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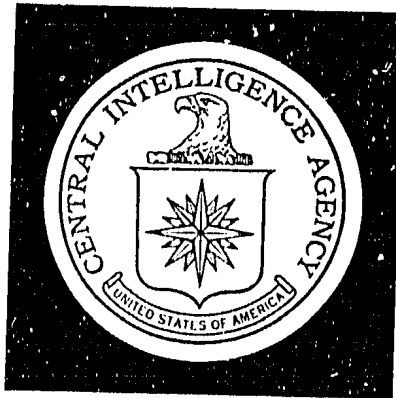
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TOWARD A MILITARY GOVERNMENT IN PERU
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SPECIAL MEMORANDUM

TOWARD A MILITARY GOVERNMENT IN PERU?

Secret

28 October 1967
No. 8-67

CENTRAL INTELLIGENCE AGENCY

OFFICE OF NATIONAL ESTIMATES

28 October 1967

SPECIAL MEMORANDUM NO. 8-67

SUBJECT: Toward a Military Government in Peru?*

SUMMARY

The Belaúnde administration, long considered one of the model governments in Latin America, has come upon difficult times. During the past few months, it has been faced with a legislative crisis, a growing inflation, signs of unrest in several towns, acute budgetary and balance of payments problems, and the need to acquiesce in a devaluation of the sol. In view of his weakened political base and growing economic troubles, Belaúnde obviously feels that he must give high priority to maintaining good relations with Peru's military leaders. This, in addition to his own conviction that Peru must now begin to replace its antiquated military holdings, lies behind the arrangement for purchase of supersonic Mirage 5 aircraft from France -- and behind Belaúnde's refusal to abrogate it.

* This memorandum was produced solely by CIA. It was prepared by the Office of National Estimates, coordinated with the Office of Economic Research and discussed with the Office of Current Intelligence.

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Belaúnde's relationship with the US has already come under strain; the emergence of a new irritant in the long-standing dispute between the Peruvian government and the US-owned International Petroleum Company is adding to this strain; and relations will worsen further if the US Government proceeds with a major cut in economic aid.

We see some danger that Belaúnde might be overthrown within the next few weeks, and we believe that the chances of a military take-over will subsequently increase. Whether or not the government of Peru comes under the acknowledged control of the military establishment, its policy is likely to include two of that establishment's firm resolves: (1) to carry out its program of modernization -- i.e. procurement of advanced military equipment abroad -- impervious to argument, pressure or reprisal, and (2) to maintain public order no matter what disgruntlement the country's economic troubles produce.

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1. Time was when Peruvian military leaders needed little or no pretext to intervene politically. In fact, during Peru's century and a half of independence, three-fifths of the presidents have been military men or men of recent military background. Only since World War II has there been a significant change of attitude among military men -- change which involves a growing respect for constitutional procedures, for civilian rule, for social progress. The last military seizure of power -- in 1962 -- was designed to prevent the election to the presidency of Víctor Raúl Haya de la Torre, who did not receive enough votes to be elected outright, but who would have gained control of the Executive if Congress had been allowed to choose. Most of the military leaders honestly thought Haya's program would be a calamity for the country as well as for their interests. They sanctioned new elections for the following year, and, with their blessing, a fragile party coalition, and a smattering of Communist support, Fernando Belaúnde Terry won some 39 percent of the vote and a six-year term as president.

2. Under the Peruvian constitution, a plurality of more than one-third of the popular vote suffices to elect the President. Belaúnde has been a minority president from the beginning, and

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some two-thirds of the members of Congress belong to the two parties whose leaders he defeated in 1963: the Apristas (Haya de la Torre's American Popular Revolutionary Alliance -- APRA) and the Odriístas (the party of the former president and dictator Manuel Odria -- National Union of Odriístas -- UNO). When Belaúnde won, the populist APRA and the conservative UNO formed an opposition coalition which was none too constructive in the beginning and has become more and more obstructive over time. The government coalition of Belaúnde's Popular Action Party (AP) and the small Christian Democratic Party (PDC) is far less powerful. Belaúnde has managed to put through the Congress a number of bills in keeping with his moderate reform program, but the cumulative effect of trying to deal with the opposition majority has caused him increasing frustration and brought him close to despair.

