

# OPPORTUNISTIC GOVERNMENT OR SUSTAINING REFORM?

## Electoral Trends and Public-Expenditure Patterns in Peru, 1990–1995\*

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Consensus is growing about the fundamental principles underlying economic policy reforms. In addition, a series of recent comparative studies have increased scholarly understanding of the political conditions necessary for launching such reforms.<sup>1</sup> Yet understanding of the factors that make reforms sustainable over the longer term is far less developed. A wide-ranging and unresolved debate continues over the roles played by institutions, politicians, interest groups, and the popular sectors. The influence of such groups tends to be marginal during the initial implementation of policies, a process involving an insulated group of technocrats. As the reforms proceed, the opposition of different societal groups to specific policies may have some impact but is less critical to the success or failure of the adjustment program than overall economic performance (see Geddes 1995).<sup>2</sup> The primary strength of these groups is retrospective and collective: they can vote reforming governments out of office. Elections—and therefore voter behavior—are critical in sustaining economic reforms over the long term. Voters can reverse economic reform programs, and at times they do.<sup>3</sup> Yet they also can play a major role in making programs more sustainable by legitimating their continuation at the ballot box.<sup>4</sup>

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1. For a description of the so-called Washington consensus, see Williamson (1993). The most comprehensive survey of the conditions necessary for launching reforms under democratic auspices is Haggard and Webb (1994). A good review of recent literature on the politics of reform can be found in Geddes (1995).

2. The role of various interest groups is discussed in Nelson (1992).

3. For example, voters reversed major privatization legislation in Uruguay in 1992. Party and union structures vary across countries and will determine the capacity that specific interest groups and the general public have to carry out such reversals. For details on the Uruguayan case, see Filgueira and Papadopoulos (n.d.).

4. Karen Remmer (1993) used empirical evidence for the 1980s to demonstrate that elec-

The content of the reform program—the balance between stabilization objectives and those of redistribution or compensation—is likely to affect electoral outcomes, particularly if the post-stabilization recession is severe or long.<sup>5</sup> And while trade-offs may exist between redistribution and growth, recent empirical analyses have emphasized the contribution that certain kinds of public expenditure can make to political sustainability and growth.<sup>6</sup>

Early political-economy analysis emphasized the influence of electoral cycles on government policy at the macro-economic level. Yet little has been done at the micro-level to disaggregate government policy, such as public expenditure, and its effects on electoral outcomes. More recent analysis has focused on the role of particular interest groups, the incentives and behavior of bureaucrats and politicians responsible for reform, and the ways in which differences in institutional structures affect the behavior of such groups. Little analysis has been made of how voters respond to the different government policies that result. This article will provide a more detailed analysis of public expenditures and voter behavior during economic reform in Peru and thus will serve as an initial basis for further comparative research.

Our primary objective here is to evaluate the political effects of a significant increase in discretionary public expenditures targeting poor groups, many of whom were previously marginalized from such state benefits. More specifically, we will attempt to analyze the effects of these expenditures on voting patterns as well as on government responses to those patterns. Did the recipient groups in Peru exercise their votes differently once their perceived stakes in government policy increased? How did the government respond to changes in voting patterns? Will these changes enhance the ability of such groups to exercise political choice in the longer term? Did the expenditures increase political support for continuing economic reforms? Did these expenditure trends have positive effects on political development by giving stronger voice to previously marginalized groups? This point is particularly important in the Peruvian context, where the traditional mechanisms for guaranteeing political accountability—such as the judiciary, the legislature, and political parties—are extremely weak, and elections are one of the few channels through which the public can effectively influence governance (see, for example, Conaghan 1995a).

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tions have actually enhanced the adoption of orthodox economic policies in Latin America. Barbara Geddes, meanwhile, building on Nelson's (1992) work, found that even in countries where real wages fell, and often dramatically, fewer than half the initiating governments were defeated in the first election after the beginning of reforms (see Geddes 1994).

5. The role of compensation policies in enhancing the political sustainability of reform is discussed in a comparative context in Graham (1994).

6. Alberto Alesina and Roberto Perotti have noted that fiscal redistribution can reduce the

While we are interested in the effects of public expenditures on sustaining economic reform, it is difficult to distinguish between opportunistic or "populist" government behavior and coherent strategies for sustaining economic reform. First, the definition of *populism* has always been broad and is currently being revisited in many analyses of Peruvian politics.<sup>7</sup> Second, because opportunistic political objectives coincided with those of reorienting expenditures to poor rural areas in Peru, it is difficult to determine which motives were operating. Third, no existing body of literature examines the effects of public expenditures on voting outcomes or reform. The scant evidence available suggests that focusing compensatory resources on interest groups who oppose reform is rarely an effective means of enhancing its sustainability. The same evidence suggests that it is possible to build new coalitions supporting reform by reaching groups previously marginalized from state benefits.<sup>8</sup> A plausible explanation in the Peruvian case is that politically driven "opportunistic behavior" may also have had positive effects on the political sustainability of reform by increasing the relative political weight of the vote of marginalized groups and giving them a new stake in the reform process. Our analysis of the effects of discretionary social expenditure on voting behavior will explore this hypothesis further, although we will not answer the question definitively. We will also attempt to distinguish the effects of public expenditures on voting behavior from the effects of other significant variables, such as the resurgence of economic growth and consequent reductions in poverty as well as the unexpected "defeat" of the violent guerrilla movement Sendero Luminoso in mid-1992.<sup>9</sup>

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propensity to invest by increasing the tax burden on investors. The same policies may reduce social tensions and therefore create a sociopolitical environment that is more conducive to investment and growth (see Alesina and Perotti 1994). Nancy Birdsall, David Ross, and Richard Sabot have challenged the traditional view that trade-offs exist between redistributive and growth objectives. They compared the experience of the East Asian economies having high levels of investment in primary education and high levels of growth economies with several economies in Latin America with much weaker records in growth and inequality. See Birdsall, Ross, and Sabot (1995).

7. Kenneth Roberts interprets the Fujimori phenomenon as a new brand of populism that is compatible with neoliberalism and fiscal constraints. Instead of drafting universal redistributive policies, politicians like Fujimori use populist political tactics and selected targeted policies to deliver material benefits to particular groups. As with "traditional populism," institutionalized forms of political representation have broken down. For an excellent analysis, see Roberts (1995). See also Kay (1995). For other recent literature on what "political model" best fits Peru under Fujimori, see Tuesta (n.d.), particularly the chapter by Cynthia McClinck, and Cameron and Mauerci (n.d.).

8. Indeed, utilizing at least some compensatory resources to reach needier groups previously marginalized from state benefits may be a more effective strategy for building support for reform. For comparative evidence based on the experience with safety-net policies in six countries in three regions, see Graham (1994).

9. GDP increased by 19 percent between 1990 and 1994. This astonishing turnaround was

We posit that voting behavior in Peru since 1990 fits a “retrospective voter model” in which electoral outcomes are determined by voters punishing or rewarding incumbent performance rather than by other factors like partisan influence. We further posit that “performance” in Peru has hinged on three major trends: economic performance, terrorism, and discretionary public expenditure.<sup>10</sup> Although we consider the first two trends the most significant variables, this article will explore the relative importance of shifts in public expenditure in influencing electoral behavior.

In Peru in 1990, political stalemate and government incompetence amidst hyperinflation and guerrilla violence resulted in voters rejecting not only the governing APRA party but all traditional political parties. This situation created a political opening for sweeping economic reform and also transformed a political context largely dominated by a small party-based elite with weak ties to most rural regions of the country.<sup>11</sup> At the same time, the increased importance of the independent vote versus party lists may have given more weight to votes cast outside Lima.<sup>12</sup> The extent to which the new system responds to the traditionally neglected voters outside Lima has implications for the politics of reform, and more generally for the manner in which democracy is developing in Peru.

Giving more weight to voters outside Lima may not have been Pres-

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facilitated by a great deal of underutilized capacity remaining in the economy due to the deep recession of previous years. The poverty head-count ratio fell, meanwhile, from a high of 55 percent of the population in 1991 to 46.5 percent in 1994. The poverty gap fell from 21 percent below the poverty line to 17.5 percent. For details, see Favaro and Maclsaac (1995).

10. In a cross-country analysis of party fragmentation, Michael Coppedge found that the stronger party identification is, the less economic performance affects voting behavior. Our analysis suggests that a slight variation of this phenomenon applies to Peru in the early 1990s: as party identification weakened, economic performance had stronger effects on voting behavior. See Coppedge (n.d.) and Conaghan (1995b).

11. Although parties had a weak rural presence, APRA maintained some traditional ties in the rural north, and the Izquierda Unida retained some bases of support in the southern and central highlands.

12. Until 1993, voters in Peru voted for party lists rather than for specific candidates and then indicated a preferential vote for a particular candidate. This approach meant that candidates had no local links, responsibility, or representation. The Constitution of 1993 eliminated assured congressional representation by department and established a single voting district at the national level. Voters are still allowed to indicate two of their preferential votes for the Congress, but from only one list. Single-district models with one representative make it easier for voters to judge who is responsible for performance and outcomes. Yet rural interests are likely to suffer in single-district models of proportional representation if the rural population is in the minority. The effects are as yet unclear in Peru, where the rural population is not in the minority but has traditionally been less politically active, informed, and articulate. The erosion of parties and the rise of several independent coalitions may be giving more weight to individual votes. That is, the number and location of votes may matter more now as voters are less likely to hew to partisan lines. Critics of the 1993 changes contend that eliminating assured representation has given Lima more electoral weight and that not allowing voters to indicate preferences on more than one list favors large parties. Yet neither

ident Alberto Fujimori's intent, as his tendency is to centralize power.<sup>13</sup> But measures related to the economic reform program, such as the demand-based social fund and the reallocation of municipal funds to small rural municipalities, took on a life of their own through their outreach to poor and remote regions. In an analogous fashion, Fujimori's discrediting of traditional political parties also took on a momentum of its own in giving more weight to the "independent vote," which showed itself no more committed to Fujimori than to the established parties.<sup>14</sup>

Fujimori's initial political base consisted of traditionally poorer departments.<sup>15</sup> The benefits of economic reform were less visible in these departments, and their support for Fujimori decreased by 1993. From that point on, these departments became the focus of discretionary public expenditures, a general trend that helps explain the changes in government expenditure occurring after 1993. Some outlier cases, however, where major increases in discretionary expenditures were made to departments with higher than average incomes and better social indicators, suggest that additional political factors influenced those allocations. These trends and their role in determining electoral outcomes will be explored in the final section of this article.

