

THE SUGAR INDUSTRY IN PERU

POR

PETER F. KLAREN

George Washington University

La producción de azúcar ha constituido un importante sector en la economía exportadora del Perú desde el período colonial temprano. Este artículo analiza su evolución, sobre todo tras el inicio de su fase moderna, fechada a partir de mediados del siglo XIX, cuando se modernizó, se consolidó en la región costera septentrional y se concentró en fábricas que operaban con economías de escala. Su prosperidad, contribuyó, además, a la formación de una oligarquía que gobernó el país hasta 1968 y del partido populista, APRA, y su base electoral (el llamado «sólido Norte aprista»). La revolución militar de Velasco Alvarado nacionalizó la industria en la década de 1960 y los cambios estructurales que sufrió posteriormente le condujeron a una grave crisis en los años ochenta que aún no ha superado.

PALABRAS CLAVES: *Perú, siglos XV-XX, azúcar, economía, sociedad, política, partidos, oligarquía, Estado.*

If mining (silver, copper, oil) has constituted the bedrock of Peru's economy over the long sweep of its history, sugar growing has been the other great generator of Andean wealth. This was particularly true for periods of the colonial period and, in more modern times, in the first half of the Twentieth Century when the industry reached its zenith. Indeed, during the Aristocratic Republic (1895-1930) and beyond, the political elite of the country—the so called forty families that would govern Peru for much of the century—was partially composed of several sugar planters who had come to dominate the political and economic landscape of the country's north coast. From their ranks came many important political figures, including several presidents as well as ministers, congressmen, and members of various boards of directors of important companies. And it was this constellation of power—an oligarchy or plutocracy if you will—that was targeted in 1968 by a group of military reformers bent on «de-feudalizing» Peru. They carried out the sweeping agrarian reform program that nationalized and cooperativized the sugar industry, thereby ending the longstanding preeminence of the sugar barons.

At the same time sugar planting over the centuries shaped the Peruvian social landscape in significant ways. The demographic disaster, provoked by the sixteenth century conquest of Peru that caused the collapse of the native population, opened the way for the importation of African slaves and the rise of slavery, particularly in the cultivation of sugar on the coast. There the combination of sugar and slavery created the great plantation system which became a hallmark in Peru, as it did in other parts of the Americas, if on a smaller scale than north coast Brazil or the Caribbean islands. The extensive rather than intensive nature of sugar production served to concentrate and consolidate the land tenure system (*latifundio*) which, together with its specialization as a cash crop for export, formed the economic core of colonialism and later, after independence, the monocultural dependency that Andre Gunder Frank would call «the development of underdevelopment»¹.

A more positive impact of sugar production would be its proto-industrial nature which, along with capital and entrepreneurship of the planters in the early decades of the Twentieth Century contributed to the dawn of manufacturing in the country, particularly in textiles, an early manifestation of Import Substitution Industrialization (ISI). In fact, it can be argued that the advance of the sugar industry in the early Twentieth Century promoted modernization not only in industrialization, but also in other economic sectors such banking, finance and trade². Finally, the modernizing and monopolistic character and evolution of the sugar industry along the north coast produced major socio-political dislocations that contributed to the rise of APRA (Alianza Revolucionaria Popular Americana) in the 1930s, the country's first populist mass based political party which even today continues to play an important role in Peruvian politics³.

The origins of the sugar industry go back to the latter part of the Sixteenth Century when production was first introduced in the fertile river valleys of the otherwise barren, desert-like north coast by Spanish colonists. Because of the absence of rain fall due to the effects of the cold pacific current along the coast, agriculture has always depended upon networks of irrigation that drew water from the numerous rivers carrying seasonal rain fall down from the high Andes. Agriculture flourished in these semi-tropical and sun drenched valleys, producing bountiful yields for the great pre-Colombian peoples such as the Mochica and Chimu Empires which Karl Wittfogel called «hydraulic» civilizations⁴. The Spanish colonists occupying these lands, depopulated by the demographic disaster

¹ A. GUNDER FRANK, *The Development of Underdevelopment. Capitalism and Underdevelopment in Latin American History*, New York, Monthly Review Press, 1966.

² See A. QUIROZ, *Deudas olvidadas. Instrumentos de Crédito en la Economía Colonial peruana, 1750-1820*, Lima, Pontificia Universidad Católica del Perú, 1993.

³ See P.F. KLAREN, *Modernization, Dislocation and Aprismo: Origins of the Peruvian Aprista Party, 1870-1930*, Austin, Texas Univ. Press, 1973.

⁴ K. WITTFOGUEL, *Oriental Despotism: A Comparative Study of Total Power*, London, Random House, 1981 (1^a ed. 1957).

and by Viceroy Francisco de Toledo's Indian removal and resettlement policies (*reducciones*), established haciendas to produce European food stuffs such as bread, beef, mutton, wine and sugar for the growing Spanish towns along the coast. Sugar production, unlike these other products, however, required substantial capital investment in labor for imported slaves and technology for the mills, cauldrons, tools, oxen and mules. These funds were loaned to would be planters by the church, various charities and even Indian communities at interest rates a little over seven percent. Since the crown prohibited the enslavement of the remaining Indian population on the grounds that the purpose of the conquest had been to convert them to Christianity, planters turned to the importation of slaves from Africa, the Caribbean or Northern South America⁵.