3. Belaúnde's program of reform and development has tended to be over-ambitious in terms of Peru's financial resources, but clearly responsive to some of Peru's most urgent needs. In pressing it, he has posed a challenge to strongly entrenched economic interests. Despite the repeated opposition and interference from Congress, his administration managed to accomplish

a good deal. Yet all along Belaúnde has had much more success in expanding the spending side of the budget than in expanding revenues. This is but one of the practical difficulties which are now catching up with him.

The Pattern of Economic Strains

4. The Peruvian economy was booming when Belaúnde came to power and the boom continued until 1966. During 1961-1966 Peruvian gross national product increased at an average annual rate of over 6 percent, the highest in South America. Rapid economic growth was based on a rapid expansion of exports, especially of fishmeal and copper, each of which now accounts for about one-quarter of Peruvian exports. Since 1963, however, production in these fields has stagnated, and the increase in export earnings came from the favorable prices which prevailed until the latter part of 1966. The Belaúnde government used much of these earnings for economic development, government investment in infrastructure rose rapidly, and there was also substantial private investment, both domestic and foreign. With these investments Peru took considerable strides in modernization and developed new export and import replacement industries. The economic advance, however, was rapid enough to cause growing strain. Imports grew faster than exports

-- imports more than 100 percent between 1960-1966, exports about 75 percent. With incomes rising and population growing some 3.5 percent a year, consumer demand rose faster than the supply of goods available and prices increased steadily, although inflation was kept under control. The lack of responsiveness of food production, a result of both physical and institutional limitations, was one cause of the inflation. The increasing government budget deficit was another. The inflation, coupled with a fixed foreign exchange rate, slowly eroded Peru's competitive position in the world market. Growing trade deficits were covered thanks to rising assistance from the US which reached large proportions in 1965-1966.

5. Peru's economic boom came to an end as a result of a sharp decline in the world market prices of fishmeal and copper in late 1966. As the trade deficit continued to grow, capital flight reached a high level in anticipation of a devaluation, and official reserves declined in spite of emergency assistance from foreign banks and the IMF. Devaluation was undertaken on 1 September. With its foreign exchange earnings reduced and its foreign indebtedness increased, Peru has had to curtail imports. In turn this has forced a decline in consumption and investment.

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Devaluation, by raising import prices sharply, also brought a cut in real wages and a lessening of public confidence in the government. Demands by the military both for modern weapons and for a balanced budget will require a cutback in Belaúnde's development program -- and this will add to unemployment. Thus the economic problems are creating multiple political strains.

6. Moreover, these problems will almost certainly persist for some time. At best, imports will have to be held down for a year or so. If the US cuts its aid to Peru, imports will fall further and the effect on the economy will be severe. If the government balances the budget, many Peruvians will be hurt either by growing unemployment or by increased taxes. If, on the other hand, large deficit spending continues, real incomes will be further eroded by inflation. In any case, the conflicts of interest between consumers, investors, and the military are bound to become increasingly acute during the next year or so. The devaluation will probably have the effect of stimulating exports, especially of fishmeal, and over time a broader economic recovery seems likely. But economic growth is unlikely to be nearly as rapid as in the first half of the 1960's. This will be the case whether or not the military comes to power. The speed of the recovery, and the subsequent growth of the economy will, moreover, be

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influenced by US actions affecting the level of official aid, as well as by the degree of confidence of foreign private investors in the Peruvian government.*

Politics -- More Than Usual

7. Since the election of 1963 there has been a splintering tendency within each of the major political parties and coalitions. Belaúnde's support has become less cohesive, and the APRA-UNO coalition, which was willing to go along with a limited social reform program early in the Belaúnde administration, has become increasingly obstreperous. Thus, in July 1967, Belaúnde tried a show of strength to bring the Congress more under his control. After his supporters were declared losers in the election of new Senate leadership, he ordered the members of the AP-PDC alliance to boycott the session until the Senate President-elect, Julio de la Piedra (UNO), agreed not to serve. The boycott prevented a quorum for 39 days, and encouraged in the public a growing lack of confidence in both the legislative and executive branches

* One unsettling factor here could be the emergence of a new irritant in the long-standing dispute between the Belaúnde government and the US-owned International Petroleum Company. The new matter of disagreement concerns prices the company may charge, post-devaluation.