To discern voting patterns, we have used several kinds of data: electoral data from national elections in 1990, constituent assembly elections in November 1992, municipal elections in January 1993, a constitutional referendum in October 1993, national elections in April 1995, and municipal elections in November 1995. Two important caveats in analyzing voting patterns are differences in the kinds of elections held (presidential, constitutional, municipal) and changes in the electoral laws with the passage of a new constitution in 1993.

In describing patterns in discretionary public expenditure, we focus on expenditures made by means of three distinct mechanisms: the emergency social fund (FONCODES), municipal transfers, and a school-building program (INFES).<sup>16</sup> All these expenditures are highly discre-

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outcome is evident in the 1995 results. For details on the electoral system, see Palmer (1995). For details on the effects of representation formulas, see Keefer (1995).

13. Our interviews with some of Fujimori's advisors in the Finance Ministry suggest that while he may have not been aware of the unintended consequences of his policies, they were.

14. This finding is interesting in light of Kenneth Roberts's proposition that targeted benefits may create stronger clientelistic bonds than universal benefits (Roberts 1995). While the reallocation and targeting of public expenditures may have had clientelistic and political objectives, they seem to have been ineffective at creating a loyal clientelistic political base.

15. Roberts (1995) identified three distinctly populist features of the Fujimori government: a heterogeneous constituency with widespread lower-class support, a personalistic leadership style, and the absence of institutionalized political mediation.

16. One category of discretionary (and extra-budgetary) expenditure that we do not include (due to lack of disaggregated data) is FONAVI, the housing fund. Its monies, which

tionary in nature and in theory target the poorest in society, the groups least likely to benefit from “normal channels” of public expenditure. We selected FONCODES because of its high visibility as a program for the poor. Despite the demand-based mechanism for allocating funds, FONCODES expenditures remained vulnerable to government discretion in overall amounts and locational priorities. INFES expenditures are also discretionary: they are extra-budgetary and are managed by the Ministerio de la Presidencia rather than by the Ministerio de Educación. We included municipal transfers because the government changed the allocation mechanism after the loss of the 1993 municipal elections. Moreover, this mechanism can be altered each year by the executive. The purpose of our analysis is to determine the criteria for allocating expenditures across departments; to identify any changes in expenditure allocations related to electoral outcomes and upcoming elections; and to determine the extent to which these trends explain voting patterns during economic reform in Peru.

Discretionary expenditures must be considered in the context of aggregate trends in public expenditure and their political effects. Overall public social expenditures in Peru dropped dramatically in the late 1980s, as did expenditures targeting the poor. Beginning in 1993, overall levels of expenditure increased markedly, as did those targeting the poor through the social fund.<sup>17</sup> An important question not analyzed here but worth raising is to what extent discretionary public expenditures are made at the expense of other essential but less visible expenditures, like those in basic education and health. A related question is whether discretionary expenditures, which tend to be more visible, are more effective in influencing voter behavior and therefore a more useful tool for enhancing the political feasibility of reform, at least in the short term, than expenditures channeled through the permanent public social institutions such as line ministries. An additional concern is that because of the discretionary nature of these expenditures, they are more difficult to monitor through normal mechanisms of fiscal control. Many critics blame the 1994–1995 increase

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come from a payroll deduction, are supposed to provide support for low-income workers. In practice, however, the distribution of the funds is regressive and urban-biased.

17. In 1991 and 1992, targeted social expenditures were 0.5 and 0.4 percent of GDP respectively. Spending on health, for example, had fallen to a low of five dollars per person by the early 1990s, while the average for the region was forty-six dollars. This trend was gradually reversed as economic growth resumed and the fiscal situation improved. In fiscal year 1996, the government planned to spend 40 percent of the total budget on social expenditures, up from 20 percent in 1994 and 30 percent in 1995. The share going to health rose from 4.1 percent in 1991 to 6.2 percent for 1996, and education's share rose from 5.5 percent to 7.9 percent. Targeted social expenditures increased dramatically, meanwhile, with 22.6 percent of the total budget going to the Ministerio de la Presidencia to cover the costs of regional governments and targeted social expenditure programs. For details, see World Bank (1994) and “Ministerio de la Presidencia concentra 22.6% del presupuesto,” *El Comercio*, 7 Oct. 1995, p. A7.

in discretionary expenditures in Peru for an “overheating” of the economy, which necessitated a fiscal adjustment in early 1996.

Finally, limits must be recognized on the comparability of the Peruvian case. First of all, the Fujimori government suspended the constitution and closed the legislative and judicial branches of government in April 1992, replacing them with new ones after the 1993 referendum. Although the elections held after the 1992 “*autogolpe*” were deemed generally free and fair by outside observers, the political dynamic had obviously been altered significantly, and electoral conditions were far from perfect. Second, the challenge from Sendero Luminoso and its sudden defeat when the government captured its leader in September 1992 also changed the political dynamic by giving the population a criterion for evaluating the government that was at least as important as economic performance. Third, in 1994 an unexpected major increase in government revenues resulted from a two-billion-dollar overbid in privatizing the national telephone company, which awarded the government an unexpected source of discretionary funds.

#### INCORPORATING PUBLIC EXPENDITURES INTO THE POLITICAL ECONOMY LITERATURE

This article seeks to contribute to the existing literature on political economy in general (“the new political economics”) as well as to the literature on the political economy of reform. A brief review of several models of political-economy cycles will highlight the contribution that this analysis can make.<sup>18</sup> The traditional opportunistic model attempts to explain government behavior from the point of view of macroeconomic variables prior to elections and focuses primarily on aggregate variables and industrialized countries. This model assumes a “political business cycle” in which all politicians are opportunistic and all voters cast ballots according to past performance. Because all incumbents inflate the economy toward the end of their terms in office to lower unemployment, inflation surges at election time, followed by a contraction after the election (see Nordhaus 1975).<sup>19</sup> In contrast to this model, our analysis will focus on the role of a microeconomic variable—discretionary public expenditure—in influencing electoral outcomes during reform. It will also focus on a developing country rather than on the industrialized countries assessed in the theoretical literature on political economy.

The rational-actor approach, which also focuses on macro-variables, introduced the concept of rational voter behavior rather than adap-

18. This section draws heavily on a review of the literature made by Alberto Alesina in 1993.

19. For details on the role of veterans programs, for example, see Keech and Pak (1989, 11–12).

tive expectation. According to this perspective, politicians are judged by the electorate according to their ability to perform in a number of areas, such as reducing waste in the budget process or promoting growth without inflation. While policymakers are better informed than citizens, their opportunistic behavior is tempered by voters' rationality and understanding of politicians' incentives (see Cukierman and Meltzer 1986; Rogoff and Sibert 1988; and Persson and Tabellini 1990). Our analysis makes no *ex ante* assumptions about voter behavior, although it will consider indirectly the relevance of the approach to patterns of voting behavior in Peru.

Finally, the traditional partisan model hinges on the varying weights that relevant political parties place on economic outcomes, such as unemployment. The strongest version of this model assumes nonrational expectations among voters and that all parties are "partisan," with left-wing parties attributing a higher cost to unemployment relative to inflation than do right-wing parties and voters who choose the party offering their preferred policy outcome. A host of more "nuanced" adaptations of this model can be found (for an example, see Hibbs 1992). Although our analysis also considers the key role played by differential distributional outcomes, we focus on the role of fiscal transfers and implicitly on their impact on income distribution rather than on the Phillips curve trade-off between inflation and unemployment. In addition, we focus on the behavior of individual voters rather than on the role of parties, given that the parties' influence on outcomes in the Peruvian elections held during the period under study was marginal at best.

The literature on the political economy of reform has focused more on the conditions necessary for launching reforms than on those necessary for sustaining them, also considering the roles played by particular interest groups in opposing or supporting economic reforms. Several studies based on empirical evidence find no correlation between regime type (authoritarian or democratic) and performance in economic reform. They also suggest that newly elected governments possess distinct advantages over incumbents in initiating reform programs. Launching reform tends to be easier in contexts where the pre-reform crisis is severe (as with hyperinflation) and results in a broad societal consensus that the status quo is unsustainable. Some degree of bureaucratic insulation for key policymakers can also play an important role favoring reform. Reform is more likely to be delayed in contexts where party systems are fragmented or highly polarized, where political or economic influence are distributed very unequally, and where much uncertainty exists about the outcome of reform.<sup>20</sup> Finally, several studies suggest that interest groups and popular

20. See, for example, Alesina and Drazen (1991). In the case of Brazil, Cheikh Kane and Jacques Morrisett have suggested that because the burden of inflation falls on the middle class rather than on wealthier and probably more politically powerful groups, necessary stabilization policies were delayed for several years. See Kane and Morrisett (1993).



opposition have remarkably little *ex ante* influence on the policy-making process (see Nelson 1992; Geddes 1995). Their primary influence seems to be collective and retrospective, judging performance after elections. To date, analysis of electoral outcomes and reform has focused on macro-variables. Our analysis represents a departure in focusing on electoral rather than interest-group responses to government policies and on a specific government policy (discretionary expenditure) rather than on the macroeconomic policy more generally.

The analysis of micro-variables, such as specific programs targeted to key constituencies, may be a more effective tool for identifying opportunistic expenditure cycles than analysis of macro-variables. This approach may be even more relevant in developing countries, where public understanding of government policies and macro-outcomes is often limited. In addition, opportunistic expenditure behavior is more likely in young democracies. Several studies have focused on these kinds of variables, such as Edward Tufte's study of the relationship between fiscal transfers and elections and Carol Graham's work on the effects of compensatory programs on voting behavior during reform (for details, see Alesina 1993; Graham 1994; Tufte 1978). This article focuses on the role of discretionary public expenditures. The existence of a reform program and repeated elections in Peru may also yield some insights into how such government behavior affects the sustainability of reform.

#### INITIAL CONDITIONS: THE EFFECTS OF THE 1990 ELECTIONS

The disastrous performance of Peru's oldest and most established political party, the *Alianza Popular Revolucionaria Americana* (APRA), during its tenure in power (1985–1990) dramatically changed the landscape of Peruvian politics. First, this experience discredited the traditional political establishment and parties in particular.<sup>21</sup> Second, by dramatically reducing partisan criteria in the voting process, this process opened the door for independent candidate Alberto Fujimori and a host of other such candidates.<sup>22</sup> Fujimori's rise to power signified a political revolution of sorts in giving Peruvian voters alternatives that were virtually free of partisan loyalties, at least in the short term. An implicit hypothesis of our article is that this change made the electoral process in Peru more respon-

21. A 1995 survey found political parties last on the list of institutions trusted by Peruvians, with only 3.6 percent of those outside the capital and 2.3 percent of Limeños indicating faith in political parties. For details, see Sagasti et al. (1995).