At first north coast plantations were relatively small scale, but during the Seventeenth Century their size increased (land for both planting and, equally important, for precious water rights), mostly at the expense of the remaining Indian communities. During the second half of the century plantations expanded rapidly in response to sharply rising sugar prices, doubling and even tripling their slave population. Slave labor was augmented by *mestizo* wage laborers who were indebted with cash advances in order to hold them on the estates, thereby introducing debt peonage into the region. A labor hierarchy soon emerged on the plantations whereby the more valuable, Hispanized African slaves performed the skilled operations like refining while *mestizos* and some Indians became field workers. In another feature of the north coast plantations, planters combined sugar growing with livestock raising, since the cane fields left fallow could be used as pasturage. Sugar production reached 6,180 tons between 1740 and 1794, 1,800 of which were exported to Chile, Argentina, Panama and Guayaquil, the rest supplying the domestic market⁶.

Skyrocketing prices during the second half of the Seventeenth Century led to the expansion of sugar growing to virtually all the coastal river valleys from Lambayeque in the north to Lima in the center. In the Trujillo region alone there were eighteen sugar plantations while several also appeared in the central and northern highlands, devoted mostly to *chancaca* (sugar cakes), molasses and cane alcohol. Among the most profitable and well run plantations in the country were those operated by the Jesuits (some 13), widely known for their efficiency and entrepreneurial skills⁷.

The boom in sugar production finally came to an end in the early Eighteenth Century when prices dropped precipitously due to over expansion, competition and market saturation. Peru's lucrative foreign markets in Northern South Ame-

⁵ See F.P. BOSWER, *African Slavery in Colonial Peru, 1524-1650*, Stanford, Stanford Univ. Press, 1974.

⁶ H. ROJAS SENISSE, *Peru: de exportador a importador de azucar*, Lima, IPA, 1993, p. 17.

⁷ See N.P. CUSHNER, *Lords of the Land: Sugar, Wine, and Jesuit Estates of Coastal Peru, 1600-1767*, Albany, State University of New York Press, 1980.

rica were taken over by Caribbean producers while the same occurred in the River Plate due to Brazilian contraband. Floods in the Sana and Lambayeque river valleys in 1720 and 1728 also damaged sugar growers who never completely recovered while increased taxes on agriculture by the Bourbon reformers later in the century further injured sugar producers. All of these factors combined to force many sugar plantations into debt and eventual bankruptcy and others to diversify their operations into livestock, tobacco, cotton and rice production⁸. By the end of the colonial period sugarcane cultivation, once the colony's greatest source of wealth along the coast, had largely stagnated. Annual production amounted to about 5,800 metric tons, about 70 percent of which was consumed locally⁹.

The ensuing wars for independence further damaged Peruvian sugar producers. Plantation capital equipment was lost and slaves were recruited by rebel and royalist forces alike while the slave trade, already declining in the late eighteenth century, was effectively closed off by Great Britain after 1810. In 1821 of the 41,208 slaves in Peru, about 16,500 were employed on sugar plantations.¹⁰ After the war, shortages caused sugar prices to rise five fold between 1825 and 1829, momentarily stimulating the recovery of plantations, only to fall again to depressed levels because production outpaced demand. Also the lucrative sugar market with Chile in exchange for wheat (bread), which had developed in the late Seventeenth Century after a devastating earthquake on the coast (1687), experienced numerous ups and downs during the post independence period. High post-war interest rates, which reached 24 percent, slowed recovery during the 1820s and 1830s as well¹¹.

The fortunes of the sugar industry were revived during the economic bonanza of the guano boom from the 1840s¹². While the three decade «rags to riches» story of guano was relatively short lived and squandered by a combination of mismanagement, foreign exploitation and widespread corruption, agriculture in general and sugar production in particular benefited directly or indirectly from the guano boom. For example, Peru was able to consolidate its large war-time internal debt. Many major beneficiaries of the government payoff reinvested their largesse in the purchase and modernization of languishing sugar plantations along the coast. According to Pablo Macera, during the administration of José

⁸ See S.E. RAMÍREZ, *Provincial Patriarchs: Land Tenure and the Economics of Power in Colonial Peru*, Albuquerque, New Mexico Univ. Press, 1986.

⁹ B. ALBERT, *An Essay on the Peruvian Sugar Industry, 1880-1922 and the Letters of Ronald Gordon, Administrator of the British Sugar Company in the Canete Valley, 1914-1919*, Norwich, School of Social Studies, Univ. of East Anglia, 1976, p. 2.

¹⁰ *Ibidem*, p. 3a.

