Type of Industry</u>	<u>Companies</u>		<u>Stockholders' Equity</u>	
	<u>Number</u>	<u>% of Total</u>	<u>Total (\$1000)</u>	<u>% owned by IC's</u>
20	539	17.50	7,099,889	5.6
21	147	4.77	5,708,320	4.7
22	2	0.10	241,848	6.6
23	363	11.79	6,529,406	6.9
24	229	7.44	1,145,098	8.6
25	107	3.47	924,352	1.5
26	124	4.03	408,572	7.8
27	46	1.49	2,238,710	1.5
28	180	5.84	692,608	3.7
29	58	1.88	991,108	9.4
30	33	1.07	1,352,517	11.3
31	267	8.67	11,777,974	3.2
33	161	5.23	7,562,284	1.3
34	27	0.88	11,948,350	0.5
35	236	7.66	2,386,165	8.1
36	107	3.47	1,523,666	5.1
37	99	3.28	1,922,708	8.4
38	100	3.25	1,160,081	5.6
39	254	8.25	3,202,237	10.4
Totals	3,080	100.00	76,610,792	5.8

Source: Ministry of Industries and Tourism.

This table and prior table differ in totals.

\$ means Peruvian Soles.

Classification of Industrial Communities by Number of Members (1973)

<u>Company Size By Number of Workers</u>	<u>IC'S</u>		<u>Workers</u>	
	<u>Number</u>	<u>% of Total</u>	<u>Total Workers</u>	<u>% of Total</u>
1 to 6	223	7	1,140	1
7 to 9	402	12	3,063	1
10 to 14	619	18	15,722	8
15 to 19	424	13	7,320	4
20 to 100	1,297	39	62,266	32
More than 100	387	11	106,021	54
Totals	3,352	100	195,532	100

Source: Ministry of Industries and Tourism.

NOTES OF CHAPTER V

- 1) Decree Law 18350 Ley General de Industrias, promulgated, July 28, 1970.
- 2) Decree Law 18384 Ley de Comunidades Industriales, promulgated September 1, 1970.
- 3) There has been some change in this requirement. See Decree Law 21435 Ley de Pequena Empresa, promulgated February 24, 1976.
- 4) It should be made clear that although the 10% profit sharing does not need the IC (it's distributed to all workers individually) it is considered part of the package because it came about in the same law of industries that created the IC. The history of profit sharing and its implementation is also closely related to the activities of the IC. Thanks to CONACI (the National Confederation of IICC.) The 10% profit sharing is divided equally among all workers, taking into account only the number of months worked the previous year and not the amount of remuneration. Before this change those in high positions received a disproportionate quantity of the profits in comparison to the rest.
- 5) Santistevan, Jorge and Pasara, Luis. "Industrial Communities and Trade Unions in Peru: A Preliminary Analysis" in International Labor Review, Vol 108, 1973 (I.L.O. Geneva, Switzerland) pp. 127-142.
- 6) Modificaciones de la Ley General de Industrias. Decree Law 19262 art. 40. Promulgated January 2, 1972.
- 7) El Fuero Privativo de Comunidades Laborales, to deal with problems related to the IICC. Was created on June 2, 1975. It is a court of appeals for labor communities only, it, however, still lacks coercion according to expert opinions I have consulted. There are no penalties on the law for no performance.
- 8) See table A. for the advantages and disadvantages of such alternatives.
- 9) See table B. for the advantages and disadvantages of increased co-management to other areas.
- 10) See table C. to see how the 15% is distributed before and after the IC reaches the 50% of the social capital.
- 11) Decree Law 18350 Ley General de Industrias, titulo VIII art. 24.

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PART III

DIALECTICAL ANALYSIS: THE ACTORS

Chapter VI will tell us what the three great actors involved in the IC understand by it. In Chapters III and IV we have seen their previous socialization, therefore, their reactions to the IC legislation should not be surprising when seen from each group's vantage point.

Government as the legislator gave the law but also it gave the official interpretation that responded to its mentality as bourgeois middle class people. The ideology of the revolution, as a nationalistic, socialist, humanist and christian movement, has been explained in Chapter III and can be found in the official interpretation to the IC as we shall see.

Capitalists in Peru, as we have seen, have a long history of being a consular bourgeoisie, serving a distant metropolis, not interested in being nationalistic, much less socialistic; their activity has always responded to a capitalist system, where capital deserves all profits and labor is just one more tool.

Labor was born in an economy of enclaves and later developed into what is known as urban proletariat. The class consciousness of the workers was created in the fight for social justice and improved working conditions. While workers demanded the rightful share of wealth due to labor, they never pretended to become capitalists themselves.

When the Law of Industries and the Law of IC were promulgated each group interpreted it according to their previous socialization, each one had a world of typifications where this new institution had to fit, each

one was different according to the group.

At first there was not enough information as to what the government really intended. The law was never regulated, and therefore; each group made its own interpretations which would best fit its previous expectation.

In Chapter VII we shall see how the different expectations of capital and labor cause conflict in particular situations and each struggles to impose its solutions. Sometimes labor dominates and other times capitalists. At every instance the government redefines its basic concepts to reach a balance that would solve the conflict. This balance is temporary since the dynamics of power and the expectations of each group for the IC cause the balance to tilt and be lost. This situation will continue as long as capital and labor have such different expectations. If an agreement is reached, as the government expects, a new conflict between rich and poor IC's will break out. And if this last conflict is resolved through "comunidad de compensacion" still remaining will be the tension between those gainfully employed in the modern sector and those for whom all these reforms have not yet arrived.

We shall also give the latest edition of the interpretation of the law of IC where we can foresee a radical change, this time due to forces external to the process. Peru has a huge external debt which required re-financing (See Chapter IV), forcing the country to accept loans from private New York Banks which demanded political changes as a condition for the loans. One of the changes is that co-management and self-management be phased out. In the ideology of the revolution this request is a stab in the back because self-management is the basis of the basic reforms, designed to change the infrastructure of property ownership, necessary for lasting improvements.

CHAPTER VI

The Actors

In previous chapters three main actors involved in the reform of the enterprise have been defined: the government who gave the law, and capital and labor who were affected by it. Faithful to their previous socialization the three groups have a different understanding of the meaning of the Law of IC. In this chapter we shall examine each one's particular point of view and reaction to the new legislation.

1) Government

Even before the law was promulgated President Velasco was saying in his speeches that "the reform of the enterprise...would not be damaging to the entrepreneurs; on the contrary it would harmonize their interests with those of labor in a frame of strict justice."⁽¹⁾

Within a year of having given the law of ICs the minister of Industries in a speech to a training group of industrial community workers said:

"Let me enumerate some of the principal and most important points:

- 1) All workers must fight together against underdevelopment and poverty. The IC has ended the division between owners and non-owners.
- 2) In the modern world, enterprise that does not grow is enterprise that does not advance. The reinvestment in the company is the way to make sure our children will have enough. Any sacrifice we do today will be paid back in the future.
- 3) The function of the worker representative on the company board is to assure the best performance of the enterprise, so that there be more profits to share; his function is also to see that profits be

distributed according to the law.

4) The IC must be a model of honesty and democracy...

5) The activities between the unions and the IC must be kept totally and clearly separated. Each one has a different area of competence.

'comuneros' let us not let that left-wing or right-wing extremists import foreign problems and foreign solutions to our reality. Let us go back into our own communitarian traditions to find our own solutions to come out successfully from underdevelopment. Let us use Peruvian methods, Peruvian ideas and the labor and effort of all Peruvians."(2)

With respect to the value of work President Velasco said:

...in the final analysis, the basic source of wealth is work; therefore the economic wealth created belongs to both elements of production.(3)

Similarly General Leonidas Rodriguez, Director of SINAMOS, explains:

The principal factor of production is work and not capital. It is man with his creative potentials, with his intellectual activity, and with his manual dexterity that is the source of wealth. Therefore man as the main creator of production must participate directly in everything that results from his labor. He must participate in the profits, in the ownership, and in the management of the enterprise.(4)

It is important to note that all along labor is considered as the basic source of wealth but not the only one. Labor, therefore, is entitled to ownership and that is the figure of the IC. The Minister of Industries says:

The IC...establishes that workers own the enterprise because they work in it and not because they are contributing money. This change that reforms traditional, private enterprise is conducive to real worker participation in management, profits and ownership of the enterprise.(5)

Actually the workers own the enterprise because they both work and invest in it, but to be working in the enterprise is a condition "sine qua non." There is a change in the concept of private property; a person

is entitled to property with which he is working.