22. The APRA debacle and Fujimori's rise to power are discussed in detail in Graham (1992). Throughout Fujimori's term, a host of independents established an important political presence. These included Ricardo Belmont (the highly popular mayor of Lima) and his *Obras* coalition, Alejandro Toledo and *CODE-Pais Posible*, Fernando Cáceres and *Frenatraca* in Arequipa, and Rafael Rey and the conservative *Renovación* movement.

sive to the traditionally marginalized rural population and therefore more broadly representative—not necessarily because this outcome was one of Fujimori's objectives but because the previous system had been dominated by a party structure that was largely elitist and based in Lima and by a voting system that emphasized party lists rather than local representation.

Fujimori's rise to power stemmed from three distinct phenomena. The first was the extent to which the Peruvian state had deteriorated over time. By the 1980s, the state had become incapable of meeting the increasing demands on it for basic services such as primary education, health, and protection from crime. The second phenomenon was the severity of the economic and sociopolitical crisis, and the extent to which the public perceived that not just APRA but all traditional political parties in Peru were part of a nonfunctional state system. The third phenomenon was the nature of the 1990 political campaign. Mario Vargas Llosa, the country's best-known writer but an unlikely political candidate, led the field until a few weeks before the elections. Yet the public's perception of Vargas Llosa as belonging to the elite as well as his formal ties to the parties of the traditional Right through the FREDEMO alliance were political liabilities in a racially divided and increasingly impoverished society. This situation was exacerbated by FREDEMO's campaign style and slogans, which appealed far more to the aristocracy than to the mestizo and Indian populations. Equally damaging was the blatant display of large sums of money financing the FREDEMO campaign, underscoring the coalition's identity as an alliance among the rich.<sup>23</sup> Finally, although most Peruvians expected some sort of stabilizing economic measures after the elections, Vargas Llosa's constant references to an upcoming "shock" did little to generate voter support.

Fujimori, former rector of the Universidad Agraria, entered the campaign just three months prior to the first electoral round as a political unknown. His campaign message was vague but simple, stressing work, honesty, and technology. His electoral coalition, Cambio 90, established its primary base of support among small and medium-sized businesses as well as in the limited but active evangelical community, which generated popular support in shantytowns and other low-income areas.<sup>24</sup> Fujimori's vague platform as well as his being of Japanese rather than the traditional European origin seemed to appeal broadly, particularly among lower-income groups. Vargas Llosa won the first electoral round, with 32.7 percent of the vote versus Fujimori's 29.1 percent, APRA's 22.6 percent, and the

23. The FREDEMO campaign spent approximately eleven million dollars, at least ten times the amount expended by any of the other campaigns. GDP per capita, meanwhile, fell by 25 percent in 1989–1990. For details, see Graham (1992).

24. Peru remains primarily Catholic. Evangelicals make up only some 4 percent of the total population, although some estimates claim as many as 8 percent.

Izquierda Unida's 5.2 percent. But it soon became clear that Fujimori would win the support of APRA and the Left in the second round, which he took with 62.5 percent of the vote over 37.5 percent for Vargas Llosa (see table 1).

Fujimori had neither any organized base of support in the Congress nor any coherent plan for governing. His original cabinet was eclectic and multiparty in nature, combining members of the traditional Right and Left with independents. After a meeting with the heads of the International Monetary Fund, the International Development Bank, and the World Bank, Fujimori became convinced of the need to adopt an orthodox economic strategy. In August 1990, the government implemented a shock stabilization program that succeeded in curbing hyperinflation but also resulted in deep recession and further increases in poverty and unemployment in the first two years.<sup>25</sup> Fujimori nevertheless retained a surprising amount of popular support and met with little resistance to his economic program from the Congress.<sup>26</sup> The opposition in Congress was much more concerned with the government's record on human rights in the fight with Sendero and the increasingly free reign given to the military. Fujimori's authoritarian style soon alienated those in his cabinet who were not personal loyalists and led to deteriorating relations with the Congress. On 9 April 1992, Fujimori closed down the Congress and the judiciary as well, declaring a period of "national reconstruction." In response to international pressure in the weeks following the autogolpe, he called for elections for a constituent assembly to be held in November 1992 and for a referendum on the new constitution in October 1993.

While Fujimori's measures were strongly criticized abroad, they were very popular with the Peruvian public. His poll ratings soared after the coup. One reason was that the Congress (along with the political parties) was still perceived as part of the discredited "old system" by much of the public. A few months later, in an intelligence coup in September 1992, the government captured Abimael Guzmán and the top leaders of Sendero Luminoso, thereby decapitating the movement. By 1993, the economy had begun to recover, growing at 6.3 percent in 1993 and then booming at 12.9 percent in 1994. Consequently, most Peruvians credited Fujimori with "saving Peru" from the depths of crisis.

The following analysis of voting patterns and public expenditures

25. The most extreme increases in poverty occurred from 1985 to 1990, due to the APRA government's poor economic management. Poverty in Lima, for example, affected 17 percent of the population in 1985 but had risen to 54 percent by 1990. By 1996, however, this figure had dropped back down a few points to 49 percent, largely as a result of renewed growth. The steadiest decreases occurred in rural poverty. See Glewwe and Hall (1992); and "La pobreza en el Perú, 1994-1996," *Cuanto*, Nov. 1996, p. 16.

26. Most measures could be implemented by executive decree, with the Congress having only a retroactive review power. Even then, few economic measures were questioned.

TABLE 1 *Peruvian Presidential Election Returns, 1985–1995, in Percentages*

<i>Party, Coalition, or Candidate</i>	1985	1990 <sup>a</sup> First Round	1990 <sup>a</sup> Second Round	1995
Acción Popular	7.2			
APRA	52.1	22.6		4.2
Cambio 90		29.1	62.5	63.7
CODE	11.9			
FREDEMO		32.7	37.5	
Izquierda Socialista		4.8		
Izquierda Unida	26.7	5.2		
Obras		2.0		2.4
A. Toledo				3.4
J. Pérez				22.4
Others	2.1			3.9
Total	100.0	96.4	100.0	100.0
Votes in absentia	8.8	22.8	20.1	31.0
Null votes		7.3	7.8	8.0
Blank ballots		5.0	1.7	5.4

Source: Junta Nacional Electoral.

<sup>a</sup> The 1990 percentages have been adjusted to account for the new method of calculating votes introduced in 1993, which counts only valid votes rather than total votes cast.

since 1990 seeks to evaluate how voters responded to “the Fujimori revolution.” We posit that the increased importance of independent votes and votes outside Lima may have forced the government to be more responsive to the concerns of voters outside the capital (which has traditionally dominated the attention of governments and politicians). Our goal is to evaluate the extent to which such a response occurred and its role in contributing to the political sustainability of economic reform in Peru.

#### VOTING BEHAVIOR, 1990–1995

For purposes of this study, we have classified the factors that influence voting behavior into three main categories: economic performance, party affiliation, and the provision of public goods and services, including nondiscretionary services such as security and discretionary ones like income transfers. This list of factors is not exhaustive, but it has allowed us to isolate variables for which data are available (such as discretionary public expenditures and trends in the number of terrorist attacks) and that presumably affected voting behavior in Peru over the five-year period. Issues like the candidate’s popularity are also important but lie outside the scope

of our analysis. A theme running throughout the analysis is that with the decline of Peruvian parties, voter behavior became more “retrospective,” meaning that voters reward or punish incumbents according to their performance in power rather than voting along partisan or clientelist lines. Although voters in Peru voted unpopular incumbents out of office in the past, they never rejected the entire political establishment in the extreme manner demonstrated since 1990. Prior to 1990, parties remained relevant political actors despite volatility in support.<sup>27</sup> The decline in support for parties since then has accelerated as economic performance has improved during the Fujimori government.

Economic performance during the administration of Alan García (1985–1990) was dismal. Inflation soared to a four-digit level, per capita gross domestic product (GDP) fell, and the exchange-rate premium reached its highest level ever. The number of terrorist incidents per hundred thousand citizens climbed to an annual average of 14.2, compared with 8.1 during the preceding Belaúnde administration. Consequently, APRA fared poorly in the first round of the 1990 elections, although it managed to retain a remarkable 22.6 percent of the votes (as compared with its average of one-third of the votes in Peruvian elections). Much of this support can be attributed to traditional hard-core APRA loyalists. APRA received the highest levels of support in 1990 in the Aprista districts of the north, such as Piura, Tumbes, and La Libertad. APRA fared worse in other parts of the country, particularly in areas with high levels of terrorism: Ayacucho, Junín, Pasco, and Huancavelica (sierra districts previously neglected by political parties and in public expenditures).<sup>28</sup> For a codification of departments by location and income levels relative to the national average, see table 2.

Although Vargas Llosa won the first electoral round with 32.7 percent of the vote, he fell short of the required majority. Fujimori took 29.1 percent, faring best in the departments with the highest rates of terrorism. In Junín, for example, Fujimori won 52.5 percent of the vote, versus 29.5

27. In Peru, partisan loyalty has traditionally been volatile, particularly in the Center and on the Right. Yet the virtual disappearance of parties since 1990 stands in contrast to the situation in other Latin American countries, where party loyalties remain stronger. A study conducted in Mexico, for example, found that individual loyalty to parties remains very strong. The more likely a voter was to have voted for the PRI in a prior election, the less likely he or she would be to support an opposition party. Conversely, the greater the belief that the economy would improve if a party other than the PRI were to gain power, the greater the likelihood of voting for an opposition party. The study concluded that the findings are inconsistent with the “retrospective” voting model. See Domínguez and McCann (1995). It would be useful to have comparable results for Argentina, where the incumbent party enjoys a strong traditional following, has performed well at reform, and has been reelected.

28. This outcome contrasts sharply with the 1985 results, where APRA won in all but three departments. By 1990, APRA’s support had plunged in the departments with high rates of terrorism.

TABLE 2 Peruvian Departments according to Location and Income Levels, 1992

Income Level	Coast or Lowland	Sierra	Jungle
Above average	Arequipa Lima Moquegua Tacna		Loreto Madre de Dios
Average	Ica La Libertad Lambayeque Piura Tumbes	Junín <sup>a</sup> Pasco <sup>a</sup>	Ucayali <sup>a</sup>
Below average		Ancash <sup>a</sup> Apurímac <sup>a</sup> Ayacucho <sup>a</sup> Cajamarca Cuzco Huancavelica <sup>a</sup> Huanuco <sup>a</sup> Puno	Amazonas San Martín

NOTE: Department income levels are based on the ratio of department income to gross national product per capita in 1992. For a breakdown, see table 4. Average income level for Callao was not available.

