

Trade and Foreign Investment as Forces Behind
the Underdevelopment of Central America

by

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(ABSTRACT)

There is no doubt that, regardless of the standards used or point of view chosen, Central America is underdeveloped. What needs to be understood is that the problem of underdevelopment is only partly indigenous, and to a large degree quite recent. This thesis will look at both external and internal actors, acting independently as well as in alliance, in order to explain their role in underdeveloping the region. I have chosen to focus on two key aspects, trade and foreign investment, in which both actors have played an important role, and which I consider to have had, and still have, the most devastating effect on Central America. By means of a historical analysis of the Central American states, I will show how their incorporation into the capitalist world resulted in the underdevelopment of the whole region.

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, who gave me the encouragement to always follow my dreams, regardless of the obstacles.

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TABLE OF CONTENTS

Part I - Dependency Theory and the Forces of Underdevelopment

1.0 Introduction.....	1
1.1 Understanding Development and Underdevelopment.....	6
1.2 Development.....	6
1.3 Underdevelopment.....	14
2.0 Overview of Development Theories.....	24
2.1 The Modernization Perspective.....	24
2.2 The Dependency Perspective.....	29
2.3 Dependency Under Attack.....	40
2.4 The Relevance and Adaptability of Dependency Theory...	47
3.0 International Trade and Foreign Investment as Forces Behind Latin American Underdevelopment.....	61
3.1 The Impact of Trade.....	61
3.1.1 Export Dependence.....	64
3.1.2 Surplus Transfer Through Trade.....	68
3.1.3 Unequal Exchange.....	68
3.1.4 Unequal Trade.....	69
3.1.5 Unequal Rewards	70
3.2 The Impact of Foreign Investment.....	72

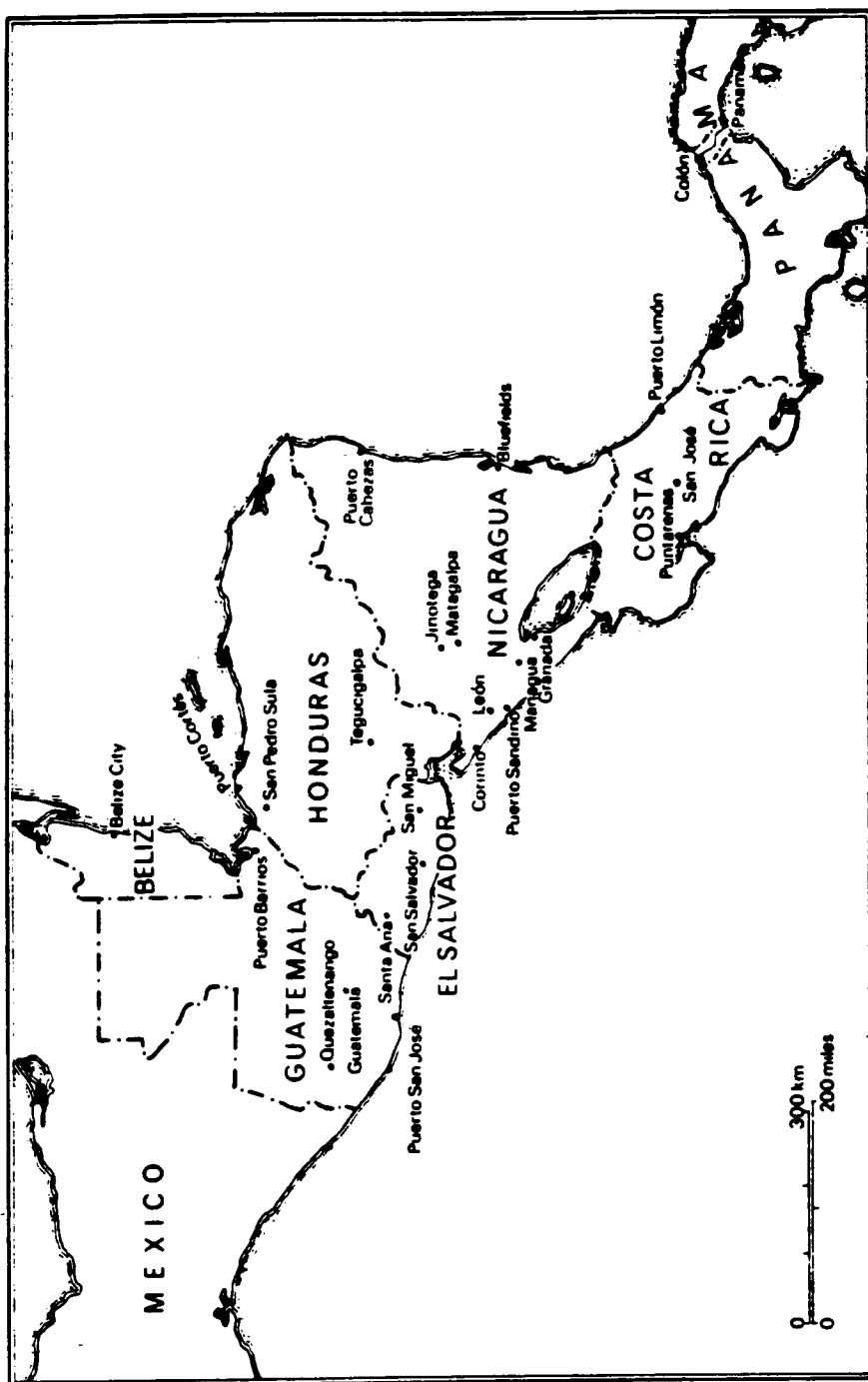
3.2.1 Surplus Transfer Through Foreign Investment.....	75
3.2.2 Industrial and Financial Imperialism.....	75
3.3 The Impact of Foreign Aid and the International Lending Organizations.....	79
3.4 The Impact of the Multinationals.....	87
 <u>Part II</u> - The Socio-Economic and Political History of Central America.....	94
4.0 From Colonization to the Rise of the Coffee Oligarchy.	94
4.1 Colonial Times.....	94
4.2 Independence and the Failure of Unification.....	98
4.3 The Development of the Independent States.....	101
4.4 Early Foreign Involvement in Independent Central America.....	104
4.5 The Export Boom - The Advent of Coffee.....	112
5.0 The Consolidation of Export Dependence.....	120
5.1 The Second Export Boom - The Banana Company.....	120
5.2 More Foreign Investment - Increasing Dependency on the United States.....	125
5.3 The Export-Led Growth Model - Problems and Consequences.....	134
5.4 The 1930's and 1940's - Effects of the Depression and World War II on Central America.....	142
6.0 Modern Times, Ancient Problems.....	158
6.1 The Early 1950's - Traditional Exports Maintain Control.....	158

6.2 1954: A Year of Crisis.....	162
6.3 The Late 1950's - Towards a New Model of Growth.....	165
6.4 The 1960's - Illusions of Growth and Prosperity.....	169
6.5 The CACM Under Fire - Problems and Criticisms.....	178
6.6 The 1970's - The Failure of Integration and Industrialization.....	183
6.7 The Rise of Social Unrest - A Challenge to U.S. Hegemony.....	191
7.0 Conclusions.....	196
8.0 Tables of Central American Socio-Economic Indicators.....	209
Bibliography.....	222
Vita.....	227

LIST OF TABLES

1-Estimates of Central American Population (1500-2025)....	209
2-Population, Area and Density (1985).....	209
3-GNP for Central America and the Largest Economies of Latin America, 1970 and 1980.....	210
4-Central American Real GDP Growth Rates, 1960-82.....	210
5-Per Capita GDP, 1960, 1970, 1980, 1984.....	210
6-Agriculture's Share of GDP, 1920-84.....	211
7-Manufacturing Share of GDP, 1920-84.....	211
8-Trade Dependency of Central American Economies, 1960, 1970, 1980-82.....	211
9-Income Distribution in Central America.....	212
10-Income Distribution: Wage Shares.....	212
11-Distribution of Rural Families and Agricultural Land by Size of Holding, 1970.....	212
12-Annual Average Inflation Rates, 1950-79.....	213
13-Economic Crisis of Early 1980's - Indicators of Burden of Adjustment, 1980-83.....	213
14-Percentages of Central American Commerce with Great Britain, Germany and the U.S.....	214
15-Central American External Trade Shares, 1939-45.....	214
16-Proportion of Total Commodity Trade of Central American Countries with the U.S., 1960-79.....	215
17-Proportion of Total Commodity Exports within the CACM, 1963-78.....	215
18-Coffee, Bananas, and Cotton Exports of Central America as a Percentage of Total National Exports, 1957-1961...	216

19-Annual Average Rates of Growth for Domestic Use Agriculture and Export Agriculture, 1944-54.....	216
20-Percentages of Harvested Areas of Basic Food Crops and Major Export Crops, 1965-1979.....	216
21-Food Trade - Average Deficits or Surplus, 1981-83.....	217
22-Summary of the Static Terms of Trade, 1969-79.....	217
23-Index of Terms of Trade, 1980-84.....	217
24-Balance in Commodity Trade, 1960-77.....	218
25-Balance in Regional Commodity Trade, 1960-79.....	218
26-Balance of Payments, 1960-1978.....	218
27-Direct Foreign Investment and Profit Outflow, 1947-54..	219
28-Direct Foreign Investment and Profit Remittances, 1960-78.....	219
29-Direct U.S. Investment in Central America, 1887-1977...	219
30-Direct U.S. investment by Country, 1977-83.....	220
31-Profits from U.S. Private Investments in Central America - Comparison with Other Latin American States, 1977.....	220
32-Cumulative Multilateral and Bilateral Loans to Central America, 1946-84.....	221
33-U.S. Economic and Military Aid to Central America, 1980-86.....	221
34-Foreign Debt and Debt Service Ratios, 1970-83.....	221



Map: Central America

1.0 Introduction

Andre Gunder Frank once characterized the evolution of Latin America since the colonial times as the 'development of underdevelopment'. Although much has been said about this issue since then, there is no doubt that most of Latin America, and especially Central America, is profoundly underdeveloped. The search for explanations for this state of affairs gave birth to several theories in the past few decades, each one claiming to better interpret Latin American underdevelopment while also proposing their own formulas for promoting development in this region.

Of those theories, modernization and dependency seem to have become the most important, depending on one's ideology and nationality. Nevertheless, both theories have undergone several adaptations since their original conceptions, due in part to the contributions of critics or the failure of their suggestions.

In the first part of this thesis I look at both these theories, or perspectives as I will call them, and show why I believe that dependency is much more useful in explaining Latin American underdevelopment than modernization. In chapter I I bring forth some elements of development that need to be considered when workable suggestions are put

forward and I also show why the dependency definition of underdevelopment is much more plausible and practical than any other.

Following this, in chapter II I do a brief overview of both the modernization and dependency perspectives. Once I have shown why I believe that dependency is more accurate than modernization I go on to look at the criticisms that have been put forward, especially those from the left, against dependency. By doing this, and by looking at the ways the dependency perspective has adapted, or can adapt, to these criticisms, I am able to show how this perspective is the most relevant and important in understanding Latin American Underdevelopment.

In chapter III I bring forth a thorough analysis of the two elements, international trade and foreign investment, which I have singled out as the two most important forces behind the underdevelopment of Latin America. First I look at trade, and its mechanisms of surplus extraction, and how export dependence has condemned Latin America to a state of backwardness. In the same manner I then look at foreign investment, which includes foreign aid and multinational corporations, and the way it has been also instrumental in underdeveloping Latin America.

While this first part presents the theoretical framework by which I will look in particular at the underdevelopment of

Central America, it must be understood that when a theory (or perspective) is put into practice we can not expect it to answer every question or explain every situation. Nevertheless, as I bring forth the socio-economic and political history of Central America we will be able to see how trade and foreign investment, and their influences on the region's social formations, become instrumental in underdeveloping the isthmus.

In chapter IV I briefly look at the colonial inheritance and at the first decades of independence. I also show the importance of the first contacts of independent Central America with the outside world, leading to the first export boom in the 1870's. Even if trade and foreign investment had been present before, it is from this decade on that we will see how useful the dependency perspective is in explaining the forces behind the region's underdevelopment.

In chapter V I continue looking at the growing importance of export dependence and foreign investment after the second export boom of the early 1900's. The consolidation of the export-led growth model is a perfect example of the result of the interaction and alliances made between internal and external actors. In this sense, we can see how Cardoso and Faletto's suggestion that rather than deliberate over the preeminence of external actors over internal actors (as early dependency theorists argued) or vice versa (as Marxists

explain), we must focus on looking at underdevelopment as being the expression of various combinations of class interests (both local and foreign) throughout history.

Chapter VI brings us to the modern times in which the first serious attempts at industrialization, but without abandoning agricultural export dependence, are made. The dependency perspective is still the most useful tool to understand how industrialization came about and why it eventually failed. While some aspects of dependence did change, Central America did not break away from the underdevelopment its relationship with the capitalist world was bringing about. Only at the beginning of the 1970's is this situation of dependence seriously challenged by growing and organized popular opposition. The revolutionary movement in Nicaragua would, after it took power, try to break down the type of relationship the country had with the West for such a long time, but it is still too early to say if it will succeed. At the same time, the revolutionary movement in Guatemala was crushed by its elitist government, while the guerrillas in El Salvador have seriously threatened the continuous dominance of the oligarchy in that country. Both Costa Rica and Honduras have been able to prevent popular unrest by implementing some social reforms. Nevertheless, they have remained highly dependent on trade, foreign investment, and foreign aid.

Overall, it can be said that to explain underdevelopment in Central America, as well as in most of the rest of Latin America, the dependency perspective and its historical analysis provide us with the best tools. The few changes the perspective needs to undertake, which in many cases already has, and some others I propose in chapter II, make it the most useful approach available. Other theories or approaches, which ignore history or the impact of external actors, can only bring forth incomplete and inaccurate explanations, and their ill-conceived suggestions will only further the region's underdevelopment.

Part I: Dependency Theory and the Forces of Underdevelopment

1.0 Understanding Development and Underdevelopment

1.1 Development

Despite decades of work in the field of development studies, there is not yet anything close to a universally accepted definition of development. Many partial approaches to it exist, but no one has yet come up with a clear and comprehensive definition that is acceptable to all developmental theoreticians or practitioners.

The main reason for this inability to reach a universal definition is that development is a complex concept involving not only economic, but also social and political elements. Furthermore, defining development implies in almost every case the necessity to make value judgments which are always subjective and difficult to agree on.

Therefore, the best we can do is to attempt to reach a personal and workable definition of development, based on useful indicators and on a historical understanding of the region under study. But at the same time, we must not neglect to have an understanding of the history of that country or region, in order to measure that performance in relationship to past, present, and future contexts.