¹¹ M.J. GONZÁLES, *Plantation Agriculture and Social Control in Northern Peru, 1875-1933*, Austin, Texas Univ. Press, 1985, pp. 20-1.

¹² See P. GOOTENBERG, *Between Silver and Guano: Commercial Policy and the State in Post-independence Peru*, Princintont, Princentos Univ. Press, 1989.

Rufino Echenique (1851-1854), 13 to 16 million pesos were paid out to Peruvian bond holders, half of which was reinvested in coastal agriculture¹³.

A potential blow to the industry was the emancipation of slavery declared in 1854 by Echenique's successor Ramon Castilla. He decreed that slaveholders be indemnified in the amount of 300 pesos per slave or *liberto*, a total of 7 million pesos to slaveholders in all. In anticipation of emancipation already many slave holders had lobbied the government to approve the importation of indentured servants from China. Between 1839 and 1851 the government paid out 450,000 pesos in premiums to planters to begin to liberate their slaves¹⁴. In their place 90,000 Chinese coolies were shipped to Peru between 1849 and 1874 as indentured servants, mainly from Southern China through the port of Macao¹⁵. This was part of a larger process of out-migration from China which saw over a million Chinese emigrate abroad, the consequence of famine, rebellion (Taiping) and war (Opium) that left millions homeless. Many came to the Americas as indentures—Cuba, Mexico, Peru, United States— where they built railroads, dug guano and labored in sugar and other agricultural enterprises. In Peru they replaced the 25,505 slaves emancipated and were an indication of the growth and prosperity of the sugar industry in the 1850s and 60s¹⁶.

The industry also benefited in other ways from the Guano boom, which enriched government coffers by millions of pesos. Interest rates fell by half to a level of 12 percent by 1854, lowering the cost of loans to planters for modernization and expansion of production. In addition the introduction of steam power helped open up international markets and lower transaction costs for Peruvian sugar, while the mining industry had yet to flourish, leaving sugar as the most attractive investment alternative for profits acquired from guano. Finally, the opening of the British market to foreign sugar served to stimulate demand and prices rose accordingly on average 4 percent annually during the 1860s and 1870s. The upshot of easier credit, reinvestment of guano profits, technological innovations, rising prices and an adequate supply of cheap labor was in an enormous increase in exports from 3,431 tons in 1867 to 83,497 tons in 1879¹⁷.

Tied as it was to the fortunes of the guano boom and rising foreign demand, the revival of the sugar industry during the middle decades of the century, like the economy in general, suffered a sharp reversal with the end of the boom in the early 1870s, the impact of the world wide depression of 1873 and then the disastrous consequences of the War of the Pacific (1879-1883). A finite and depleting

¹³ See P. MACERA, «Las plantaciones azucareras Andinas (1821-1875)», *Trabajos de historia* (4 vols.), Lima, Instituto Nacional de Cultura, 1977, vol. IV.

¹⁴ M.J. GONZÁLES [11], p. 22.

¹⁵ See H. RODRIGUEZ PASTOR, *Hijos del celeste imperio en el Perú (1850-1900): migración, agricultura, mentalidad y explotación*, Lima, Instituto de Apoyo Agrario, 1989.

¹⁶ See M.J. GONZÁLES [11].

¹⁷ B. ALBERT [9], p. 12.

asset, guano reserves finally ran out in the early seventies. In addition in 1874 the Chinese coolie trade, which had subjected workers to widespread exploitation and abuse, was finally ended due to pressure from Great Britain, China and the United States. A year later a severe financial crisis struck Peru as a result of the international repercussions of the Panic of 1873 as well as the collapse of the guano trade. Bank notes were declared inconvertible, banks began to call in their loans and many failed. The deepening financial crisis contributed to the toppling in 1876 of Peru's first fledgling civilian party (Partido Civilista) and government (Manuel Pardo y Lavalle 1872-1876) since Independence, which had been spurred by with the guano bourgeoisie's opposition to military rule. Shortly thereafter Peru (with Bolivia) went to war against Chile over a border dispute and suffered a devastating loss that set the country back both economically and politically to the anarchic years following independence. Exports dropped by more the 50 percent between 1879 and 1881. Tragically, Peru's chance for a great economic leap forward lay in ashes.

The war crippled the sugar industry, but as is often the case in times of crisis, opportunities abounded for those capable of taking advantage of the situation. This proved the case for an entrepreneurial group of growers, some of immigrant origins and others Peruvian nationals, who had entered the industry during the guano boom. Backed by foreign merchant houses with loans and marketing arrangements, they spearheaded a wave of concentration and consolidation in the industry, buying out their weaker, often bankrupt competitors, reorganizing production into larger economies of scale and generally modernizing their operations between 1885 and 1930. The war, however, was not the only cause for the amalgamation of the Peruvian sugar industry nor was it unique to Peru, as Bill Albert has shown. It was also due to relatively low prices on the international market which forced producers everywhere to improve productivity through better milling, fabrication and cultivation techniques, including further economies of scale¹⁸.