<sup>a</sup> Departments with high rates of terrorism.

percent for FREDEMO and 8.8 percent for APRA. In the second round, Fujimori also received high levels of support in the departments hit hardest by terrorism: Ayacucho (81 percent), Junín (67 percent), Pasco (62 percent), and Huancavelica (84 percent). Evidence suggests that ethnic characteristics also played some role during the second round of elections due to the polarized tone of the electoral campaign.<sup>29</sup>

Although party affiliation lost importance at the national level in 1990 and support for Fujimori reflected a general dissatisfaction with the traditional party system, parties continued to influence electoral outcomes. For example, APRA's support for Fujimori in the second round was critical to his 1990 victory. APRA's and Fujimori's combined percentages in the first round, compared with Fujimori's percentages in the sec-

29. Another contention worthy of considering is that religion became a factor during the second round of voting. Somewhat ironically, the Catholic Church felt sufficiently threatened by the surge in support for a movement backed by evangelicals that it openly endorsed Vargas Llosa, thereby backing an agnostic against a Catholic (Fujimori) (see Graham 1992). Yet in Ucayali, where Fujimori fared worst, Catholics represented the smallest proportion of the population (77 percent) of all departments. In Piura, where Catholics account for 94 percent of the population, Fujimori scored highest against Vargas Llosa (87 percent).

ond round, match almost perfectly in four departments: Callao, Pasco, San Martín, and Ucayali. Support for Fujimori in traditionally Aprista departments was also relatively high, reflecting APRA's official endorsement. The departments where Fujimori's final vote far exceeded the additional support from APRA's endorsement are those in the southern and central sierra where the Izquierda Unida had been strong in the 1980s and those with the highest rates of terrorism. In Ayacucho, for instance, Fujimori obtained 25.2 percent of the votes during the first round and APRA garnered 12.5 percent. But in the second round, Fujimori received 81 percent of the votes. Similarly, Fujimori won in Huancavelica by 84 percent in the second round, 41.3 percentage points more than his and APRA's combined total in the first. Thus in areas of intense terrorism, APRA's endorsement may have helped but cannot explain the magnitude of Fujimori's second-round support.

The extent to which the role of parties dwindled by 1992–1993 and further by 1995 is remarkable. The two best-established parties, APRA and Acción Popular (AP), boycotted the November 1992 constituent assembly elections, partly for fear that they would fare poorly. Fujimori's Nueva Mayoría–Cambio 90 coalition captured forty-four of the eighty seats. The second-highest winner, the Partido Popular Cristiano (PPC), won only eight seats, and a new coalition representing leftist parties won only four. The remainder of the seats were captured by small independent coalitions.<sup>30</sup> In the municipal elections in January 1993, independent candidates won most of the provincial and department capitals, including Lima. APRA and AP each won only four department capitals, and each received just over 12 percent of the national vote. As in 1990, support for established parties plummeted in the poor and remote regions of the sierra, which tended to have high levels of terrorist violence. But the increasingly evident decline of parties did not translate into direct support for Fujimori and his Nueva Mayoría–Cambio 90 Frente, which received only 2.8 percent of the national vote. Cambio did not run candidates in all departments and won only one capital, suggesting its limits in operating as a coalition on the national level (see Crabtree 1995). Instead, almost half (48 percent) of the nation's vote went to a variety of independents.<sup>31</sup>

To the surprise of most observers, Fujimori won the subsequent October 1993 constitutional referendum by only a small margin, far from a ringing endorsement. Although Fujimori won in the capital city, he lost in

30. According to an in-house document of the Peruvian Comisión Electoral Nacional, Nov. 1992, Embassy of Peru, Washington, D.C.

31. An interesting result in these elections in terms of the retrospective voting model is that the highest electoral support went to mayors who were reelected in districts where they were perceived to have good performance records. This pattern occurred at the provincial level (in Chiclayo, Cuzco, Tacna, Arequipa, and Callao) as well as at the district level (in Miraflores, Chorrillos, San Isidro, San Luis, and Surquillo). See Apoyo (1993).

most other departments outside Lima (see table 1). Several plausible explanations can be advanced for this outcome. One is that while Limeños were beginning to see the benefits of economic reform, other Peruvians were not. Another is that the “no” vote in the referendum reflected a protest vote against Fujimori’s performance rather than support for political alternatives. Unlike the municipal elections, in which several independents provided viable alternatives at the local level (many having good performance records), there was no alternative to Fujimori in 1993 at the national level, nor was the referendum structured to provide one. In addition, the opposition’s campaign exhibited a lack of unity that highlighted the political parties’ general disarray. Many voters, particularly in rural areas not benefiting economically, probably had doubts about several aspects of Fujimori’s policy and found little risk in voting “no.” A good example was widespread popular opposition to a government proposal to decentralize education, a major issue in the opposition’s campaign and in the municipal elections as well. The common perception was that the benefits of the reform would be concentrated in resource-rich Lima at the expense of schools in poor and remote municipalities.<sup>32</sup>

Whatever the reasons for Fujimori’s losses outside Lima, the national government seems to have taken the message seriously and responded with major increases in discretionary public expenditures outside the capital, particularly in some departments where the “no” vote was high. The strategy has produced mixed results. In some cases, expenditure increases correlate with increased support for Fujimori in 1995, but in others they do not.

In 1995 Fujimori won the presidential elections in the first round, with 63.7 percent of the vote, well above the 51 percent required to avoid a second round. Javier Pérez de Cuellar came in second with 22.4 percent of the votes. APRA received only 4.1 percent of the vote, the Izquierda Unida 1.9 percent, and Acción Popular 1.6 percent. All the parties were plainly discredited.<sup>33</sup> Pérez de Cuellar, who had spent most of his life working abroad as a diplomat, appeared to be as out of touch with Peruvian realities and as unlikely a candidate as Vargas Llosa. Fujimori captured

32. The proposal was modeled on a similar scheme in Chile. The effects of Chilean reforms on overall performance are still being widely debated, with some evidence suggesting that they were positive. More analysts agree that quality and performance deteriorated in Chilean schools in disadvantaged areas for a number of reasons.

33. This discrediting was exacerbated by the new electoral law, which specified that each party would automatically lose official recognition if it failed to obtain 5 percent of the vote. The law also created a single national district. Michael Coppedge’s comparative study of five Latin American countries found that average district magnitude has significant effects on party fragmentation. These effects are secondary, however, to those of the underlying patterns of politicization in society. See Coppedge (n.d.) and Crabtree (1995).



more than half of the vote in all departments except Loreto.<sup>34</sup> In all of them, his support equaled or exceeded that of the first round in 1990. In the south, where anti-Fujimori sentiment was strongest in 1993 and Pérez de Cuellar was expected to do best, Fujimori attained high levels of support: 67 percent in Cuzco, 63 percent in Puno, 66 percent in Apurimac, and 70 percent in Ayacucho. Most of these departments have high poverty and terrorism rates and had supported Fujimori strongly in 1990. Nationwide, the only departments where Fujimori's support slipped below 60 percent were Arequipa (57 percent), La Libertad (59 percent), Lambayeque (59 percent), Loreto (48 percent), Tumbes (57 percent), and Callao (55 percent). Of these, Arequipa has traditionally voted for independents, and La Libertad represents the heart of APRA support (even there, APRA received less than 15 percent of the votes). None of these departments are located in the sierra, and all have average incomes or above (see table 2).

In some departments, however, the 1995 voting totals fell below those achieved in the 1990 second round. The gap is particularly high in Piura, where Fujimori obtained 86.7 percent of the votes during the second round in 1990, compared with 65.7 percent during the first round of 1995. This slippage also occurred in Lima, although less dramatically. Again, some element of protest vote seems probable, given the widespread perception that Fujimori's challenger, Pérez de Cuellar, had little chance of winning. The results in Lima may have reflected the relative cut-backs in municipal transfers in comparison with municipalities in the rest of Peru.

A problem in comparing results between previous elections and 1995 is that the Constitution of 1993 changed the basis for calculating vote percentages, shifting the basis of calculation from the total votes cast to only valid votes (excluding null and blank votes). In our analysis, the 1990 percentages have been adjusted for comparative purposes to reflect valid votes only (otherwise they would be disproportionately low). Another change made in 1995 was to have the presidential candidates' picture or party symbol on the ballot rather than their names. While party symbols had been used before, pictures had not, and some effect may have occurred in which the "known quality" of the presidential persona might have led to substantially greater support for Fujimori in departments with lower levels of literacy than in 1993 (see Palmer 1995). It seems likely, how-

34. It is interesting to note that Fujimori also failed to win this department during the 1990 election (receiving only 44 percent of the votes) and also lost in the 1993 referendum (54.5 percent voted "no"). Pérez de Cuellar received about one-third of the votes cast in Loreto. This department seems to be an outlier in that voting patterns were not determined by terrorism (a rate of 0.5 per thousand in 1988, when the national average was 14) or by ethnicity (native Quechua speakers account for only 1.7 percent of the population). One plausible explanation is the ongoing strong presence of the AP party, at least through the municipal elections in 1993.

ever, that several other factors, including the varying nature of the two elections and public expenditure trends, played more important roles in explaining the outcome in 1995.

The results of our regression analysis confirm these trends and support the hypothesis that voting in Peru was “retrospective” in 1990–1995. Between 1985 and 1990, GDP fell by 6 percent. Trends in GDP correlated negatively with support for Fujimori in 1990: in departments where the economy contracted the most, Fujimori received the most support. The biggest contraction took place in Tacna, with a 21 percent real decline in GDP between 1985 and 1990. Fujimori won 87 percent of the vote in Tacna. In 1995 results, support for Fujimori correlated positively with growth trends. In the 1990 elections, education and religion also played important roles in the voting outcome. Illiteracy had a positive and statistically significant coefficient (0.24).<sup>35</sup> Fujimori received more than 80 percent of the vote in departments like Apurimac, Ayacucho, and Huanavelica, where the illiteracy rate exceeds 30 percent (in contrast with a national average of 13 percent). This finding supports the hypothesis that Vargas Llosa was perceived as a representative of the elite. A positive correlation also exists between Catholicism and support for Fujimori, somewhat surprising in view of the strong support given by the Catholic Church to Vargas Llosa. In 1995, however, these variables did not affect voting patterns significantly. This finding suggests that government performance was more dominant and that the middle-class and wealthy Peruvians who had supported Vargas Llosa in 1990 shifted their support to Fujimori in 1995. Terrorism was high in many departments in 1990 (averaging 13 incidences per 100,000 persons). Yet differences in incidence do not appear to have been significant in 1990. But in 1995, those departments with high incidences of terrorism showed strong support for Fujimori. The coefficient on terrorism is positive (.03) and very significant.