In the text of the law the high expectations for the IC are spelled out: "it will serve to strengthen private enterprise, increase productivity and develop industry in general."(6) Velasco believes that it will "be favorable to both entrepreneurs and workers as members of the same company."(6a) That as the company grows the more will worker and capitalist share in the profits is the idea of the Minister of Industries; (it can be also interpreted as meaning that besides the 15% allotted to the workers to increase their patrimony, the capitalists must also invest to stretch out the time period when the workers will own 50% of the capital.) But Jimenez also says:

...the effective participation of workers in the ownership, management and profits of the enterprise must be a real contribution to the increase in productivity.(8)

The worker must know what he is doing, why he is doing it and feel it his own; this is how he can achieve a greater productivity and this is one of the goals of the IC.(9)

As co-owners, their lack of discipline, low productivity, resistance to company innovation, attempts against the company, it therefore attempts against you. The company does not mean the same as it did before; it now belongs to the workers as well, and whatever is bad for the company is bad for the workers.(10)

On class antagonism

...the basis for the revolutionary change lies in overcoming the apparent antithesis between capital and labor.(11)

...(the IC) has not been created to harm the interests of the entrepreneurs; on the contrary it has been created to harmonize them with those of the workers.(12)

...Theories of class struggle, based on European

realities of a hundred years ago, are strong among our people. This is a sad example of mental colonialism, a colonialism more detrimental than the political or economic one. The noble communitarian tradition we have received from the Incas has been blurred and displaced by a confrontation between owners and workers. This confrontation is absurdly consuming those energies that should be used to fight underdevelopment. To overcome this objectable situation is that the IC has been created...(13)

In the IC model the figure of the worker as wage earner persists, but the government wants to deny it when it says: "The factory worker will not be a mere salary earner anymore"(14) "...there will not be a perpetuation of the exploitation the worker has been subject to."(15)

...the IC...represents a new and original model of organization destined to overcome a system that has at its heart the subordination of man to greed without falling into a totalitarian dictatorship. This dictatorship in the end is not of the proletariat but of those who claim to represent it...The IC is an essential element of the revolutionary, nationalistic, socialist and solidaristic Peruvian model.(16)

A change of mentality is a fundamental factor for the successful achievement of the goals of the IC. "All this presupposes a period of intense education in the field of labor relations."(17)

The Ministry of Industries has many booklets that are distributed among workers for the purpose of educating them. In one of them we read:

This law is a real expression of the philosophy of the Revolution, IC and Humanism:

- a) it recognizes the dignity of the human being.
- b) it tends to transfer the social, economic, cultural and political power to the people through a gradual social democracy of full participation. This presupposes a socio-economic structural change in order to attain a more just society. In this society nobody would be subject to exploitation; that is, nobody would use a person as a mere instrument of work.

Expression of the Revolutionary Humanism:

- 1) Gradualism. It walks with firm steps in order to

create the new Peruvian man through planning and gradualism.

2) It is pluralistic. It accepts ideas, beliefs and forms of ownership provided that they do not go against the dignity of the human being.

3) It is not dogmatic. It is just a position, rational and critical, in order to understand the multiple problems that the revolution must solve. This position, rational and critical, becomes richer as the revolution moves towards a social democracy of full participation.

4) It is Libertarian. Its aim is to arrive at a true free society where each man makes his own destiny and serves his fellowmen through solidaristic actions.

For all these reasons humanism is incompatible with capitalism and with communism; it rejects the economic exploitation of capitalism and the ideological and political manipulation of communism. It is exactly this situation of exploitation and abjection that the revolutionary government does not accept; its goal is to create a society where justice and freedom exist together. (21a)

On the Unions and the IC

The government does not say it, but it was believed that the IC was created as a mechanism to eliminate the unions. Here are their official speeches:

The activities of the IC and those of the unions must be kept clearly and totally separated; their activities belong to different areas. (18)

...our concept about the complementarity of the unions and the IC: Both institutions have mechanisms for worker participation and are therefore instruments for the construction of a new society. (19)

...the worker in the enterprise performs a double role. He has his individual rights as salary earner which he must defend through the union...he has the communitarian right to the ownership of the company and these rights he defends through the IC. (20)

...the relations of ownership and production will change so much that the workers will have to re-define and reorient the role of the unions. (21)

To complement the above here are some opinions gathered while interviewing the Chief of IC Organizations for the MIT (21b). "From the beginning there was a negative reaction from the unions. They thought we were trying to destroy them; but later they changed tactics and began taking over the leadership of the IC. They wanted to make a second union or a prolongation of one of the IC. This was when there had not been enough education about the IC among the workers. In the third stage, which is happening now, a new leadership is emerging, workers who know what the IC and the philosophy of the revolution are all about. The unions and the IC still work close together but they know now what the differences are. The communitarian conscience has gone beyond a vindictive zeal to now work for the betterment of everybody. Managers are understanding this too...That lack of coercion in the law, I believe, was intentional. The law of IC was so radical that it had to be left open for political reason. The particular dynamics of the situation would dictate its sanctions. When the idea was publicized and implemented long enough and polarizations occurred, ...then it was time to regulate it (the law of IC). The "Fuero privativo" does that. The law of IC is an integral law now. The MIT does not have any direct and official business with the Fuero; although, it is under consideration having an administrative hearing of first instance at the Ministry and sending only those cases that cannot be settled here to the courts."

Later I interviewed the Chief Advisor to the Minister of Industries (21c) who said: "although the law remains the same there has been a re-interpretation or a better understanding of what was meant by it. The law once promulgated has life of its own and the people reacting to it

make for its evolution. There is still lack of coercion but with the Fuero Privativo (Legal) problems of the IC's can be solved within (the framework of) civil and even criminal legislation; before we could only see them (Legal problems of the IC's) as administrative problems. The Fuero's decisions are final."

2) Capital

As soon as the Law of Industries was promulgated the institutions representative of the industrialists expressed their opinions through the newspapers responsive to their interests. For example:

The National Society of Industries thinks that for the effective industrial development of the country, the role of the state must be that of promoter...the main function of the state must be oriented without delay to fundamental works of infrastructure: schools, urban development, hospital, roads, irrigations, etc.(22)

Then followed several pronouncements in which the industrialists seemed to support the idea of worker participation in profits. Of the participations called for in the law, the capitalist favored profit sharing over sharing in the ownership.

The so called industrial community involves an experiment unknown to Latin America and to our juridical regime... (24)

We consider that the industrial community, established by law, constitutes an improvisation in order to put into practice a theoretical concept that has not been implemented anywhere before... (25)

Five years later this same statement was repeated to me by the manager of the Chamber of Commerce in Arequipa: (26) "Unfortunately the law of IC was in fact improvised for political reasons and has created more conflicts than solutions to problems. While the IC is fundamental the

law has too many flaws. Interested parties from all sides have suggested changes to the government to correct deficiencies and fill in gaps in the law. But amendments to the law or additional laws would be even more confusing. The old legislation should be repealed and a new law (with the benefit of five years experience be approved). We hope that our input will be taken into account."

He also added, "Once a company is 50% worker-owned it will be unmanageable. The workers' representative is powerful, he takes part in all basic decision in the company. He is generally ignorant and opposes many proposals because he does not understand. Some items already settled are reopened because the workers' representative says that he has consulted the issue with his council but later they do not agree. This obstructs the normal functioning of a company...Before the implementation of the law there should have been an intense educational process. Workers behave as if the IC were another union...before you give co-management there should be an understanding of what is to manage... The percentages (of profit distribution) are so high they will drive a company to stagnation. People are so unaware of all these mechanisms that if they had the choice they would choose to receive all profits in cash. There is a marked individualistic tendency. The workers do not feel owners and the managers and capitalists feel insecure...the worker lives day by day; his only interest is to earn more cash; he does not care if the IC owns 20% or 30%..."

"A formula has to be created where the need for justice and the stimulation of the worker are harmonized. To be in a hierarchy seems to be part of our human condition... None of the seminars given to the workers have had the right orientation. They have not made the worker realize

that he is part owner of the enterprise, that he participates in the decisions. On the contrary there has been an open invitation to class struggle. This is contrary to official policy."

The main ideas published in the newspapers pertain to the mistake of giving communal participation shares instead of individual shares, stock certificates of the company to the workers:

...the share the company would give to its workers should be given annually in private property, for ever and with the right to be inherited. In this way one of the goals of the law of industries would be fulfilled, that is to tend to 'the permanent socio-economic development of the country' and at the same time it will protect the worker and his family in old age or in case of death...(27)

They also thought that it would obstruct private investment: ...the IC... will mean an obstacle to investments and consequently to the development process of industry.(28)

The uncertainty about the future of this right*, closely linked to human nature, will spread over all other sectors; as a consequence of this fear, investment in general will shrink, making more serious the situation of unemployment and underemployment, already critical, which is the cause of the present economic crisis.(29)

In a study (30) about the reaction of the right-wing or capitalists to the law of industrial communities, Alberto Bustamante advances the thesis that the capitalists' strategy was to 'win back' or to make the IC work for their purposes since the basic characteristics of the model were in the implementation. For this reason he says that the industrialist would emphasize those aspects more compatible with their ideology such as to demonstrate that the IC does not want class struggle but

*the right to private property

harmony between capital and labor and the clear distinction between IC and unions.

In another interview with the general manager of the brewery in Arequipa (31) I was told that "The IC is a phenomenon of masses. In the IC all workers are obliged to come together and as any phenomenon of masses it tends to be captured by a political ideology, the same happens with the unions. The government has tried to manipulate the IC first through the Ministry of Industries and then through SINAMOS. This latter has been stronger and now the MIT and SINAMOS are fighting between themselves. What is sad about it is the childishness and immaturity of the arguments...the IC is part of the company since it gathers all workers, but it has been dominated by blue collar workers and the representation in the company's board is limited to only those people. There is no equal distribution of positions and representation among all levels of work. This is a flaw in the law. ...Another problem is that all IC's organize and try to solve the problems of one IC. They should let each IC solve its problems directly with its company. To me this is a form of totalitarianism, government pretends to rule the lives of people completely...the government is asking for the impossible, they (people in government) say that they are not capitalists nor communists, what are they then? We are talking about private property, ownership of the means of production, so they have to belong to individuals or to the state. My opinion is that the government wants to destroy private activity. It is false that we are having economic pluralism, things have to be done one at a time. The military think that civilians are indisciplined people and the country can only run with their models. But it has not worked.

