



## Pedro Beltrán, Rómulo Ferrero and the origins of neoliberalism in Peru: 1945-1962

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### Abstract:

*This essay offers an historical perspective on the economic reforms carried out by the Chilean civic-military dictatorship that governed the country between 1973 and 1990. The regime applied some of the earliest and most extensive neoliberal reforms in Latin America, which included labor flexibilization, the end to agrarian reform, capitalization of the countryside, and privatization of public enterprises in almost all sectors, including pension funds, healthcare and education. Unlike the rest of Latin America, after the mid-1980s these reforms produced high growth, although they generated economic inequality and the concentration of wealth. The reforms must be understood in the context of the ideological polarization of the Cold War, which meshed with an internal conflict between views favoring the free market on the one hand and state intervention on the other. This conflict grew after the Depression of 1929 until it could no longer be contained within Chile's frustrating political and administrative system. Outlined in the 1950s and applied in authoritarian fashion during the 1970s and 1980s, the reforms were finally consolidated under the democracy of the 1990s.*

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To understand the dynamics of economic theory in Peru, one must understand the central role of the Catholic Church in this country and the importance of the great landowners in national political life. In Peru the defeat of the liberal movement in 1867 consolidated the power of the church in the construction of mentalities through its influence on education and the media. A complete and conceptual work that introduces the theme of neoliberalism in Peru is the book by Hernán Aguirre Gamio (1962).

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The introduction of neoliberal ideas in the country springs from two interrelated sources. One is the Austrian economist von Mises, whose ideas have been introduced in Peru by Pedro Beltrán Espantoso (Salazar Larraín, 2008) through his newspaper *La Prensa* and the economic adjustment policies of 1948-49. There are only two works to understand the life of Pedro Beltrán: the short biography of Arturo Salazar Larraín (2010), his collaborator in the newspaper *La Prensa* since the 1940s and friend until his death, and the work of Aguirre Gamio (1962). Two books written by Beltrán (1976 and 1994) shed some light on his thought, but his main corpus has appeared in the editorials in *La Prensa* between 1948 and 1962. A work by Chirinos Soto (1984) reflects on three journalists of the time including Beltrán, and a posthumous book appeared under the title *Pedro G. Beltrán: pensamiento y acción (selección de textos)* (1994). Aguirre Gamio (1962) begins his work by contextualizing the country where the debate took place between conservatives, developmentalists and neoliberals, and he separates the classical liberal ideas of the 19th century from the neoliberal ones embraced by Beltrán.

The other theoretical current originates from the Christian Social doctrine of Wilhelm Röpcke in the aftermath of the Second World War and was introduced in Peru by Rómulo Ferrero Rebagliati (Yepes, 1989). Aguirre Gamio (1962) focuses on the influence of Röpcke, which is later seen through the foundations of the Christian Democratic Party in 1950 and the creation of the Universidad del Pacífico in 1962.

I will attempt here to delineate the course of neoliberal ideas from 1938 until 1962, when the Universidad del Pacífico was founded. My treatment in the present text ends before the introduction in the country of the “neoliberal university education” of Röpcke.

Beltrán worked very closely with Rómulo Ferrero (1907-75) from 1928, when Ferrero, recently graduated as an agricultural engineer, began work at the experimental agricultural station of Cañete created by Beltrán. Ferrero’s relationship with Beltrán in Cañete may have sparked his interest in economic issues: he then enrolled for a post-graduate degree in the faculty of economics and administration of the Pontificia Universidad Católica, graduating in 1940. Unlike Beltrán, a political ideologist who used his diary as a pulpit to disseminate his dogma, Ferrero was a man of science who studied and published extensively. P.T Bauer (1972) cites him extensively in his *Dissent on Development*. Ferrero published both in English and Spanish, with his works in the *Trimestre Económico* the most cited ones in the Spanish language.

The argument that I am going to develop here is about the crucial role of Pedro Beltrán as a creator of ideas in Peruvian society between 1934 and 1968 through wide-reaching mass media. He was the first follower of the Austrian neoliberals since the Lippmann colloquium in 1938 who had the vision to use the press to disseminate ideas. His work was complemented by that of Rómulo Ferrero, who collaborated with him from 1928. He was one of the first two Latin Americans to join the Mont Pelerin Society, together with Eugenio Gudín from Brazil, in the mid-1950s. He combined an active political life and his ideals with his personal role as owner of a means of mass communication, and he shaped the predominant mentality in Peru up to the present.

## 1. Pedro Beltrán Espantoso, the militant neoliberal and his ideas (1897-1979)

Don Pedro Beltrán was the son of a landowning family, heir of the old Beltrán family of Cañete, owners of the Montalván estate and of a house in the centre of Lima known as the Casa Belaochaga from the name of the street on which it was located. He was a Peruvian aristocrat trained as a liberal in England, a friend of Lionel Robbins and the LSE group at the end of the First World War. He was a man considered for his professional accomplishments as well as for his fortune, as noted in the *Encyclopaedia Britannica*<sup>1</sup> and in his obituary in the *New York Times* (Gupte, 1979).

Upon returning from London, Beltrán transformed his plantation from sugar to cotton and became the country's largest cotton exporter. During this process, while still very young, he organized the farmers of the Cañete valley and in 1926 they installed an Estación Experimental Agrícola (agricultural experimental station) to jointly work on seed improvement and natural pest control. In that period he himself piloted the biplane fumigation planes. Attempting to increase profitability, he sought to improve cotton seeds and analyze the relationship between irrigation, fumigation and seed varieties in the Cañete valley. In 1929, there came to work the engineer Rómulo Ferrero, recently graduated from the Universidad Nacional Agraria y de Medicina Veterinaria. Beltrán was a cotton promoter, president of the (then) National Agrarian Society, and a politician who founded the National Agrarian Party in 1930 with Gerardo Klinge and Manuel Gonzales Olaechea, both landowners in the area.