At the municipal level, the results of the November 1995 elections confirmed two trends evident in the 1993 municipal elections: the surge in support for independents, and the inability of Cambio 90 to operate as a national-level coalition. Independents won all department capitals except five: two were won by AP, one by APRA, one by the Arequipa-based *Frenatraca*, and one by *Obras*, the movement behind Lima’s popular mayor Ricardo Belmont. Cambio failed to capture a single major city. Even in Lima, Fujimori’s hand-picked mayoral candidate Jaime Yoshiyama, former president of the *Cámara de Diputados*, lost to independent Alberto Andrade by a modest margin (52.7 percent to 47.3 percent).<sup>36</sup> Although

35. For details on our calculations and results, interested readers may contact either of the authors.

36. According to an in-house document, Embassy of Peru, Washington, D.C., Nov. 1995; and notices in *El Comercio*, 13 and 15 Nov. 1995, p. A1.

some voters cited Yoshiyama's better access to government resources as the reason they planned to vote for him, the majority opted for an independent with no ties to Fujimori. This outcome suggests that support for the president is far from unconditional and that at the local level, the trend favoring independents is at least as strong as support for Fujimori.<sup>37</sup>

#### PUBLIC-EXPENDITURE PATTERNS, 1990–1995

In this study, we concentrate on three kinds of public expenditures, all of them highly discretionary: the social fund FONCODES; municipal transfers; and the school-building fund INFES. Municipal funds operate as a transfer from the central budget. FONCODES and INFES, in contrast, are channeled through the Ministerio de la Presidencia, an agency revived by Fujimori largely as a means of coordinating and controlling various social programs and channeling resources to regional governments. The ministry's presence and relative importance expanded as discretionary expenditures increased with the improved fiscal situation after 1992. By 1995, the ministry was allocating 22.6 percent of the total government budget.<sup>38</sup>

#### FONCODES

The most visible of the expenditures was FONCODES, a social fund designed to mitigate the social costs of adjustment, modeled on similar programs in other countries. This fund was set up in August 1991.<sup>39</sup> FONCODES got off to a slow start because of lack of initial government interest in the program. But in mid-1992, due to international pressure and an improvement in the fiscal situation, the government increased available funds and appointed as director a manager from the private sector rather than a political loyalist. Within a year, the program was funding projects in every department in Peru.

No consistent relationship seems to exist between the level of FONCODES increased expenditures from 1991 to 1994 and growth in support for Fujimori in 1995, although in most cases increases in expenditure coincide with some increase in support for Fujimori.<sup>40</sup> The lack of a consis-

37. This conclusion is based on a series of interviews made during the pre-electoral period with political observers in Lima, Oct. 1995, and from press coverage of the municipal elections at that time.

38. Most of the ministry's budget goes to finance social expenditures by the regional governments. The remainder is divided between FONCODES, INFES, and several smaller programs, with FONCODES clearly receiving the lion's share. See note 13 of this article.

39. For details on these programs and the setting up of FONCODES, see Graham (1994).

40. Not surprisingly, Roberts and Arce have found a statistically significant correlation between increases in departmental social expenditures and increases in support for Fujimori from 1993 to 1995. See Roberts and Arce (n.d.).

tent relationship is not surprising. Because demand-based social funds require some sort of community participation, local governments or non-governmental organizations (NGOs) can often claim as much credit for the program as the central government can. Thus a program's positive results do not necessarily translate into direct political or electoral support for the central government (see Graham 1994). FONCODES expenditures and their political effects varied considerably across departments. For the four-year period, FONCODES disbursement per capita averaged twelve dollars (U.S.). In Lima, Callao, Lambayeque, and Tacna, expenditures ranged from three to six dollars per capita. At the other end of the spectrum, expenditures totaled fifty-two dollars per person in Madre de Dios. Support for Fujimori in some departments where FONCODES had a modest presence was nevertheless high. For instance, in Tacna, where per capita expenditures were among the lowest at six dollars, Fujimori received 67 percent of the votes. In Ucayali and Huanuco, where Fujimori obtained some of his best scores, per capita disbursement ranked below average (eleven dollars), although still higher than in Lima and Callao. But differences in the projects funded by these disbursements could have effects that aggregate figures cannot capture. Some projects might have more visibility and directly benefit certain groups, while others have more diffuse effects. In addition, the impact of relatively low but unprecedented expenditures in remote and relatively neglected departments is probably much greater than a higher level of expenditure somewhere like Lima, where a host of government and NGO programs compete. Also, in some of the departments where per capita levels seem low, as in Moquegua, Tacna, and Tumbes, the percentage increase from 1991–1992 to 1993–1994 was marked and may have had some impact (see table 3).

The specific role played by FONCODES expenditures is therefore difficult to disaggregate. It is likely that where support for Fujimori was already high, as in Ucayali, an increase in FONCODES expenditures made little difference in electoral outcomes. But in other locations where support for Fujimori was low in the referendum, a significant increase in levels of expenditure may well have made a difference. Probable examples are Cuzco and Puno, where both expenditures and electoral support increased notably after the 1993 referendum. Other departments (Amazonas, Apurímac, Cajamarca, Huancavelica, Huanuco, Moquegua, Pasco, San Martín, and Tacna) where Fujimori lost in 1993 (although not by as large a margin as in Cuzco and Puno) also received significant increases in FONCODES funding, and electoral support rose markedly in 1995 (see table 3). Poor departments like these have traditionally been neglected by government programs, and thus the expenditures may have swayed voters in favor of Fujimori and indirectly in favor of continuing the government's economic program.

Yet it is important to note that in three of the four departments

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TABLE 3 Changes in Votes, 1990–1995, and FONCODES Expenditures by Department, 1991–1994

Department	FONCODES Budgeted Expenditures						
	Votes 1990 <sup>a</sup> (%)	Votes 1993 (%)	Votes 1995 (%)	Increase in Fujimori Support (%)	Per capita 1991–92 (dollars)	Per capita 1993–94 (dollars)	Increase (%)
Puno	58.4	17.2	63.1	266.9	1.97	18.53	842
Cuzco	78.5	32.3	67.5	109.0	2.28	23.69	941
Huancavelica	84.0	32.5	64.0	96.9	2.65	22.13	736
Amazonas	62.3	34.0	60.5	77.9	0.97	23.61	2,332
Ayacucho	81.0	39.9	70.7	77.2	6.79	30.26	345
Huanuco	64.1	43.8	77.3	76.5	1.12	14.88	1,232
Cajamarca	67.8	40.5	68.6	69.4	1.97	18.72	850
Apurimac	83.5	41.5	65.9	58.8	1.07	19.79	1,753
Tacna	86.7	42.7	67.0	56.9	0.07	7.15	10,567
Pasco	61.5	42.4	64.8	52.8	0.29	17.52	6,047
Moquegua	75.5	38.8	60.6	56.2	0.04	8.40	22,000
San Martín	41.5	43.4	65.9	51.8	0.59	13.52	2,183
Piura	86.7	44.0	65.7	49.3	1.16	15.11	1,202
Ancash	76.9	43.1	62.8	45.6	16.95	16.88	0
Junín	67.4	53.2	77.2	45.1	2.51	14.43	474
Madre de Dios	71.0	45.7	64.2	40.5	0.20	38.91	18,917
La Libertad	75.1	42.4	58.1	37.0	1.73	10.55	511
Tumbes	58.4	42.4	57.2	34.9	0.04	11.69	27,081
Ucayali	41.5	59.1	79.5	34.5	0.04	9.43	21,826
Lambayeque	63.8	44.4	59.5	34.0	0.33	9.82	2,840
Ica	64.4	49.4	60.6	22.7	1.46	9.96	581
Loreto	44.0	39.1	47.9	22.5	0.74	14.89	1,910
Arequipa	56.1	47.3	57.4	21.4	0.00	2.02	202
Lima	65.4	57.1	63.5	11.2	5.20	5.71	10
Callao	58.3	51.4	55.1	7.2	—	18.72	850

Source: FONCODES offices, Lima.

NOTE: This table is based on budgeted rather than disbursed expenditures (in U.S. dollars). The budgeted amounts reflect the government's intentions better than disbursed amounts, which also reflect difficulties in project implementation.

<sup>a</sup> These figures are for the second round in 1990.

where the percentage increase in FONCODES funds from 1991–1992 to 1993–1994 was most extreme—Madre de Dios, Tumbes, and Ucayali—support for Fujimori increased but not as much as in other departments. Part of the explanation may be that because these departments have average or above average incomes (see table 2), the expenditures may have had less impact. Another part of the explanation may be that because support for Fujimori in 1993 was not as low in these areas as in some of the poorer departments, there was less margin for increase (see table 3). A third ex-

planation may lie in the nature of the FONCODES projects themselves and the extent to which they were implemented in a demand-based manner that reflected local preferences. These results point to the difficulties of making direct correlations between expenditures channeled through demand-based social funds and voting patterns. Our results suggest a need for more disaggregated data and further research.

Comparing expenditure patterns across time periods makes it easier to determine the extent to which allocations were politically driven, if not precisely what kind of impact they had. Taking the 1993 referendum as a turning point, significant changes occurred in budgeted expenditures across departments between 1991–1992 and 1993–1994. These changes are reflected in percentage increases in per capita expenditure by department between 1991–1992 and 1993–1994. Particularly large increases in some departments could indicate a government attempt to influence voting. The departments with the biggest changes in the relative size of the 1993–1994 budget are (in decreasing order): Tumbes, Moquegua, Ucayali, Madre de Dios, Tacna, Pasco, and Lambayeque. A common feature of all these departments, except for Ucayali, is that a majority voted against Fujimori in the 1993 referendum.<sup>41</sup> Other departments where Fujimori lost the referendum, such as Apurimac, Ayacucho, Cuzco, and Puno, also received relatively large increases in FONCODES expenditures, and support for Fujimori increased markedly in 1995 over 1993. We posit that the distribution of FONCODES expenditures in 1994 was clearly influenced by the outcome of the 1993 referendum. It is telling that the director of FONCODES, Arturo Woodman, resigned in early 1994, apparently due to conflicts with the head of the Ministerio de la Presidencia over political manipulation of projects (see Roberts 1995, 105).