The IC has not brought peace to labor, nor has it increased productivity except for those highly successful enterprises where workers realize they will get less if they stop working...If the IC and the union share the same ideology they work together; if not, they are antagonistic and fight each other. When the workers' representative to the company's board begins to understand what it is to be on the board he is immediately disqualified by the rest of the assembly; they tell him that he has sold his soul to management, that he has been captured, colonized. The man is desperate and loses his position. But generally the workers' representative does not have any idea of what is going on at the board."

There have also been positive reactions from industrialists towards the law of IC as well. Samuel Drassinower, owner of a large enterprise, has even been the spokesman, together with members of government, in public gatherings. Here are some of his ideas:

We do not want to stay behind in industry, we do not only want that 50% be worker owned and 50% still owned by the traditional capitalist... The government with the idea that the great changes the country needs are urgent, has come to add not to subtract, to multiply not to divide... it wants to propel by law the increase of investments. (31)

Our goal is to share the goods and fruits of production with our fellow workers and with the people. (32)

...social property. Perhaps this will be the channel to solve the unemployment problem that the forces which traditionally create jobs cannot solve. Why? Because there are not enough private enterprises to create the amount of jobs that are needed...The state cannot do it at this point either because it is working at coming out of the underdevelopment of the state, it is creating the basic industries that, as you know, are capital intensive and low in job creating. (33)

If we create these new companies (social property) and add them to the state-owned and the private companies and find enough entrepreneurs, we shall produce more.
(34)

3) Labor

The opinions of capital are fairly homogeneous, with a few noticeable exceptions; those of labor are less so because it is fragmented into diverse ideological groups. As soon as the Law of Industries was promulgated those parties who said they represented the workers' pleas published their opinions. The law has been attacked by the groups of the left from the beginning.

....in order to cushion the fight of the proletariat and attempt a conciliation of classes, the Junta has created the IC, telling us the story that we must not go on strikes because we will 'diminish the profits'. They also tried to trick us trying to make us believe that the workers will some day own 50% of the enterprise. The emphasis they put in the IC is in order to neutralize the work of the unions.(34)

...the law signified...a conciliation between classes, it pretends to belittle the class struggle and to chain the working class to bourgeois interests. From this point of view the law is detrimental to the revolutionary process.(35)

...the implied dilemma between the IC and the unions ...comes as a factor that will obstruct the development of the syndicalist and political movement of classes, obliging the proletariats to start a political fight among themselves.(36)

The IC besides feeding the illusion that the small bourgeoisie has planted in some workers...it is an instrument to create unemployment, low salaries and undermine the unions.(37)

...any form of worker participation in management has a reactionary content, it pulls apart the proletariat from the object of his struggle: to eliminate the capitalistic system...the workers representatives...will have to try to save

capitalism.(38)

There is evidence in the leftists publications of the change in attitude towards the IC expressed by the government official I interviewed. After a first stage of opposition the leftists decide to make the IC work for their purposes, the same tactic as the capitalists.

Instead of numbing the class consciousness, the IC has developed it even more. It has made the worker aware of management and ownership of the enterprise and it has shown him the greedy nature of capitalism that would go to any extremes to make high profits.(39)

...This is an absolutely transitory measure to solve the needs of the working class and of development. That is why the revolutionary proletariat must take it like all the other reforms: not as a goal but as a step towards the revolutionary change.(40)

These people do not believe in the IC as a solution but as a positive means to raise consciousness and make the worker an active participant in the process of class struggle.

A few years after the law was given IC's all over the country began to organize with the help of the government. Those in the capital Lima got organized by type of industry (candy makers, bottle makers, etc.) and those in the provinces organized by geographic region. This organization was called CONACI (National Confederation of IC's).(41) In 1973 the first national conference was held, a federation formed. By this time workers had been subject to education about IC's not only from official sources (the MIT and SINAMOS) but also from many other sources. For example, I identified five different training courses, other than the two already mentioned, there were the courses given by the company itself, the ones organized by the unions and sometimes even courses organized by the IC

independently from the government. Each of these groups had a vested interest and a particular way of seeing reality; the interpretation they gave to the IC was therefore some times quite different. Nevertheless, at the national conference one group dominated and its pronouncements that became the official opinion of the IC workers was:

"The IC, as an instrument for democratic participation in the management, capital and profits of private enterprise, must be defended and made stronger by all workers.

"The IC cannot be seen as a gift from the capitalists nor as a means for false harmony while the exploitation of men by men persists.

"Workers are the only owners of the capital of the enterprises and the creation of the IC is a public recognition that this is so.

"The IC represents the meeting place of all levels of management with common interests. We all want to fight together as creators of wealth and as proletariats.

"The IC has not changed the exploitative economic system. It has created even more conflict within the enterprises.

"Co-management is more theoretical than real. Representation on the company's board is weak and non-existent at the intermediate levels of administration. The vertical, hierarchical, capitalist structure is still maintained. We want an active participation in the everyday life of the enterprise.

"The 10% profit sharing is too little, the capitalists without any effort take away 73%.*

"It is necessary to create a tribunal to settle the differences between the IC and the capitalists.*

*These items will be treated in the next chapter.

"The IC is real and effectively interested in promoting and increasing production so that all workers would have a better standard of living.

"Unions are indispensable tools in defense of labor stability, salaries and labor conditions. The IC and the unions should work together for the good of all workers and of the country.

"The members of the IC, as part of the Peruvian population, cannot forget the unemployment problem of the country, the poverty, the cultural and health deprivation of our brothers who are suffering because imperialistic enterprises take away all our wealth. For this reason we want to become involved and work together in defense of the interests of the people.

"The 10% profit sharing should be distributed equally to every worker and not 50% of it in equal shares and 50% according to salary.*"(42)

Following are some opinions of an ex-chairman of the workers council of a highly successful company:

The IC should be a success like in many European countries. You do not need to be socialistic in order to have workers' participation. But we are a long way off yet, because of the ignorance of the workers. They do not understand nor interpret the law right...the training that sometimes is given by the government is manipulative, specially SINAMOS. The Ministry of Industries training is better but when they give their course they do not ask how much do you know, they give courses that sometimes are too simple or too advanced. They do not know if the workers have university education or are illiterates...the results so far are positive for the large enterprise, the workers have learned that producing more for their enterprise they better themselves on the way...Our activities are completely separated from those of the union...in small enterprises the IC does not work as well, in some it does not even exist. There are so many industries that the MIT does not know they are there and the workers do not know how to start an IC...the law of IC is not very good, it has

gaps that have created conflict, the "fuero privativo" takes care of it now. We have not had any problems so far. Many of the problems are no fault of management, it is fault of the law...the worker elected to the company's board needs to learn the language of management and even then he will never be able to know as much as the other members of the board who have many other community supporting institutions like the Chamber of Commerce, the Society of Industries, to assist them. We can hire experts to assist us but it costs money..the IC is based on profits, if there are no profits there is nothing. Those IC's that have not had profits do not share in anything. The decision making power is very limited. The most important decisions are not made at the board but in the administration. When the worker representative wants to intervene in those areas, he generally is not heard, because that is not specified in the law.(43)

For contrast the opinions of the president of the workers' union of another highly successful enterprise where the IC exists only on paper and meetings are not held because the manager-owner of the company has a way of avoiding them.

In our case the union is the strong one, the one that pressures for improvements for the workers. The IC does not do anything, it exists only on paper. The general assemblies are recorded in the books to fulfill the requirements but we do not meet. We would like to get organized in an IC but everytime we elect a council it gets co-opted by management and they do not do anything. Management avoids setting up dates like when it has to report on the balance sheet and the net profit. We do not know what the state of the company is. The manager says we own so much of the stockholders equity, in the books, but we have not shared any yet...If the IC worked as it should there would not be need for a union, the IC through co-management would solve all the workers' problems. It would also have access to the company's books. We as a union do not and the accountant is not even a member of the IC, he does not work full time and must be paid well to keep quiet. The law is good but it does not work because the capitalists are very tricky.(44)

To finalize this section here are the opinions of the president of the regional federation of union workers (communist ideology):

...the worker was not prepared to take the opportunity presented to him be the IC. The majority of workers do not know anything about accounting or management. When employees who know are elected they do not respond to the workers needs but to those of management. The worker is interested in the net profit and when there are no profits he blames it on the worker representative. Now the worker is more interested in learning management and accounting, he is aware of the economic crisis and he worries, he wants to be prepared. So far the manager takes advantage of his ignorance and blames on him everything that goes wrong...we as unionists think that the law of IC is good and revolutionary, that is why we want it to work. We understand that we need to learn, all we ask is that training be available. We need technicians. The universities should teach us. We are against the university students that shout revolution to everyone and everything and in practice are our enemies. When they graduate they go to serve the entrepreneurs against us. Those students go to school with our money, we support them. The money the state gives the universities comes from the people. That is why the universities should give training to the workers in a permanent basis, not short seminars, you do not learn anything in three or four days... the union supports the IC, we go on strike together when the IC is not treated right. The 'comuneros' are also union members.(45)