As I said before, the definition of development becomes a personal one due in particular to the value judgments that need to be made. Nevertheless, this doesn't imply that in every case we must come up with a totally new definition of development, but simply that we can agree with already sketched definitions and chose to add to them or ignore parts of them. This can be especially useful once we have been able to study some existent definitions, and therefore their practical implications, and to understand why their implications and suggestions failed to bring about the development they predicted.

There is no doubt that many of the solutions and suggestions for development in most of the Third World are socialist oriented, and differ radically with the already failing mainstream development policies, but this does not mean that they cannot be implemented within a capitalist system.

Without attempting to bring about a personal definition of development I believe that there are a series of concepts that must come to mind when looking at any particular country or region and to take into consideration in order for a development program to be successful.

In spite of the many controversies it has brought about in the past, I believe that one must look at economic growth as the first concept of development. Economic growth, measured in terms of increases in real GNP, was for a long time equated

with development by most international organizations and individuals working in the field. It was usually accepted that if a country's real GNP was increasing rapidly, especially if this was occurring in per capita terms, this meant that it was undergoing development. The main problem of this approach, and the main argument put forth by its critics, was that to use this "single variable definition of development" was to ignore many other important aspects of development. (Ritter and Pollock, p. 4) Some critics went even as far as arguing that economic growth was sometimes the cause of inequality, or at least of a marked growing inequality, and therefore one of the main reasons behind social and political upheaval (social and political stability are seen also as key elements of development).

Nevertheless, if we leave aside economic growth as being the single aggregative indicator of development, we can use it to tell us a lot about a country's performance and also as a tool of comparison between underdeveloped countries. But the main reasons for using economic growth is the fact that an expanded supply of goods and services, especially in sectors which benefit most of the population, is a central precondition for satisfying minimum levels of basic human needs, and also that economic growth is relatively easy to quantify. Therefore, we can say that economic growth is a useful indicator when looking at development, but we must by

no means equate it with development in itself.

The second concept, as important or even more than economic growth, is distributional equity or equality. By this I mean that a lesser degree of skewdness is needed in the way the fruits of increased growth are distributed throughout the population of a particular country. Indicators of equality are harder to operationalize but are available if thorough research is undertaken. Changes in income distribution, in the distribution of wealth, and in the distribution of land in agricultural countries, can all give us some idea of the degree of equality existent. Furthermore, since race is usually highly correlated with income, wealth, and land distribution, economic inequality lies at the heart of racial tensions, so often present in the Third World. (Seers, p. 12)

In this sense, we must look primarily at indicators showing the increase or decrease of equality. If we see that income, wealth, and land maldistribution have all become more severe during a certain period of time, even if economic growth has occurred, it would be unrealistic to claim that there has been any development at all. If, on the other hand, we observe that indicators show an increase in equality, even if economic growth has been small (or in some cases even nonexistent), we can assume that development is happening.

The importance of the issue of equality in the context of development and its relationship to economic growth has brought

about some serious debates. According to mainstream and classical Marxist thinkers, inequalities are a necessary precondition for economic growth, at least in the short run, and they explain that inequalities are "as much a cause as a consequence of economic growth and therefore of an absolute improvement in the living standards of those relatively worse off". (Warren, 1973, p. 109) This argument is based on the assumption that inequalities are the result of private capital accumulation, a necessary step to capitalist modernization. On the other hand, and coming especially from neo-Marxist and other Third World theoreticians, it has also been strongly argued that even if inequalities did help economic growth in the Western capitalist countries during the eighteenth and nineteenth centuries, this process cannot be repeated in the Third World, especially due to the great degree of foreign ownership of the means of production, to the channeling away from the local economy of the surplus produced, and to the dependent relationship Third World nations have with the world market. Therefore, they argue that economic growth, of the laissez-faire type, must be checked by state control to avoid the inequalities it brings along.

The third concept chosen is based on David Pollock's description of the "participation/vulnerability" dichotomy. He explains that whenever a group of people makes decisions that integrally affect the economic and social livelihood of others,

they should be directly accountable to those being affected. This should not only be the case when political and human rights are involved, but also when it concerns the production and consumption of goods and services. This becomes especially important because if the market is left completely alone to determine production and consumption patterns, even if it might at times be efficient from the viewpoint of resource utilization, it will bring about social disruption and ignore the welfare of the lower strata of the population. (Pollock and Ritter, p. 6)

Therefore, the state must play an increasing role, replacing the market to a certain extent, in production and consumption. This doesn't mean that the state always intervenes on behalf of the majority of the people, especially if not elected by them and when it is responsive to some powerful interest groups. So, in order for state intervention to be responsive to the needs of the majority of the people and have an impact on true development, it must be accountable (not necessarily elected) to the population of any given country.

The same case should be transferred to the international level. All nations should have a say in the process of decision making, especially concerning decisions that affect them. There is a need to change the international development system in which one or a few powerful countries or international organizations (dominated by those same powerful

countries) make decisions affecting a large number of other nations into a system in which the latter participate directly and with some weight in that process.

Therefore, argues Pollock, participation and vulnerability represent the reverse sides of the same coin. To the extent that participation of those involved (both at the giving and receiving ends) increases, it will result in less vulnerability to those making the decisions. Dependency will increase as participation in decision making falls. Hence, we must incorporate the participation/vulnerability concept to any serious definition of development if we want to avoid the all-encompassing problem of dependency on external (in the case of foreign nations and international organizations), as well as internal (in the case of non-accountable governments) actors.

And the last, but by no means least important of the concepts chosen, is self-reliance. By this I refer mainly to economic self-reliance, and it must include mainly a reduction of dependence on imported necessities, especially basic foods, oil and its byproducts, capital equipments and expertise. This would involve changing consumption patterns of sectors of the population as well as increasing the productive capacity of the economy. Other policies needed would attempt to redistribute income and change living styles at given income levels. By means of taxing, price policies, advertising, and even rationing, the government would gear local production towards

needs and limit imports on non-necessities. Other measures would have to increase national ownership and control of production, especially of agricultural and sub-soil assets, and improve national capacity to negotiate with multinational corporations. And also there will be a need to reduce cultural dependence on the western powers. This can be accomplished by increasing the time allotted to locally produced television programs, by increasing budgets of local schools and universities, and by funding the development of local artistry.

The key to this aspect of development strategy, as Seers argues, is not to attempt to break all links with the rest of the world (if this was possible), which would probably be socially damaging and politically impossible, but to "adopt a selective approach to external influences of all types". (Seers, p. 28)

In sum then we can say that development is a stage in which a country reaches a democratic (accepted by its population) mixture of economic growth, distributional equality, participation/(less)vulnerability, and self-reliance. This by no means attempts to exhaust all the factors involved in development, but gives us four workable variables we can deal with in deciding if a country is, or isn't, developed and come up with reasonably attainable goals for development policies for the future.

We must not attempt to find a value-free definition of

development, as it is impossible and unrealistic, but be satisfied with equating development with an "improvement in the quality of life and an enlargement of the ambit of human freedom". (Becker, p. 41) If we can do so, we can begin the more important and desirable job of working towards the development of the Third World.

1.3 Underdevelopment

If defining development involves many problems, we will find that attempting to find a definition of underdevelopment is by no means easier. The same value judgments and ideological biases are present, with the added complication that underdevelopment has more political connotations than development. This is especially the case when explanations behind a country's underdevelopment are put forward. Therefore, we are again confronted with the impossibility of finding an unbiased universal definition.

It has commonly been held that development comes about in a succession of stages, leading towards industrial capitalism, and that those countries which are today underdeveloped are in an early stage of history, which the now developed countries left behind a long time ago. Gunder Frank argues that this belief is based in the ignorance of the underdeveloped countries' history, and that we must understand that

underdevelopment is not an original stage of any given country. Furthermore, he explains that neither the past nor the present situation of the underdeveloped countries resembles in any important aspect the past of the now developed nations. (G. Frank, 1966, p. 17) It is then that we can conclude that the now developed countries are to be seen as never having been underdeveloped, but as having at one time been undeveloped.

In this sense, it can be asserted that underdevelopment is not an original state but the result of the exploitative relationship between the center (the capitalist powers) and the periphery (Latin America and the rest of the Third World). The same process by which the now developed countries progressed brought about the underdevelopment of the Third World.

This last point is contrary to the idea that underdevelopment can be explained as being the product of a country's own economic, political, social, and cultural characteristics. Therefore, those development programs that attempt solely to correct the flaws in those characteristics, without changing the relationship between core and periphery have constantly encountered failure or, in some cases, only partial success thanks to incredible amounts of economic aid received. (the cases of South Korea and Taiwan can be seen as examples of this).

Frank argues, as most other Latin American theorists, that underdevelopment is to a large degree the result of past and

present relations between core and periphery. It is in these relations that we will find the real reasons behind the periphery's underdevelopment, and these relations are the ones that must be changed if development is ever going to come to the Third World.

Walter Rodney, with a similar point of view, explains that underdevelopment is not simply an absence of development, as every country has developed somewhat, in one way or another, and to a greater or lesser extent, during their history. He believes that underdevelopment makes sense only as a means of comparing levels of development between different countries or regions. This is very much tied to the fact that world development has been uneven, and looking at it from an economic viewpoint, some countries have advanced further by producing more and becoming more wealthy. (Rodney, p. 13)

Nevertheless, Rodney also states that underdevelopment also expresses a particular relationship of exploitation, especially of one country by another (classical Marxists disagree on this point because they feel that exploitation should be looked at within a class context to better understand underdevelopment). In this sense, all the underdeveloped countries in the world are exploited by others. Therefore, underdevelopment can be seen as the product of capitalist, imperialist, and/or colonial exploitation. Rodney argues that Third World societies were developing independently until they were taken over, either

directly (colonialism) or indirectly (economic imperialism), by the capitalist powers. What happened then, and still goes on, was that exploitation increased and the export of surplus value resulted in depriving Third World countries (or societies before they became nation-states) of the benefit of their natural resources and labor. (Rodney, p. 14)

Still, although we have used the term underdevelopment, we haven't yet defined it in itself. Even if underdevelopment may mean different things and be represented by different situations, there are some common trends to it present in most parts of the Third World. Again, the choice of aspects and situations equated with underdevelopment may become personal and be affected by value judgments made. Nevertheless, it is worth the effort to pinpoint some characteristics present in most underdeveloped countries to illustrate the concept.

Anthony de Souza and Philip Porter have come up with a relatively exhausting list of the components of underdevelopment. I will try to choose some of them which more closely apply to Central America as this region is the one studied in the latter part of this project. (de Souza and Porter, p. 15)

Economic Characteristics

1-Little capital per head. Low income per head, and as a consequence, existence near subsistence level. Zero savings for mass of people. Whatever profits that do exist are achieved by landholding class whose values are not conducive to investment in industry or commerce, or by foreign interests which repatriate them.

2-Output in agriculture is mostly of agricultural commodities for export, with low output of protein foods for local consumption.

3-Major proportion of expenditure by people is on food and basic necessities.

4-Almost all exports are of agricultural commodities. Almost all manufactured and technological products are imported. High product and partner concentration in trade. Transportation for exports are in foreign hands.

5-Low volume of trade (by world standards) per capita. Imbalance of trade often present. Terms of trade deteriorate over time. Large foreign debt and need for foreign aid present.

6-Poor credit facilities (especially for small landowners and businessmen) and poor marketing facilities.

7-Skewed distribution of land, income, and wealth. Export agriculture, which is highly concentrated, receives best land and it displaces thousands of small landowners.

8-Presence of foreign interests, both in export agriculture and small manufacturing, is quite important and influential in local government.

9-High degrees of unemployment and underemployment due to displacement of small landowners, seasonal labor needs, and capital intensive small industries.

Demographic and Political Characteristics

1-Lack of adequate social services due to an uninterested government, or lack of revenue due to low taxes on export sector. This results in inadequate nutrition, housing, health care, education, for most of the population.

2-General weakness or absence of middle class due to lack of urbanization and industry. Where middle class is present it has very little political power or is coopted by upper classes or foreign interests.

3-Repression of labor leaders and unions is very common in order to keep wages down. Strikes and public demonstrations are usually banned by government.

4-Government usually not accountable to population. Active role of military in government. Government more interested in

maintaining stability than in responding to people's needs.

5-The presence of guerrilla activity against the government is quite common. Local governments depend on foreign military aid to maintain control.

This list of characteristics needs to be looked upon not as an isolated list of conditions in an underdeveloped state, but as the result of the relationship between core and periphery. Most of these characteristics are not indigenous and were not present before the expansion of the capitalist powers, therefore they were brought about by the exploitative relationship between the western powers and the Third World. By this I don't mean to argue that all Third World societies were very well off before the expansion of colonialism and imperialism, but only that most of the countries that are today underdeveloped were once relatively self-sufficient and self-sustaining.

Going back to Rodney, we can find that he explores some other aspects of underdeveloped areas and their relationship to the developed nations comes to be a major characteristic. He explains that underdeveloped nations have little or no industry, and even if they rely mostly on agriculture, this is unscientific and the yields per acre are far lower than those of the developed nations. He also stresses the problems of underdeveloped nations in reaching basic food requirements and decent levels of social services. Still, he chooses to look more at the qualitative aspects of underdevelopment rather than

mainly at the quantitative ones as most mainstream scholars do. This is so, he argues, because "for economic development it is not enough to produce more goods and services. The country has to produce more of those goods and services which in turn will give rise spontaneously to future growth in the economy." (Rodney, p.18)

Furthermore, he explains that it is typical of most underdeveloped economies not to be allowed (due to foreign debt, loans with conditions, foreign support of oligarchic regimes, etc.) to concentrate on those sectors of the economy which will generate growth and raise production to a new level. Also, there exist few links between one sector of the economy and another so that they can interact beneficially with each other. This, plus the existence of an overwhelming exploitation of the underdeveloped nations by means of the setting of the terms of trade by the developed nations, results in important factors for preventing development in most of the Third World.

Another important aspect of underdevelopment is the fact that many natural resources in the Third World are owned by foreign interests (and also by local elites which act similarly to foreign owners). So long as foreigners own land, mines, banks, factories, transportation, power stations, and many other interests, the flow outward of the locally produced wealth will be guaranteed, further underdeveloping these regions.