The hypothesis that FONCODES expenditures were driven by political trends after the referendum is supported by the results of regression analysis. While disbursements in 1991–1993 correlated negatively with GDP per capita (-0.45), suggesting some progressiveness, this pattern did not guarantee targeting of the poorest. Funds were concentrated in populated areas: the elasticity with respect to population (0.80) is positive and significant. Infant mortality also correlates positively with disbursements, but at a low level of statistical significance. Higher illiteracy rates correlated negatively with receipt of funds, meanwhile, although the coefficient is not statistically significant. Better educated departments had an advantage in generating projects, a trend that highlights one drawback of demand-based projects: the difficulty of targeting the poorest. Finally, until 1993, deficits in public services (as measured by access to running water and electricity) did not affect the allocation of funds. The results

41. Ucayali is a jungle department with average incomes and high levels of terrorism, which may have justified the increases in expenditures.

demonstrate a structural change in 1994. More funds were allocated to departments where Peruvians voted "no" in the referendum: the elasticity of funds disbursed to the proportion of no votes is 0.89 and statistically significant. This shift in allocation, while politically driven, resulted in expenditures being directed to regions with poor social indicators.

Thus even if allocation of FONCODES expenditures was influenced by electoral outcomes after 1993, the results may not have been negative from either a political standpoint or one favoring reduction in poverty. These generally neglected departments had high levels of poverty. If these departments expressed disapproval of government performance in 1993 and the government responded by attempting to increase services to the poor, then it is difficult to argue that this trend is entirely negative. It is telling to compare the allocations made by the major anti-poverty program of the APRA government, the employment program PAIT (Programa de Apoyo al Ingreso Temporal), with those of FONCODES. Although most PAIT funds in relative and per capita terms went to Lima, FONCODES expenditures per capita were much higher in most departments outside the capital.<sup>42</sup>

Thus the increase in the "retrospective element" of voting may have made the government more responsive to voting trends, benefiting traditionally marginalized regions outside the capital. Yet the correlation of expenditures with support for the government is less clear. Increased levels of expenditure did not necessarily translate into "blind support" for Fujimori for the reasons just noted. Fujimori won in 1995 in all departments except in Loreto (see table 3). In the 1993 elections, voters were not taking risks by voting for alternatives, rather they were expressing opinions about the government's performance. But in 1995, voters had a choice, and most of them voted for Fujimori. Still, the degree of the growth in support for Fujimori varied across departments, and the increases in FONCODES expenditures played some role in influencing if not determining the 1995 outcomes. High levels of FONCODES expenditure are associated with significant increases in support for Fujimori from 1993 to 1995, particularly in the departments where support for Fujimori was lowest in 1993: Puno (from 17 to 63 percent), Cuzco (from 32 to 67 percent), Huancavelica (from 32 to 64 percent), Amazonas (34 to 61 percent), and

42. For details on PAIT, see Graham (1991). Government (and donor) feeding programs, for example, are highly concentrated in Lima, even after the 1990 shock, when feeding programs played an important role in protecting the living standards of the poor. The proportion of families using food programs was high only in Lima, where 47 percent of families in the lowest income strata participated. In the highest strata of Lima families in the sample (the wealthiest 20 percent of families were excluded), almost 9 percent used a food program, a level that exceeded those of even the lowest socioeconomic levels in other cities. See Kanashiro and López de Romaña (1991).

Ayacucho (from 39 to 70 percent). These increases in support ranged from 77 to 266 percent (see table 3).

### *Municipal Funds*

The government fared poorly in the nationwide municipal elections held in January 1993. Cambio 90 won not a single important provincial capital. Independents garnered 31 percent of the total vote, Acción Popular 21 percent, APRA and the Izquierda Unida totaled 14 percent. In October of that year, Fujimori won the constitutional referendum by a close margin but scored poorly in most departments outside Lima. In December, the government promulgated a major revision of the tax law via Decree 776, which changed the manner in which funds were distributed to the municipalities.

The municipalities have three major sources of revenue: local taxes, contributions and service charges, and a 2 percent value-added tax that feeds the national Fondo de Compensación Municipal. The sharing mechanism adopted in the new law apportions the pool of resources among provincial municipalities on the basis of population and infant mortality. Within these municipalities (excluding Lima), the resources are divided among the district municipalities according to population, with rural population being given twice the weight of urban population. Within the provincial municipality of Lima, the distribution across district municipalities is made on the basis of indicators of housing quality and illiteracy. This new method drastically cut the funds allocated to Lima, in relative and absolute terms. In 1991–1992, Lima received about 45 percent of municipal transfers, but its share plunged to 17 percent in 1994 (see table 4).

District municipalities as a group benefited from the new sharing mechanism favoring provincial municipalities. Big district municipalities of more than one hundred thousand inhabitants increased their share from 4.3 percent in 1993 to 14.2 percent in 1994. The share of small district municipalities rose from 6.4 to 8.2 percent. By contrast, provincial municipalities as a group fell from 89 to 77 percent. Given these trends, it is relevant to note the extent to which size was a factor in the referendum: the “no” vote dominated in all provinces having less than fifty thousand voters, with 45 to 48 percent voting no versus 37 to 38 percent voting yes. In contrast, in provinces containing more than a million voters, the “yes” vote averaged 57 percent and the “no” 38 percent. The correlation between province size and the referendum totals was so consistent that the vote was tied in medium-sized provinces (see table 5).

A clear objective of changing the municipal fund allocation seems to have been to reduce the power of one of Fujimori’s main rivals, Ricardo Belmont, the mayor of Lima. Fujimori made up for the drop in municipal resources to Lima by spending on school infrastructure, an expenditure



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TABLE 4 *Distribution of the Peruvian Municipal Fund by Department, 1991–1994*

<i>Department</i>	<i>1991 Share (%)</i>	<i>1992 Share (%)</i>	<i>1994 Share (%)</i>	<i>Change from 1991 to 1994 (%)</i>
Ucayali	0.5	0.5	8.6	1,509.3
Madre de Dios	0.1	0.1	0.6	384.5
Tacna	0.2	0.1	1.0	343.5
Lambayeque	1.0	1.5	3.8	270.9
Loreto	1.1	3.2	3.9	263.2
Huancavelica	0.9	1.4	2.9	232.5
Puno	2.2	4.3	6.5	194.6
Piura	2.6	3.7	7.3	182.4
Junín	1.8	2.8	4.9	165.8
Tumbes	0.2	0.3	0.6	157.0
San Martín	0.9	1.4	2.2	139.0
Ayacucho	1.7	2.9	3.8	121.4
Cajamarca	2.8	4.7	6.0	118.2
Apurímac	1.3	1.6	2.3	85.5
Ica	1.1	0.7	2.0	79.6
Callao	1.4	2.5	1.8	28.9
Arequipa	4.9	1.1	3.6	26.7
Amazonas	1.3	1.0	1.6	20.9
Ancash	2.8	3.7	2.8	0.0
Cuzco	7.3	3.4	6.7	-8.5
Moquegua	1.0	0.3	0.6	-44.8
La Libertad	8.9	2.2	4.5	-49.6
Lima	36.5	54.0	174	-52.3
Pasco	4.9	0.8	1.6	-68.0
Huanuco	12.5	1.9	3.0	-75.7

for which he (rather than the mayor) could take credit. Fujimori's strategy was only partially successful, however. Belmont did not run for mayor in the November 1995 municipal elections, but they were won by Alberto Andrade, who narrowly defeated Jaime Yoshiyama, Fujimori's hand-picked candidate. An independent, Andrade had been a highly effective mayor of Miraflores, a major suburb of Lima. Fujimori then attempted to recover political momentum and reduce Andrade's power by appointing Yoshiyama as the new *Ministro de la Presidencia*. This move suggested that discretionary social spending would remain part of the government's political strategy. Andrade's request for a reevaluation of the municipal fund allocation in order to obtain more resources for Lima was publicly dismissed by Fujimori, Yoshiyama, the finance minister, and several congressional members of *Cambio 90*, all of whom cited the benefits of the new allocation for smaller and poorer municipalities.<sup>43</sup>

43. *El Comercio*, 13 and 15 Nov. 1995, p. A7.

TABLE 5 Results of 1993 Referendum in Peru according to Province Sizes

Number of Voters in the Province	Number of Provinces (%)	Voting		Blank (%)	Not Valid (%)	Total (%)
		Yes (%)	No (%)			
More than 1,000,000	1	57.2	38.2	1.2	3.4	100.0
100,001–1,000,000	10	47.7	46.1	1.8	4.4	100.0
50,001–100,000	13	44.8	45.4	2.7	7.1	100.0
20,001–50,000	44	38.5	47.8	4.0	9.6	99.9
Fewer than 20,000	120	36.9	44.9	5.8	12.4	100.0
Total	188					
National averages		47.4	43.5	2.6	6.4	99.9

Source: Junta Nacional Electoral; in-house document, Apoyo.

A secondary objective in changing the law was to channel more resources to poor departments and their smaller municipalities. A possible reason may have been to reduce the remaining power of parties in those departments or at least counterbalance their power in the provincial capitals by building support for the government in the smaller cities. It also may have been a response to Fujimori’s low levels of support in smaller municipalities in 1993. The shift toward smaller municipalities is also consistent with Fujimori’s focus on direct contact with the population and his lack of trust in institutions. Such an approach is more likely to be effective in smaller and more remote communities, where formal political organization is likely to be weak than in larger areas that are more urbanized and politically organized.

In general, departments whose share declined most have a per capita income above the national average. In Lima, where per capita income is about 134 percent of the average, the share of the municipal fund fell by 52 percent. Similarly, in Moquegua, with a per capita income more than three times the national average, its share declined by 45 percent. An exception to this trend was the relatively poor department of Huanuco, which suffered a severe decline in funds. Its per capita income is 52 percent of the national average and its infant mortality of 87 deaths per 1000 ranks sixth-highest among Peruvian departments, yet Huanuco’s share fell by 76 percent, the biggest loss by far. Few Cambio candidates contested the municipal elections in Huanuco, and all but one lost. The only province where a Fujimori candidate won was Puerto Inca, with 53 percent of the vote. In provinces like Marañón, Fujimori’s Cambio 90–Nueva Mayoría won less than 6 percent of the votes, compared with 48 percent for the Partido Popular Cristiano. An independent candidate won the

provincial capital. The most cynical interpretation of these outcomes is that the government viewed the department as irrelevant and politically "a lost cause." More generous observers find it difficult to explain the cut in funds for such a poor department.

In contrast, Ucayali benefited the most from the modified sharing mechanism. Its share of municipal funds increased from 0.5 percent in 1991 to 8.6 percent in 1994 (a jump of 1,509 percent). Ucayali is also a relatively poor department: per capita income ranks about 86 percent of the national average. As with Huanuco, Fujimori did not fare particularly well in the 1993 municipal elections: AP took the department capital, Pucallpa, with 20 percent of the vote while the Cambio candidate received less than 2 percent. AP also captured two other provincial capitals, and an independent won the third. Cambio candidates did not even contest most of the district municipalities, which were won mostly by independents. But unlike the situation in Huanuco, the traditional parties in Ucayali (AP in particular) rather than independents had a strong presence.