The consequences of the post-war revival and advance of the sugar industry during this period were manifold. For one thing, the industry became increasingly concentrated along the north coast. Even by the end of the first phase of sugar expansion during the middle decades of the century 65 percent of sugar exports came from this region. Still, the central coastal valleys (departments of Ancash and Lima) continued to account for more than half of the sugar consumed domestically. Over time, however, cotton came to replace sugar as the dominant crop along the central coast by World War I, even if sugar still remained important. One reason for the shift to the north was the ability of planters there to operate on a year-round basis due to the unique ecological conditions there, a fact that gave Peru a competitive edge in the late Nineteenth Century over Cuba and other sugar producing areas with seasonal limitations to the growing and harvesting of cane.

¹⁸ *Ibidem*, pp. 61-4.

As the industry shifted north and began to take on the characteristics of an enclave economy, the growing power of the region's planters was increasingly reflected in the reemergence of the Partido Civilista which succeeded in consolidating its control over the state between 1900 and 1919. During this period, known as the Aristocratic Republic, two sugar planters were elected president for a total of twelve years (Eduardo López de la Romaña, 1899-1903 and José Pardo y Barreda, 1904-1908, 1915-1919). In addition several others became ministers of state, members of congress, bank board of directors and members of other powerful organizations such as the Sociedad Nacional Agraria (SNA), the lobbying group for big landowners and agriculture in the country founded in 1896.

During the 1890s Peru experienced considerable economic expansion which included industrial development, the reestablishment of banking, the formation of insurance companies, a new stock exchange and public utilities¹⁹. The sugar industry participated in this progress, even though world prices were relatively low and labor shortages a continuing problem. Forced to improve productivity to stay competitive on the world market, planters mobilized capital (both domestic and foreign), began to recruit a domestic wage labor force, consolidated landholdings and constructed larger, more modern *ingenios*. For example, the Gildemeister operations in the Chicama Valley near the city of Trujillo grew in size from less than a thousand hectares in 1850 to almost 41,000 in 1927. There was also a sharp decline in the number of *ingenios* which fell from 62 in 1895 to 38 by 1913 while average annual production per sugar mill rose from 1,171 to 4,720 tons²⁰. At the same time, plantations modernized operations through technological development and innovation including larger processing mills, steam-powered tractors, railroads and modern port facilities.

In some ways labor was the most difficult problem confronting planters after the Pacific War. Labor recruitment, which had always been in short supply on the coast and had necessitated the importation first of Chinese coolies (and some experiments with Japanese indentures around 1900), was finally resolved after the war with the recruitment of Indian peasants from the sierra. Gradually a free wage labor system replaced indenture, as capitalist relations of production expanded²¹. At first, peasants had been reluctant to leave their small mountain plots for work on the hot coast where they were susceptible to tropical diseases like yellow fever. However, as the highland population began to grow rapidly in the late Nineteenth Century, increasing man-land ratios forced many highlanders to seek migratory, wage work on the coastal plantations. Planters used a variety of

¹⁹ See R. THORP and G. BERTRAM, *Peru 1890-1977: Growth and Policy in an Open Economy*, New York, Columbia Univ. Press, 1978.

²⁰ B. ALBERT [9], p. 110.

²¹ See C.D. SCOTT, «The Decline of an Export Industry, or the Growth of Peruvian Sugar Consumption in the Long Run», *The Journal of Developing Studies*, 21/2, London, 1985, pp. 253-81, and B. ALBERT [9].

techniques to tap this growing reserve of seasonal surplus labor, some of which were coercive in nature such as *enganche* —a form of debt entrapment through cash advances—. Although much denounced by a generation of *indigenista* (pro Indian) reformers during the 1910s and 1920s and later the subject of a lively debate in the historical literature, it appears that labor recruitment was essentially «voluntary,» relying more on material incentives than coercion²².

In time many migrants actually took up residence on the plantations with their families, creating a permanent work force in the sugar industry which was subjected to the exploitation characteristic of early capitalist work regimes in the Americas. Over time harsh conditions, mitigated to some extent by planter paternalism, led to collective labor agitation for better wages and working conditions. On several occasions worker protests erupted in to violent strikes that rocked, for example, the Chicama Valley outside Trujillo in 1912, 1921 and 1931. Eventually labor unions were established under the leadership first of Anarchists and later the APRA party, founded in 1923 by Trujillo native Victor Raul Haya de la Torre²³.

World War I proved a boon to Peruvian sugar growers as European production of beet sugar, a major competitor to Peruvian sugar in metropolitan markets, declined sharply, pushing up demand and prices. Sugar remained extremely profitable for exporters in Peru throughout the war, as global production dropped steadily from almost 17 million tons in 1913-1914 to a little more than 12 million tons in 1919-1920. The industry was particularly well positioned to exploit this market opportunity since it had made substantial investments in the industry after 1908. Moreover, the opening of the Panama Canal greatly reduced the distance and therefore transportation costs between Peru and the United States and Europe. Peruvian growers took advantage of the opportunity by expanding acreage devoted to sugar 23 percent between 1913 and 1919 while increasing their labor force from almost 21,000 to a little over 26,000 during the same period²⁴. The down side of the sugar bonanza was an increasing scarcity and rising prices for domestic food stuffs, as land along the coast was converted from combustibles to sugar cane.