In sum then, Rodney explains that the two most important factors for the underdevelopment of the Third World are: (a) the extraction of the wealth created by local labor and resources by the capitalist powers; and (2) the restrictions imposed upon Third World countries limiting the maximum use of their economic potential. (Rodney, p.25)

Again we must emphasize the issue of relationship as the main instrument of underdevelopment. As Blomstrom and Hettne argue, underdevelopment is mostly a problem of relations rather than a problem of scarcity. "In a given structure, be it domestic or international, value will regularly be added to certain positions, whereas others, relatively speaking, will be deprived of value." (Blomstrom and Hettne, p.18) In this sense, development for one of the parties will result in underdevelopment for the other. Therefore, development will come to the Third World only when its position in the relationship with the capitalist powers changes drastically, or if that relationship is severed altogether.

In many circles, especially in international organizations, there has been lately an effort to substitute the term underdeveloped by the less demeaning 'developing'. This has come about mainly to avoid the unpleasantness sometimes attached to the term underdevelopment.. However, we must continue to use underdeveloped because developing creates the erroneous impression that most of the Third World nations are

escaping economic backwardness and growing in similarity to the already developed countries, and that they are eliminating the relationship of exploitation in which they find themselves. And we all know that this is not true. On the contrary, many countries in the Third World are becoming even more underdeveloped, if we compare them to the advanced nations, due especially to the increase in their exploitation by the core.

It wouldn't be reasonable to end this attempt at defining underdevelopment without looking at the role that local elites in the Third World play in perpetuating it. Even if we have argued that much of the evidence points at the capitalist powers as being the main instrument of underdevelopment, there is a small local elite in every Third World country which deserves credit for this also. Local oligarchies, and their allies in the military, are benefited by the exploitative relationship their country has with the core, and do anything in their power, including open repression of opposition groups, to maintain this relationship. Therefore, even if we have suggested that it is essential to change or brake this relationship in order to begin the work towards development, changes must begin at the local level before they can have any effect in the international arena. By this I don't mean to imply that changes in international relationships will automatically follow a change in the local power structure, but that the way out of underdevelopment must begin at home, before

it can be really meaningful.

2.0 Overview of Development Theories

Due to their diversity and variety it would be difficult to review all the development theories existent. Therefore, and in a way being unfair to some development strategies which may lay outside the two main groupings, I will simplify the issue by looking at the two main schools of thought behind development theory. These are the modernization and the dependency schools.

2.1 The Modernization Perspective

As the issue of development came up in the U.S. and some international organizations shortly after WWII, and to a great deal due to the appearance in the World system, as independent states, of most of the countries in the old colonial empires of Asia and Africa, a theory was needed to understand and explain the backward conditions of most of the Third World. Furthermore, as underdevelopment was seen as a situation which attracted support for communist types of solutions, a theory was needed also to come up with suggestions for the capitalist development of these regions. It was no surprise that most of the modernization theorists were to come from the U.S., as Europe was too busy reconstructing its economy, and therefore modernization theory tended to grow side by side with the

interests of the U.S. in the Third World.

The modernization perspective evolved directly from two ideas of social change from XIXth century western sociology. The first was Weber's polar conception of traditional versus modern and the second was the theory of social evolution as explained by Auguste Comte. This theory said that modern (industrial and scientific) society was the culmination of a series of stages in human development which began with the traditional society. (Klaren and Bossert, p. 9)

These two ideas combined resulted in the theory of the stages of growth, which became the core of the modernization perspective. In sum, the theory explained that all societies were basically alike at the traditional stage and that eventually they would pass through the same type of changes that had led the West to the modern stage. Therefore, as in the process of modernization all societies will travel the same road, the history of the presently modern nations is taken as the source of "universally useful conceptualization". (Munoz, p. 19)

As economist Walt Rostow argues, Third World societies could replicate the path to modernization of the advanced nations by developing policies to increase capital accumulation and investment as well as foster entrepreneurship among its people. Essentially then, modernization theorists see underdevelopment as a condition that all nations have

experienced at some time, and from which they can come out if they follow certain series of steps.

In Latin America, according to this perspective, the feudal structure inherited from the colonization by the Spanish and Portuguese has been the major obstacle preventing development. Even if the cities have become relatively modern, the countryside remained backward and traditional, resulting in its low productivity and stagnation. If conditions for development are to appear, they explain, traditional values must be challenged, and modern diversified industry must replace the existent dependence on a small number of agricultural products. Therefore, the attainment of self-sustaining growth involved more than simply economic processes of production, investment, and consumption. What was also needed was a change in values (away from cooperative, communal, and traditional ones), institutions, and socio-economic and political patterns of the society. Traditional society had to give way to sweeping innovations. New ideas, values, techniques, and organizations had to be introduced into the old social order.

The manner in which traditional would give way to modern could not be identical (even if following the same steps) to the one experienced in the West, which had for the most part been accomplished by endogenous cultural and institutional changes. Progress was to be diffused from the West to the rest of the world, which would adopt and adapt Western

technology, values, and patterns of action, and import its institutions. By doing so, Third World countries would be able to adopt already successful social and economic patterns and would move quicker on the same path towards development followed previously by the West. (Klaren and Bossert, p.11)

Change would require also the introduction of foreign capital due to the region's poverty. Foreign investment would bring the modern technology and organizational methods to accelerate the pace of economic growth. Furthermore, the perspective also emphasized the need for more trade, which was seen as an effective instrument for growth, and encouraged Third World nations to increase the amounts of exports and to specialize only in those commodities which they could produce at the lowest cost or that they couldn't import cheaper from other nations. This principle, which was labeled 'comparative advantage', had been developed by the liberal capitalist thinkers and has been the basis on which the international division of labor was implemented after world commerce became prominent.

This plan for development had definite implications for the social and political life of Third World nations. Modernization theorists also explained that industrialization and progress required political stability, which was seen as a major problem in many areas. As the masses were seen as a dangerous force and the middle classes (if existent at all) as

a divided and weak group, it was suggested that modernizing military dictatorships were the only acceptable alternative for stability. It was hoped then, that the order these type of governments would provide would stimulate foreign investment, bringing about capitalism and the modernization of agriculture and industry, which in turn would create the basis for democracy. (Rostow, p.372) Hence, modernization supporters have always been in favor of military aid in order to create the stability necessary for capitalist development.

Within the modernization perspective, it was attempted to define underdevelopment by either the single criterion of per capita GNP of under \$ 600, or by this same criterion plus other characteristics as illiteracy, political stability, social mobility, and the diversification levels of the economy. Nevertheless, in practice, an increase in per capita GNP was equated automatically with development. (Chilcote and Edelstein, p. 9)

Modernization theory came under attack for many reasons, but mostly because after its suggestions and plans for development were implemented, it failed to bring about the predicted progressive changes. Furthermore, some countries that received large amounts of foreign aid and investment ended up in worse shape than before. Nevertheless, due to its paternalistic aura and because at least it maintained governments of Third World nations in the Western Camp and in

the world capitalist system, modernization (at least its most important interpretations and suggestions) still survives as the mainstream developmental theory. Some changes have been made within the perspective, allowing for less simplistic planning and for the use of some other variables when measuring development, but for the most part it still relies on the support of strong (in practice usually dictatorial) governments, on foreign aid, and on foreign investment as the key elements for the take-off of any underdeveloped country towards reaching modern state status.

2.2 The Dependency Perspective

The negation of the history and the specificity of the less-developed countries (especially in Latin America), and the predetermination of their possible future by the history of the developed countries were the main reasons for a total lack of appeal for the modernization perspective among many Latin American scholars. Also, the fact that the performance of the modernizationists' programs of development had failed to match the promises of their theories convinced many Latin Americans that there was a need for a new approach at the problems of underdevelopment.

The main challenge to the modernization perspective came about in the 1960's from a group of Latin American social

scientists, many of whom had worked in or with the ECLA (U.N.'s Economic Commission for Latin America), known as the dependency school. Their theories were based on the extensive debate over the problem of Latin American underdevelopment which drastically challenged the mainstream analysis that had originated in the U.S.

To understand why Latin American underdevelopment persisted, dependency theorists focused on the region's relationship with the world economy which they described as being divided into a developed center and an underdeveloped periphery. Departing from the modernization perspective's contention that certain Latin American cultural and institutional features were the major reasons for the region's underdevelopment, they attempted to give it a more global interpretation. Without denying at all the effect of culture and tradition, dependency theorists looked for a link between internal and external factors behind underdevelopment. For them, the central reason for Latin America's economic stagnation was the incorporation of the region into the developing world economy during the age of imperialism (XVIth and XIXth centuries). The main characteristic of this global politico-economic system was the unequal development of its component parts. Therefore, the center, once it began to industrialize, colonized the periphery to provide the primary goods that would sustain the process of their own development.

The main issue then became, that this international division of labor imposed by the West did not lead, as neo-classical economists predicted, to comparative advantage. Instead, the center gained at the expense of the periphery by relegating the Third World to an inferior position in the system as merely a producer of primary goods. This situation would constrain the economic potential of the Third World and result in its underdevelopment. (Klaren and Bossert, p. 18)

In this sense then, dependency theorists argue that the historical development and contemporary structure of world capitalism, to which Latin America is subordinated, and the economic, political, social, and cultural policies generated by the class structure (especially by the class interests of the dominant bourgeoisie) results in the dependence of the region. It is important to understand that throughout the historical process, dependence is not simply an external relation between Latin America and the capitalist powers, but equally an internal condition of Latin American society itself. This is reflected not only in international and domestic economies and politics, but also has the most profound ideological and psychological manifestations of inferiority complexes and assimilation of metropolitan ideology and development theory. (G. Frank, 1972, pp. 19-20)

Therefore, we can see that not only the peripheral economies were conditioned by the dominant center. The

internal social and political structures were also shaped in order to reinforce the primary nature of the export economy. In this sense, internal and external structural elements were combined to form a complicated pattern of structural underdevelopment. The role of local elites, especially after the colonies gained independence, was essential in creating the dependence of their own states on the capitalist powers. As they gained control of much of the export sector in their own countries, they were able to benefit from the dependent relationship, and did everything in their power to maintain it.

In sum, dependency analysts explained that it wasn't the cultural or institutional factors that prevented entrepreneurship and development. They saw Latin American entrepreneurs as acting very rationally (contrary to what modernizationists claimed) and in a profit-oriented manner. However, the structures of dependency encouraged (and in some cases forced) them to behave in a way that preserved and enforced dependency which was to their benefit, and hence perpetuated the nature of a primary export economy throughout the region.

It is rather difficult to describe dependency in an all-encompassing and universal manner. Different emphasis is placed by different scholars on various aspects of dependency according to their own personal views and ideological background. Still, Theotonio dos Santos has been able to

define dependency in a way most Latin Americans can agree on:

Dependence is a situation in which a certain group of countries have their economy conditioned by the development and expansion of another economy, to which the former is subject. The relation of interdependence between two or more economies, and between these and world trade, assumes the form of dependence when some countries (the dominant) can expand and give impulse to their own development, while other countries (the dependent) can only develop as a reflection of this expansion. This can have positive and/or negative effects on their immediate development. In all cases, the basic situation of dependence leads to a global situation in dependent countries that situates them in backwardness and under the exploitation of the dominant countries. The dominant countries have a technological, commercial, capital resource, and social-political predominance over the dependent countries (with predominance of some of this aspects in various historical moments). This permits them to impose conditions of exploitation and to extract part of the domestically produced surplus. (Dos Santos, pp.26-27).

This definition by no means attempts to cover all the aspects of dependency, but shows that, regardless of the complexity of the issue, there are some basic points in which to build upon. In a different way, but also trying to come up with a somewhat universal definition, Dale Johnson lists a variety of specific conditions of dependence that are very useful and practical when looking at Latin America. (Johnson, pp. 74-75).

1. Secular tendencies toward deterioration in the terms of trade involving
 - a. inelasticity of demand for primary exports;
 - b. instabilities and gradual relative decline in quantum and prices of exports; and
 - c. secular rise in prices of imports;

2. Chronic deficits in balance of payments
 - a. caused by factors in (1);
 - b. accelerating costs of services; and
 - c. transfers of capital abroad
3. Rigidities in the composition of imports provoked by
 - a. the necessity of importing raw materials and intermediate goods to supply newly established industries;
 - b. the necessity to import food because of crises in agriculture; and
 - c. the chronic shortage of foreign exchange
4. Progressive decapitalization involving
 - a. the delatinamericanization of industry;
 - b. payment of royalties, franchise costs, etc.;
 - c. a net flow of private capital to the exterior; and
 - d. services on foreign transactions and the foreign debt
5. Political dependence generated by
 - a. the close correspondence between the interests of national oligarchies and national bourgeoisies and the structure of the international system;
 - b. dependence of national oligarchies upon international support for survival against the forces of nationalism and revolution;
 - c. specific alliances of national businessmen and foreign investors;
 - d. the development of foreign businessmen as independent loci of power within Latin American nations;
 - e. extent of coercive power in the hands of agents and agencies of imperial power: the multinational corporation, the World Bank and International Monetary Fund, and United States agencies and military power; and
 - f. power of the Latin American military forces strengthened by United States assistance and training

It would be unrealistic to portray Latin America as simply an exporter of primary products, and also to emphasize its dependence on the fact that it lacks industry. The two world wars and the depression of the 1930's produced a succession of crises for the export economy by cutting off foreign markets and making Latin America more dependent on its own resources. Due to the fall in supply of foreign imports, internal

manufacturing was stimulated. The state took an active role by adopting policies aimed at import substitution to encourage industrialization in sectors that had usually relied exclusively on imports.

In this sense, a number of Latin American countries (especially Argentina, Brazil, Mexico, Chile, and Uruguay) experienced a modest degree of industrialization. Modernizationists argued that the economic and sociopolitical changes undergone in these countries were an example of the reduction in dependency. However, evidence was found to counter this overly optimistic assumption. The UN's Economic Commission for Latin America has presented data showing tendencies towards a continuous deterioration in the terms of trade, evidence for the balance of payments crises, and emphasizing the decapitalization which results from the net outflow of private capital, services on foreign transactions, and services on the large and growing foreign debt. (Johnson, p. 75)

Without attempting to cover all the issues within the dependency school which would make for a whole book in itself, I will try to bring forth just a few more of the most important theorists and their contributions to the dependency perspective.