Trained at the LSE during the years of the First World War, Beltrán may not have known about von Mises's ([1912] 1934) work of that time, which had been published in German when he began studying in London in 1913. But the English version of 1934 was essential reading for a person working on inflation, growth and monetary policy and who had sat on the board of the Central Reserve Bank of Peru since 1929. Even though the English version was published only in 1983, the following work by von Mises ([1919] 1983), published in Germany just after the First World War, was very influential at that time, along with *The Economic Consequences of the Peace* by Keynes. Then, without a doubt the book by von Mises ([1929] 1977), *Critique of Interventionism*, left a deep impression on Beltrán, because he too had worried about both state interventionism and inflation throughout his life (Beltrán, 1976).

Beltrán's interview with the Peruvian journalist César Hildebrandt in 1978 (Hildebrandt, 1978), months before his death and after having lost his hacienda and his newspaper, emphasized the concept of freedom understood in the most neoliberal sense:

HILDEBRANDT: You are a living witness of a long period in the history of Peru. What do you think was the most important period for the country in the last 60 years?

BELTRÁN: It seems to me that the most important period is that to which we should all expect to return. And it was when, at the end of the Coalition, the year '95, instead of putting a dictator, Piérola was launched and, naturally, was elected, because it was the man who had waged the general uprising against the military. From there it was followed by elections, there was absolute liberty for all. That was a golden age for Peru. The main thing is that there is liberty. But effective freedom. It is a terrible thing that since then things have moved so slowly, with some exceptions.

HILDEBRANDT: What would you most regret to the Velasco regime?

BELTRÁN: That he was a dictator [...].

<sup>1</sup> See <https://www.britannica.com/biography/Pedro-Gerado-Beltran>

For comparison, Hayek said, in the interview Tibor Machan gave him in the libertarian magazine *Reason* in February 1975,<sup>2</sup> after receiving the Nobel Prize in economics:

REASON: Do you find the totalitarian or repressive aspects of the communist bloc or socialist societies an integral part of socialism, or can socialism emerge and sustain itself with reasonable success without these measures?

HAYEK: It could not have been very likely to escape that development because I'm sure a totalitarian socialism is incompatible with a really democratic system. Once you have abandoned democracy, any authoritarian government in power will be driven, just to maintain itself, to take all kinds of repressive measures, even if it does not intend to do so from the beginning.

Indeed, it is possible that through *Economica*, the LSE magazine, Beltrán had learned about the work and ideas of Hayek and become interested in them in the 1930s. Since Hayek worked on the theory of cycles of his teacher von Mises, it is possible that Beltrán came to know him by studying this topic.

Beltrán and von Mises ([1919] 1934) have in common a phobia of inflation and the conviction that, with controlled inflation, the economy finds its growth and stability. Von Mises (1934, p. 88) says:

The increase in the amount of money does not mean an increase in income for all individuals. On the contrary, that of those sections of the community that are the last to be reached by the additional quantity of money will have decreased, as a consequence of the decrease in the value of money called forth by the increase in its quantity [...]. The reduction in the income of these classes now starts a countertendency, which opposes the tendency to diminish the value of money due to the increase in income of the other classes, without being able to rob it completely of its effect.

Beltrán says in the Hildebrandt interview of 1978:

Well, someone asked then: how do you see the solution for the current economic crisis? It seems to me that the question is wrongly put. What you want to say is where is the inflation coming from. That's how I understand your question. If you know what is its cause, you will know how to stop it. Inflation is the result of printing bills. That is what was once called "the little machine". I do not know if you remember, you are very young. Now it is called "program of means of payment". They no longer say the bill word. [...] The rise in the cost of living is the inflation that occurs in so many countries, in some more than in others. We are, unfortunately, producing large-scale inflation. And here you do not know what is the real value of the bills' issuance.

According to the *Liberty* portal editor,<sup>3</sup> "Mises extended his lifelong research on the distorting effects of inflation on the real structure of production. In this paper, he is particularly interested in exposing the distorting effects of military expenditures financed by inflation."

Beltrán also thought that inflation was the enemy of the economy and that everything must be done, to keep inflation under control. For Beltrán (1976), inflation was the monetary product of deficit spending financed by the central bank. He referred to the increase in the amount of money as "the little machine" (*la maquinita*) in his two newspapers, *La Prensa* and *Ultima Hora*, using the metaphor of the printing presses of the central bank printing tickets. There Beltrán (1976) wrote and repeated for three decades that "the little machine" was an enemy of the poor, following the reasoning of von Mises.

<sup>2</sup> Available at <http://reason.com/issues/february-1975#page/6>

<sup>3</sup> At <https://www.econlib.org/library/Essays/LtrLbrty/msEdBib.html>

## 2. Pedro Beltrán and his public and political life

When Beltrán's position as a landowner was stabilized at the end of the 1920s, when he was the most important cotton producer in the country in 1928, he entered public life. First, in 1929, he joined the board of the Central Reserve Bank of Peru (Banco Central de Reserva del Perú, BCRP), on behalf of the shareholders of some banks (*Memoria* of the BCRP, 1929). Then, in 1930 he became vice president of the BCRP, a position he held until 1934 (*Memorias* of the BCRP, 1930-1934). That year he bought the newspaper *La Prensa* (1934) and turned it into a platform from which to radiate the ideas of the new classical liberalism. Beltrán was thus the promoter of liberal ideas in Peru from 1934, above all proselytizing the ideas of von Mises. At the beginning of the Second World War, Beltrán went to the United States and disappeared from the public scene until 1944, when he was appointed ambassador to Washington. There is no public record of the reason for his disappearance from the public scene between 1938 and 1944, the war years.

For Gamio (1962), the newspaper *La Prensa* is the main means of disseminating neoliberal ideas since the 1930s but more markedly since the 1940s. According to Aguirre Gamio, between 1934, when Beltrán purchased *La Prensa*, and 1948, he spent a long time out of Peru due to bad health. There is evidence that he was the head of the Peruvian delegation to the Bretton Woods Conference in 1944 and ambassador to Washington until 1945.<sup>4</sup> In 1945, he was elected congressman with his National Action Party.