It is difficult to gauge the political effects of municipal fund reallocations by comparing these two cases. First, although their municipal shares differ, both received relatively high levels of FONCODES funding. Fujimori lost the 1993 referendum in Huanuco, receiving only 44 percent of the vote. In 1995 he received 77 percent, making Huanuco one of the ten departments where support for Fujimori increased most from 1993 to 1995. In contrast, Fujimori received 59 percent in Ucayali in 1993 and 80 percent in 1995, a much smaller increase than in Huanuco. One explanation is that initial support for Fujimori was already high in Ucayali and therefore expenditure increases mattered less. Another is that municipal fund increases do not necessarily generate support for the central government granting them.

A number of rich departments also received a sharp increase in expenditures, suggesting political objectives operating in the fund reallocation. These atypical departments, which had both high levels of per capita income and high increases in municipal expenditures, were Lambayeque, Loreto, Madre de Dios, and Tacna (see table 4). An example of why these departments are considered outliers is Madre de Dios, which has a per capita income 149 percent above the national average and an infant mortality rate among the lowest (67 deaths per 1000).<sup>44</sup> This department nonetheless was awarded the second-highest increase in municipal funds after Ucayali. Madre de Dios also received the largest amount of FON-

44. This rate seems low in that pockets of extreme poverty undoubtedly existed in Madre de Dios. The low rate may in part reflect underreporting of infant deaths by the very poor. A charge is made for officially registering the dead for burial, an additional financial burden that most poor families wish to avoid.

CODES funds per capita in 1993–1994.<sup>45</sup> In all these “outliers” (except for Tacna, the one place where Fujimori’s coalition won a department capital in 1993), the department capitals were taken by opposition parties rather than by independents (as was the capital of Ucayali), and by relatively large margins. Acción Popular won in Lambayeque with 56 percent of the vote and in Loreto with 40 percent, and APRA won in Madre de Dios with 24 percent. In the five other departments where parties won capitals, the allocation of funds was more appropriate to relative income levels: most of them were poor and merited larger increases.<sup>46</sup> Also, in all of the outlier departments (including Ucayali), parties won most of the provincial municipalities. Parties also fared reasonably well in the district municipalities, although independents tended to dominate in the smallest ones. This situation changed by the 1995 elections, when independents dominated across the board.

A plausible hypothesis for the disproportionate increases to these better-off departments is that Fujimori felt more threatened politically in these areas by the parties, which retained some local organizational capacity, than by independents. Fujimori’s Cambio 90–Nueva Mayoría had difficulty organizing on a national level and fielding credible local government candidates in the municipal elections (see Crabtree 1995). Thus in response to the electoral results, Fujimori may have tried to build support in the smaller district municipalities to counter the power of the parties in the provincial capitals. The municipal fund reallocation undoubtedly redistributed resources from large to small municipalities. Although it is not clear that these reallocations had significant effects on the results, parties fared less well in department capitals in the 1995 municipal elections, winning in only four of them, with independents taking the rest.<sup>47</sup> Yet this shift did not benefit Cambio, which was unable to win any department capitals.

In any case, Fujimori’s political objectives in redistributing munic-

45. A plausible explanation for the disproportionate attention to Madre de Dios is that it traditionally received high levels of expenditures as well as tax concessions due to the two Belaúnde administrations’ plans to build a “*carretera marginal*” through the department. The Fujimori government’s increases may have been an attempt to make up for the extreme drops in expenditures that the department experienced in the late 1980s and early 1990s. The authors would like to thank Felipe Ortiz de Zevallos of Apoyo for raising this point.

46. Parties also captured several district capitals: Huancavelica (won by the PPC), which had a high increase but meager income levels; Ica (won by APRA), which had slightly below-average income levels and some increase in funding; Junín (won by AP), which is poor and received a high increase; La Libertad (won by APRA), which is relatively wealthy and had a decrease; and Piura (won by APRA), a poor department that received a large increase in funds.

47. Most of the capitals where parties won in 1996 were traditional strongholds: Arequipa (Frenatraca), Chiclayo (AP), and Trujillo (APRA). Acción Popular was reelected in Huancaayo, meanwhile, and Obras won in Piura.

ipal funds in these atypical cases were secondary to the objective of reducing Lima's access to resources. This priority helps to explain the diffuse political effects of the fund reallocations. None of the outliers ranked in the top ten departments where support for Fujimori increased the most in 1995. Indeed, in one of them (Loreto), he lost in 1995 (see table 3). Nor did Cambio candidates benefit in November 1995. Parties were able to maintain their traditional support in a few provincial cities. Also, it remains unclear whether voters associate local-government issues and performance with national-level politics. The effects of increasing municipal funds on electoral outcomes at the national level are probably as diffuse as those of expenditures made via demand-based social funds like FONCODES. Regardless of the electoral outcome, the fund reallocation seems to have had positive effects in getting resources to poor and previously neglected municipalities.

### INFES

Another form of discretionary expenditure was INFES, the school infrastructure fund managed by the Ministerio de la Presidencia. This entity was also clearly influenced by the government's political objectives after 1993. Public-opinion polls taken in late 1994 cited school infrastructure as one of the primary achievements of the government, ranking closely behind the defeat of Sendero. While 36 percent of those polled cited school infrastructure as the primary achievement, only 11 percent cited control of inflation and 10 percent, stabilization of the economy.<sup>48</sup> The government was no doubt aware that this expenditure was potentially lucrative in political terms and may have tried to reverse the negative public image it had created in 1993 by proposing to decentralize education. A major campaign promise of Fujimori's was to inaugurate one school per day from the onset of 1995 until the elections.

In 1990 INFES expenditures totaled 32,000 (in 1994 U.S. dollars), but in 1991 they jumped to almost 195,000. These expenditures increased to almost 30 million dollars in 1993, 112 million in 1994, and 192 million for the first five months of 1995. The structure of expenditures also changed. In 1990, investment in school construction accounted for 82 percent of total expenditures. This share increased to 99 percent in 1994–1995.

Lima and Callao received 61 percent of the new schools in 1994 and 51 percent during the first three months of 1995. To some extent, this statistic counters the trend observed earlier, particularly for the municipal fund. When the number of schools is divided by the population, Lima still had the highest rate, with 42 new schools per million inhabitants (1994–1995) (see table 6). Because FONCODES and the municipal funds were

48. *El Comercio*, 9 Sept. 1994, p. A9.

TABLE 6 *Distribution of New Schools Provided by INFES in Peru between January 1994 and March 1995*

<i>Department</i>	<i>Illiteracy Rate</i>	<i>Number of New Schools</i>	<i>New Schools per Million Population<sup>a</sup></i>
Apurimac	36.6	3	7.5
Ayacucho	34.4	12	23.5
Huancavelica	30.2	14	34.7
Cajamarca	25.3	13	9.9
Cuzco	21.5	22	20.3
Huanuco	21.5	9	13.0
Puno	21.5	4	3.6
Ancash	19.0	16	16.1
Amazonas	17.0	13	35.9
Pasco	13.3	4	16.7
Junín	12.0	12	10.8
Piura	11.6	11	7.7
La Libertad	10.0	20	15.2
San Martín	9.5	6	10.0
Loreto	8.4	3	4.0
Lambayeque	7.5	8	8.2
Ucayali	6.4	2	5.7
Arequipa	5.2	11	11.5
Moquegua	5.2	4	30.1
Tacna	3.6	1	4.3
Madre de Dios	3.0	1	13.5
Tumbes	2.6	0	0.0
Lima and Callao	2.2	310	42.6
Callao	1.7	0	0
Ica	1.9	20	33.8
Total		519	
National averages	10.7		22.5

Source: Ministerio de la Presidencia.

<sup>a</sup> Based on 1994 population figures.

concentrated outside Lima, Fujimori may have wanted to use at least one form of highly visible discretionary expenditure to guarantee continued political support in Lima. Moreover, INFES was a tool that was beyond the realm of influence of the popular mayor of Lima, Ricardo Belmont.

Other departments such as Huancavelica and Amazonas also gained, at rates of 35 to 36 new schools per million inhabitants. Particularly striking is that the number of schools relative to population cannot be explained by differences in the illiteracy rate. Except for Huancavelica, many of the departments with high illiteracy rates received low benefits

from the INFES program. For instance, Apurimac, with the highest illiteracy rate among all departments of 37 percent, received only 3 schools in 1994–1995 (which translates into 7 schools per million inhabitants). In contrast, Ica, with the lowest illiteracy rate (1.9 percent) and relative wealth compared with many sierra departments, received 20 schools (34 schools per million inhabitants, the third-highest rate). Clearly the INFES program was not guided by a need to equalize differences in illiteracy across departments. It is interesting to note that the departments benefiting most from INFES expenditures—Amazonas, Ayacucho, Cuzco, Huancavelica, Moquegua, and Pasco—are six of the ten departments where support for Fujimori increased the most from 1993 to 1995 (see table 3).

INFES expenditures probably had some social positive impact, but they were relatively haphazard. For example, new school buildings do little good in areas where teachers and school supplies are unavailable. Municipal funds, despite outlier cases with political explanations, seem more closely correlated to income levels and size of municipality than do INFES allocations. The same is true for FONCODES expenditures, which had a reasonably close correlation with poverty levels. Although the overall effects of these expenditures were progressive, sufficient deviation exists (such as INFES spending in Lima and the skewed distribution of some FONCODES and municipal fund expenditures) to raise genuine concerns about the government's objectives.

#### THE ABSTENTION FACTOR

The premise of this article is that voting records played a key role in determining the pattern of public expenditure, which then had some impact on the political sustainability of the reform program. The evolution of voter abstention patterns during that period is relevant. One would expect that departments less active in the political arena would have been less successful in receiving assistance through a demand-based program like FONCODES and possibly other government programs. One would also expect abstention to be high in the regions with high levels of terrorism where Fujimori had strong support in 1990. The three departments with the highest rates of terrorism displayed steep abstention rates in 1990 and 1995, despite a decrease in terrorism. In Ayacucho, voter absenteeism totaled 41 percent and 57 percent in the first and second round of the 1990 elections. In 1995 it was still 45 percent. In Huancavelica, absenteeism exceeded 40 percent in 1990 and 1995.