NOTES OF CHAPTER VI

- 1) Velasco Alvarado, Juan. La Voz de la Revolucion (Message to the Nation, July 28, 1969, O.N.I., Lima, Peru) Ip. 84.
- 2) Jimenez de Lucio, Alberto. Principales Discursos Pronunciados en 1971 and 1972 (Ministry of Industries, Oficina de Relaciones Publicas, Lima, Peru).
- 3) Velasco. Op. Cit. Vol II p. 22.
- 4) Rodriguez Leonidas. Speech to the seminary of IC for entrepreneurs (El Comercio, October 24, 1972, p. 4).
- 5) Jimenez de Lucio. Op. Cit. p. 106.
- 6) Decree Law 18384 Art. 3.
- 6a) Velasco. Op. Cit. Vol II p. 116.
- 7) Jimenez de Lucio. Op. Cit. p. 45.
- 8) Ibid. p. 125.
- 9) Ibid. p. 107.
- 10) Jimenez de Lucio. Principales Discursos Pronunciados en 1974 (Oficina de Relaciones Publicas MIT) p. 51.
- 11) Velasco. Op. Cit. p. 22 Vol II
- 12) Ibid. p. 84.
- 13) Jimenez de Lucio. Principales...1971/72, p. 20.
- 14) and 15) Velasco. Op. Cit. Vol I p. 283 and 279.
- 16) Jimenez. Op. Cit. p. 58.
- 17) Velasco. Op. Cit. Vol II, p. 117.
- 18) Jimenez. Op. Cit. p. 21.
- 19) Premier Mercado Jarrin closing the First National Congress of IC, March 1973, Separata de Participacion, p. 10.
- 20) Jimenez. Op. Cit. p. 97.

- 21) Velasco. Op. Cit. Vol II, p. 117.
- 21a) Ministerio de Industria y Turismo. Filosofia de la Comunidad Industrial. For a graphic illustration of how the IC's are organized nation wide see appendix D and E.
- 21b) Interview with Oscar Guevara in charge of Organizations at the MIT (tape, July, 1976).
- 21c) Interview with Dr. Velez Moro, Advisor to the Minister of Industries (tape, July, 1976).
- 22) Sociedad Nacional de Industrias. Commentary published in the daily newspaper El Comercio, August 27, 1970.
- 23) Idem. Communique Nos. 1, 2, 3.
- 24) Sociedad Nacional de Industrias. Communique in La Prensa.
- 25) Camara de Comercio de Arequipa. La Prensa, August 22, 1970.
- 26) Interview with Dr. Stanley Simons, Manager of the Chamber of Commerce of Arequipa, Peru (tape, July 13, 1975).
- 27) El Comercio (article, August 29, 1970).
- 28) Camara de Comercio de Arequipa. La Prensa, August 22, 1970.
- 29) Sociedad Nacional de Industrias. El Comercio, August 3, 1970.
- 30) Bustamante, Alberto. "La Derecha Frente a la Comunidad Industrial" in Dinamica de la Comunidad Industrial (DESCO, Lima, Peru, 1974) p. 89.
- 31) Interview with Dr. Jaime Rey De Castro, general manager of the brewery of Arequipa (tape, July, 1976).
- 32) Drassinower, Samuel. La Revolucion Industrial (Editorial Libreria Studium S.A. Lima, Peru, 1974) Speech at the Universidad de la Habana, Cuba.
- 33) Loc. cit. pp. 49-50.
- 34) Movimiento de Izquierda Revolucionaria. Mimeograph, October, 1972.
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- 36) Quijano, Anibal. "Imperialismo y Capitalismo de Estado" in Sociedad y Politica No. 1, Lima, Julio, 1972, p. 13.

- 37) *Comunismo*, July, 1972 (publication of the Communist Party).
- 38) *Comunismo*, August, 1972.
- 39) *Unidad*, September 13, 1973 (publication of the CP)
- 40) *Lucha de Clases* No. 19, October, 1970 (publication of the CP)
- 41) See tables D and E.
- 42) Primer Congreso Nacional de Comunidades Industriales, 1973.
- 43) Interview Jaime Rivera Ex-President of the IC of the brewery, Arequipa.
(tape, July, 1976).
- 44) Interview Manuel Rodriguez, President of the Workers Union El Pueblo,
Arequipa. (tape, August, 1976).
- 45) Interview Agustin Pacho, President of the Regional Federation of
Union Workers, Arequipa, Peru. (tape, August, 1976).

CHAPTER VII

Conflicts and Their Solutions. (A Dialectical Analysis)

At this point we already know who the three main actors are and how they understand and interpret the law of IC. Let us see now some important moments in the evolution of the implementation of the law.

How the Law of IC Caused Conflicts

Using the records of MIT, Jorge Santistevan performed an analysis of the problems which came to the attention of the Ministry during the first two years after the law was promulgated. Below I have summarized some of the more relevant problems.

It must be noted that this evaluation is incomplete since not all problems were reported or recorded. It is interesting to note that companies with greater than 20 workers reported more problems than those with less than 20, (the number necessary to qualify for organizing a union.(2) Companies with large numbers of workers have a long history of class struggle and awareness as to their rights; for this reason minor faults in the implementation of the law or minor misinterpretations caused great difficulties.

a) What companies qualified to have IC? There was conflict when the company was engaged in more than one activity. For it was not clear how many IC's should there be ; and when the enterprise had service besides production, the question was should those workers in the service department be excluded from the IC? It needed to be defined who was full-time employed?

What about those companies that are agricultural, should they have IC too? When these problems were taken to the MIT generally, Santistevan reports, the Ministry did not solve them. Those enterprises with strong unions pressed through their collective bargaining for the implementation of the law of IC. There were many splits and subdivisions inside companies so that only those involved in actual production would have an IC; this was especially notorious among small enterprises.

b) Access to the Company's Books. For strategic reasons, management was extremely reluctant to let outsiders know the details of the financial condition of the company and in many instances denied the worker representative access to company books and records. The workers insistence on looking at the company's records sprung from the distrust about the accuracy of financial statements; the workers did not believe there were no profits when so declared by the company. Profit sharing was questioned as well. In addition other problems of an accounting nature arose. Such as: How is overtime computed, vacations, leaves of absence?

On evaluating a company's shares, it created confusion as how to establish a value: Book value or market price? In every case the MIT ruled it was book value even when market price was sometimes higher and on one occasion lower than the book value. Sometimes the workers did not want to invest their 15% in the company but preferred to use that money to hire outside experts in order to control the company.

c) Co-Management. In many instances companies did not accept worker representatives on the boards nor at stockholder meetings. In other cases, worker representatives did not receive information ahead of time about the board's agenda and were completely lost at the meetings; sometimes the language used at the board was not Spanish. Many times the workers wanted

more active participation in management than just attendance at board meetings; at others they brought to the board problems that were strictly labor or union related, and not appropriate to a board meeting.

Labor

The majority of conflicts reported by labor were related to the 10% profit sharing and the 15% distribution to the IC. The workers did not trust the financial statements made available to them and asked the MIT repeatedly to send an auditor.

Labor wanted to use the IC and the co-management power to serve vindictive purposes and it felt frustrated by the lack of intermediate channels of participation. They were more interested in the immediate and tangible aspects of participation, therefore their interest in knowing the exact figures; only exceptionally were they concerned with productivity or strengthening the enterprise.

The Capitalist

The greatest concern of the capitalists was the influence of the unions in the IC. The industrialists tried to find interpretations of the Law of IC and the Law for Mercantile Societies. The refusal to accept a worker representative on the board was often excused by the need to resolve a legal problem first.

In many cases the companies did not follow the recommendations of the MIT, considering them to be opinions without force of law. The most serious offenders of this nature were small companies.

Government

There is no law that authorizes the MIT to solve any difficulties created by the IC legislation. Nevertheless, a sui generis system was

invented in the MIT and which developed into an organization to control and see to the proper implementation of the law. Thus, the MIT began to function like a quasi-juridical organization (3) although it lacked the legal power of coercion. Usually; however, in those cases where both parties asked for the opinion of the MIT they followed its recommendations. Many decisions were the result of political pressure. Later many issues were settled by special decree-laws.(4)

CONACI

Another important moment in the history of the implementation of the law of IC was a congress of IC's held during the last week of February in 1973. It was called by the workers themselves who since 1971 had been organizing, but it was also highly influenced by the government. One of the products of the national meeting was the formation of a permanent federation of IC's, the National Federation of Industrial Communities or CONACI. (See Chapter VI.) SINAMOS and the Ministry of Industry played an active role in the congress and CONACI and even competed for leadership. Luis Pasara who was present as an advisor to the workers (5) reports that the congress was very politicized and the government attempted to manipulate it; the workers however, managed to come through fairly independently. The communist party was also present through its members influencing the congress, but the ideology of the revolution, interpreted by the workers according to their own perspective, won with their generalized allegiance. The main ideas of the national congress were presented in Chapter VI as the official interpretation of labor about IC. Those items worth commenting here had an asterisk. The items here of importance to us are: that they thought the private capitalist took all 73% of the net

profit after distributing 10% individually to each worker, 15% communally to the IC to buy shares, and 2% for technological studies. That was a mistake; the company still had to pay 25% on taxes and if the IC was a partner it would receive the equivalent to its shares, perhaps up to 50% of the profit after taxes. The workers in this instance show clearly their union-oriented mind, they do not see themselves as capitalists as well, even though they are sharing of the capital.