On the purchase of the newspaper in 1934, Salazar Larraín (2008, p. 122) says two things:

Fighting against inflation and living in a society in which freedom prevails, and the truth prevails over falsity, the market over control, and sense over politics, required mass media that would help to form within the Peruvian society that inner strength that we call public opinion. The preacher, moreover, always needs a pulpit to preach.

This is how the project of a newspaper germinated in Beltrán, which could bring to Peruvians the truths that he brought in him and the need for freedom.

The details of the purchase are as follows. Beltrán met José Quesada Larrea and the family Miro Quesada, owners of the newspaper *El Comercio*, in 1934. In 1936 the Miro Quesadas sold their shares to Quesada Larrea. The sale occurred after an American Popular Revolutionary Alliance (APRA) militant murdered Antonio Miro Quesada, editor of *El Comercio*, and his wife.

(He had the impulse) to recover the newspaper *La Prensa*, founded by Pedro de Osma, seized for several years by the government of Leguía and returned in 1934 to its owners by the government that overthrew Leguía.<sup>5</sup> On July 20 of that year, the newspaper reappears under the direction of Beltrán. In his first journalistic essay, the editorial of that day, he raises the same ideas, the same ideals and the same conditions of freedom that Beltrán hoped in order for the Peruvian society to develop with freedom and equity: "Let all voices be heard", the desire of a multiclass society "without prejudices of class, without exclusivism of circles" and "we condemn both conservatism and revolutionary agitation, which is anarchy and sterility" (Salazar Larraín, 2008, p. 123).<sup>6</sup>

<sup>4</sup> See [http://www.centerforfinancialstability.org/bw/Who\\_Was\\_at\\_Bretton\\_Woods.pdf](http://www.centerforfinancialstability.org/bw/Who_Was_at_Bretton_Woods.pdf)

<sup>5</sup> Sic! Aguirre's note Gamio (1962). Actually, it was returned by the government of Mariscal Benavides, who did not overthrow Leguía, but was elected president that year.)

<sup>6</sup> Between 1930 and 1935 there was political turmoil led by the American Popular Revolutionary Alliance (APRA) party, which had been constituted as an anti-imperialist and anti-oligarchic party. APRA militants were accused of assassinating President Sanchez Cerro in 1932, at the San Beatriz racecourse, and also 12 army officers in 1932 inside the O'Donovan barracks in a revolt in Trujillo, in northern Peru and where the army originated. The person in charge of the response to the Trujillo insurrection was Major Alfredo Miro Quesada, a relative of the family that owned the newspaper *El Comercio*. The official response was the shooting to death of 102 people associated with the APRA, related to the coup. Shortly thereafter, José Antonio Miro Quesada, director and owner of the conservative

Beltrán was placing himself in the classical liberal position that he had studied at the LSE during the First World War. According to Aguirre Gamio, Zegarra in his *La Prensa* texts of the 1930s defined Beltrán's liberal footprint as a body of political institutions and an economic technique of production. Zegarra then uses the definition of 'liberal' written in the *Encyclopaedia Britannica*, where it is defined as the belief in the value of the human personality and a conviction that the source of all progress lies in the exercise of individual energy. It involves, he says, an expeditious use of state power to create the conditions within which individual energy can develop (Aguirre Gamio, pp. 66-67). This liberal vision would change in the late 1940s, to be replaced by the neoliberal view, after the Lippmann Colloquium of 1938.

After winning the 1939 elections, the Prado government enacted Law n. 9140 of 1940 on "economic and business protection" to boost industrialization through state intervention. The policy was that of a stable exchange rate, which was possible due to the high level of reserves available between the 1930s and the 1940s. The rate of economic growth was very high and it was expected that Peru would solve the problem of debt defaults before the end of the Prado government (1940-45). The problem of the debt of the 1920s, which entered into a moratorium on July 1, 1931, still had to be settled. To that end, Beltrán was recruited in Washington in 1944. President Prado had worked with him in the BCRP, when one was president and the other vice president of the bank, and sent him to negotiate some agreements on this matter before the elections of 1945. There is evidence that he attended the Bretton Woods conference as head of delegation in June 1944 (Gupte, 1979) and that he made ties with the US Treasury Department and the Foreign Bondholders Protective Council to deal with the issue of debt.<sup>7</sup>

The reason for his return was that President Prado himself needed someone in Washington who understood economics to take part in the Bretton Woods negotiations and who knew enough about banking to renegotiate the debt of the unpaid American bonds of 1931. Beltrán and Prado had been together in the directory of the BCRP in 1934 and they knew each other well. Peru in 1944 was in an advantageous economic position, having been exporting cotton, sugar and minerals during the war years.

In this framework came the Peruvian elections of 1945. It was the first time Beltrán had to choose between conservative interventionism and progressive interventionism and he decided not to run with the conservative list that Prado supported. The reason is that it endorsed economic policies that were anathema to him. Nor did he run with the list that had the majority thanks to its being the product of a common front of the left and the center, the National Democratic Front (FDN). APRA was a participant and, from his point of view, they had their hands covered in blood because of the murder of the Miro Quesadas, owners of the newspaper *El Comercio*, in 1935. Instead, Beltrán ran with his own small party, to the right of the conservatives, and did everything possible from that opposition place to make the government liberalize the exchange rate, fixed in 1936.

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newspaper *El Comercio*, and his wife were murdered in 1935. The turmoil ended with the deportation of the leaders and the banning of the party in 1935.

<sup>7</sup> "Peru: negotiation file, 1944-1945," *Guide to the Foreign Bondholders Protective Council Records*, Collection number: M1287, Department of Special Collections and University Archives, Stanford University Libraries: Box 149, available at [https://oac.cdlib.org/findaid/ark:/13030/kt767nf0fp/entire\\_text/](https://oac.cdlib.org/findaid/ark:/13030/kt767nf0fp/entire_text/)

Table 1 – *Nominal exchange rate, yearly average*

	Peruvian soles per US\$
1934-36	4.18
1937	3.96
1938	4.47
1939	5.33
1940	6.17
1941-49	6.5
1950	15.43

Source: Superintendencia de Bancos (BCRP) (1953), *Memoria*, annex XIX.