Fernando Cardoso and Enzo Faletto, influenced by the Latin American Marxist tradition, focused on the sociopolitical

aspects of dependency. They saw economic development and underdevelopment as an expression of various combinations of class interests that vary from one historical situation to another. Both agreed that Third World countries were conditioned by the global economic system based in the West. But what was crucial to them was how and under what circumstances each dependent economy was linked to the world market. In other words, the key was political power. They tried to explain how class alliances were formed and political decisions taken in each country in a given historical circumstance. Thus, Cardoso and Faletto's main contribution to dependency thought (which was presented in their work Dependency and Development in Latin America) was to add an important sociopolitical dimension to an existing predominantly economic analysis. The result was what they called a "historical-structural approach", which captured the interplay of international economic forces and internal political actors. (Klaren and Bossert, p. 21)

Theotonio dos Santos, apart from giving us one of the best definitions of dependency, also contributed to the school of thought by suggesting that the problem of development and underdevelopment, if to be analyzed from a historical point of view, needed to be divided into three different and identifiable stages of dependence. (1) Colonial Dependence: characterized by trade monopolies and colonial monopolies of

land, mines, and labor in the colonized territories. (2) Financial-industrial dependence: occurring during the latter part of the XIXth century, this period was characterized by large concentrations of capital in the centers, and by investments in the production of raw materials and agricultural products in the periphery. At the same time, countries in the periphery developed into export economies and therefore assumed a position of dependence. (3) Technological-industrial dependence: this phase came into existence after WWII and was characterized by the establishment of industries linked to the dependent countries' domestic markets by the multinational corporations. This last period is what many describe as the "new dependence", which came about with a great deal of force after the failure of the import substitution industrialization efforts in Latin America. (Blomstrom and Hettne, p. 65)

Ruy Marini, another of the dependency theorists, was primarily engaged in attempting to explain how capitalism could simultaneously generate development in one part of the world while creating underdevelopment in another. But his greatest contribution was the advancement of two very important concepts in the study of dependency and underdevelopment in Latin America. The first concept is superexploitation, which he introduced in order to explain the process of exploitation in the periphery. This process, he argues, was made possible only by the fact that domestic demand was of little importance to

the foreign firms' realization of their profits. Therefore, the low wages led to the stagnation of the small domestic market, and led to an economic crisis. (Chilcote and Edelstein, p.84)

The second concept was that of subimperialism. This was Marini's attempt to translate Lenin's definition of imperialism to a dependent capitalism. Subimperialism is, in Marini's own words, "a form which the dependent economy assumes in order to arrive at the stage of monopoly and finance capital". (Marini, p. 34) Therefore, in countries as Brazil, capitalism assumes a progressive form only through its relationship to international capital (attracting monetary flows) and by beginning to export capital in order to plunder raw materials in the exterior. In this sense, subimperialism is one way in which a dependent country may resolve, at least temporarily, its own internal contradictions. (Chilcote and Edelstein, p. 85)

Another contributor to, and to many the father of, the dependency school was Gunder Frank. In his famous book Capitalism and Underdevelopment in Latin America, Frank argues that development and underdevelopment are two sides of the same coin. Thus, it was the incorporation into the world capitalist system that led to development in some areas and underdevelopment in others. He rejected the notion of dualism (an economy consisting of two unconnected sectors -one modern, and one traditional) supported by the modernizationists. And

he even went as far as to deny that feudal production relations had ever prevailed in Latin America during its colonial history. This was explained by the fact that the primary purpose of the economy founded in Latin America by the colonial powers was to produce goods for export, which in his opinion, did not constitute a feudal economy.

The implications of this view are important for the political strategy of development. If there were not any feudal, semifeudal, or other pre-capitalist modes of production present in Latin America, there is no reason for the left to support a "bourgeois democratic revolution". All efforts should instead be directed towards a socialist revolution. (Blomstrom and Hettne, p. 68)

There is no doubt that dependency theorists do not have all the answers and that they do ignore some relevant aspects of the underdevelopment of Latin America. As we will see in the next chapter, many criticisms have been leveled against dependency, but we must also understand that many of these criticisms only force dependency to re-evaluate part of its focus, and that by no means do they do away with it altogether as the most important perspective on understanding underdevelopment in Latin America.

2.3 Dependency Under Attack

As any other theory claiming to explain global issues, the dependency paradigm has been criticized by scholars from every part of the ideological spectrum. Nevertheless, only the criticisms coming from those who hoped to transform dependency into a more workable theory, and not simply destroy it altogether, made any real sense. These critics did not simply want to disprove dependency, but build on to it in order to have a theory by which to understand better the problem of underdevelopment in Latin America and later the rest of the Third World. (the dependency methodology has also been applied with relative success to Africa and Asia).

On the other hand, critics from the modernization camp, challenged by dependency, merely discarded this new perspective for being unscientific and for not paying attention to neo-classical economic theory. Furthermore, they claimed that if dependency was occurring due to the large presence of foreign investments in a particular country, then Canada and Belgium were to be seen as more dependent than India or Pakistan. And nobody would claim that the former countries were dependent. So, modernization theorists discarded dependency theory explaining that it was impossible to distinguish between dependent and non-dependent countries on the basis of static criteria (as foreign investment and ownership). In sum then,

it was concluded that both dominance and dependence exist, but they are as common in the periphery as they are in the center. (Lall, p. 802) Nevertheless, the modernization perspective did change, in part due to the challenge of dependency and in part due to its own failures, and it began looking at issues as land reform, self-sufficiency, and foreign developmental aid as important aspects of development

The critics from the modernization camp did not attempt to borrow, or at least acknowledge, any ideas from the dependency perspective and chose to either ignore it completely or destroy it as soon as possible. Nevertheless, they were not able to do so, to a large extent due to the continuous failure of their own perspective, modernization, and the type of development programs they implemented in most parts of the Third World.

Classical Marxists, who believe that capitalism is needed as a previous stage in the path towards socialism, criticized dependency in a similar way as modernization theorists did. They saw in capitalism a force which was unstoppable and claimed that development would come when all feudal and other pre-capitalist modes of production were destroyed in the Third World.

Still, other Marxists which saw promise in the dependency perspective chose to criticize it, not simply to belittle dependency, but rather to lead it on to the right track. This critique was primarily directed at the way the dependency

school dealt with class relations. Without a class analysis, Marxists claimed, "the theory of dependency appeared as an eclectic combination of orthodox economic theory and revolutionary phrases". (Kay, p. 103)

Marxists argued that even if the transfer of surplus from periphery to core was an important aspect of underdevelopment, it was by no means the key issue. Underdevelopment, they claimed, must be explained by deeper underlying factors, which, in turn, would also explain the transfer of economic surplus. The only way to do this was to use Marx's own method of historical analysis, historical materialism. This type of analysis requires a study of the basic class relations in a society. Therefore, we must look at the existing modes of production in the periphery, and at their class structures, to understand the causes of underdevelopment.

Ernesto Laclau articulated a strong criticism of dependency for looking more at capitalism in the relationship sense than in its more important aspects as class structure and ownership of the means of production. He claimed that different modes of production coexisted in Latin America and, even if he did not support the modernization view of a dual society, he explained that there was a coexistence of two or more modes of production at the same time (i.e. slavery and capitalism) with one of them been dominant. He went on to express that there had been, and still were, feudal elements in Latin America. Most important

of all, these feudal elements did not exist independently (as the dualists claimed) of capitalism, nor as something which would automatically disappear with the introduction of capitalism (as some classical Marxists and modernizationists claimed). The feudal mode of production was able not only to survive, but was at times strengthened by foreign penetration. (Laclau, p. 31)

The importance of this new interpretation of the modes of production in Latin America becomes clear when we attempt to reconsider the causes of underdevelopment. Dependency theorists had for the most part claimed that the root of underdevelopment is to be found in the periphery's type of contact (as a producer and exporter of raw materials) with the center. Marxists, on the other hand, are not as simplistic, and rather than just answer the question of what was the cause of underdevelopment, they try to understand how and why the transfer of surplus has resulted in underdevelopment. Therefore, they claim that we must look at the country's modes of production and its class structure to understand the effect of a country's role as producer and exporter of primary products on its development. Marxists point out that a number of now developed countries have played the same role in the past (as exporters of primary products); but since their internal class structures were completely different, the end result was also different. Therefore, the search for a

satisfactory answer to underdevelopment will be found in looking at the class structure associated with a country's material production. (Blomstrom and Hettne, p. 84)

Nevertheless, Marxists do not neglect the importance of external factors in the process of underdevelopment when they claim that internal factors are more important. They accept that internal class structures are seriously affected by external factors. But they emphasize that all historical analysis must be based on the process of production. Regardless of the influence of external or internal factors over the class structure, it is the class conflict always present which remains the driving force of history.

In the same sense, Marxists criticize the dependency school for claiming that the only way to break away from underdevelopment is to break with capitalism and introduce socialism. According to many Marxists, this theory of revolution is based on a misfounded nationalist ideology, since it neglects class conflicts and legitimizes class collaboration within a country. Marxists express then, that if we accept the dependency theorists' point of view the end result would be autarky rather than socialism. (Brenner, p. 91)

Another critic, Bill Warren, explains that the 'development of underdevelopment' theory was oversimplistic and to a certain extent wrong. He says that the prospects for a successful, capitalist development are quite good in many underdeveloped

countries. Furthermore, he expressed that a considerable capitalist development had already taken place in the Third World and that obstacles to this development were internal contradictions and not external factors. He also argued that imperialism facilitated industrialization and that Third World dependence on the developed nations was in the decrease. (Warren, 1979, p. 12) This view was shared by many Marxists and also by some modernizationists, who saw in capitalism the way out of underdevelopment and not the main cause of it.

Dependency was also criticized for underestimating the ability of certain Latin American countries to benefit from contact with the capitalist countries. Technological dependence, which is seen as an important aspect of overall dependence, did not remain as static as expected, especially in the semi-industrialized nations. Argentina, Brazil, and Mexico have been able to develop domestic technology, breaking away with their long dependence on the West. (Blomstrom and Hettne, p. 92)

Also, dependency theorists are criticized for not being able to foresee the possible spillover effects of foreign investment. Evidence from Latin American manufacturing industries show that foreign investment could give rise to indirect gains to the host economy through the realization of external economies. Again in the sphere of foreign investment, critics blamed the dependency perspective for ignoring the fact

that sometimes foreign entry into local markets promotes greater efficiency in Latin American firms by increasing competition. In this way foreign firms force domestic ones to adopt more efficient methods of production. (Blomstrom and Hettne, p. 93)

But not all criticisms came from outside the dependency school. Self-criticism made way for a refinement and for the best contributions to the theory of dependence. Without attempting to look at all of them, I will use Cardoso's analysis of some of the most common fallacies of dependency to illustrate the destruction of some of the earlier assumptions of dependency now seen as almost myths. (Cardoso, pp. 11-13)

-Capitalist development at the periphery is not viable: certain structural obstacles, as well as the lack of dynamic capital, prevent the development of an entirely capitalist system. In Cardoso's opinion, it is wrong to claim that this must be so; i.e. that this is the result of the workings of some 'natural' law. Contradictions do not stand in the way of capitalist development, but constitute a natural part of it.

-Dependent capitalism is based on extensive exploitation of labor and is tied to the necessity of underpaying labor: this notion points out the problem of limited and stagnant domestic markets, which, in turn, is an important factor in the explanation of 'subimperialism'. This view is much too mechanical and ignores the dynamic aspects of (even peripheral) capitalism.

-Local bourgeoisies no longer exist as an active social force: the proponents of this view claim that the local bourgeoisie in the periphery is parasitic (lumpenbourgeoisie). It is neither capable of achieving a normal, rational accumulation of capital, nor is it able to realize its own true 'interests' (cf. Frank). This view, still quoting Cardoso, confuses the unsuccessful ideology of national populism and the true interests of the local, industrial bourgeoisie.

-The penetration by multinational firms leads local states to pursue an expansionist policy, typically 'subimperialist': like the rest of these theses this one exaggerates the local capitalists' incompetence. It is incorrect to say that the increase in export activity has favored only the multinational corporations.

-The periphery's only alternatives are socialism or fascism: the ruling classes in Latin America have, undoubtedly, become increasingly militarized; but that does not necessarily imply a fascist political organization.

Still, at the end, even if we may accept that dependency theory has lost some of its clarity and weight due to the many criticisms put forward, it can be also affirmed that it hasn't lost relevance in most contexts. In the next chapter, I will briefly summarize why, in the face of a total failure by the modernization perspective, and even if it must undergo many changes and reevaluations, the dependency perspective is still very much alive as the most useful tool to understand underdevelopment in most of the Third World and to suggest a path towards development.

2.4 The Relevance and Adaptability of Dependency Theory

The first step towards showing why dependency is still relevant can be easily reached by contrasting its assumptions and methodology with the ones held by modernization. In doing so, we wouldn't simply be dismissing the modernization perspective, but also validating the dependency approach.

Modernization is behavioral and microsociological. Its

primary focus is on individuals or groups of individuals, their values, attitudes and beliefs. Dependency, on the other hand is structural and macrosociological, focusing on the mode of production, patterns of international trade, political and economic linkages between elites in the periphery and the central countries, and group and class alliances and conflicts.

Even if both perspectives are concerned with the process of development of national societies, modernization sees the national society as the basic unit of analysis, while dependency considers the global system and its various types of interactions with national societies as the primary object of study.

The dependency perspective sees in the time dimension a crucial aspect of its historical model. Dependency theorists say that individual societies cannot replicate the evolution of other societies because this is precluded by the state of today's world system. Modernization may be concerned with the origins of traditional and modern values, but the time dimension is not fundamental to the pretenses of a model that claims 'universal validity'. Without knowing the source of modernity-inhibiting characteristics, modernization explains, it is still possible to identify them by reference to their counterparts in developing nations. (Valenzuela, p.33)

The perception of human nature is another major difference between the two perspectives. Dependency assumes that human

behavior in economic matters is a constant. Individuals, it claims, will behave differently in different contexts not because they are different but because the situations they encounter are different. Modernizationists, however, attribute the lack of certain behavioral patterns (as entrepreneurship) to the relativity of human behavior. They claim that cultural values and beliefs, regardless of the situation, underlie the patterns of economic action. Therefore, the conception of change in the modernization perspective is a product of innovations which result from the adoption of modern attitudes among the people in backward countries. On the other hand, dependency theorists see change in a different way. They argue that change results from the realignment of dependency relations over time.

Whether or not development occurs and how it comes about is subject to much controversy. Given the rapid evolution of the world system, dependent development is possible for certain Third World nations, but not for others. Autonomy, by means of a break of the relations of dependence, may not lead to development similar to the one existent already in the developed countries because of the impossibility to recreate the same historical conditions, but it might lead to a different kind of development stressing different values. Therefore, the prescription varies substantially among dependency theorists depending on the ideology or national

origin of the scholar. But they all agree that the prescription for change is not simply a logical consequence of the historical model. In the modernization perspective, the prescription for change follows more automatically from the assumptions of the model, implying greater consensus, and giving the impression of being more scientific and exact. (Valenzuela, p. 33)

From a methodological point of view, the modernization perspective seems, at first, to be more authoritative than dependency. As it focuses on the microsociological level, this makes it more amenable to the elaboration of precise explanatory propositions. The dependency perspective, especially some of its arguments on the linkages between external forces and internal class and power relations, are somewhat unclear and need further study. For this reason, some people look at dependency not as a theory but rather as an approach to the study of underdevelopment. But still, precisely because modernization relies on a simple conceptual framework and a reductionist approach, it is far less useful for the study of a complex issue such as development and underdevelopment.