At the Congress a special court was requested that would deal only with the problems of IC's. In June 1975 the court was created. Although apparently the government responded to pressure from the workers to create it, there are contrary opinions. A general manager I interviewed (7) believes this petition was one of the manipulations of the government and that the idea was proposed by a workers' leader in the pay of the government, who said that it is what the workers wanted. My interviewee is of the opinion that the blueprint was too perfect to have been elaborated in such a short period of time. Before the congress nobody had ever mentioned a tribunal.

Another important issue that came out of the congress was the change in the distribution of the 10% net profit among all workers. Since December 1975 everybody who works full time shares equally, regardless of pay scale or longevity.

As a result of the first national congress a draft of a new law of IC was made public and interested sectors of the population began to discuss it. The draft contained many of the proposals presented by CONACI. The promulgation of a new law has not been done and according to government officials I interviewed such a law will never be promulgated. Instead a

new law that will reform all private enterprises, not only industrial, will be given; this new law will also replace the Law for Mercantile Societies of 1961.

Newspapers reporting on the congress had interesting insights:

...the creation of the national confederation of IC means the birth of a powerful political instrument, superior to the political parties and to the unions. This national organization, not foreseen in the law of IC, could eventually become a time bomb against the pluralistic, humanistic and libertarian revolutionary process; it would try to accelerate its rhythm permanently.(8)

This prediction of evil did not happen; however, because government, according to Pasara (9) managed to split the organization almost from the beginning so it would not develop independently. Both branches pleaded allegiance to the revolution and tried to gain official recognition. Eventually, in 1974, the two groups reunited. The public policy of the reunited organization was in support of the ideology of the revolution and of syndicalist socialization. CONACI, as the federation is called, was present whenever there were public meetings in support of government policies. They also published pronouncements in newspapers in support of the revolution and of the workers pleas. Here is one of them on the occasion of a strike by the Central Union of Private Employees:

...many entrepreneurs, stubborn in their anti-revolutionary goals, try to ignore the fundamental role of labor in building of the new society.(10)

In February 1976 CONACI, reunited, held a meeting of the national board to organize the second national congress. The date was set for September but later postponed indefinitely due to political instability of the country.

Law for Small Enterprises.

If CONACI can be considered the pressure group of organized labor, the Society of Industries and the Chamber of Commerce are the organized pressure groups of capital. Their pronouncements, mixed with complaints that they are not heard by government, but especially their non-action (e.g. refusing to reinvest), influenced many changes in the IC as well.

It is a fact that by the end of the second year Peruvian industry had grown because of forced internal reinvestment and by 1973 the IC did 30% of all investment in the private industry (10a) and without new foreign capital.(11) Fitzgerald says that the local bourgeoisie became disillusioned and indifferent. Drassinower, who advocates the government changes, explains it this way:

The entrepreneurial activity in Peru is moving at an inadequate rhythm, and this is not because of the IC...

(one reason) when the IC reaches the 50% the chairman of the board will be decided by luck, we cannot depend on chance to run a company...The solution is when there is equal capital sharing in a company, the technical management, those who are prepared, should have the decisive vote...

(another reason)...you cannot have continual obligatory reinvestment every year; that runs new capital away, and that is what the law of industries calls for. A company that does not pay adequate dividends cannot call on the capital market.(12)

The Law of Small Enterprises (13) of February 24, 1976, is considered a victory for the forces of capital by those integrating labor. Capital, however, is not so sure. In abstract the law will reduce the number of IC's to only those companies with an annual gross profit of more than 25 million soles (13), in the industrial sector. The percentages for profit sharing are different according to the type of activity. In small

companies not qualifying for an IC, and therefore without co-ownership and co-management, workers will receive 25% of the pretax net profit divided equally. This seemed to be the solution proposed by the capitalists all along in its pronouncements; however, when I interviewed a general manager (13) he told me that even without IC the workers will have a lot of control. When they are given their profit sharing they will question the financial statements and demand to know the details of company operations. They still will have their union and with their experience on IC affairs they will ask to take active part in the company's management or threaten to go on strike. It is still too soon to know if this prediction will be fulfilled.

As we have said labor does not look upon the law favorably:

The law of small enterprise (without IC) and its reaffirmation that it will not be modified, is a first step towards asking that the IC be phased out from the companies that still have it but because of its economic size could be included in the small enterprise model...the right...a good part of their demands have been picked up in the law of small enterprises...(the government) is preparing the ground for a destruction of the IC, it is playing with the idea of a law for the entire private sector to fit the demands (of the right).(14)

In an important message to the nation, President Morales Bermudez (15) insisted once again on the economic pluralism of the revolution giving equal time and emphasis to each of the four sectors. In previous occasions the social property sector had been called priority and hegemonic. When Velasco was president he asserted the transcendental importance of the social property sector,"expresses in the economy the Revolution's fundamental political option"(16). Indeed he claimed the creation of the social property sector was "perhaps the most important step of the Revolution"(17).

But not so anymore under the rule of President Morales. However, in March 1976 Morales still listed the socialist ideal among the goals of the Revolution (18).

Latest Developments

Since President Morales Bermudez replaced President Velasco there has been an open and systematic turn towards the middle of the road. The radical reforms have been tempered. There is a feeling of confidence among the capitalists and of anxiety among the radical left. The union workers interviewed have decided to oppose the government now because they believe it is betraying their cause (19). The representatives of capital are still vocal:

The IC should have contributed to strengthen the social peace promoting a feeling of harmony between capital and labor... In 1971 we had 377 strikes, in 1972, 396; in 1973, 786; in 1974, 800 and in 1975, 794. This means that between 1971, the year the IC began to function and 1975 strikes have increased by 100%... Another of the goals of the IC is to raise the standard of living of all workers by the distribution of company's profits. The 10% profit sharing cannot be considered a victory for the IC, it already existed since 1950. The 15% communitarian sharing is irrelevant, the worker hardly gets any...it causes an unjust difference between the members of highly profitable companies and those who do not make any or even have losses. This caused an uneven distribution of incomes that was precisely what the IC was supposed to eliminate... The IC has not solved the unemployment problem it has made it worse...it has meant and still means a halt to investments and therefore to the creation of new jobs. Only 35% of the population economically active is fully employed and if we considered that our population growth is 3.1% a year the problem of unemployment is terrifying for the future... In the national development plan we read that industry is expected to grow 12.4% yearly between 1971-75. Unfortunately...in 1974 it was only of 8% and in 1975 of 6%...certainly the IC is not the only factor determining this situation, but it has been and continues to be one of its most important causes...

The IC has stopped the growth of small companies which did not want to reach the limits where they would have to have an IC...the IC therefore has not fulfilled its goal of strengthening the enterprise...

Participation in management, ownership and profits has not increased production... In general terms there has not been growth and in many cases it has diminished...the IC does not constitute a real incentive to the worker who prefers immediate and direct remuneration through union action.(20)

After exposing all the ill consequences of the reform of the private sector by the IC, Dr. Simons presented a number of changes to make this model work; among them was, as labor had been fearing, the annulment of article 29 in the law of small enterprises (21) that asked that those companies already with IC would continue to function with it even if their income was below the amount set for the small enterprise. Dr. Simons considered it unfair to have two different applications of law within the same sector, creating an uneven situation between those small companies formed before and after the promulgation of the Law of Small Enterprise.

On July 28, 1976 President Morales Bermudez in his message to the Nation said:

In public enterprise the state is the manager and creator of capital, in the social property sector the worker is the manager and the creator of capital; likewise the private reformed sector is the result of private savings and of work. After five years of experience with the IC we see the need for studying its mechanism of participation in management and in profits.

The legislation on the Reformed Private Enterprise as it stands today does not insure stability in management to the private investor nor decision power to the worker in relation to the patrimony that he gets. The essence of the IC has been misinterpreted by the entrepreneur and by the worker and it has not been adequately regulated either... in many cases it has been an obstacle to its own ends...it has been a tool used by a few to manipulate...

It is necessary to readjust its mechanisms...
without losing sight of its goals: to humanize and
make more productive private enterprise...(22)

This pronouncement by the President was the final blow to the left-wing orientation of the Peruvian government. In this speech a President for the first time since 1968 did not mention the word 'socialism'.

In World Perspective

Going back a few chapters we have seen that in 1968 when the Military overturned President Belaunde the country was in a great economic crisis. In order to refinance its debts the Peruvian government had to borrow money from unusual sources at very high rates of interest (23). The World Bank, the International Monetary Fund and other sources with reasonable interest rates had been influenced by the United States who did not approve of Peru's social revolution. The debt had been refinanced once before but in 1975 the economic state of the country was so bad that no bank would lend any money to Peru. Then we read in the New York Times (24)

The Peruvian Government, in power since 1968 as a revolutionary experiment, appears to be coming apart. The government is under pressure from a consortium of United States private banks that are making strict economic and political demands in exchange for loans to cope with huge foreign debts. As the fortunes of the leftist military regime have declined, its dependence on Western financial institutions has become increasingly clear.(24)

This article in the New York Times was published after the President's address and shows a correlation and a reason for the back tracking on socialist reforms. Later on the loans were confirmed and the gradual phasing out of self-management in the Peruvian infrastructure also began to be implemented. As of this writing there have not been any more changes in the IC model but more are expected to come any minute.