Notes: between 1941 and 1949 the official exchange rate was \$6.5 per dollar; with the Decreto Ley 11208 the official parity was suspended on November 12, 1949. The average yearly quotes of the US dollar in the free market were \$12.54 in 1947, \$14.05 in 1948, and \$18.19 in 1949.

After the elections of 1945,<sup>8</sup> Don José Luis Bustamante y Rivero was elected; he was the candidate of the FDN, which contained the Peruvian APRA party, the Communist party, the Peruvian Action party, the Independent Civic Action party, the Peruvian Socialist party and the Peruvian Democratic Action party.<sup>9</sup> Among those who supported the FDN as independents were engineer Rómulo Ferrero Rebagliati (Yepes, 1989), later minister of finance twice with Bustamante and member of the Mont Pelerin Society, and Enrique Garcia-Sayan Hart, chancellor of the same government, who introduced the idea of and defended a 200-mile nautical border. Rómulo Ferrero enjoyed the support of Beltrán and the cotton landowners and was appointed minister of finance at the beginning of the government in July 1945. He was tasked with liberalizing the exchange rate, which had been stable for a decade.

However, Ferrero and the cotton farmers could not overcome the opposition and resistance of the APRA and the progressive forces within the government, and he resigned in September, two months after being appointed, without having managed to release the exchange rate anchor. Given the impossibility of removing it, the solution for cotton exporters was to sabotage the government and, instead of exporting the crops, to store them (see table 2). The physical volumes exported were reduced between 1941 and 1944 in what appears to be a storage stage of the commodity during the war. At the end of the war, the physical sale doubled, and the accumulated stock was sold with the change of government and the arrival of peace in Europe, with the hope that the exchange rate would be liberalized. When that did not happen in 1946, the cotton growers apparently started storing it again, until the exchange rate liberalization of 1949. The cotton export of 1947 was equivalent to that of 1945, and that of 1948 was even lower in volume. Since this was the main export product, the balance of payments and the growth rate of the economy were strongly related to the export of this commodity.

At the same time, Beltrán, who was a member of parliament for the National Agrarian Party, with the support of the landowners in 1946 put himself behind a law to make the APRA

<sup>8</sup> The voters were a minority of educated men in a context where 57.5% of the population was illiterate and women did not have the right to vote. The women's vote was approved for the 1956 elections and the universal vote was approved in 1979.

<sup>9</sup> This electoral result is analogous to the contemporary cases of Lula in 2003 and Lopez Obrador in Mexico in 2018, in the sense that it contained progressive forces and nonprogressive forces and was a pluri-classist government with great diversity in the sphere of economic theory and approach.

party illegal and to deport its leaders. In revenge, an APRA militant assassinated the director of *La Prensa*, Francisco Graña Garland, in January 1947.

As there was no way of obtaining a deregulation of the currency, the cotton exporters led by Beltrán with the other coastal landowners, mainly sugar producers, promoted a strike by congressmen, and in July 1947 the opposition stopped going to Congress altogether.<sup>10</sup> On July 28, 1947, six months after the murder of Graña, the Congress of the Republic was rendered inoperative because “the Constitution established that both houses of Congress, senators and deputies, should work simultaneously; otherwise, there was to be a parliamentary recess.”<sup>11</sup> What followed was the promotion of the coup of October 27, 1948. When General Odría came to government, the first thing he did was deport the APRA and Communist leaders in October 1948.

Table 2 – Cotton exports (tons)

1940	51,365
1941	82,746
1942	33,676
1943	35,691
1944	26,408
1945	59,647
1946	120,474
1947	56,375
1948	51,902
1949	57,104
1950	73,611
1951	62,586
1952	82,835

Fuente: BCRP (1953), annex XXVI, “Principales Productos Nacionales Exportados.”

Beltrán’s next public position was as president of the BCRP (1948-50) during the first phase of General Odría’s government. He was in charge of the exchange rate liberalization and the economic adjustment of 1949. He was behind the fishery, mining and oil codes, enacted in 1950 and 1951 to encourage foreign investment. The policies he enacted, especially the establishment of a policy of export-led growth despite the industrialists’ opposition, and of internal market development, reflect the influence of neoliberal ideas on him as well as his power within the country. Beltrán introduced the application of neoliberal policies in Peru for the first time at the end of 1948, when the country changed its economic model from domestic industrial development . Exports-led growth would be the solution, without public

<sup>10</sup> The pressure of the agro-export sector against the government of Dr. Bustamante y Rivero for not liberalizing the exchange rate led to the coup d’état. The antifascism of Beltrán and the coastal agro-exporters was felt when they proposed to the right-wing opposition congressmen that they stop attending the Chamber in a way that paralyzed the Congress of the Republic. They wanted a flexible exchange rate or at least one readjusted for inflation. The industrialists wanted to delay the exchange rate adjustment to be able to import cheaper inputs.

<sup>11</sup> At <https://www.iperu.org/jose-luis-bustamante-y-rivero>.

interventionism. It was the antipode of the prevailing idea of the period, proclaimed by the Economic Commission for Latin America and the Caribbean (ECLAC) in 1949.

The economic crisis of 1947-1948 was worked out with an agreement reached with the International Monetary Fund (IMF) at the end of 1948 to finance the balance of payments. It speaks of the need to prevent inflationary financing and to arrive at a unified market for the currency that clearly had deteriorated between 1946 and 1948. Foreign exchange reserves had plummeted from \$16.5 million in 1945 to \$7.4 million in 1947, with a rebound to \$12.8 million in 1948 and then \$10.2 million in 1949. The macroeconomic cost of the agro-exports strike had put pressure on the balance of payments and the exchange rate. Only in 1950 did Beltrán stabilize the exchange rate at S15.43 per dollar, with a large inflationary cost – the consumer price index doubled from 326.1 points in 1947 to 607.1 in 1950 – accompanied by the disruption of the industrial apparatus developed in the 1940s (BCRP, 1950, annex XXXII).