But the strengths of the dependency perspective lie not only in its consideration of a broader body of evidence and a larger number of phenomena, it is also more promising from a methodological point of view. The modernization perspective has

fundamental flaws which make it difficult for it to provide for a fair test for its own assumptions. In actual research efforts, the modernity-inhibiting characteristics are often deduced from impressionistic observation. The main problem with the perspective and its behavioral level of analysis is that the explanation for underdevelopment is part of the preestablished conceptual framework. It is already known that in backward areas the modernity-inhibiting characteristics play the dominant role, otherwise they wouldn't be backward. Therefore, the test of the hypothesis involves a priori acceptance of the very hypothesis that it is trying to prove, with the empirical evidence gathered only in an illustrative manner. Also, the focus on individuals simply does not permit consideration of a broader range of contextual variables that might invalidate the assumptions. In this sense then, we can say that dependency is open to historically grounded conceptualization in underdeveloped contexts, while modernization is locked into an illustrative methodological style by virtue of its very own assumptions. (Valenzuela, p.38)

While we may now believe that dependency is a better approach than modernization, some of the criticisms brought about in the previous chapter, while not questioning this fact, force dependency to revise some of its assumptions. The main issues in which dependency needs to show an inclination towards reevaluation are: (1) that development of some sort is

occurring in dependent countries; (2) the relationship between modes of production and class conflict; (3) and suggestions for paths towards development. [Some dependentistas, as in the case of Cardoso and Faletto with their 'dependent development', have already addressed some of these issues.]

Many dependentistas agree that capitalist development, of a rather special kind, is taking place in Latin America. Dependent development, as it is called, is described by Cardoso and Faletto as a change in the type of dependency existent in some semi-industrialized countries of Latin America. Dependent development, they explain, goes beyond the traditional dichotomy between the terms development and dependence, because it allows an increase in development while maintaining and redefining the links of dependency. As they say:

The present situation is supported politically by a system of alliances that are different from those that previously assured external hegemony. It is no longer the exporting interests that subordinate the interests associated with the domestic market, nor rural interests that oppose urban ones as an expression of political domination. The specificity of the present situation of dependence is in part that the internal interests are rooted more and more in the sector that they are united in political alliances that are supported by urban alliances. (Cardoso and Faletto, pp. 174-175)

Regardless of the transformation of the economy of some Latin American nations, and even if the appearance of foreign exploitation is minimized, the reality of dependence on foreign capital and the extraction of large amounts of surplus by capitalist powers is still present. In terms of

diversification of production, levels of development may seem very high, but both capital flow and economic decisions are still controlled from abroad. Even when production and marketing are carried out within the dependent economy, earnings go to increase capital funds in the central economies. Investment decisions also depend in part on external considerations and pressures, and decisions taken by the parent companies (which only partly reflect the domestic market situation) still significantly influence the reinvestment of profits generated in the national system.

The results of dependent development are far worse than imagined. A facade of industrialization and progress is easily torn when deeper analyses are made. First, while dependence imposed by external financing (of the old type) is characterized by an expanding, mainly short-term debt, dependence under monopolistic industrial capitalism (of the new type) brings about an incredibly large foreign debt which creates a new situation of dependence to the world banking system as well. Second, this new type of development brings about the alliance of the public sector, the multinational corporation and the modern capitalist sector of the national economy and excludes not only the masses, but also the old capitalist class linked to defunct local industry and agriculture. This powerful alliance creates a system to contain the demands of the masses, and in many cases leads to

authoritarian-corporatist regimes in which the military have an active participation in government. (Cardoso and Faletto, pp. 160-163)

As we have seen then, dependent development does not imply a bettering of the situation for most of the population. As long as the power alliance (of bureaucracy, international capitalists, and local capitalists tied to international businesses) remains in control of the fruits of production, the trickle down effect of the development of dependent industrialization will not be enough to account for any true development. And furthermore, the bad side effects brought about with dependent development may further underdevelop many countries in Latin America by making them forever dependent on foreign financing.

The second major issue to be in more need of attention by the dependentistas is class conflict within the existent modes of production. But regardless of an overwhelming emphasis on external factors (especially in the beginning), dependency scholars have never really neglected the role of internal structures. What has brought problems to the dependency theorists (a problem which the simple Marxist definition of class by its relationship to the means of production avoids) is figuring out how external and internal conditions (and structures) interact. Some, especially Gunder Frank, explain that external conditions and actors mechanically determine

internal ones. Still, this idea has been discarded by most supporters of the dependency perspective as oversimplistic and unreal, and a more active (even primary) role has been assigned to internal actors.

Agustin Cueva, a Marxist, goes as far as claiming that it is wrong to assume that local social formations are dependent on the type of integration with the world capitalist system, and he says that it would be more correct to look at it in reverse, with the nature of local societies determining the links with the capitalist world. (Cueva, p. 108) This argument does not make much sense if we look at Latin America's integration to the world market. It wasn't the self-sufficient farming of the mid 1850's that made for the social formations present today. On the contrary, it was the demand from abroad and the relationship that developed between the core and the periphery which seriously changed the existing social formations. Only in the cases of countries which suddenly reshape their societies after a revolution, as in the case of Cuba and Nicaragua, we will be able to find that the nature of local social formations may be able to dictate the type of relationship with the outside world. And to a large extent, we can question if it was the nature of the local society the one that determined the type of links with the capitalist world, or if it was the capitalist world the one that determined them.

Nevertheless, dependentistas as Cardoso have never ignored

the internal structures and the class struggle in their analysis. On the contrary, the internal structures are seen as crucial in the development (and underdevelopment) process. However, Cardoso has objected to the orthodox Marxist view of classes according to which all classes are based only in the process of material production. To him, if the function of peripheral societies is to be well understood, a more complex class concept is needed. This new class division is to be defined by including structural and institutional factors, races, ethnic groups, and religions, as well as the relationship to the means of production. (Blomstrom and Hettne, pp.88-89) Therefore, in Dependency and Development in Latin America, Cardoso and Faletto explain class structure by means of the relationship classes have to power. In this sense, the military and the Church, regardless of having or not a direct relationship to the means of production (in some Latin American countries the military has gained access to a lot of property due to the power it has), are seen as part of the upper class of Latin America.

Also, Richard Fagen explains that social classes and their relationship to production, consumption, politics, and processes of change, must be understood with respect to national-international interactions. The interests of nominally national actors are sometimes tied to institutions outside the nation (which doesn't mean that they are determined by them),

and therefore they may seem at times to be a lumpen-bourgeoisie or comprador class when in reality they are acting rationally and willingly in their own interests. (Fagen, p.8)

And finally, dependency must be able to come up with more concise plans for development than what it has offered so far. Socialism or fascism, systems in which the state would have an active role in the internal development of the country, are by no means the only alternatives. Also, a total break with the capitalist system, as the most radical dependency theorists suggest, is both unrealistic and impractical, and it would have grave consequences on the whole population. Still, even if disassociating oneself from the world market is not recommended, self-reliance (which implies the cutoff of some of the dependent ties with the external markets) is an acceptable goal for all dependent nations. This self-reliance would imply a series of selective cuts with the outside, especially of external obstacles to development, and a reordering of the national economic sector to make it answer to local priorities rather than simply to market forces.

To the extent that dependent forms of capitalist development are seen as the causes of inequality and underdevelopment, they are automatically ruled out as potential solutions. Changes needed are impossible to implement while market mechanisms predominate in production, exchange, and distribution. Therefore, control over these market mechanisms

implies the creation of some sort of socialist institutions. Nevertheless, Fagen argues, it is difficult to see what a transition to some type of socialism means in practice, or even how this transition is to be accomplished. Although many dependentistas point to the benefits of a path towards socialist institutions, they offer little or no guidance. Models like Cuba or Chile under Allende are very specific to those particular countries and offer only sketchy and incomplete examples. (Fagen, p.15) The Nicaraguan Revolution may offer a good example to countries with similar economies, but the conflict with the U.S. has not allowed for the natural development of this experiment.

Again, and even if we can't be very clear about any plans for development (remember that even if modernization claims to have clear and concise steps to follow, no developmental successes have been accomplished by following their planning), we must try to make some suggestions that need to be considered in any attempt at true, independent, and meaningful development in Latin America.

The first step is to recognize the diversity of points of departure and of the present phase in the historical process of the underdeveloped countries. Any pretense to impose a unique framework (as modernization does) on the aspirations and possibilities of these countries would be a grave mistake. The roads to equality, to participatory democracy, and to self-

reliance in these countries follow radically different paths according to the resources and present economic and social situation of each one of them. But although the roads are different, the basic goals are the same.

Ronald Chilcote and Joel Edelstein, also without great detail but with agreement on certain points, give some idea of what true development for Latin America must include. For them, economic development must include the establishment of economic sovereignty and a level of productivity and a pattern of distribution that adequately provide for the basic needs of the entire population, generating a surplus for investment in continued national development. Social and political development would encompass equality, elimination of alienation, provision of meaningful work, and forms of social, economic, and political organization that enable all members of society to influence the decisions which affect them. (Chilcote and Edelstein, p.22)

In sum then, we can say that (as explained in Ch.1) development would be a mixture of economic growth, distributional equality, participation/(less)vulnerability, and self-reliance. And within a dependency framework, with different paths for different countries, this development can be accomplished by seriously looking at the relationships between core and periphery, and changing the negative aspects (or at least diminishing them as much as possible) of these

relationships. True nationalism and regional solidarity and cooperation are instruments, among others, which have recently become much stronger in Latin America and which hold some hope for the future of this underdeveloped region.

3.0 International Trade and Foreign Investment as Forces Behind Latin American Underdevelopment

3.1 The Impact of Trade

It is generally accepted that the developing countries have been, for the most part, the former colonial or semi-colonial regions. In other words, they were the agricultural plantations and raw-materials hinterland of the big capitalist powers, which exploited these areas as sources of cheap raw materials, labor, and foodstuffs.

This "metropolitan-colonial" type of relationship caused two major obstacles to the development of the dependent countries. First of all, the dependent nations were integrated into the world capitalist market as satellites, involving foreign ownership and control of the periphery's resources and commercial institutions. And second, the domestic structure of the local economy was dominated by export enclaves, intimately interlinked with the network of world capitalism, allying the most powerful interest groups of the periphery with those of imperialism. (Rweyemamu, p. 78)

To the extent that this relationship did not change when the periphery attained independence, it is likely that the nature and direction of existing trade have remained similar to

the ones existing during the colonial period. International trade has been key in perpetuating the artificial divisions of labor (in which the core produces expensive manufactures and the periphery raw materials as cheap as possible) between the underdeveloped countries and the metropolitan centers, a division that was established by imperial power and maintained by lop-sided trade.

During the early colonial period, trade relations did not usually displace the existing social structure of the colonies. While at the beginning those relations were limited to plundering and establishing a network of trading posts without affecting production itself, later on primary production for the market, both agricultural and extractive, was introduced. In time, the specialization of the colony was determined by the colonial power, either according to its own needs or because of its likely profits as an intermediary between the colony and other countries, having little to do with the optimal allocation of national resources. In this manner, different modes of production were set up.

This integration of the less developed countries into the world capitalist market, as suppliers of natural resources and providers of cheap labor for foreign companies, results in a continuous dependence on the centers of monopoly capital. This dependence is furthered by the market institutions--export-import houses, banking, insurance facilities, shipping--which

evolve from this relationship. (Rweyemanu, p. 79)

This situation is reinforced by the pattern of colonial and neo-colonial investment. Most of this investment was concentrated in the primary export industries and its associated infrastructure. Consequently, the industrial growth of most of the periphery remained meager, and where it was somewhat substantial, it did not reflect a significant and consistent integration with the rest of the economy.

And this trend continued after the colonies attained independence. Even when going away from the production of unprocessed primary products (due to the deterioration of the terms of trade or the unavailability of some imports) and into processing and shipping there are no major changes in the situation. The shift to consumer-goods industries and export-oriented processing industries cannot bring real benefits to the host country in so far as most of the subsidiaries use the same techniques of production as employed in the centers, import most of their machinery, enjoy a monopoly position, are owned by foreigners, and repatriate most of their profits.

But regardless of who controls the industries, agriculture, and extraction of minerals in the periphery, there are patterns that have remained since the colonial times that have conditioned the development of the Third World. As the conditions for the development of the industrial sector and the local economy in the periphery were undermined by the center's

control over capital, and as local government was controlled by an elite which drew its power from the export sector, dependence on exports was the path taken by the underdeveloped countries.

3.1.1 Export Dependence

Export dependence exists when a large share of the gross product of an economy is generated by exports. Even when seen as the "road to development" by the World Bank and the other international agencies, dependency theorists consider a reliance on export trade a developmental dead-end. They claim that an economy which depends heavily on the external market will be at the mercy of the deterioration of the terms of trade as well as of fluctuations in the world market price. Dependence on exports (especially if they are not diversified) and the uncertainties which accompany it greatly diminish the long-term economic planning capacity of a nation-state. This situation, which is referred to by the dependency theorists as the "vulnerability" thesis, attempts to show the precarious position of nations whose economic survival rests on the vagaries of an external market over which they have little control. (Jaffee, p. 103)

Dependency theorists also argue that due to the enclave character of many export economies the income earned from exports will fail to have accelerating or expansionary effects

on economic growth. This is in part because there are political and economic discentives that work against diversified investment. On the political side, a typical pattern in export oriented economies is for an elite to emerge whose fortunes are directly tied to the export sector. Many of the policy decisions essential for the development of domestic industry, such as protective taxes and tariff regulations, are contrary to the interests of the export sector, and will often be blocked by the elite.

Among the economic discentives for diversified investment is the continued attractiveness of the export sector for private capital (both local and foreign). Available private capital gravitates most often toward the most dynamic export-related investment opportunities rather than taking chances and limiting their prospects in other industries, thus reducing the potential for balanced growth. Furthermore, as much of the export sector of the less developed countries is greatly controlled by foreign interests, a large proportion of the generated revenue in this sector is controlled and repatriated by multinational corporations, and therefore made unavailable for reinvestment in new forms of production or economic activities in the host country.

A final obstacle to economic growth under conditions of export dependence identified by the dependency theorists involves the existence of sectoral and social disarticulation.