The new law that will reform private enterprise, industrial as much as commercial and of services, is being discussed at the Ministers level. In June 1976 the Minister of Industries gave an interview to the Brazilian newspaper "O Estado de Sao Paulo" and in which he declared:

...we are preparing the draft of a law to regulate the entire private sector and to replace the old law for mercantile societies. We shall give a new structure to private enterprise...it will have everything that works well from the IC...there will be a fund to finance those IC that because of lack of profits cannot buy shares into their enterprises... this will be the compensation fund... This is still under study...the IC's that make better profits will help those who do not.(25)

I was offered a brief glimpse of the new law at the MIT but later I obtained a copy through an American oil company doing business in Peru. One more example of the trend back to dependency. The foreign investor is given the first chance to discuss the benefits of the law before the Peruvian people are even aware of it. Since this law has not been promulgated there is still the possibility it might be changed again, depending on the power of the groups involved.

NOTES OF CHAPTER VII

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"La Aplicacion de la Ley y los Conflictos" in
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Lima, 1974).
- 2) Article 7 in the Supreme Decree of May 3, 1861 demands a minimum of 20 workers in order to create a union, providing that 50% of them request it.
- 3) See appendix F, for the way the MIT is organized.
- 4) The MIT had been ruling that the worker representative be allowed to see the company's books even before the January 22, 1972 decree law No. 19262 that made it official. Another example of worker pressure is decree law No. 21310 granting equal distribution of the 10% net profit among all workers taking into consideration the amount of time worked the previous year only.
- 5) Pasara, Luis. "El Congreso de Comunidades Industriales" and "Desenvolvimiento ve Significado de CONACI" in Dinamica de la Comunidad Industrial (DESCO, Lima, 1974).
- 7) Interview with Dr. Jaime Rey De Castro, general manager of the brewery who besides is a prominent lawyer, expert in labor law, founder of the Christian Democrat party and representative in Congress for many years.
- 8) Oiga, March 2, 1973 (weekly news and opinion magazine)
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- 10) Expreso, May 21, 1974 (paid announcement)
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- 13) Interview with the general manager of the brewery, Op. Cit.
- 14) La Palabra del Pueblo (weekly magazine from labor) No. 8, April 20, 1976, p. 3 & 4.

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- 16) Velasco Alvarado, Juan. Message to the Nation, October 3, 1973.
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- 20) Simons, Stanley. "La Empresa Privada Reformada" in Industria Peruana, No. 520, June 1976 (Dr. Simons is the manager of the Chamber of Commerce and Industries of Arequipa and his speech was given in Lima at the National Society of Industries.)
- 21) Decree Law 21435 Small Enterprise.
- 22) Morales Bermudez. Message to the Nation, July 28, 1976.
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- 25) La Prensa, June 20, 1976. Interview with the Minister of Industries General Ibanez reprinted from the Brazilian newspaper "O Estado de Sao Paulo".

CONCLUSIONS

1. The Military Government.

The people integrating the military government as we have seen in Chapter IV belonged to the middle class; their ideal, therefore, was to make everybody middle class people. Their values and aspirations were those of the small bourgeoisie, which is what they taught as their ideology of the revolution. They never departed from the capitalistic system although they tried to introduce some changes to make capitalists of every worker. Their speeches were unsubstantiated by their actions. On the one hand they talked about equality, humanity, social justice, decentralization while in practice they tried to perpetuate the capitalistic system where the amount of money possessed determined who held the power of decision in the enterprises. During the process, however, we can see changes in the military mentality due to the groups' pressures. On the one hand the government came to accept the importance of the unions as complementary organizations to the industrial communities and on the other hand the government yielded toward the investors granting them more autonomy. Both changes emphasize the capitalistic structure being implemented. The dysfunction here is the incongruity between theory and practice. The system they tried to implement did not give real power to the worker, whose co-management was diluted and hierarchized. The average worker did not have a say about his everyday activity where he knew his task, but he was given power at the company's board of directors for which he was not prepared. The worker never had a chance to succeed in the co-management model be-

cause he was not prepared for what was asked of him.

In the pluralistic context of the economy we can see that the industrial community in the reformed private sector is halfway between the small private company, where all the capital belongs to the investor, and social property, where all the capital belongs to the workers. The social property sector did not exist in Peru until 1974 and I see its creation as a consequence of the dynamics of the co-management model started with the IC. When the workers learned what it was to manage an enterprise and where they fitted in the entire scheme they demanded that all private enterprise be given to them. They could not accept halfway measures. In the evolution of the ideology of the Revolution we can also see that self-management at all levels of activity is in accordance with a social democracy of full participation. That is why at the beginning of this thesis I stated that the success of the IC was fundamental to changing the infrastructure of property. This change, however, proved to be not radical enough to attain the social democracy of full participation the government wanted, but it is like a splinter in the capitalistic system. It has been bothering both groups; the workers who now want all the company and the capitalists who do not want to share any, on the contrary they advocate a return to the status quo ante.

The government is definitely changing the interpretation of the ideology of the Revolution. It is not an ideology of self-management anymore. The work "prioritary" still attached to the social property means now prioritary "to cover the social needs to create new jobs." President Morales Bermudez in his speech of November 20, 1976 (1) says that the people ask for jobs and where the private investors cannot provide them the

state will furnish them through social property investments. Social property (self-management) is seen now as the last resource to solve the unemployment problem of the country and not as the philosophy behind the new structural change.

Capital.

We have seen that the investors became disillusioned and were very vocal about their loss of management power. This situation was specially evident in their non-action: they stopped making new investments. This situation should not be surprising since it responds to previous socialization. The manager is trained to take all the risk and resents any intervention. There were also those managers who changed their attitude and joined with the ideology of the revolution, in self defense or because they believed in their capacity as managers. This de facto situation and the power of the state made for many compliances. There were also the many loop holes in the law that still could be used to drain the net profits and not to have to share so much with the workers. Although the reform of the enterprise with the industrial community still responds to the capitalistic model those original owners of the capital resented having to yield part of their private property to the workers; this made for the disfunction of continuous opposition that obstructed the smooth running of the industries. In this situation the conclusions from the point of view of the investor are as follows: (2) By its nature the Law of Industrial Communities imposes limits to private property (or at least that property represented by investment in a company) in that it redefines management control and distribution of profits. These limits are important as well as of intellectual interest in that they set precedents in Peru for any

future national debate about private enterprise in other areas such as in agriculture or construction and about personal property rights regarding things such as homes, rental income from real estate, investment income from government bonds or even large personal savings accounts.

The limits imposed by the Law of IC are two:

- 1) Reduction in investment income by requiring a profit distribution.
- 2) Restriction of management control by imposing worker co-management.

Basically, it seems to me that several effects could have been anticipated.

1. Passive investors, that is, investors who invest strictly for dividends as a means of obtaining a return on investment, would tend to withdraw their investment in companies with IC because of the reduction in profits available for dividend distribution and because of the uncertainty associated with influential and even dominant worker representatives involved in management whose primary interest is job and salary security as opposed to return on investment. Furthermore, there are grave doubts as to the qualifications of the worker representatives. I would expect a decrease of investor interest in companies with IC and an increase of capital investment in debt instruments of all types, Government bonds and non-job creating activities such as real estate speculation. It should be remembered that in Peru many passive investors are people of modest means from Peru's middle class.
2. Manager-owners would tend to withdraw their investment from their companies and act in the same fashion as passive investors, becoming employees without the same drive and ambition as before.

Severely reduced the number of entrepreneurs limiting new company and

job formation. Perhaps, incentives other than money and management freedom can be used to motivate entrepreneurs.

3. Labor leaders, union or non-union, have primary interest in job security and pay and thus would tend to promote these as opposed to other interests. Investment in technology or modernization would tend to be seen as a threat or potential threat to job security and therefore can be expected to decrease as worker representation increases. When the worker leaders better understand the function of work and intelligence in the production of wealth, then they will perform a more creative role in management versus the adversary one they now play.

Labor.

Since the moment the peasant became a proletariat his class consciousness has been present and all his orientation in the working situation has been toward class struggle and confrontation with capital. All the teaching of the revolution about harmonizing capital and labor with the industrial community did not bloom because of the previous and continued union oriented mentality of the worker. The conclusion of the first national congress of industrial communities (CONACI) are an example of the still classist and vindicative mentality of the workers. There is however a change of mentality towards the ideology of the revolution in those industrial communities that are highly profitable where the worker sees the product of his work in cash. This situation is not new; it shows once again the capitalistic and individualistic orientation of the reformed private sector. In those enterprises highly profitable also the obligatory reinvestment makes them grow even more, making for concentration of capital in the same kind of activity instead of diversifying into other

more needed sectors. It also makes for capital intensive enterprises for two reasons: One is that if they have more cash it is logical they will invest in better technology and machinery; and second, those who are sharing in the profits will favor more money to share among a few than the hiring of more workers with whom they will have to share the pie.

As the workers become socialized to the ideology of the revolution in the highly profitable enterprises they stand out as an elite of workers. While in those IC's where there is poverty and lack of profit there is still struggle and the syndicalist mentality is strong.

The economic and political goal of "harmonizing capital and labor" and "strengthening the enterprise" (3) has remained wishful thinking. In all companies without a union the IC has created one even before the community started functioning and the number of strikes has soared since that time. The workers consider the IC a buffer to their rightful pleas for better working conditions.