This expansion came at the expense of small holders (*agricultores*) and the few remaining Indian communities in the region whose increasingly valuable lands were coveted by plantations' insatiable demand for land, water and labor. A similar process of dislocation and proletarianization can be found in other countries such as Cuba and Mexico which led to explosive political protest and even revolution. This was the case, for example, in Mexico towards the end of the Porfiriato (1876-1910) when peasant leader Emiliano Zapata rose up in defense of *ejidos*

²² See A.J. BAUER, «Rural Workers in Spanish America: Problems of Peonage and Oppression», *Hispanic American Historical Review*, 59/1, Durham, 1979, pp. 34-64; B. ALBERT [9], and M.J. GONZÁLES [11].

²³ See P.F. KLAREN, *Las haciendas azucareras y los orígenes del APRA*, Lima, Instituto de Estudios Peruanos, 1972.

²⁴ B. ALBERT [9], p. 127.

that had been stolen or otherwise acquired by the unrestrained expansion of sugar estates in the state of Morelos²⁵. Enclosure and labor agitation combined with merchant distress at unfair competition from the plantation bazaar at Casa Grande from goods imported through a nearby duty free port concession granted to the Gildemeister interests by Congress in 1917 fueled widespread popular resentment in the region which would have important political consequences during the Great Depression²⁶.

The steady rise in sugar prices during the war reached a climax in the so called «dance of the millions» in 1919-1920 when, in the words of Sidney W. Mintz,

«The world market price of sugar rose to dizzying heights, then dropped almost to zero, in a classical demonstration of oversupply and speculation»²⁷.

In Peru, exports of sugar doubled between 1918 and 1919 and by another 87 percent the following year, reaching a value of over 15 million of *soles* which almost equaled in one year the total value of sugar exports for the entire period of the war! Growers reaped enormous profits from this bonanza such the Aspillaga operations at Cayalti which skyrocketed from an average of LP 90,000 between 1914 to 1917 to over 222,000 in 1919²⁸. Boom quickly went bust, however, as post war European beet sugar production recovered, increasing supplies on the world market and causing the price of sugar to plummet from the middle of 1920.

Worsening the situation in Peru, growers had invested heavily in increased capacity, assuming incorrectly that the high post-war price of sugar would continue into the 1920s. In the event, the opposite happened, presaging the onset of the Great Depression. In an effort to reduce costs, sugar growers let workers go and lowered wages (after having raised them 33 percent in the late war years) in a general economic environment of rising post-war inflation, causing labor protests that exploded into major strikes and violence in the Chicama Valley in 1921. Moreover, serious flooding along the north coast in 1926-1927 further harmed the industry which would shortly face the full impact of the collapse of commodity prices with the onset of the Great Depression in 1930.

Peru in general and the sugar industry in particular were hit hard by the depression of the 1930s. The country defaulted on its foreign debt in 1932, devaluing the currency, which did serve to promote a rebound in the export sector beginning in 1933, led by cotton. However, Peruvian sugar exporters lost access to British and United States markets as a result of preferential tariffs established

²⁵ See J. WOMACK, *Zapata and the Mexican Revolution*, New York, Vintage, 1971.

²⁶ See P.F. KLAREN [3].

²⁷ S.W. MINTZ, *Sweetness and Power: The Place of Sugar in Modern History*, New York, Penguin, 1985, p. xx.

²⁸ B. ALBERT [9], p. 200.

in the British Empire and with Cuba in 1934, respectively. Producers did succeed in lobbying the government to pass a law exempting the industry from taxes in 1934, but world sugar prices continued to decline steadily until 1937. This led many growers, particularly in the central and southern coast to switch to cotton cultivation, aided by government credits beginning in 1934. In general, sugar cultivation declined 10 percent and virtually disappeared from the valleys around the Lima market whose suppliers now shifted to Lambayeque in the north²⁹.

Politically, the onset of the depression caused the fall of the Augusto B. Leguía government whose eleven year reign known as the *Oncenio* (1919-1930) was ended by a coup in 1931. A period of extreme political polarization and instability followed, as elections that year for the first time ushered the urban masses into the political arena with the rise of the populist APRA party whose main base of support came from the sugar enclaves of the north coast. The party's attraction there was due in part to the fact that the party leader and founder Haya de la Torre came from Trujillo. But it can also be explained by the rise of the new sugar proletariat and dislocation of the old middle class of small holders and merchants who responded to the nationalist appeals of APRA whose leaders railed against the foreign control of the export dependent Peruvian economy that had collapsed into depression and mass unemployment. Anti-imperialism struck a cord particularly in and around Trujillo where foreign sugar companies (Grace and Gilde-meister) had consolidated the land tenure system into sugar production between 1870 and the 1930s. By the end of that decade there were only three large estates milling their own sugar, controlled by these two firms.