National rates of voter abstention have risen steadily in Peru since 1985, even after the "defeat" of Sendero in 1992. National abstention rates were 9 percent in 1985, 23 percent in the first round of 1990, and 31 percent in 1995. In most departments (seventeen out of twenty-five), abstention increased from 1990 to 1995. Even after the capture of Sendero leaders, con-

tinued high abstention rates may reflect related demographic trends. For example, it is likely that some voters who are still registered in their home departments migrated elsewhere to escape violence but did not change their registration because they planned to return eventually.

Yet the abstention trends suggest that terrorism is not the sole explanatory variable. Abstention may have increased along with the increase in terrorism and simultaneous collapse of the state, and recent government efforts to redirect public expenditure may have been insufficient to address a ten-year trend. The most significant increase in abstention took place in Madre de Dios, rising from 20 percent in the 1990 second round to 47 percent in 1995. Yet Madre de Dios had the lowest incidence of terrorism in Peru, received the highest per capita FONCODES disbursement (at 52 dollars, more than triple the national average), and garnered a marked increase in municipal funds despite a relatively high average income per capita. A possible explanation for the high levels of abstention is the remote location of Madre de Dios and the absence of strong political or cultural links with the rest of the country. While terrorism was certainly a factor in some departments, these results suggest that other variables relating to civic community and political culture may also be involved.

In this regard, Robert Putnam's work on social capital is relevant. Putnam has found that the level of "civicness" in Italian communities (a quality he defines according to the number of autonomous organizations, such as choral groups) was a much more important factor in determining differences in performance among decentralized regions than was physical or human capital (see Putnam 1993). The degree of civicness in various Peruvian departments may well have significant impact on electoral behavior. An attempt to measure civicness is beyond the scope of this article and probably difficult in rural Peru, but we can still posit that it may have played some role. This factor could explain the low level of "responsiveness" to significant increases in public expenditures and continued high rates of abstention in Madre de Dios. Also, FONCODES expenditures are, at least in theory, allocated according to priorities set by the recipient communities themselves. The extent to which this was not the case in Madre de Dios, where higher expenditure levels probably did not reflect autonomous demand for projects, may also help to explain the lack of response to expenditure increases. This low response to significant increases also supports the thesis that expenditures allocated according to political criteria are less likely to have positive effects than are those allocated in response to autonomous demand or genuine needs.

The high abstention rates may also reflect the extent to which alternatives to Fujimori in 1995—the parties and Pérez de Cuellar—were not credible ones, a situation that curtailed interest in voting. Most worrisome, the trends suggest that despite increased economic growth and the



reorientation of public expenditures, a significant part of the Peruvian population remains marginalized in economic and political terms.

## CONCLUSION

This article began with the proposition that the economic and political changes in Peru in the past five years have affected voting patterns and government responses to those patterns in important ways. Severe economic crisis, the deterioration of state capacity, and the discrediting of the traditional party system have resulted in a voting pattern that resembles the “retrospective voting model,” one in which voters reward or punish incumbents based on their performance in government rather than voting according to partisan affiliation or other reasons like the personality of the candidate. We posit that Peruvian voters evaluated government performance according to at least three criteria: economic trends, progress in fighting terrorism, and the extent of public expenditures and transfers.

Accepting the dominant importance of the first two, we have explored the role of the third factor. We found that discretionary public expenditures clearly responded to voting trends, being redirected to areas where Fujimori lost in the 1993 referendum. In general, this approach resulted in substantial redistribution of public resources from the capital city of Lima to remote rural regions of the country previously neglected by various Peruvian governments.<sup>49</sup> Yet we also found several instances of expenditures being allocated in a manner having little to do with relative levels of poverty or social indicators, with benefits going disproportionately to less-needy groups.

The effects of these trends in expenditure on voting patterns are less straightforward than the effects of voting on expenditures, although most increases had some positive effects on support for Fujimori. In the case of FONCODES, if one compares votes in 1993 with those cast in 1995, support for Fujimori evidently rose in many areas where expenditure was increased, particularly in the departments where Fujimori’s support in the referendum had been lowest. Yet in some departments where expenditures increased the most, support for Fujimori did not grow nearly as much as in other departments. In the case of municipal funds, support for Fujimori increased in virtually all departments enjoying increased municipal expenditures between 1993 and 1995. Finally, the six highest recipients of INFES funds make up the majority in the top ten departments where support for Fujimori increased most between 1993 and 1995.

49. One exception may have been the first administration of Fernando Belaúnde Terry (1963–1968), which spent a large part of public funds extending education to rural areas of the country. Yet critics argue that much of the expenditure went to higher education, which did not benefit the poor.

A related question is whether these expenditures enhanced the political sustainability of reform. The results suggest that they influenced voter behavior in some departments, indirectly increasing support for continuation of the reform program. This finding suggests that building support for reform may at times require "inefficient" public expenditures. New schools like those built by INFES are a positive benefit, although the money could have been better spent on a comprehensive effort to improve basic education. Expenditures via mainstream ministries may be more optimal from the perspective of the public sector intent on reducing poverty, but they tend to be less visible, take a long time to yield positive results, and therefore achieve less political impact. Because reforms are often reversed by popular opposition prior to their completion, it is no surprise that governments try to deliver more visible and immediate results. If discretionary expenditures are directed at the poor, then they affect equity positively as well. In Peru, trends in discretionary expenditures were progressive, although the overall distribution of public expenditures remained skewed toward wealthier sectors. Yet the discretionary nature of the expenditures increases the temptation for governments to use such funds for political purposes, as evidenced in several outlier cases in Peru. Little guarantee can be given that the outcome of an increase in discretionary expenditures would be progressive in other contexts, highlighting the risk of replicating the Peruvian experience.

Discretionary expenditures had three kinds of effects in Peru. The first was furnishing short-term welfare benefits. The second was providing political space for completing reforms and initiating growth. Third, an additional longer-term political benefit may have accrued as previously marginalized groups obtained experience in organizing, cooperating with local institutions, and making more effective demands on the government through the social fund.<sup>50</sup> The extension of resources to governments in poor and remote areas may have boosted local government. How lasting these effects will be can be determined only after the results of future elections become available.<sup>51</sup>

In closing, it is important to note that a great deal remains to be done on democratic and economic reform agendas in Peru. The erosion of parties may have catalyzed Peruvian electoral behavior. Yet parties continue to play an important representative function in all democracies (for examples, see Duverger 1967; Sartori 1976). In addition, some evidence sug-

50. In its early years, FONCODES's relations with NGOs and local organizations were troubled, in part because the program was not operating in a truly demand-based manner. Several changes in management and the program's better record since then suggest that its performance on this front has improved (see Graham 1994).

51. The municipal elections on 12 Nov. 1995, which reflected a growing tendency to vote for independents, were too close to the April 1995 elections to reflect any major shifts in public expenditures.

gests that countries with strong party systems have an advantage in stabilizing inflation and implementing economic reforms (see Haggard and Webb 1994).<sup>52</sup> The development of a viable party system remains on the agenda for Peru, along with a critical need to develop democracy according to the views of civil society. High levels of abstention in Peru, while in part attributable to terrorism, indicate low levels of civicness, public awareness, and experience with democratic politics. For example, the high levels of public support for Fujimori's shutting down the Congress and the judiciary reflect not only the weakness of those institutions but low levels of civic understanding of their importance. In the short term, "the Fujimori revolution" may indeed have had significant—if unintended—effects on democracy in Peru. In the longer term, consolidating the democratic process will require substantial institutional development and civic education.

A great deal of progress has been made in economic reform in the arena of macroeconomic policy and also in key institutional areas such as tax reform and reform of the social security system. But major reforms remain on the agenda, especially those that would enhance equity in the longer run, such as reforming the institutions that deliver basic social services. Progress on this front is also key to civic education. While discretionary public expenditures or safety-net measures can have welfare-enhancing effects in the short term, positive longer-run effects hinge on a macroeconomic framework that can generate sustained growth and on institutions that can deliver basic health and education services. In addition, discretionary public expenditures can by their nature be reversed or redirected at the whim of political leaders. Achieving a distribution and allocation of public expenditure determined by efficiency and equity rather than by executive discretion will be critical to the sustainability of reform in Peru, for political and economic reasons.

A number of themes pertain to other countries undertaking reforms. The first is the role of public expenditures in sustaining reform. In Peru, the expenditures were not optimal ones from the standpoint of reducing poverty. Yet the expenditures contributed, directly or indirectly, to electoral support for Fujimori, especially in areas where support had fallen in 1993, suggesting that such expenditures may help sustain reform at critical political moments. But when expenditures were allocated in an opportunistic manner rather than according to need or autonomous demand, the results suggest that they were far less effective at generating political support and may even have had negative effects. Cases in point are Loreto, where Fujimori still lost in 1995 despite a disproportionate in-

52. The exception would be cases of extreme crisis, such as periods of hyperinflation, when even highly polarized party systems like those in Bolivia and Poland have succeeded in stabilizing and implementing major reforms.

crease in municipal funds, and Madre de Dios, which received extraordinarily high levels of FONCODES expenditures and large increases in municipal funds but registered much less increased support for Fujimori between 1993 and 1995 than other departments.

A second emerging theme is the role of party systems. Fairly broad agreement exists on the importance of parties. Yet their performance varies in less-developed democracies. Where systems are elitist and clientelistic (as in Peru) or highly partisan and semi-authoritarian (as in Mexico and Senegal), they may actually limit democracy. In Peru, deep socioeconomic crisis and inadequate government response resulted in a major discrediting of the party system and in a surge of independent candidates backed by broad coalitions rather than by established parties. The short-term effects of this trend seem to have been the increase in retrospective (as opposed to partisan-oriented) voting patterns and a consequent reevaluation of the weight of votes outside Lima. The government's response was to redirect public expenditure from the capital to poor and remote regions on an unprecedented scale. Although this outcome does not discount the importance of parties in the long term, it suggests that a reduction in the role of clientelistic parties, whether triggered by economic crises or by internal party reforms, can change the ways in which governments respond to voter behavior and thus indirectly build a broader base of support for economic reform.

Finally, the results of our analysis suggest the need for a reevaluation of the utility of discretionary public expenditures during periods of reform. They also suggest that such expenditures, if directed to poor and previously marginalized groups in a demand-based manner, can help in sustaining reform. This point is particularly relevant for countries where social-sector institutions are inefficient or underdeveloped and will require much time before they yield results. Yet whatever positive lessons emerge, a risk is also involved in relying on discretionary expenditures. When they are allocated in an opportunistic political manner rather than according to genuine need or autonomous demand, they are unlikely to have positive political effects. In addition, these expenditures may come at the expense of critical social sectors, such as health and education. The present article is merely a starting point in exploring these themes.

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