Recent studies however, (4) show that conflict in the highly profitable industries is diminishing and a conciliation of classes, as the government expected, is beginning to be a reality. The nature of conflict is changing, not disappearing. The IC of those successful enterprises is interested now in profiting for themselves disregarding the interests of the working class. They will oppose any conflict created by the unions in other companies which would jeopardize their successful advancement. This corroborates the idea that there is in formation an elite of IC workers in the successful companies.

On the other hand the IC has opened the inner functioning of the company to the workers and has made them aware of how capitalism works. This

is what they have been doing through their official organization CONACI which is indistinct from any classic vindicative union. The IC has given the workers new and unknown to the present, tools to fight capitalism. It has also raised their class consciousness. There is a new kind of class struggle now started by the IC.

The unfulfilled raised expectations have created also a new kind of alienation and disillusionment which is as strong among poor workers as it is among impoverishing capitalists.

It was believed that the original idea for creating the IC was to eliminate the labor unions. If the IC had been implemented totally, if co-management had been given effective channels of participation, the unions would have lost their raison d'etre but while the workers still felt subject to the power of money, they needed their institution for collective bargaining to get their rights granted.

The IC is a house divided within itself. There is a very delicate balance the worker would have to attain in order to make the right decisions in his double role as capitalist and as salary or wage earner. If the worker representative at the company's board of directors makes decisions to increase profits he would be going against his own interests as worker. If on the other hand he demands better working conditions, salary and rest periods he will be going against his interest as capitalist, and profits will be diminished.

There is a balance point where profits and working conditions can be maximized. To get there we need skilled management with a charismatic personality and responsiveness to the workers pleas.

To be in accordance with the ideology of the Revolution industry should

be part of the Social Property sector, that is, become self-managed. The implementation of such a model is what is unrealistic for Peru at this point. The educational level of the worker needs to be raised first. There is a soaring need for managers at all levels. A self-managed economy would have to be led by managers of a special kind. They would have to be leaders, entrepreneurs, administrators and strategists (5), totally committed to the workers' well-being. In the ideal type the role of the manager is mainly educational. The component of directing and motivating is larger than the component of disciplining and controlling. From self-management stems self-control and self-discipline.

NOTES OF THE CONCLUSIONS

- 1) Morales Bermudez, Francisco. Speech closing the 1976 CADE (National Conference for Executives) in Arequipa, Peru, November 21, 1976, in El Peruano.
- 2) Interview with William H. Yaeger, investor. December, 1976.
- 3) Rodriguez, Rene. "Comunidad Industrial Revolucion y Reforma de la Empresa" in KERBUSCH (ed.) Cambios Estructurales in el Peru. 1968-1975 (Fundacion Ebert, Instituto Latinoamericano de Investigaciones Sociales, 1976).
- 4) Interview (Director of CONAPS representing the MIT (August 24, 1976).
- 5) Adizes Ichak. "On Self-management: An Organizational Definition, a Typology of Various Experiments in the World and a discussion of the role of Professional Management" in Self-management . New Dimensions to Democracy, (Adizes and Borgese eds. A.B.C. CLIO, Santa Barbara, California, 1975).

TABLES

TABLE - A

THE ELECTION OF CHAIRMAN OF THE BOARD WHEN THE I.C. OWNS 50%

ALTERNATIVE	ADVANTAGES	DISADVANTAGES
a) To draw lots	<ul style="list-style-type: none"> - It is simpler - You do not have to change the law. - The chairman will be related to the enterprise. 	<ul style="list-style-type: none"> - The business policy is bound to change every year - It will aid to increasing conflict
b) To draw lots the first year and to alternate from thereon.	<ul style="list-style-type: none"> - It is simple. - You do not have to change the law. - The chairman will be related to the enterprise. 	<ul style="list-style-type: none"> - The business policy is bound to change every year
c) The position is designated by the "Fuero de Comunidades Laborales".	<ul style="list-style-type: none"> - Makes sure that a capable person is named chairman. - It is impartial. - It reconciles conflicting interests. 	<ul style="list-style-type: none"> - The decision is made by somebody strange to the business - It may take a long time

TABLE - B

CO-MANAGEMENT AT VARIOUS LEVELS

ALTERNATIVES	ADVANTAGES	DISADVANTAGES
<p>a) The IC participates in the company's board and in the shareholders meetings</p>	<ul style="list-style-type: none"> - Law remains as it is. - The incentives to investors remain the same. 	<ul style="list-style-type: none"> - Limited participation - Workers do not participate in the everyday decision making process.
<p>b) Co-management advisors at all levels from the general managers to the working units</p>	<ul style="list-style-type: none"> - Workers participate much more - Workers learn what is going on in the enterprise. - These advisory committees do not make decision. 	<ul style="list-style-type: none"> - Investors probably will lose their incentives. - It could be misinterpreted leading to more conflict
<p>c) Advisory committee at the general manager's level only.</p>	<ul style="list-style-type: none"> - It is simpler than b) 	<ul style="list-style-type: none"> - It limits the levels of workers participation.

TABLE - C

PARTICIPATION IN OWNERSHIP
(as it stands today)

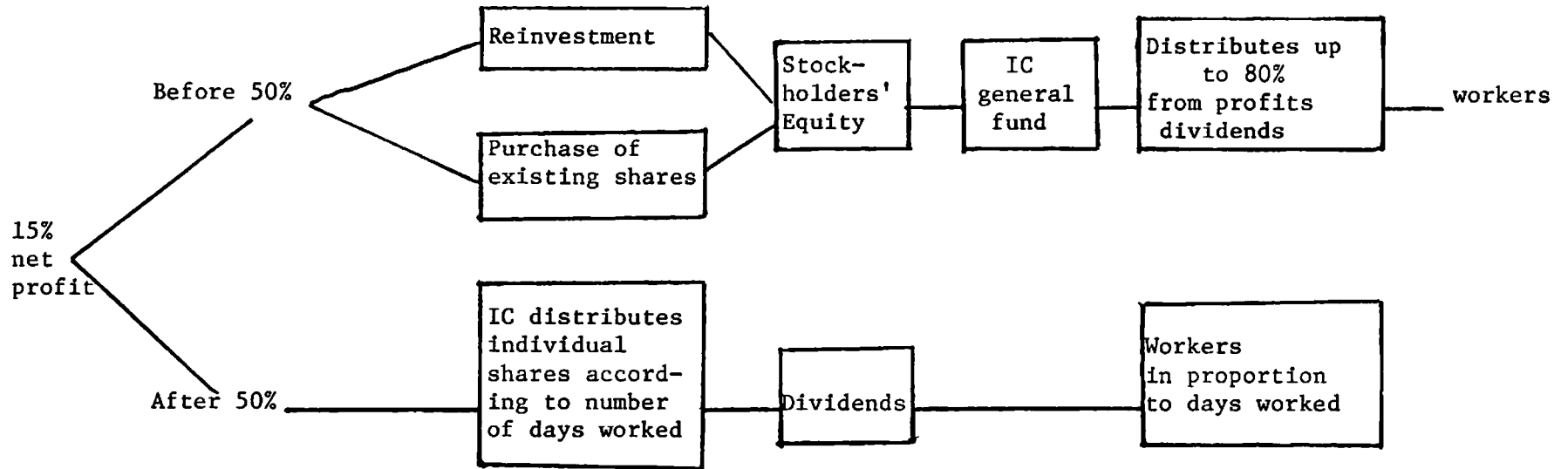


TABLE - D

ORGANIZATION OF CONACI
(Integral)

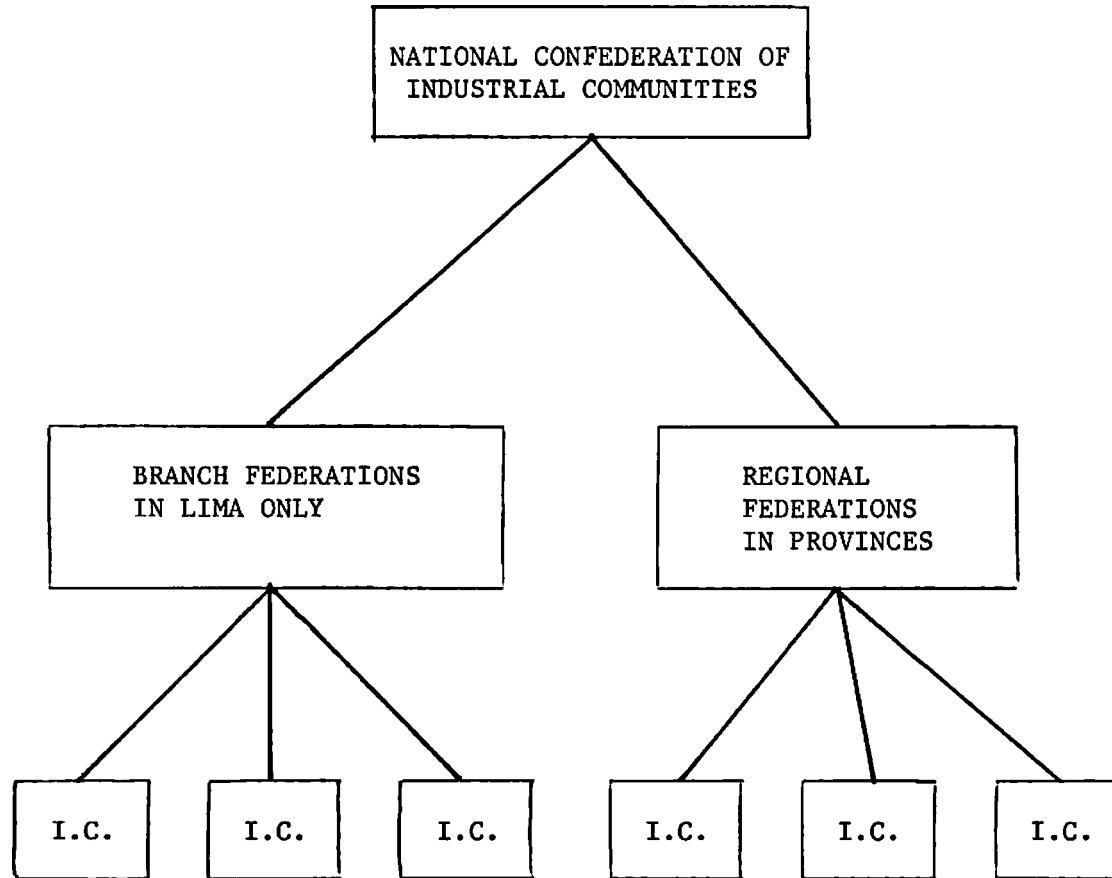


TABLE - E

ORGANIZATION OF CONACI
(Administrative)