The Government of Peru has been consulting with the International Monetary Fund regarding measures which that Government proposes to take with a view to restoring its international payments position. Peru has been faced with a difficult problem of limiting imports because of domestic inflation and of maintaining exports because of rising domestic costs. *The measures proposed by the Government of Peru include the creation of a surcharge on imports of non-essential and luxury goods to reduce the demand for foreign exchange and to obtain a revenue which will be used to repay the Government's debt to the Central Bank and to avoid the necessity for inflationary borrowing. Exporters will be given a higher return, thus encouraging an expansion of exports.*

These proposed measures will add to the number of effective exchange rates in Peru. It is the expectation of the Government of Peru that these measures will give it time to take the further steps necessary to stabilize the financial situation and to balance Peru's international payments with a unified exchange system.

After careful consideration the Fund has approved the proposals with certain recommendations which the Fund understands the Government of Peru will follow. At the same time, the Fund has emphasized that the exchange measures can be effective only if they are accompanied by determined efforts on the part of the Government of Peru to halt inflation, to secure additional revenue from sources other than exchange taxes, and to limit the expansion of bank credit. (International Monetary Fund, 1949, p. 62, italics added).

In sum, during the years of President Bustamante y Rivero (1945-48) there was real pressure from the cotton producers, the country's main exporters, to end economic interventionism and to redirect the economy towards foreign markets, following von Mises ([1929] 1977) and the idea of growth led by the market (primarily for exports). The pressure was exerted by cutting physical exports, which fell from 1,902,059 tons in 1944, before the change of government from Prado to Bustamante, to 1,582,748 tons in 1947, before the coup d'état of General Odría against president Bustamante y Rivero in 1948 (BCRP, 1952, annex xxiv). At the same time, a final agreement was reached with the unpaid bondholders (Ugarteche, 2019) and debt service was resumed in full in the same year 1947 through Law n. 10832 of March 14, 1947 (BCRP, 1947, p. 67). The result was a balance of payments problem that first Ferrero, who returned as the last minister of finance of President Bustamante y Rivero in September and October 1948, and then Beltrán, as the first president of the BCRP of the military government chaired by General Odría, from October 1948 onward, would be in charge of solving in favor of the agro-exporters and ending the industrializing and interventionist policies introduced by the Prado government in 1940.

The obsession with adjustment concerned fiscal spending and the control of inflation, which had skyrocketed between 1947 and 1948. These issues exemplify Beltrán's concerns throughout his life, along with those of von Mises and Röpcke, among other Austrians.

Interventionism was the other obsession that Beltrán (1976) had in common with von Mises ([1929] 1977).

What Beltrán baptized “la maquina” is what von Mises refers to as the “origin of inflation”:

The first rule, or the only rule which we have to teach to everyone in explaining the problems of money is that an increase in the quantity of money brings about for the group, for the people, for the society, for the king, for the emperor who does it, a temporary improvement of the situation. But if so, why do it today only and not repeat it tomorrow? This is the only question. And this is the problem of inflation. The problem is not to increase the quantity of money. The problem is to increase the quantity of those things which can be bought with money. And if you are increasing the quantity of money, and you are not increasing the quantity of things you can buy with money, you are only increasing the prices which are paid for them. And in time, if the increase in money continues, the whole system becomes a system without any meaning and without any possible method of dealing with it. [...] *Nothing is inflationary except an increase in the quantity of money.* Either there *is* an increase in the quantity of money, or there is *no* increase in the quantity of money (von Mises, 2010, pp. 21 and 24, italics added).

Beltrán’s quantitative explanation of inflation, its causes and its control in 1958 fits well with von Mises’s perspective:

As a favorable opinion on the new policy was consolidating, the inflow of dollars increased. It was then necessary to take into account that those who brought in foreign currency sold that currency to the central bank, which in turn paid in soles. In fact, whatever the cause, the increase in banknotes in circulation produces the same effect on the price level. [...] At all times and in all places, when trust returns, funds that had been sent abroad during bad times come back to the country of origin. Moreover, there are then capitals willing to finance new investments or expand existing ones. This is all good, but at the same time it causes the increase in circulation to which I have just referred. [...] As is well known, banks do not use their capital only for their operations, but also, and on a much larger scale, the deposits of their clients. Therefore, an increase in their deposits makes possible a greater increase in their loans, credit discounts, etc. [...] it thus turns out that the inflationary effect is several times greater than the amount to which the original deposit amounted (Beltrán, 1976, p. 28).

[...] As the danger of inflation due to the new influx of dollars grew rapidly and sales of foreign currency to the central reserve bank were increasing, I decided to impose a 100% reserve requirement for any new increase in deposits in each bank. Thus, from now on, the banks had to keep entirely in cash, as a reserve, the increase in their deposits (ibid., p. 29).

[...] If what symbolically has been called the “maquina” to issue bills, that is, to increase the amount of money in circulation, enters in action, then the purchasing power of money itself will decrease.

[...] In short, when the amount of money in the hands of the public increases, prices go up, or what is the same, it depresses the value of money in relation to everything else. This is how money depreciates; this is how everything becomes more expensive (ibid., p. 43).

Beltrán has a quantitative explanation of inflation analogous to that of von Mises. Both are quantitativists and are concerned with the impact of inflation on the living standards of the poor population. Röpcke (1958, p. 25) celebrated the economic measures taken by Beltrán in 1948 and their results over the next decade.

General Odría deported Apristas and Communists in October 1948 with the blessing of Beltrán, owner of the newspaper *La Prensa* and a clear opponent of all forms of public controls such as those that APRA had been supporting. As mentioned, after the coup of October 27, 1948, Beltrán was installed as the governor of the BCRP to carry out an exchange adjustment and liberalize the economy from the controls established in the 1940s and the industrialization policies that accompanied them during the Second World War. This seems to be a watershed between the vision of Röpcke and that of von Mises that is worth detailing. The fact that the

work of Prebisch (1949) was published in this period should be considered as a backdrop for Beltrán's efforts to show that it was possible to implement forms of economic development through the market instead of through the state.