The impact of the depression further deepened the appeal of populism and nationalism throughout the urban, modernized sectors of the country (coast and export enclaves) while polarizing relations between capital and labor³⁰. After the narrow defeat of APRA candidate, Haya de la Torre, in the 1931 elections by the popular leader of the coup against the Leguía dictatorship, Luis M. Sanchez Cerro, a rebellion broke out among Aprista supporters in Trujillo, led by sugar workers who claimed that the election had been fraudulent. Thousands of party militants died in the army led repression that followed, partially in reprisal for the execution of several captured army officers by the rebels. While APRA was forced underground for the next decade, relations between the armed forces (and the oligarchy) and the party were hostile for a generation or longer. Not until the end of World War II (1945) was the party allowed to participate in the governing coalition of the popularly elected, reformist government of José Luis Bustamante y Rivero (1945-1948)³¹.

²⁹ R. THORP and G. BERTRAM [19], pp. 170-3.

³⁰ See S. STEIN, *Populism in Peru: The Emergence of the Masses and the Politics of Social Control*, Madison, Wisconsin Univ. Press, 1980.

³¹ See D.M. MASTERSON, *Militarism and Politics in Latin America: Peru from Sanchez Cerro to Sendero Luminoso*, New York, Greenwood Press, 1991.

The Trujillo Revolution of 1932 in the heart of the sugar zone may be compared to the Zapatista revolt in the Mexican Revolution of 1910 and the social unrest in Cuba that led to the downfall of the Machado dictatorship (1928-1933) in the populist revolution of 1933. In both instances, the rebellions drew on some of the same popular forces that were born from similar social dislocations brought on by the expansion of the sugar leviathan of the early Twentieth Century.

The Second World War dramatically improved the fortunes of the sugar industry. Improved prices, partly the result of the International Sugar Agreement of 1937 and higher yields due to the spread of a new cane variety, actually predated the war. Market oversupply of the 1930s was now replaced by shortage and a sellers market for Peruvian sugar. Not only did the traditional British, Chilean and United States market for Peru's sugar improve, but other non-traditional markets in Latin America opened up. Despite this upturn in the fortunes of sugar exports during the war, it did not match the World War I boom. Volume did not grow in spite of improved prices because of various local constraints, including wartime shortages of machinery and other inputs as well as government price controls on domestic consumption that inhibited investment and modernization. At the same time, the industry was subjected to sharp increases in taxation and government regulations aimed at protecting land devoted to food production (not subject conversion to sugar or cotton for exports)³².

During the Bustamante y Rivero government (1945-1948), which ushered in a brief period of populist democratic reform, unions under the control of APRA (Federacion de Trabajadores Azucareros del Peru) once again appeared on the sugar estates after being outlawed for more than a decade. As a result, conflict between labor-capital intensified in the immediate post-war years, and it would not be until the early 1960s that unionization would be institutionalized, as APRA slowly gained a measure of political power, particularly after its *Convivencia* negotiated with the Manuel Prado y Ubarteche government (1956-1962).

During the early 1950s production began to soar again, due to increased investment, rising yields and increasing prices due to the Korean War (1950-1953). However, the end of the war brought lower prices, although growers continued to expand acreage as during World War I in anticipation of higher prices. The Manuel A. Odria government (1948-1958) undertook to expand irrigation projects begun during the Leguia years, with most of the new lands devoted to either cotton or sugar production, especially in Lambayeque. By this time a major new factor in the equation of sugar production and exports was the rapid growth of the domestic market (7-8 percent annually) in the late 1950s which caused the level of exports (and foreign exchange) to decline steadily. Sugar exports declined from a high of 87 percent in the 1930s to 30 percent in the 1970s and 10 percent in the 1990s. The one bright spot for exports occurred as a result of the opening

³² R. THORP and G. BERTRAM [19], pp. 172-3.

of the American market to Peruvian sugar after the Cuban Revolution of 1959 when Cuba's quota was revoked by the United States Congress. At the same time, the relatively high price of sugar in the North American market (roughly three times higher than the world market) was crucial to maintaining profitability in the Peruvian sugar industry. Another important trend in the industry since the 1940s was the increase in mechanization of the industry which lowered costs, but at the expense of displacing workers.

The Peruvian Revolution of 1968 transformed the sugar industry in a major way. Taking power by way of a coup led by General Juan Velasco Alvarado, the armed forces aimed to undertake radical reforms to restructure the country. Repeating the words of the eighteenth century Indian rebel Tupac Amaru II, «Peasant, the landlord will eat no more from your poverty», Velasco y Alvarado dramatically announced on June 24, 1969 (Peru's national day of the Indian) a sweeping agrarian reform decree. More extensive than any other in Latin America since the Cuban Revolution of 1959, the reform began by expropriating the eight largest sugar plantations on the coast and converting them into cooperatives.