[Sectoral disarticulation consists of missing or very weak links between productive sectors]. With the absence of backward and forward linkages between economic sectors, investment in a particular industry is unlikely to have the same multiplier effect as in developed and articulated economies. At the social level, export dependence creates a situation where wages are a pure cost and the ability of the domestic population to consume is of limited importance to the economic health of the extraverted economy. This structural constraint against widening the internal market makes the development of "inward-looking" consumer industries less likely. (Jaffee, p. 104)

It must be noted that the "vulnerability thesis" and the "export enclave thesis" are broad generalizations. The extent that a nation is vulnerable is directly related to the degree to which its export commodities are subject to price fluctuations, to the pattern of export commodity specialization, to the level of commodity concentration and, in some cases, to the state of the world economy in general. At the same time, the degree of foreign ownership of export enterprises, with its consequences of profit control and repatriation, will affect to what extent there can be capital left for national investment ventures. In sum, the effects of export dependence will be much more pronounced in those nations that: export price fluctuating commodities; export products

with low levels of processing; export raw materials and primary products in exchange for manufactured goods; export a narrow range of products; and are highly penetrated by foreign capital.

Some studies have concentrated on many other aspects of the effects of trade on underdeveloped countries. Richard Robinson looked specifically at political mechanisms to explain the negative relationship between trade composition and structure and economic growth. His study shows that lack of diversity in trading partners as well as in production, but not volume of trade, have a negative effect on government revenues of states. He argues that government revenue has a strong positive effect on economic growth, and that this effect is much stronger in poorer countries. Since high export concentration tends to be a feature of poorer countries, and the financial strength of the state was found to be particularly important to the economic growth of poorer countries, his study identifies an important mechanism for explaining how the structure of trade maintains stratification within the world economy. (Robinson, p.98) This trend is evident in those countries that rely on one or two exports for most of their revenue. In most cases, those groups which are involved in the production of those export commodities can easily influence the local government, which they need only as an instrument to keep export taxes low, to control labor demands, and to maintain general stability.

Partner concentration in trade also translates into lower government revenue. The country which receives most of another country's exports and which accounts for most its imports has the ability to force tariff barriers down quite easily, limiting the amount of revenue for the underdeveloped country.

3.1.2 Surplus Transfer Through Trade

According to de Janvry, there are three mechanisms by which international trade can result in surplus extraction to the benefit of the center (de Janvry, p. 53):

- (1) Unequal Exchange (whereby equilibrium production prices imply a transfer of value from disarticulated--cheap labor-economies to articulated economies)
- (2) Unequal trade (whereby domination of the international market by the center results in a monopolistic rent to its benefit, an advantage that materializes in a discrepancy between production and market prices)
- (3) Unequal rewards (to labor owing to differences in productivity in internationally traded commodities)

3.1.3 Unequal Exchange (Differential production prices)

In his theory of unequal exchange, Emmanuel attempts to demonstrate how one country can be exploited by another purely in the sphere of exchange or trade relations. The main mechanism underlying unequal exchange is, for him, the operation of the law of value on an international level, given: "(a) the tendency for the increasing internationalization of capital and the equalization of the rate of profit on a world

scale; and (b) the relative immobility of labor between social formations and a higher rate of exploitation of labor in the low-wage periphery". The transformation of values into prices at an international level implies that the exports of low-wage countries will exchange at prices below "natural prices" and the exports of the high-wage center will exchange at prices above "natural prices". (natural prices are the prices that would be obtained if the rate of exploitation were the same in both the periphery and the center) In other words, even if the organic composition of capital were the same as in the center, exports from the periphery would exchange at prices below value if the rate of exploitation were higher in the periphery and the rate of profit were equalized internationally. (Braun, p. 86)

3.1.4 Unequal Trade (Differential market prices)

A transfer of surplus value to the center results when in trade transactions the center uses its power to directly impose price distortions on the world market by means of quotas and tariffs on imports from the periphery, and through monopolistic pricing by merchant capital. Due to the essentiality of imports of capital goods, technology, and food from the center, a fall in the international terms of trade to the detriment of the periphery will logically force it, at least in the short run, to increase its exports, thus generating a backward-

bending supply curve of exports. The center can then capture increasing volumes of exports at lower prices. Through this mechanism, the transfer of surplus value that occurs assumes the form of a monopoly rent that creates a discrepancy between the production and market prices of peripheral exportables. By contrast to unequal exchange, the mechanism of unequal trade operates at the level of market prices, not production prices. (de Janvry, p. 54)

3.1.5 Unequal Rewards in the Formation of International Prices (Differential Productivities)

Most of the products of the modern industrial sector of the periphery are not specific to the periphery but are identical to those of the center, although sometimes they are produced through different labor processes. With nonspecific goods, if the average productivity of the periphery is lower than world-average productivity, a unit of product originating in the periphery will require more embodied labor than the world-average embodied labor consumed in the production of that commodity. On the world market under competitive conditions a unique price is established that corresponds to the world-average embodied labor required to produce that commodity. Individual products are exchanged on the basis of this world price regardless of how much labor was expended in their production. The result is that "on the world market, the labor

of a country with a higher productivity of labor is valued as more intensive, so that the product of one day's work in such a nation is exchanged for the product of more than a day's labor in an underdeveloped country". On the world market, unequal quantities of labor are exchanged in trade. The effective devaluation of embodied labor that originates in the periphery under conditions of lower productivity leads to lower wages. By contrast to Emmanuel's unequal exchange argument, in this case it is not lower wages that lead to an unequal exchange; it is lower productivity that leads to unequal rewards and hence creates the objective basis for lower wages. (de Janvry, p.55)

In sum then, it can be said that trade is not the answer for either economic growth or development due to the existent structures of the world market. As Hans Singer and Janed Ansari explain, international trade patterns between rich and poor countries reflect the bargaining power and institutions of the trading partners. Because the world markets in which trade takes place are characterized by the existence of oligopolistic competition, there is no indication that the economic bargaining position of the poor countries is being strongly improved (although this may be happening for some strategic raw materials). Factor and commodity prices are distorted by multiple government and institutional intervention. And this intervention is far more powerful in most of the West, which can protect itself better and bring down barriers in the poor

countries easier, and shows no signs of changing. (Singer and Asnari, p. 64)

Therefore, the adverse movement in the terms of trade of the poor countries transfers many of the benefits of any type of innovations and new resources from the poor to the rich, and acts as an impediment to the development of the poor countries. Trade cannot be seen as an agent of development if it does not facilitate structural change within the economy (which cannot happen in the present trade relationships between poor and rich countries), for development is growth plus change. Furthermore, it can easily be argued that present patterns of trade are further underdeveloping the Third World, by exploiting its resources without allowing for a fair division of the profits created by them.

3.2 The Impact of Foreign Investment

The concern with the effects of foreign capital arises from the fact that, next to trade, capital flows between countries are the most visible form of interrelationships among countries.

Foreign capital flows into the Third World in many forms. From direct investment to joint ventures, from multinational corporations to foreign aid, from loans to development programs, the underdeveloped nations are constantly bombarded

with incredible amounts of foreign capital that severely affect their performance and in many cases help delay the development it was supposed to foster.

Volker Bornschier identifies five (but by no means all) aspects of foreign investment and aid to Third World nations (Bornschier, p. 677)

- (1) The effect of direct foreign investment and foreign aid has been to increase economic inequality within nations. This effect is felt both in land and income inequality.
- (2) Flows of direct foreign investment and foreign aid have had a short-term effect of increasing the relative rate of economic growth of countries.
- (3) Stocks of direct foreign investment and foreign aid have had the cumulative effect of decreasing the relative rate of economic growth of countries. This effect is small in the short run (1 to 5 years) and gets larger in the long run (5 to 20 years).
- (4) Foreign investment and aid have had negative effects on both richer and poorer underdeveloped countries, but the effect is stronger in the rich ones.
- (5) The effects of foreign investment and aid are independent of geographical area.

Most capital movements are asymmetrical, originating in core countries and received in peripheral countries. Therefore, in most capital flows from North to South it is the North which decides who gets what, under what conditions, and for what purposes. Both foreign investment and foreign aid are structural features of national economies which give some degree of economic and political power to those groups whose interests are tied to these flows of capital. Therefore,

foreign investment and aid are seen as mechanisms which create and maintain the dependence of the periphery on the core, and especially the dependence of those groups that rely on those flows of capital for their power.

Rubinson suggests that we must distinguish between two different ways of measuring foreign investment. To measure foreign investment looking at "flows" means to observe inflows of capital or aid on current account. But if foreign investment and aid are seen as "stock", then we are measuring the accumulated foreign capital in a country. Flow measures, then, describe the amount of foreign capital or aid coming into a country within a limited period of time, while stock measures describe the accumulated amount that exists in a country. In this manner Rubinson explains that flows of foreign capital have positive effects on economic development and stocks of foreign capital have negative effects. This reflects that the immediate effects of inflows of foreign capital is to increase the rate of economic growth, while the long run cumulative effects operate to reduce the rate of economic growth. (Rubinson, p. 97)

Many studies have also shown that foreign investment led to increasing income inequality. early monopolization, and structural unemployment. Therefore, conditions are set for an early saturation of effective demand and a lowering of the rate of capital formation. And since capital formation is a major

determinant of economic growth, this can explain part of the negative effect of foreign investment on economic growth and development.

3.2.1 Surplus Transfer Through Foreign Investment.

3.2.2 Industrial and Financial Imperialism (Differential profit rates)

The surplus extraction due to foreign capital occurs both directly, as returns on foreign investments and loans, and indirectly, through interest payments on an external debt incurred in particular to maintain equilibrium in the balance of payments. Center capital is usually invested in modern enclaves and industries in the periphery, where it captures high rates of profit and repatriates a large fraction of them.

This massive repatriation of profits is made possible by the capacity of Western manufacturing subsidiaries to finance new investments in the periphery using locally generated capital. Usually, only about 20% of the funds used by U.S. subsidiaries in Latin America originated from net capital inflows from the parent corporation. The remaining 80% was generated internally by the subsidiary itself or was borrowed locally. (de Janvry, p. 51)

For the center, export of capital is part of the search for counteracting forces to the tendency for the rate of profit to fall. For the periphery, the call on foreign capital and

foreign aid originates in the periodic need to make up for a deficit in the balance of payments (caused mostly by the unfairness of the trade relations between North and South previously discussed) and for a weak domestic investment capacity. These needs create the internal possibility for industrial and financial imperialism to occur.

For foreign capital to be attracted to the periphery, the rate of profit to be gained there must be greater than that in the monopolized sector in the center. Monopolistic superprofits in the center originate in a biased redistribution of the surplus value from the competitive sector to the monopoly sector. The tendency toward equalization of the rate of profit that characterized competitive capitalism thus disappears, and monopolistic superprofits can occur without necessarily decreasing the relative participation of labor in the social product. In the periphery, by contrast, lack of an established competitive sector implies that superprofits on foreign investment originate elsewhere. And they do originate in the joint occurrence of high productivity and low wages, wages that are kept down through suppression of worker's demands, functional dualism (cheap semiproletarian labor), the internationalization of value (imports of cheap wage foods), and the increasingly efficient production of wage goods (development of capitalism in response to market widening). (de Janvry, p. 52)

The industrial products obtained through foreign investments find an expanding market either in exports to the center (first case) or in the limited internal market of the periphery (second case), which consists of both luxury-goods consumption out of surplus value and market-widening through proletarianization. In the first case, a new international division of labor is established whereby the center exports capital goods, technological know-how, and financial capital and the periphery exports raw materials, finished industrial products, and a financial surplus. Countries with a relatively docile and skilled labor force tend to be the recipients of labor-intensive, resource-intensive, and polluting industries. The international division of labor implies the development of the bulk of the capacity to consume in the center and of part of the capacity to produce in the periphery. (de Janvry, p. 53)

In the second case, import-substitution policies create the structural conditions for the exploitation of a limited internal market. Deterioration of the participation of labor in the social product increases the surplus value that is distributed among foreign capital, associated national capital, and the supporting bureaucracy. The last two social groups create a market for luxury consumption goods produced by the modern sector. This market is limited by competition for the surplus value between foreign and domestic recipients and,

among the latter, by competition between consumption and investment expenditures (including capital flight from the country). Regressive income-distribution policies are promoted to overcome these contradictions since they result in an increase in both market size and investment capacity. In the upper classes, income (and consumption levels), are similar to those observed for the majority of the population in the center. In this way, the demands created in the periphery replicates that of the center, with the difference that the commodities that are wage goods in the center are luxuries in the periphery. Internationalization of consumption patterns in turn creates attractive investments prospects for multinational corporations, which can ship to the periphery the same technology already employed in the center. (de Janvry, p. 54)

In sum, industrial and financial imperialism is the materialization of the mutual need for external relations that arises from the contradictions of accumulation in the center and periphery. The tendency for the rate of profit to fall in the center is partially counteracted by the center's high return on exported capital. Deficits in the balance of payments and in the investment capacity of the periphery are temporarily counteracted by the periphery's call on foreign capital. Overcoming barriers on a world scale allows capital to grow, and this growth re-creates new barriers in a continuing contradictory process.

3.3 The Impact of Foreign Aid and the International Lending Organizations

Aid, contrary to what many people believe, has never been an unconditional transfer of financial resources. Almost in every case, the conditions attached to aid are clearly and directly intended to serve the interests of the governments providing it. Apart from the fact that aid must usually be used to buy products from the country that provides the aid (therefore becoming a form of subsidy by the provider of aid to its own economic sector), it has also specific aims attached to it.

In most cases, evidence suggests that very little of the economic aid flowing into the Third World either furthers development or helps to reduce poverty and hunger. If we look for example at the goals of U.S. aid in Central America we can get a better idea of what aid is really all about. The overwhelming majority of U.S. aid is used to shore up privileged elites, block true reform movements, and strengthen U.S. ties in the region. Tom Barry and Deb Preusch provide us with a good classification of U.S. aid to Central America and its main purposes. (Barry and Preusch, p. 28):

-Stabilization: Propping up friendly governments with generous trade, credits insurance, balance of payments assistance, and budget deficit relief.

-Pacification: Supporting civic-action and rural development programs, often coordinated with counterinsurgency campaigns.

-Private Sector Support: Funding national and foreign private enterprise.