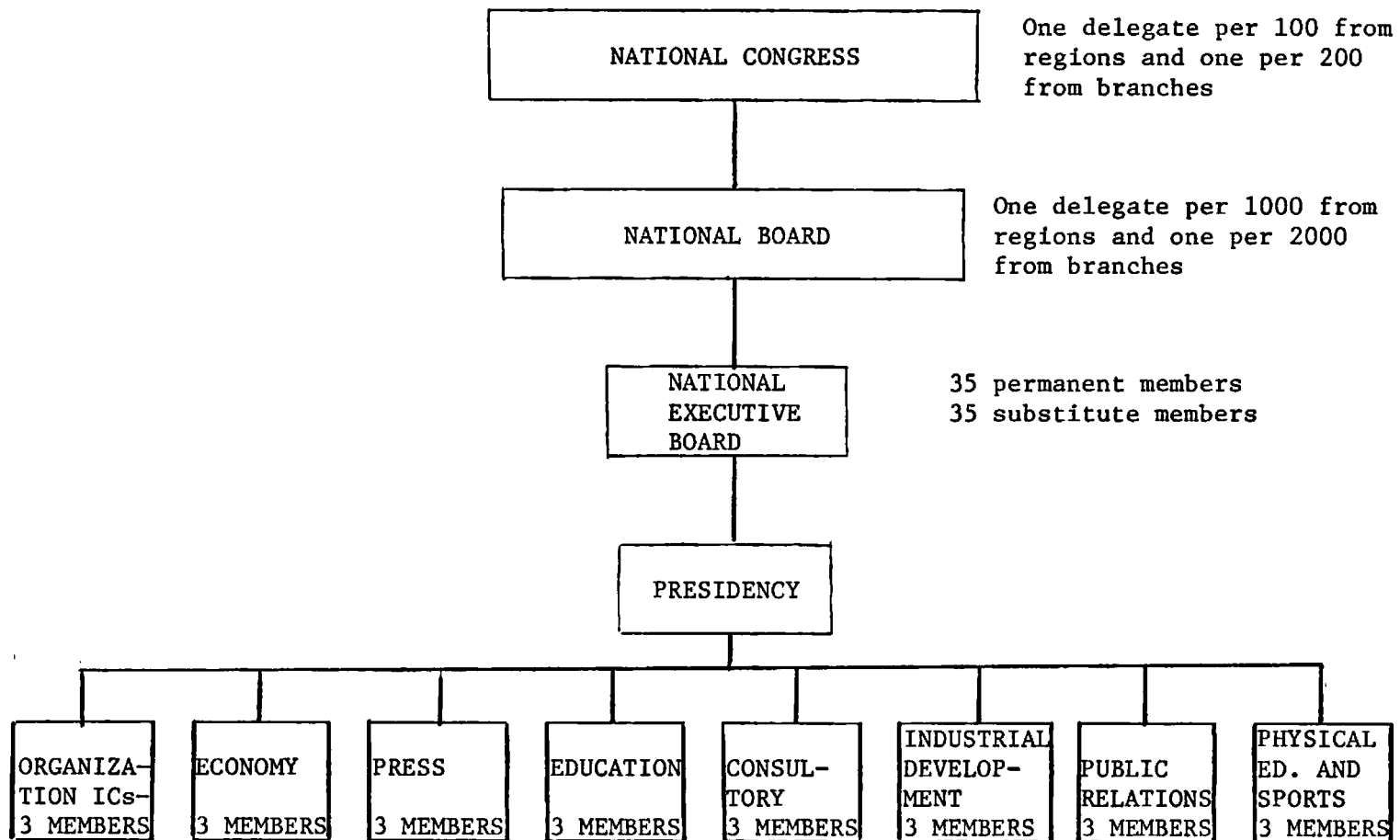
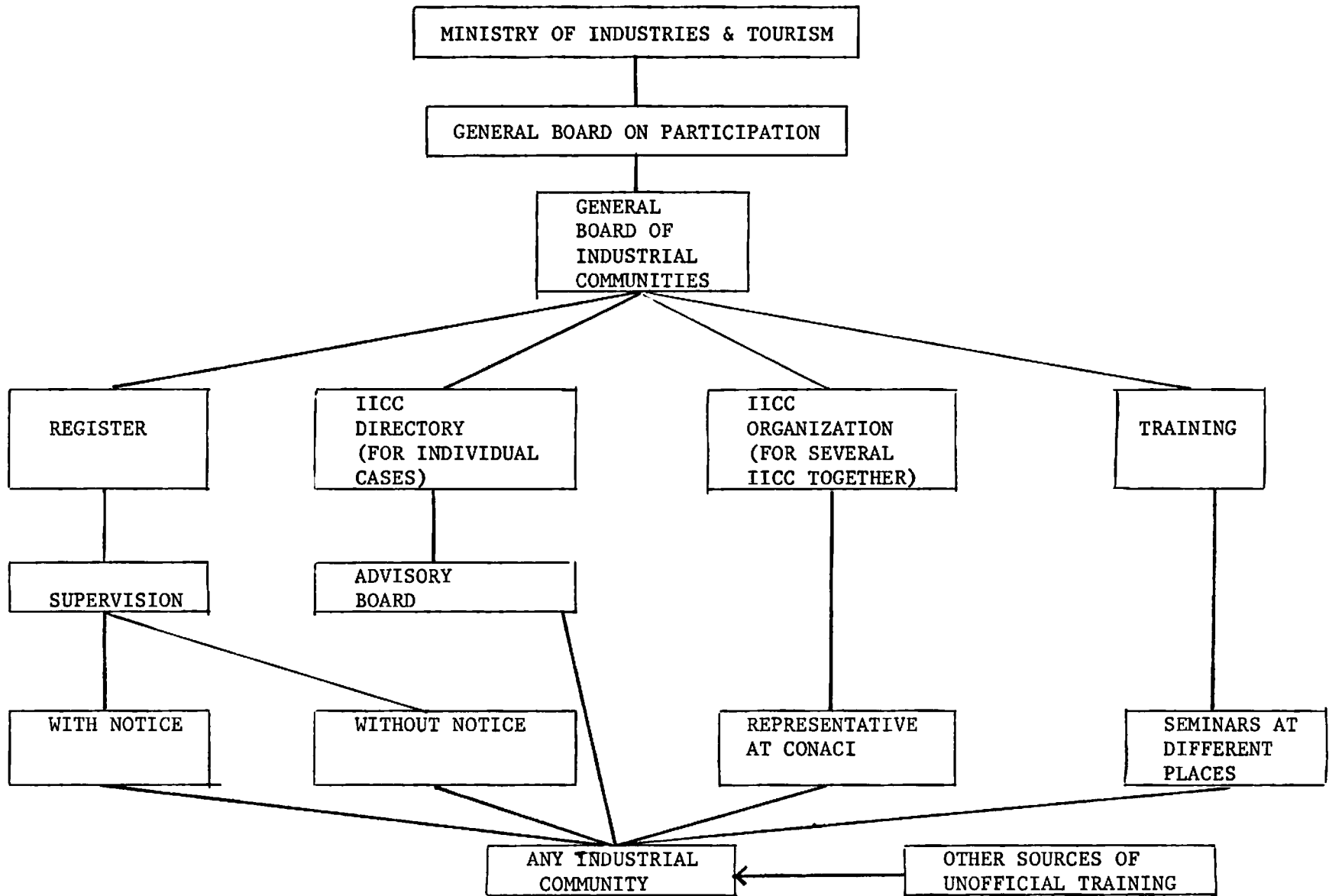


TABLE - F



ACRONYMS

APRA:	Alianza Popular Revolucionaria Americana
CAEM:	Academia De Atos Estudios Militares
CONACI:	Congreso Nacional De Comunidades Industriales
CONAPS:	Comision Nacional De Propiedad Social
DESCO:	Centro De Estudios y Promocion Del Desarrollo
GNP:	Gross National Product
IC:	Industrial Community
INP:	Instituto Nacional De Planificacion
I.P.C.:	International Petroleum Company
MIT:	Ministerio De Industria y Turismo
SINAMOS:	Sistema Nacional De Apoyo a la Mobilizacion Social

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