Compensation to the former owners was based upon the landowners' declared valuation of their holdings for tax purposes, thereby punishing the widespread practice of tax evasion. For example, the Grace Corporation valued their two estates at \$26 million while the government appraisal was \$10.1. Compensation was mainly in the form of Agrarian Reform bonds issued at a 4-6 percent rate of interest over twenty to thirty years. However, to incentive the transfer of capital from agriculture to industry (another expressed goal of the revolution), the bonds could be converted to cash invested into government approved industrial projects (along with an additional 50 percent cash outlay by the bondholder). Most owners, including Grace, considered the compensation bonds worthless, given the anticipated level of inflation over time. In the case of Grace (and other expropriated enterprises like the International Petroleum Company or IPC), this set the stage for a conflict between the United States and the Peruvian government which, among other things, led to a lowering of the sugar quota by the United States Congress in retaliation.

In addition to promoting the diversification of the economy away from agriculture into industrial development, the new government hoped to strike a mortal blow against the powerful landed elite and its foreign allies, whose core consisted of the sugar barons of the coast. It was also aimed at the APRA party which had been the avowed enemy of the military ever since the Trujillo Revolution of 1932. Indeed, one of the reasons for the coup had been the prospect that Haya de la Torre would win the presidency in the elections scheduled for 1969.

Since World War II APRA had been reluctant to institute an agrarian reform that would effect the sugar plantations where it controlled 75 percent of the union workers and derived its major block of voters (the so called «*solido norte Aprista*»). In fact, the party had entered into an alliance with Conservative forces in the so-called

Convivencia pact of 1956, to block any proposed agrarian reform legislation that might effect the sugar plantations. APRA leaders argued that such a move would jeopardize the high productivity of these estates where workers—their political clients—were among the highest paid agricultural laborers in the country.

Politically, the expropriation had mixed results for the Velasco Alvarado government. It did deal a crippling blow to the landed elites, particular since the reform was extended to the entire country, overturning centuries of hacendado power. On the other hand, APRA continued to exercise influence in the sugar unions whose leaders assumed positions in the new cooperatives, including the National Center of Sugar Cooperatives. This occurred because APRA pressured the government to allow the newly formed cooperatives to elect their own leaders³³.

Agrarian Production Cooperatives (CAP) were established on the expropriated haciendas, each collectively owned by the membership largely composed of the pre-Reform permanent labor force. The government appointed administrators who were subject to oversight by policy-making councils composed of CAP members, the majority of whom at first were also appointed by the government. Various conflicts within the new sugar enterprises emerged almost immediately. For example, cooperative members complained that the new government appointed managers who were basically state bureaucrats lacking managerial, entrepreneurial or marketing experience, often acted in high handed, abusive ways similar to the former owners and managers whom they had replaced. In response, they organized strikes to force the government in 1972 to give unions a voice in management and to permit elections for all council seats.

Another source of conflict was the place of casual laborers, nearby small holders and tenants as well as landless migrants from the highlands who worked on a seasonal, part time basis on the former estates and who were left out of the reform by their exclusion from membership in the CAP. This created a dual labor system of privileged permanent workers who enjoyed year-round jobs security and received higher wages (which they themselves set) and generous fringe benefits (housing, food rations etc) and an essentially second class group of casual laborers who received lower wages, less benefits and no share of the enterprises' profits. The former not only resisted the admission of outsiders into the CAP but supported investment in labor saving machinery that would reduce the seasonal work force. Such inequities led to land invasions by the *eventuales* onto lands owned by the cooperatives, resulting in outbreaks of violence³⁴.

Government policy proved another obstacle to the reformed industry. Because the government between 1971-1975 controlled the price and the amount of sugar produced internally, which now amounted to 90 percent of domestic pro-

³³ C. GRAHAM, *Peru's APRA: Parties, Politics, and the Elusive Quest for Democracy*, Boulder, Lynne Rienner, 1992, pp. 41-2.

³⁴ See D.P. WERLICH, *Peru: A Short History*, Carbondale, Southern Illinois Univ. Press, 1978.

duction, with the residual 10 percent left to export, the industry was unable to benefit from higher international prices in 1974-1975. As a result, sugar CAP had negative profits for the period 1976-1980 when average gross profits could have been 130 percent higher³⁵.

Moreover, higher taxes levied by the government sharply increased the fiscal burden on sugar CAP. For example, taxes paid by these CAP between 1971 and 1975 fluctuated between 24.2 percent (1972) and 72.6 (1975) of their gross profits. One estimate had them paying at a rate of seven times that of agrarian reform enterprises in the highlands and upper jungle. Finally, managerial authority was severely weakened as a result of the reforms with serious negative consequences for labor discipline and productivity. For example, incentives for CAP members were not correlated to effort or efficiency which made little difference in individual or family income³⁶. Indeed, CAP often voted their members rapid increases in monetary wages that were unrelated to profits or productivity, expanded employment on the cooperatives (to their relatives and kin) and devoted more of their work day to their own personal plots on the estates, thereby reducing the number of hours laboring for the enterprise. Finally, corruption became a serious problem, both at the managerial level and among workers who appropriated tools, fertilizer and other items from the coops for their own use³⁷.