The AID (Agency for International Development) is the main provider of U.S. aid in the region, and it openly claims that its programs are "all part of a strategy to reverse deterioration, restore economic stability, and restore social equilibrium". The main problem, and reason for failure, is the fact that this strategy ignores the historic and deeply imbedded causes of economic and social instability in the region. AID, following the paths of the modernization school of thought, has the power to pressure governments to follow certain policies. But rather than requiring the aid recipient countries to take measures to meet the basic needs of their people, end human rights violations, or implement long overdue tax and land reforms, AID usually pressures Central American governments to do the following (Barry and Preusch, p. 32):

- Encourage U.S. investment.
- Remove financial and investment constraints on foreign investment.
- Devalue currencies in order to encourage trade.
- Increase credit and reduce taxes for export businesses.
- Remove tariff protection for local industries.
- Eliminate food subsidies and reduce social services in order to reduce public spending.
- Liberalize economies by removing restrictions on flows of foreign exchange.
- Revoke labor laws that keep manufacturing wages higher than agricultural wages.
- Improve opportunities of private sector.

As we can see from the type of 'suggestions' AID gives the aid recipient nations, the main consequences will be a furthering of dependence on the U.S., a furthering of foreign investment in their territories, a furthering of non-democratic forms of government, and finally a furthering of underdevelopment altogether. Even if aid in some cases does create economic growth, this is not accompanied by a proportional reduction in poverty. The 'trickle down' effect hoped for, regardless of its weak foundations, is not occurring, and the lowering of wages, the devaluation of the currency, and the diminishing of the social services -- all of which AID requires to encourage industrialization -- are bringing about incredible burdens to the already impoverished population.

As Joan Spero explains, aid is a tool to reinforce dependence. It provides access to the North for economic decision making in the South, and it also gives the North great political leverage in the recipient countries. Aid was used, she argues, to support preferred internal and external policies of recipient governments. Withdrawal or threatened withdrawal of aid has been used to show disapproval of some policies and in some cases it has meant the downfall of democratically elected governments or progressive military regimes. Furthermore, aid has been used to promote such foreign policies as the granting of military base rights and

support in conflicts with the Soviet Union. (Spero, pp. 144-145)

Celso Furtado, a member of the dependency school of thought, argues that the problems of security of the United States (which he sees as the main reason behind U.S. economic and military aid) and those of the development of Latin America are in conflict. He sees the necessary steps for the development of Latin America as including many political, economic, and social reforms which are openly opposed by the U.S. Furthermore, Furtado explains that the kind of development that the U.S. wants in Latin America, which is based mostly on the increase of foreign investment and trade, would further the dependence of the region to limits never seen before and would probably eliminate any hope for true development in the future. (Furtado, pp. 20-21) The case of U.S. involvement the Central American region is perfect to illustrate Furtado's assertions. Even if it has become clear that redistribution of land and income and more regional integration are necessary conditions for the development of the region, U.S. security interests, and therefore its policies, encourage stable but oligarchic governments and prevent any type of economic or political cooperation between the Central American states.

In carrying out its policies, the U.S. works through AID and in cooperation with such international organizations as the

IMF (International Monetary Fund) and the World Bank. The cooperation between the U.S. foreign aid program and these international institutions is based on the control that the U.S. and the other leading industrial nations have in these institutions, and the mutual interest of these leading nations in preserving a certain type of relationship with the underdeveloped countries. As Teresa Hayter explains, it is the IMF, the World Bank, and AID, and not the other organizations of the Inter-American system, which actually conduct the negotiations with Latin America governments on general economic policies, and on linking the provision of financial resources to the adoption of particular policies. (Hayter, p. 25)

The cooperation of three institutions is made easier by the fact that there is a considerable measure of agreement between them on the policies which they claim are crucial and essential preconditions of development in Latin America. One of the major goals, apart from financial and monetary stability and the elimination of import and currency restrictions and price control, is the greater reliance on market mechanisms for achieving growth. As we have seen before, dependentistas argue against letting the market dictate production and allocation of commodities which bring about severe inequality. State involvement in the economy is seen as key for development, but it has been one of the issues which all three international lending institutions have been strongly opposed.

For example, Barry and Preusch explain that AID forces aid recipient countries to eliminate their food subsidies programs if they want more aid. But AID programs, especially those related to agriculture, have very little to do with producing and distributing more food for the poor. Instead, the programs build roads, extend electrification for those who can afford it, subsidize the processing and export of winter vegetables, and provide credit for pesticide purchases. In sum, as a 1984 Congressional Research Report said, "AID's new agricultural projects seem to be aimed less at food production or directly helping the rural poor than at expanding the output of commercial crops and promoting agricultural exports". (Barry and Preusch, p. 52)

The IMF lends to countries to help balance their international payments, if, for example, they import more than they export. A line of credit from the IMF guarantees that whoever is selling goods to such a country will get paid, even though the country that is buying the goods hasn't earned enough money on the world market to cover its debts. Such a loan, Jonathan Kwitny explains, can be looked at in two ways. First, it is an artificial device to help poor countries buy things beyond their current means. And second, it is an artificial device to allow business men in rich countries to sell things they otherwise couldn't sell. In any event, once the IMF makes such a loan, it often demands control over many

aspects of the borrowing country's importing and exporting, which can lead to control over the entire economy. (Kwitny, p. 16)

The World Bank, which was originally meant to be much more important to Third World countries, makes big loans for development projects like dams and airports. In a way, heavy development borrowing is a form of importing, and often leads to the trade imbalances preceding another loan, this time from the IMF.

Kwitny goes on to explain that in the 1970s, much of the development lending was taken over by Western private banks. These banks, overflowing with Arab oil money, have found big profits making direct loans to Third World governments. Still, the IMF has continued its role as regulator whenever a country can't pay its debts and has become the collection agent for the big banks. These banks lend money to Third World nations at high interest rates, and they usually get about half of their total profits from overseas loans. (Kwitny, pp. 17-18)

Apart from the more obvious aspects furthering underdevelopment present in the policies of the three major lending institutions (and in their allies the big banks), there is one major factor that makes them even a worse threat for the well-being of the Third World. The loans of these institutions, and especially the ones from the World Bank, don't depend on the viability of the projects the loans are

allegedly financing. The projects often seem a mere excuse for the flow of available money from the North to the South, as a way to subsidize Western businesses, and result in more debt for the already overburdened Third World. Proposals for projects to be funded are often prepared by the companies that will get the contracts, rather than by local citizens groups, or development workers, or even the governments that are receiving the loans. The company and members of the government make the deal before anyone considers the project, opening the door for collusion and kickback arrangements, and forecloses any possibility that the lending institution (if interested) could oversee fair competitive bidding on a project. (Kwitny, p. 94)

It is then that we can often see luxurious airports and state palaces been built, and other useless projects undertaken, in countries in which poverty and malnutrition are rampant. These borrowing countries are falling more and more in debt due mainly to corruption in their government and the lending institution's practices of subsidizing Western businesses, and putting themselves in a position in which their increased dependence on more foreign capital prevents their development and furthers their underdeveloped status.

3.4 The Impact of the Multinationals

An analysis of foreign investment in the Third World, and especially in Latin America, would be incomplete without an analysis of the role of the multinational corporation. According to Dale Johnson, multinationals are at the core of the nexus of power relations within the international system. He sees the expansive corporate enterprises as operating in a growing world market that they divide among themselves just as they did in the markets of the industrialized nations. Investments are oriented towards expansion of markets, towards guaranteeing sources of raw-materials and other inputs, towards profit maximization, and towards the establishment of monopoly positions. (Johnson, p.92)

American corporations acting in Latin America have many privileges, they escape the control of American anti-trust legislation and they have the politico-military support of the government (both U.S. and local). This tends to guarantee that the large corporations will transform themselves into superpowers in any country in Latin America. Since the corporations handle a large number of the basic decisions concerning investment orientation, the location of economic activities, the orientation of technology, the financing of research, and the degree of integration of regional economies, it is perfectly obvious that the decision-making centers represented by the existing national governments will increasingly be diminished.

Celso Furtado believes that even disregarding the obvious objections that can be formulated in political and cultural terms to a development strategy based around corporations in the region, there are many reasons to lead one to believe that such a project is unfeasible as well as ineffective from the strictly economic point of view. The large American corporation, he argues, seems to be as inadequate an instrument to face the problems of underdevelopment as is a mechanized army that attempts to engage in a guerrilla war. (Furtado, pp. 22-23)

Multinationals, with their advanced technology and high capitalization, have the effect on an underdeveloped economy of draining off capital and creating severe side-effects. The indiscriminate penetration of a fragile economic structure by multinationals having a large degree of administrative inflexibility and large financial powers serves to create structural imbalances that are difficult to correct. Some of the most obvious effects are greater differences in the standard of living among certain groups of the population, the rapid build-up of both open and disguised unemployment, and the repatriation of profits.

As the controlling capacity of local governments is reduced to allow the large American corporations to act with more freedom than they currently enjoy, we can expect that economic activities would tend to concentrate in certain secondary

areas. Such a concentration aggravates income differences between social groups and geographic areas. And these geographic differentiations result in a real or potential increase of social tensions in Latin America. Furthermore, since the strategic economic decisions are beyond the influence of Latin American governments, such tensions tend to be viewed on the local political plane only from their negative angle. Governmental action then, tends to assume an essentially repressive character. (Furtado, p. 24)

The multinationals do not operate by themselves, but within the context of a set of modern international institutions, and among power groups whose interests are interrelated with those of the corporations. The expansion of multinationals to underdeveloped countries has in part been made possible by the rationalization of international capital flows and monetary transactions carried out by the World Bank and the IMF, which according to Johnson, rather strictly serve the interests of the multinationals, exporters of the industrial nations, and international financial circles. These agencies, he goes on, can and do exercise enormous pressure upon underdeveloped countries to keep their finances in order and to promote a favorable climate for the multinationals. (Johnson, p. 95)

Osvaldo Sunkel explains that the pattern of expansion of multinationals is quite similar everywhere. "First, they export their finished products; then they establish sales

organizations abroad; then they proceed to allow foreign producers to use their licenses and patents to manufacture the product locally; finally, they buy off the local producer and establish a partially or wholly owned subsidiary". (Sunkel, p. 521)

This process removes the multinational's decisions from the scrutiny and possible control of the host country since international trade takes the form of intrafirm transfers within the multinationals. And since the multinationals integrate their own activities and tend to cooperate with each other, this also represents the introduction of foreign monopoly power throughout the host country's economy, where earlier it was restricted to the export of primary agricultural and mineral products. (Chilcote and Edelstein, p. 51)

The penetration of American multinationals in the manufacturing industries of Latin America is a phenomenon that began picking up shortly after WWII. This penetration interrupted the development of an entrepreneurial class having clear-cut national interests. By this I don't mean to say that national entrepreneurs disappeared completely, but that they were gradually prevented from developing a perspective of the total industrial development of their country and were denied access to the leading sectors of industrial activities. Furthermore, the multinationals, due to their powerful financial bases, rapidly extended their control over the most

dynamic manufacturing sectors and recruited the most able men trained in local industries into their service. In this way, national entrepreneurs were restricted to secondary or decadent sectors or to the opening up of new fields, which eventually would be taken over by the multinationals. (Furtado, p. 36)

The relegation of local Latin American entrepreneurs to a role of dependency interrupted the autonomous development of incipient local capitalism. During the last few decades, since Latin American development was somewhat based on industrialization, conditions reflected either the strategy of the multinationals (whose policies favored increased external dependency) or the strategy of the action of the national state. But as the role of the government in development has begun to weaken throughout the region, the hope for a development of a national economic system has begun to vanish as well. (Furtado, p. 64)

Tom Barry and Deb Preusch identify three types of multinationals present in Central America: (1) Agribusiness MNCs like United Brands and Hershey produce cash crops like bananas and cocoa for export, either in their own plantations or by contracting with local growers. (2) Industrial MNCs like Colgate-Palmolive and Exxon produce goods for both the domestic and export markets. (3) Service MNCs, including banks, commercial enterprises, and trading companies, which give loans to private and public borrowers, and supply food and hotel

services, and buy and sell commodities in the region. But they also argue that direct foreign investment by the MNCs is no longer in the upswing in Central America. In recent years, mostly foreign small firms have set up contract production and processing operations for nontraditional exports like vegetables and flowers. MNCs have moved away from direct production to concentrate more on control over the trading and processing of commodities produced for them by private contractors or state corporations. This is the case, they argue, because the MNCs are hoping to reduce risks for large investments and due to the increase in profits they gain in the role of intermediaries between the productive sector and the markets. (Barry and Preusch, p. 10)

In the right situation, foreign investment could have brought some sort of development in Central America. But as MNCs are almost totally unregulated in the region, and as their demands are always met by local governments due to their superior economic position, the result has been a continuous and severe underdevelopment of all Central American countries. As Barry and Preusch explain, MNCs create patterns of economic development that meet their own global needs for resources, labor and markets but only rarely correspond with the actual development needs of their host countries. Given the sad results of past uncontrolled MNC investment in the region, economic development based on U.S. foreign investment will lead

only to continued instability and underdevelopment. (Barry and Preusch, p. 19)

Part II: The Socio-Economic and Political History of Central America

4.0 From Colonization to the Rise of the Coffee Oligarchy

4.1 Colonial Times

Throughout the colonial period Central America was a backwater of the Spanish empire. Both economically and politically, the region never had a major importance to Spain other than to simply add to the large territorial holdings of the Crown in the Americas.

Central America was a disappointment to the early explorers and colonists. Wealth was not easily acquired, and its sources were not immediately apparent. Once stories of the incredible riches of Mexico and Peru reached the area, the isthmus was abandoned by most of the early settlers. This resulted in an isolation of the area and no form of central government until 1543, when the Captaincy General of Guatemala was created to administer the Central American region. (Ropp and Morris, p. 9) Until then, each small settlement throughout the region had enjoyed an autonomous form of government, lead by a small handful of Spanish colonizers and militarymen.

The region included about 1.25 million people, of whom fewer than 50,000 were Spanish. The population was found

mostly in the central highlands and along the Pacific, while the Caribbean coast, with its tropical heat, heavy rainfall, and dense forests, remained untouched by the Spanish colonizers and therefore lacked any type of city or settlement.

This situation allowed for many British incursions, beginning as early as the 1630's, into mainland Central America and to the development of small settlements along the Pacific coast from Belize to Nicaragua. The main interest for the British was the exploitation of the lush forests, cutting longwood, which produced dyes. As the Spanish did not intervene, the British enjoyed the benefits of a cordial relationship with the resident Miskito indians and slowly increased the harvest of longwood, which reached a value of 100,000 pounds annually by the mid 1700's. (Findling, p. 2)

The increase of British presence worried the Spanish and a few and small military skirmishes took place all throughout the late 1700's, culminating in the defeat of the Spanish in Belize in 1798. From then on, the British were left alone and they strengthened their hold in the region, especially in Belize (then British Honduras) and the Miskito coast. (Helms, p. 211)

The North American colonies also showed interest in trading with the Spanish in Central America and a few hundred New Englanders emigrated to Honduras. This commerce continued after the United States gained its independence, although it varied considerably, depending on the degree of Spanish

involvement in European wars. To a great degree, the demise of Spanish power in the region - which was tied to the involvement of Spain in the French Revolution and the Napoleonic Wars - resulted in a more active role for North Americans in Central America. (Findling, p. 4) Furthermore, as the Spanish Crown began losing control over its colonies, due to its problems in Europe, local landowning elites began to develop a strong interest of their own in trading with other nations.