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of government, as evidenced by an increased drain on Peru's foreign exchange reserves. Three days before the legislative crisis was ended, with foreign exchange reserves nearly exhausted, the Central Bank withdrew its support of the Peruvian sol, allowing it to seek its own value in open trading.

8. Throughout the legislative crisis Belaúnde publicly took the stance of a disinterested executive

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It is not clear

whether he took any action to resolve the problem other than to encourage rumors that there would be a military coup if the legislature did not convene. These rumors gained impetus when the long-expected devaluation took place. They undoubtedly had some impact, and new Senate leadership, which included AP-PDC representation, was chosen.

9. In spite of his success in preventing a legislative quorum, there was to be no clear victory for Belaúnde. To avoid legislative censure over the de facto devaluation and the proposed unbalanced budget for 1968, his cabinet resigned. Belaúnde then appointed Edgardo Seoane Corrales, who is his chief rival within his own party alliance and a presidential aspirant for

1969, to be prime minister and foreign minister of the new cabinet. This was a maneuver to maintain the AP-PDC alliance while exposing Seoane to a share of the difficulties and criticisms which the government is sure to experience in coming months. The new cabinet already includes strong military figures, at least one of whom asserts that Seoane's tenure will be brief.

10. However that may be, the new cabinet has emphasized the need for new taxes and stricter collection of revenue as the necessary means to finance government expenditures and promote fiscal stability. The APRA-UNO opposition, although more conciliatory on this issue than before the legislative crisis, would much prefer to cut spending. Business interests, too, are opposed to additional taxation; indeed for a brief period in September, Peruvian exporters actually refused to export their products and thus forced Belaúnde to withdraw his proposal for a tax on such windfall profits as they would gain from the devaluation. Belaúnde's effort to improve the overall political climate by means of occasional meetings with the top opposition figures, Odria and Haya de la Torre, does not seem likely to gain him much -- at least not in the short run.

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Present Military Attitudes

11. The composition of the Peruvian military establishment has been changing markedly. Increasingly it has become a vehicle by which members of the lower-middle class can advance socially. More and more cadets in the service academies come from the lower-middle class and from the families of laborers and peasants. It should also be noted, however, that views of the wealthy class are still strongly represented in the command structure, particularly by some naval and air force officers. In addition, there are, of course, military officers who have personal political ambitions.

12. More enlightened in many ways than it used to be, the military remains determined that no government which would substantially diminish its role can be allowed to come to power. It is in this context that the military has felt compelled to keep the presidency from the control of Haya de la Torre. While APRA in general is remembered for its attack upon the military garrison at Trujillo in 1933, and for its involvement in the Callao naval mutiny in 1948, Víctor Raúl Haya de la Torre is the specific focus of military hatred. It is possible that APRA will be allowed to win the presidency when Haya is no longer its candidate.

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13. The policies pursued by Belaúnde and the AP-PDC Alliance have actually been akin to APRA's traditional demands for social reform; the military has accepted Belaúnde because he has not tried to decrease the importance of the military establishment. In fact, the military forces have been an active participant in the President's social and economic development programs, building roads, bridges, and irrigation projects. They have also participated in a colonization scheme which joins members of the military and civilians in an effort to open up new agricultural lands in the interior.

Arms Purchases

14. Recognizing his need for continued military support and aware of the military establishment's requirement for new equipment, Belaúnde has approved the purchase from France of 12 Mirage 5 supersonic jets and several jet trainers. The cost of the jets, including spare parts and trainers, is estimated to be \$25-30 million. Negotiations are underway for 100 light tanks, anti-aircraft equipment, and rocketry. Delivery of the jets and perhaps of the tanks is to begin before the end of 1967. A French training mission will probably arrive with the first shipments. The decision to purchase French supersonic jets was made

when it seemed clear to the Peruvian military that the US would not make its F-5 aircraft available for sale to Peru before 1969-1970 at the earliest.