As a result of these and other difficulties, the sugar industry recorded an overall loss of \$17 million in 1976, severely weakening the financial condition of many cooperatives. By March 1977, conditions had deteriorated to the point that the government declared the sugar industry in a state of emergency. Two years later, after serious droughts in 1976 and 1978-1980, six cooperatives declared bankruptcy, and in 1980 the government for the first time in history was obliged to import sugar for domestic consumption. Thus, five years after the price of sugar reached its highest level on the world market in 1974, the industry was plunged into a crisis comparable to those experienced in the 1920s and 1930s³⁸.

The industry continued to decline in the 1980s and 1990s when successive civilian regimes (Fernando Belaunde, 1980-1985, Alan García Pérez, 1985-1990, and Alberto Fujimori, 1990-2000) replaced the armed forces in the national government. For example, overall production dropped in 1990 to half the one million tons produced in the bannere year 1974 while the cooperatives had accumulated a debt of over \$100 million by 1987. In a relatively short time Peru had

³⁵ M.E. CARTER and E. ÁLVAREZ, «Changing Paths: The Decollectivization of Agrarian Reform Agriculture in Coastal Peru», W.C. THIESENHUSEN (ed.), *Searching for Agrarian Reform in Latin America*, Boston, Unwin Hyman, 1989, pp. 168-9.

³⁶ J. SHEAHAN, *Searching for a Better Society: The Peruvian Economy from 1950*, University Park, Pennsylvania State Univ. Press, 1999, p. 64.

³⁷ See J.M. MEJÍA, *Cooperativas azucareras: crisis y alternativas*, Lima, Instituto de Estudios Peruanos, 1992.

³⁸ C.D. SCOTT [21], p. 260.

gone from an exporter to an importer of sugar with the attendant loss in foreign exchange while workers suffered parallel losses in wages, benefits and overall standard of living. Similarly, a vast contingent of under employed, temporary workers had grown up in newly constituted *pueblos juvenes* or shanty towns at the margins of the sugar estates, constituting yet another dimension of the enormous crisis buffeting the industry³⁹.

In conclusion, the 1969 agrarian reform and subsequent shift from a capitalist to a state-led cooperativist model of organization represented a transformative event in the evolution of Peru's sugar industry. Up until then the industry had been characterized by a number of features: dependency on the external market, decapitalization—rather than reinvestment—of profits to other sectors of the economy, a regional hegemony of the 12 or so sugar companies that dominated the industry, a protectionist state under the influence of the powerful sugar barons and an unstable ecological environment (droughts, floods etc) that required a large margin of safety on the part of each enterprise. During this period, the industry constituted a major, if declining, share of the country's exports and concomitant contributor to its balance of payments. This position was steadily eroded by the expansion of the internal market which consumed an ever increasing portion of national production, reaching 90 percent by the time of the 1969 agrarian reform⁴⁰.

Thereafter, the subsequent radical shift to a cooperativist model transformed the state from a protector (*Estado protector*) to a patron of the industry (*Estado patrón*). There is a considerable debate in the literature over whether the state directed cooperativist model has been the primary cause of the industry's decline over the last twenty five years or, as José Manuel Mejía argues, the result of a major structural crisis that requires major changes from the past.⁴¹ With the return to civilian government since 1980 there have been various proposals to reform the cooperativist model, ranging from privatization and parcelization (decollectivization) under Belaunde's policies of neo-liberalism and return to the free market to various proposals to reform, reactivate and revitalize the cooperative structure of the industry under the populist administration of García Pérez. None of these efforts, all of them distinct in their approach and governing philosophy, however, nor further liberalization under Fujimori in the nineties, bore fruit and were subsequently abandoned. Today the industry continues in a state of crisis with little prospect of returning to its former heyday as a relatively efficient, prosperous industry that at one time served as a major foreign exchange and capital accumulator in the Peruvian economy, albeit with a history of market export dependency, labor exploitation and monopolistic characteristics that concentrated wealth and power in a very few hands.

³⁹ J.M. MEJÍA [37], pp. 46-8.

⁴⁰ *Ibidem*, pp. 53-7.

⁴¹ *Ibidem*, p. 57.

Since the early Colonial times sugar production has been a key sector in the Peruvian export economy. This article analyzes its evolution as from the beginning of its modern phase by mid 19th Century, its consolidation in the Northern coastal region, and its concentration in scale-economy plants. The prosperity of this type of production contributed to the formation of both an oligarchy which governed the country until 1968, and the populist party (APRA) and its electoral basis (the so-called «Aprista North»). In the sixties Velasco Alvarado's military revolution nationalized the sugar industry, which underwent structural changes leading to a serious crisis in the eighties that has not been overcome up-to-date.

Key words: Peru, 16th-20th Centuries, sugar, economy, society, politic, parties, oligarchy, state.