Aguirre Gamio (1962) points out that, the influence of Röpke (1949, 1953) on Beltrán is very strong. In particular, he refers to those works that inspired Ludwig Erhardt and the social market economy approach and the free private initiative that gave rise to the German miracle.<sup>12</sup> However, while Röpcke's discourse is important and can be seen in the editorials in *La Prensa*, in Beltrán's public actions the influence of von Mises is more evident.

Following is a text by Röpcke ([1958] 1960) that synthesizes the main thrust of his thought:

What threatens the structure of our economy and society from within is something else: chronic diseases, spreading secretly and thereby all the more malignant. Their causes are hard to discover and their true nature is concealed from the superficial or thoughtless observer; they tempt individuals and groups with immediate advantages, while their fatal consequences take a long time to manifest themselves and are widely dispersed. This is precisely why these diseases are so greatly to be feared.

Among these slowly spreading cancers of our Western economy and society, two stand out: the apparently irresistible advance of the welfare state and the erosion of the value of money, which is called creeping inflation. There is a close link between the two through their common causes and mutual reinforcement. Both start slowly, but after a while the pace quickens until the deterioration is hard to arrest, and this multiplies the danger. If people knew what awaits them at the end, they would perhaps stop in good time. (Röpcke, 1960; 151-152)<sup>13</sup>

This vision, synthesized in German in 1958 but elaborated throughout Röpcke's work, was repeated from the 1940s by Beltrán in *La Prensa*, marking an ideological trail that, on the one hand, it was impossible to have an industrialization policy with a strong developmental state because that interfered with the market and, on the other, following von Mises, it was impossible to manage economic policy beyond keeping inflation low because interventionism distorts the market. In this light, the possibilities for Peru to subscribe to the ideas of the ECLAC between 1948 and 1962 were nil. That is, while industrialization policies were being installed in Latin America based on the Prebisch report of 1949, Peru was in the full swing of the free market based on the goal of low inflation and export led growth of primary goods.

### 3. Beltrán's political economy

There is evidence of a relationship between Pedro G. Beltrán and von Mises, Hayek, and Milton Friedman, though not about how it originated. Salazar Larraín (2008) points out that he received warm messages from them when he was sworn in as premier and minister of finance in 1959, but not when he assumed the position of governor of the BCRP in 1948. The difference may be Ferrero's membership in the Mont Pelerin Society and the connections then established between them.

<sup>12</sup> Footnote 40 in Gamio (1962).

<sup>13</sup> See chapter IV, "Welfare State and Chronic Inflation," section "Limits and Dangers of the Welfare State" in *A Humane Economy*, originally published in Switzerland under the title *Jenseits von Angebot und Nachfrage*, Eugen-Rentsch-Verlag, Erlenbach-Zürich-Stuttgart 1958, (literal translation: "Beyond Supply and Demand") in 1958, which appeared in English in 1960.

His clear economic thought and his theoretical and practical knowledge in these subjects allowed him to acquire friendship, shared theoretical assumptions and community of ideas with economists such as Ludwig von Mises, Friedrich Hayek, Milton Friedman, Wilhelm Rock and Ludwig Erhard, among others. The appointment of Beltrán as prime minister and finance minister in Peru then led them to send effusive written congratulations and good omens for the Peruvian economy. As he heard the news of the appointment of Beltrán, Mises, then in New Hampshire, declared to the news agency AFP that “Beltrán is a tireless champion of political and economic freedom. What Peru lacks most in these moments”, he continued, “is a stable currency and a political climate that create conditions for a constant improvement in the standard of living of the people” (Salazar Larraín, p. 118).

The shift between Beltrán’s liberal positions of the 1930s and the neoliberal ones that he adopts from the late 1940s, after the murder of Graña, can be appreciated by considering his policy of exchange rate adjustment when he was named president of the BCRP in 1948-50, in the midst of a balance of payments crisis and an inflationary boom. Aguirre Gamio (1962) suggests that the coup of 1948 was organized by him with the help of the National Agrarian Society (large landowners, agro-exporters, sugarcane farmers and cotton farmers, together the main generators of foreign currency for the Peruvian economy, who were losing money because they could not export in a cost-effective way due to the fixed exchange rate).

In 1949, the executive power was authorized to carry out reforms in relation to customs duties according to the needs of the country’s economy. In that same year the import prohibitions issued in 1947 were eliminated, thereby encouraging the competitiveness of some industries. Also, in 1950 all surcharges were replaced by a single additional import duty that varied between 4% and 7% of the value of the goods (Sialer, 2014, pp. 358-386).

The value of exports stagnated around \$150 million between 1946 and 1949. With the arrival of Beltrán and the military coup of October 1948, the exchange rate was readjusted from 6.50 soles per dollar to 18.19 in 1949, and exports – especially the agricultural ones that had stopped – increased to almost \$200 million in 1950 and \$250 million in 1951. The official exchange rate was stabilized in November 1949 at 15.70 soles per dollar.

The BCRP says in its annual report (*Memoria Anual*) of 1955 that the annual averages of the quotations of the dollar in the free market were S12.54 in 1947, S14.05 in 1948 and S18.19 in 1949, while exchange rate control was maintained at an official rate of S6.5 per dollar. The liberalization of the currency market by Beltrán, on November 12, 1949, unified the exchange rate to S15.43 in 1950. The index of the purchasing power of the currency based on 1936 = 100 went from 35 in 1947 to 20.8 in 1950. It was an adjustment in consumption which led to the unification of the exchange rate at the new level and the export boom. Beltrán resigned from the BCRP when Odría deported the director of *La Prensa*, Eudocio Ravines, at the same time that the March 1950 elections took place, having fulfilled his function of stabilizing the currency with a monetary approach of the economy in the spirit of von Mises.