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15. It is not only the President and the military forces in Peru who feel that new military equipment is required. A supplementary military budget of some \$160 million was passed by the Congress early in 1967 for arms purchases over the next few years. The Peruvian public also seems generally to favor such purchases. The press recently had a field day with headline allegations concerning the threat posed by Chilean armamentismo, charging, in particular, that Chile was acquiring guided missiles from both the US and USSR. This fiction was so widely believed in Peru that even Belaúnde and Prime Minister Seoane thought it necessary to query the US Ambassador about the extent of US arms support to Chile, and the Armed Forces Ministers spoke for eight hours to a closed session of Congress about their need for modern arms to counter the Chilean threat.

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Outlook

16. Because the military does not pretend to have the solutions to Peru's economic problems, it is doubtful that economic issues alone would precipitate a coup. The military clearly will not tolerate a cut in the military budget by the Congress or the President. Its insistence upon more modern equipment may result in the loss of a much needed program loan from the US. The political opposition is unlikely to suggest a military budget cut, but will insist upon other governmental austerity. Outside pressure on Belaúnde to resist military spending will only intensify military influence in the government. There is no important participant in Peruvian politics who would publicly attribute any part of Peru's economic difficulty to military spending.

17. It is unlikely that the Peruvian Congress will enact important long-range economic measures during the remainder of Belaúnde's term. The President's spending for reform and development will come under increasing attack as the cause of Peru's economic difficulty.

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His corrective action will be to propose new tax measures to raise

revenues and reduce imports, and perhaps to attempt wage and price controls. Such executive-legislative agreements as may be reached will be intended as much to ward off possible military takeover as to set things straight in Peru. The election of 1969 is already too close for the opposition parties to allow the Belaúnde administration any great success in solving current problems. The military, under these conditions, might prefer to remain as the threat, rather than intervene.

18. If prices rise but wages do not increase accordingly, there will be agitation among the lower and lower-middle class urban workers, and disorders will occur. Student groups will also be involved. A general strike has already taken place in Arequipa, and unrest is evident in other towns. Such developments increase the likelihood that military leaders will insist at least upon stronger participation in the government. In the event of widespread discontent, including rioting and effective mass strikes, President Belaúnde would probably declare a state of siege and call upon the military to support him; if he did not do so, the military would likely move on its own, perhaps to govern by junta.

19. The Argentine example has not been lost on Peruvian military leaders. If they did take power, however, we think that they would be less interested than the Argentine military in retaining it indefinitely. They might even seek to conduct an election close to the June 1969 schedule; however, they would want to assure that the prospective new civilian leadership had enough strength to maintain political stability and to begin an assault upon some of Peru's enduring economic problems. Finding and agreeing upon such civilian leadership would not be easy; once having taken power, a military regime might find it hard to let go.


20. Instead of taking over the government overtly in the traditional Latin golpe, the military might try to manage Belaúnde from behind the scenes. They could rely on his agreement with their principal objectives, but, given his deep sense of frustration, such a tactic might merely induce him to abandon the struggle and resign. Or the military might increase their already heavy weight in the Cabinet and the administration. They will in any case hold the keys to power and decision.

21. Whatever the outward forms of control, we believe that Peruvian politics and foreign relations for some time to come will evolve out of this dominance by the military. Peru is

unlikely to devise and execute an economic program sufficiently austere, comprehensive, long range, and vigorous to solve its serious problems. With these problems continuing or growing worse, the temptation will grow to blame the US for Peru's troubles, and to look elsewhere in the Free World for sympathetic support. Whether or not the government of Peru comes under the acknowledged control of the military establishment, its policy is likely to include two of that establishment's firm resolves: (1) to carry out its program of "modernization" -- i.e. procurement of advanced military equipment abroad -- impervious to argument, pressure, or reprisal, and (2) to maintain public order no matter what disgruntlement the country's economic troubles produce.

FOR THE BOARD OF NATIONAL ESTIMATES:

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SHERMAN KENT
Chairman

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