Beltrán’s legacy to the economic orientation of the country was twofold: primary export growth and a monetary policy based on the external stability of the sole. This required the elimination of all types of currency control and a system of deposit certificates. The tax policy was intended to stimulate the investment of capital on a large scale, especially by foreigners, eliminating tax burdens as much as possible. Zegarra (Aguirre Gamio, 1962, p. 115) says that this was the guideline for the Petroleum Law (1952) and the Mining Code (1950) of Odría and of the Industrial Promotion Law of 1959, under Prado. At the same time, there was a campaign to fight tax evasion in the 1950s. Budgetary policy was based on the balanced budget principle founded on the idea that deficits create inflation in themselves and that this is adverse to

economic growth and hurts the majority of the people. The essence was a policy of austerity during the Odría years, which was loosened marginally in 1956 and reinstated in 1958 with the return of Beltrán to the Ministry of Finance.

“Tax hawks” settled in the finance ministry in September 1948 and with few exceptions have remained there since. The social educational effect is that in Peru it is common knowledge that fiscal deficits always generate inflation. This was repeated by the newspaper *La Prensa* from 1948 to 1974, when the government of General Velasco expropriated the newspaper from Beltrán. The influence of Keynesian thought and Central European historicist and institutionalist schools was decisive in the early years, which was anathema to the vision that Beltrán impressed on Peru. In the terms of von Mises, the developmentalists were “socializing” and that was the vision of Beltrán too.

Von Mises writes in *Human Action: A Treatise on Economics* that there are two patterns for the realization of socialism:

The first pattern (we can call it Lenin or the Russian pattern) is purely bureaucratic. All plants, shops and farms are formally nationalized (“verstaatlicht”); they are government departments operated by officials. Each unit of the production apparatus is in the same relationship with the higher central organization as a local post office to the office of the post office director general. [...] The second pattern (we can call it the Hindenburg or German pattern) nominally and apparently retains private ownership of the means of production and maintains the appearance of ordinary markets, prices, wages and interest rates. However, there are no longer entrepreneurs, but only store managers (“Betriebsführer” in the terminology of Nazi law). [...] It is important to remember that government interference always means violent action or the threat of such action. Funds that a government spends for any purpose are taxed. And taxes are paid because taxpayers are afraid to resist tax collectors. They know that any disobedience or resistance is hopeless. As long as this is the state of things, the government can raise the money it wants to spend. It is ultimately the government that employs armed men, policemen, gendarmes, soldiers, prison guards and executioners. The essential characteristic of the government is the execution of its decrees through beatings, assassinations and imprisonments. Those who are asking for more interference from the government are finally asking for more compulsion and less freedom (von Mises, 1949, ch. 6, para XXVII.5, 6, and 10).

Beltrán took over the BCRP in October 1948 and began eliminating the interferences to the market created in the 1940s. The tariff policy from 1949 onwards focused on reducing tariffs on both imports and exports, in the spirit of freedom of enterprise (Aguirre Gamio, 1962, p. 116). The international credit policy focused on rebuilding confidence on the side of foreign investors by timely repayment of the external debt. The bonds left unpaid since 1931 were repaid in full according to the agreement with the Bondholder Protector Committee in Washington negotiated by Beltrán in his year as ambassador between 1944 and 1945. New coupons of the bonds were being paid already in 1946 without the agreement being signed yet (Ugarteche, 2019). External public debt fell from 656 million soles in 1946 to 447 million in 1949 (BCRP, 1950, p. 87), being gradually replaced by internal debt. With the exchange rate fixed at 6.5 soles per dollar, this amounted to a reduction of 32%: from \$100.9 million to \$68 million, to encourage foreign investment thanks to a better country risk profile. When this objective was reached at the end of 1949 the official exchange rate was readjusted to 15.7 soles per dollar (BCRP, 1949).

The agrarian policy was oriented towards the creation of a consumer market in the countryside through a bill that would cement capitalist relations in that area. This issue is more complex because 57.6% of the population worked in the haciendas as servants (Mariátegui, 1928), without salaries, civil rights or literacy, in a dual economy.

As Mariátegui (1928) says:

The “gamonalismo” inevitably invalidates any law or ordinance for the protection of the indigenous population. The landowner is a feudal lord. Against his authority, borne by the environment and habit, the written law is impotent. Unpaid labor is prohibited by law, and yet unpaid labor, even forced labor, survives in the extensive real estates (p. 27).

MacLean y Estenós (1965, p. 15) adds:

Two percent of the population owns ninety percent of the land in Peru. There are not a thousand families that, in truth, are the owners of this country that has more than ten million inhabitants. The misery of the rural population, overshadowed in many cases with terrifying and incredible contours, results from the conjunction of four factors: 1) the unjust distribution of the land, which is the anachronistic remnant of a feudal and oppressive structure; 2) the no less unjust and resounding distribution of irrigated waters – without which land is worth nothing, however fertile it may be – waters are virtually monopolized by the large landowners to the detriment of modest farmers; 3) the shortage of farmland in contrast to the abundance of idle land; and 4) the low productivity of the cultivated land.

The introduction of capitalism in the countryside was what led Beltrán to transform his sugarcane plantation into cotton in the 1920s and to introduce new seed improvement and pest control techniques through his Cañete Valley Experimental Station. It was also one of the themes that haunted Ferrero in the 1950s. According to Falco (1989) there were two characteristic types of socio-economic organization: the feudal and the communal. Neither of these is compatible with modern times, and they constituted a brake on national development and growth of the population’s consumption levels.

According to Ferrero, wellbeing depends fundamentally on income (in a broad sense, not only the salary), which at the same time is basically a function of the levels of productivity achieved. The national problem of low productivity takes on, in the case of the countryside, dramatic characteristics (Falco, 1989, p. 62).

Aguirre Gamio, quoting the BCRP, notes that “of the (agricultural production) the exportable and the non-exportable parts suffered from inverse phenomena (after adjusting to consumption at the end of 1948 and at the beginning of 1950). Exportable production grew from 1945 to 1950 at 1% per year, and from 1950 to 1959 it grew at 5.9%. Non-exportable production grew during 1945-50 at 5.3% and from 1950 to 1959 it decreased by –0.3%.” Such adjustment had an impact on export growth and on a reduction of consumption. “Meat, milk and wheat are imported in increasing quantities each year, while the quantity and value of our exports of cotton, sugar and coffee also increases” (Aguirre Gamio, 1962, p. 32).

#### **4. The result of the investment opening policies of 1950 and 1952**

The adjustment between 1948 and 1950 and the new exchange rate level went hand in hand with changes in the mining law and the oil code. The consequences in terms of investments are seen in that, e.g., US investments in 1955 were 82% in the mining and oil sectors, 10% in finance, agriculture, commerce and transportation, and only 8% in manufacturing (Gamio, 1962, p. 79). In terms of exports, the main evidence is shown in table 3.

Table 3 – *Main exports in thousands of soles*

	<b>Cotton</b>	<b>Sugar</b>	<b>Leather</b>	<b>Wool</b>	<b>Oil and deriv.</b>
1946	327,749	290,647	12,324	18,818	90,931
1947	225,296	302,380	7,387	11,694	114,722
1948	278,390	227,761	5,230	12,950	188,133
1949	630,559	346,589	12,024	50,303	305,289
1950	1.014,612	442,861	17,949	118,331	376,947
1951	1.291,869	520,454	31,721	208,432	310,838
1952	1.225,119	511,001	15,224	117,189	267,079

Source: BCRP (1953), *Memoria*, Annex XXVI.

Cotton production recovered beyond the previous fall, returning to the levels of 1945, and Paramonga, the Grace Corporation and the Peruvian coastal landowners led a sugarcane and coffee boom. There was a boom in the fishing industry followed by the mining boom led by copper and gold, championed by the Southern Peru Copper Investments in Toquepala in 1952 and by the Marcona Mining Company (iron). Gold appears as a new export commodity starting from 1955, after the start-up of the mining company Buenaventura and in particular the Julcani mine that opened in 1953 and begun exporting in 1955. These mining booms derived from the mining law of Odría; however, the oil code does not seem to have impacted oil exports. The then American ambassador says:

This bill is considered highly favorable by both the interested US oil companies and our oil people. If it can be issued as a decree-law, and operations begin under its authority, it is likely to receive general approval of Congress along with the other decree-laws of the Board. If, on the other hand, it is the subject of extensive debates in Congress, it will almost inevitably meet strong opposition from the coastal farmers, who in 1946-47 were strong enough to prevent the approval of the Sechura contract.<sup>14</sup>

Apparently the oil code, despite being favorable, did not end up giving the International Petroleum Company and the American oil companies the security they required, because there was an impasse about some unpaid taxes from 1924 that eventually led to the expropriation of the company in 1968 (Ugarteche, 2019).

The fishery law of Odría would play its part in the fishing boom of the decade too, as shown in table 4.

Table 4 – *Sectorial export growth between 1945 and 1962*

	1945-48	1950-57	1959-62
<b>Agriculture</b>	-27.0%	0.3%	9.4%
<b>Fishery and derivatives</b>	44.9%	14.7%	60.2%
<b>Oil and mining</b>	27.0%	5.0%	20.5%
<b>Total exports</b>	-15.0%	2.6%	18.7%

Source: BCRP (1955; 1958; 1960; 1962), *Memoria*, various years, annex XXXII.

<sup>14</sup> Confidential "Memorandum by the Director of the Office of North and West Coast Affairs (Mills) to the Assistant Secretary of State for Inter-American Affairs (Miller)," Washington, January 20, 1950. Available at <https://history.state.gov/historicaldocuments/frus1950v02/d504>.

## 6. By way of conclusion

Pedro Beltrán, a cotton exporting landowner who graduated from the LSE in 1918, was the introducer of von Mises's neoliberal ideas in Peru, firstly through mass media. In 1934 he bought a newspaper with the purpose of promoting liberal ideas that over time became neoliberal ones. In 1948 he became president of the BCRP and implemented an economic adjustment program in the face of a crisis manufactured by the cotton exporters, who had gone on strike to force the liberalization of the exchange rate. The program had the result of reducing real wages without any fiscal redistribution. It changed the direction of economic policy from the economic industrialization model of the 1940s to a model of export-led growth between 1949 and 1950, when it effected changes in the codes of mining, fisheries, and petroleum to favor foreign capital and exports in these areas. At the same time, the program involved the repeal of the industry law of 1940.<sup>15</sup>

The promotion in a nationwide medium of communication of the small state, the balanced public budget and export-led growth led by the market had two long-term social and educational effects. The population became convinced, first, that industrialization is useless and its encouragement is an interference in the market and, second, that fiscal deficits always produce inflation and therefore are always negative. Since then, these two points are common sense in Peru; state assistance to society is considered to be an evil and not part of the development process.

As a consequence of this economic policy, during the 1950s Peru followed a policy of export-led growth when the rest of the continent was focused on the policies of import substitution supported by the ECLAC. Beltrán himself reinstated a policy of industrialization in 1959, during his time as Minister of Finance and President of the Council of Ministers (1958-62), with a law that does not, however, contemplate an active role of the state.<sup>16</sup>

These ideas entered into Peruvian society through the newspaper *La Prensa* between 1930 and 1960. It appears that Peru produces a type of economic neoliberal who is politically conservative and has no respect for the democratic forms (as evidenced by the founding coup of 1948, the support of the agro-export sectors for the government of General Odría, the coup of 1992, and the support of the mining sector for the Fujimori regime). From this point of view the Peruvian neoliberals appear earlier than elsewhere in the hemisphere and resemble those of Chile and Colombia.

Pedro Beltrán has been an educator of Peruvian society. He was the first follower of the Austrian neoliberals in his public roles in 1948 and later in 1959 and had the vision of using the written press to disseminate his ideas. His work was frequently complemented by that of Rómulo Ferrero, who collaborated with him from 1928. He interspersed active political life with his role as the owner of a means of mass communication and formed the prevailing mentality in Peru up to the present: economically neoliberal and politically conservative.

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<sup>15</sup> Manuel Prado enacted Law no. 9140 in June 1940 to protect and stimulate the country's industrialization.

<sup>16</sup> Manuel Prado enacted a second *Ley de Promoción Industrial* ("Industrial promotion act"), no. 13270 in December 1959.

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