Regardless of its lack of mineral riches, the region attracted many Spanish settlers that devoted themselves to agriculture and cattle raising. At the beginning of the 1700's, the Spanish crown began introducing cash crop farming to the area and imposed feudal type landholding patterns to the detriment of the native population's traditional subsistence farming. With the gradual development of export agriculture (consisting at different times of cacao, tobacco, dye, indigo, and some foodstuffs), Guatemala became not only a colonial administrative center but also, because of having the only port facilities in the Atlantic, a trade center. Also, the fact that Guatemala City was the political center of the region helped attract a larger number of new colonists and merchants. Local elites in Guatemala City came to control most of the economy of Central America, bringing about many conflicts with other regional elites. (Ropp and Morris, p. 13)

But to a large extent, mainly due to the primitive avenues

of communication present, the other provincial urban centers had little regular contact with the central administration in Guatemala City other than some trade and through the payment of taxes. The consensus of the literature on this early period is that the colonial administration in Guatemala had little control over what went on elsewhere in the region. The merchants and landlords in the other major centers, especially San Salvador, Leon, and Granada, managed their affairs much as they pleased within some general constraints set by the Crown. (Weeks, p. 12)

In sum, it can be said that Central America stagnated on the periphery of world trade from the time of the conquest well until the mid nineteenth century. The areas of Honduras, Nicaragua, and Costa Rica had virtually no exports of significance. Guatemala and El Salvador managed to generate some exports, mostly indigo, but these were more often in decline than ascendancy. Taken as a whole, the region was one of subsistence production and self-sufficiency even on the large estates. It would not be until the second half of the nineteenth century that the export of coffee would accelerate the integration of Central America into the World economy. (Weeks, p. 13)

4.2 Independence and the Failure of Unification

Unlike Argentina, Chile, Mexico, and other South American nations, there were no great military campaigns to liberate the isthmian provinces from Spanish rule and to tie them potentially together. Central Americans found themselves alone, surrounded by the remnants of the collapsed Spanish empire and caught in the midst of an economic depression. The suddenness with which Central America achieved independence in 1821 left regional leaders politically and economically unprepared for self-government. Lacking a base for a broad national coalition, due to the absence of a sustained independence movement, Central Americans were carried along by developments in Mexico. (Ropp and Morris, p. 13) Some wanted to follow the example of Chiapas (North of Guatemala) and join Mexico, especially if this meant avoiding Guatemalan dominance, while others called for the unification of the Central American provinces under one entity. In the end, the unionists prevailed and in 1823 the United Provinces of Central America was proclaimed. Nevertheless, the fear to submit to Guatemalan rule resulted in a loose federation which would only survive until 1839. (Findling, p. 7)

The landowners, churchmen, and merchants of Guatemala saw their interests best served by a strong centralized government located in Guatemala City, which guaranteed them control over

most commerce, the collection of taxes and military matters. In contrast, many of the leading citizens of towns in the other four provinces considered the prospect of Guatemalan control intolerable and pressed for a less centralized federated form of government. This conflict was further complicated by disagreement between the conservative elements of landholders and churchmen throughout the provinces, who shared a common interest in preserving the traditional sociopolitical status quo, and those of liberal ideas who wished to shake loose some of the economic power and wealth of the conservative elite, particularly that of the church, for their own political and economic improvement. (Helms, p. 228) The differences between the ideology of liberals and conservatives were quite apparent during these times, but they would almost completely disappear by the beginning of the twentieth century. Following independence, the conservatives represented the large landowners, militarymen, and clergy, who were mostly interested in maintaining their position of power without much regard for progress or modernization. On the other hand, the liberals were mostly medium size landowners and merchants, who wanted to do away with the monopoly over government the conservatives had. They were in favor of increasing commerce and in bringing progress to the region. Therefore, when foreign investors began to show interest in Central America, especially in its agricultural potential, it was the liberals who welcomed and

encouraged them, while the conservatives always looked at foreigners as a new challenge to their power.

The first conflicts between conservatives and liberals, and the undermining of the union efforts, were to a large extent due to economic problems. Income derived from forced domestic loans from the well-to-do, from tobacco and gunpowder monopolies, from custom duties, and from loans from British banking houses did little to establish a financial base for the new government. For the most part, these monies were used for officials' salaries and to support military forces which were engaged almost constantly in suppressing internal unrest. In the end, Guatemalan conservatives complained about having to carry a disproportionate share of the financial burden of the federation, while the rest of the provinces disliked the centralized, and at times oppressive, aspects of Guatemalan government over the region. (Helms, p. 229)

By 1840 all five provinces declared their independence from each other. Some efforts for reunification, both by force and diplomatically, took place in the following decades, but provincial distrust, boundary disputes, and intervention in each other's affairs prevented the reestablishment of such a broader regional government. In many occasions, foreign interests also interfered in any unification efforts as foreign powers and private businessmen saw it in their favor to deal with individual states rather than with a unified Central

America.

4.3 The Development of the Independent States

As they began their separate yet constantly interconnected histories as independent states, the Central American republics revealed notable variations in the outcome of their approaches to more or less common economic problems and political goals. Three major orientations can be found: that of Guatemala; that of the three middle states (Nicaragua, El Salvador, and Honduras); and that of Costa Rica. To a great extent, these differences were rooted in the regional administrative patterns developed during the colonial period. Therefore, Guatemala, as the seat of colonial authority for Central America, had developed the necessary institutional and governmental apparatus for the formal administration of this territory during the colonial centuries. On the other hand, the colonial towns in Nicaragua, Honduras, El Salvador and, to a more limited extent, Costa Rica, were the recipients of directives from Guatemala and had neither opportunity nor necessity to develop highly centralized governmental institutions of their own. (Helms, p. 229)

The case of Costa Rica (which I put in a different orientation from the central states) is quite particular and deserves mention. Although formally part of the Guatemalan

sphere, Costa Rica lacked sufficient wealth to be of any interest to Spain and was located too far from Guatemala City for effective administration from this capital. This isolation was preferred and encouraged by its residents who wished to handle their own affairs without intervention. Consequently, the Costa Rican communities had developed and relied on their own administrative organization and showed an attitude of neutralism and political separateness from the rest of Central America. (Ropp and Morris, p. 14)

Other differences involved the composition of Central American society and the availability and distribution of prestige-conferring wealth. Guatemalan society was divided between a small but wealthy and powerful Hispanic urban elite and a large, poor, and politically inactive rural Indian work force. In Nicaragua, Honduras, and El Salvador, where conquest and colonization had upset native society to a much greater extent, the ratio of white to Indian was less extreme. Miscegenation was more common and many negroes were present which had been imported as slave laborers. Thus the Hispanic centers of these three central states came to be composed predominantly of mestizos and other mixed groups, although a small but influential Spanish elite maintained the highest levels of society, particularly in El Salvador. In Costa Rica, warfare and disease had effectively removed many of the Indians even before firm colonization had begun. Very few Indian

laborers and few Indian women remained available for Spanish use. Therefore, in contrast to the usual colonial situation, Costa Rican society was constituted primarily of self-sufficient Hispanic small farmers and merchants. (Munro, pp. 50-51)

As a result of these social, economic, and political contrasts, the new republics revealed varying degrees of susceptibility to caudillism (military/political dictatorships) after independence and the dissolution of the federation. In Guatemala, where an administrative structure remained intact, federation government was replaced by a stable military dictatorship. The central states, in contrast, were plagued by regionalism and political instability. Governments rose and fell rapidly as ambitious military officers plotted their personal advancements without much restraint. The lack of the administrative machinery, of a well-entrenched rich and powerful elite, and the constant intervention in each others affairs, were the main reasons for constant turmoil and political turnover. (Helms, p. 231)

Again Costa Rica presented a very different picture with relatively stable politics and without great maldistribution of wealth. Furthermore, it remained aloof from the difficulties besetting its neighbors, and after the dissolution of the original federation it took little interest in new confederation efforts. At the same time, Costa Rica would be

the first to begin exporting small quantities of coffee (as early as 1930) bringing about an improvement in the economic situation for most farmers and the government. (Busey, pp. 629-632)

In sum then, it can be said that most of Central America following the dissolution of the federation remained in turmoil and chaos, both politically and economically, and only Guatemala and Costa Rica - but for very different reasons - found some stability and got on with the job of creating a strong and somewhat modern nation state.

4.4 Early Foreign Involvement in Independent Central America

Political disorder and national weakness invited intervention by extraregional powers. As the leading maritime nation, the British played the dominant role in nineteenth century Central America, seeking to extend the commercial foothold she had established in the last years of Spanish rule. The British presence on the isthmus took several forms. In some instances it was the intentional manifestation of imperial policy, while in others it reflected the interests of private British subjects acting rather independently of the British government. These distinctions also characterized North American activities, which as the century progressed began to rival those of the British. Understandably, many Central

Americans did not recognize such distinctions. For them the specter of imperialist conspiracy by the English-speaking powers offered a simple but plausible explanation for all manner of foreign activity in Central America. (Woodward, p. 121)

After the independence of the Central American nations in 1821, Great Britain effectively maintained Belize as a colony, and even if efforts to turn it into an agricultural colony (plantation type agriculture) failed, it developed economically as a commercial station and an entreport for the Central American trade. As the rest of Central America lacked satisfactory deep-water ports of its own in the Caribbean, they all had to turn to British merchants in Belize to ship their goods anywhere. This monopoly over Central American trade resulted in great benefits for the British, who as intermediaries made the most profit and took the least risks in the commercialization of the region's products. (Woodward, pp. 122-128)

Loans furthered the British domination of the Central American international economy, adding the bond of debt to that of commerce between the two nations. Regardless of some early problems British financiers had in the early 1820's, a series of loans from British firms to the Central American states created a maze of debt problems which was not unraveled until the twentieth century. The liberal governments of the 1820's

and 1830's encouraged such arrangements by means of trade treaties, but even the conservatives - which were more weary of foreign intervention - welcomed many loans. Many times, negotiating a loan to pay earlier debts meant pledging up to 50% of the customs receipts and the involvement of British nationals in the internal finance of the Central American governments to the extent of compromising their national sovereignty. (Findling, pp. 15-16)

Central American exports, especially of Guatemalan natural dyes (cochineal), increased after 1840, when the political scene became somewhat more stable. For lack of adequate transportation of ports, El Salvador and Nicaragua enjoyed less growth than Guatemala, while Honduras remained mostly unimportant. Costa Rica, which largely depended on her Pacific port, began to gain importance as a coffee exporter in the 1840's and rapidly increased her exports of that commodity after completion of the Panama Railway in 1855. Guatemalan produce dominated the exports of Central America at mid-century. The British textile industry provided the major market for cochineal, and it also encouraged cotton production. Nicaragua and El Salvador also expanded their exports of cotton, but without reaching important levels until the beginning of the American Civil War. (Woodward, p. 131)

Central American commerce was also closely tied to the British in terms of import trade. Using the Guatemalan

example, which accounted for most of the trade of Central America during the mid-nineteenth century, we can see that by 1840 nearly 60% of Guatemala's imports came via Belize, while another 20% came directly from Britain and 15% came from Spanish ports. The Pacific trade routes developed after 1855, but Britain remained still the most important supplier, accounting for over 60% of Guatemalan imports. The other Central American states, even if unimportant in volume of imports, also were dominated by British commerce. (Helms, p. 232) Most of the commodities imported from Great Britain were manufactured products and were mostly consumed by the local elites. Trade agreements and the disinterest that local governments showed for the developing of local industries made the region highly dependent first on Great Britain, and later on The United States, for most of its manufactured products.

As the dependency of the Central American states on overseas areas, rather than on each other, grew, the trade among them continued to be insignificant. Transportation trends and foreign development of trade intensified this situation, creating in each state colonial enclaves which had little or no economic relations with each other. The best roads ran from the capitals and producing areas to the ports, while interstate routes remained impassable. Instead of developing an interdependence which might have contributed to the growth of the local economies and to more sincere unionist

sentiment, the states actually became more underdeveloped and more separatistic. (Woodward, p. 132)

The United States, even if it was destined eventually to play the major role in the region, had little contact with Central America before 1850. In accordance with James Monroe's Doctrine, the U.S. government followed a sympathetic Latin American policy. The United States was prompt in recognizing the independence of Central America, but due to its own problems and limitations, it could not make any overt effort to check British expansionism there until the end of the Mexican War. A number of North Americans recognized the significance of an interoceanic canal, but not until the United States acquired Oregon and California were positive steps taken to ensure U.S. interests on the isthmus. The Bidlack Treaty, signed in 1846, guaranteed the United States the right of transit across Panama, and under its terms a U.S. company built the Panama Railway between 1850 and 1855. (Findling, p. 15)

At the same time, Great Britain, viewing the United States' interests in an ocean-to-ocean passageway with considerable alarm, sought to dominate the San Juan waterway by reestablishing her earlier claims to the Miskito Coast in Nicaragua. Control of this strategic route became a major issue between the two great powers, and their diplomatic maneuvering, sometimes with a show of military strength, added fuel to the turmoil of Nicaraguan politics. The issue was

eventually settled with the signing of the Clayton-Bulwer treaty of 1850, which provided for joint Anglo-American control of any canal which might be built. Both nations also agreed not to occupy, fortify, colonize, or assume dominion over any part of Central America, including the Miskito Coast. Still, Great Britain didn't leave the Miskito Coast until 1960, and the Bay Islands (part of Honduras) until 1959. The most shocking aspect of this treaty, and of many others concerning territorial issues in the region, is that no Central American representatives were invited, revealing to many Central Americans the imperialist connotations of both United States and British policies in the isthmus. (Helms, pp. 232-233)

At this time, a movement labeled filibusterism was developing in the United States involving a national mood favoring territorial expansion as the natural outcome of America's "Manifest Destiny". Filibusters were mainly represented by military adventurers who mounted private expeditions into various foreign lands, usually in Latin America, seeking fame and power. These expeditions were bank-rolled by unscrupulous financiers seeking profit, and in many cases supported by southern politicians seeking an enlargement of slave territory. (Findling, pp. 26-27)

The perfect example of filibusterism in Central America is encompassed in the role William Walker, an American adventurer, played in Nicaragua in the mid 1950's. Land grants to U.S.

interests in eastern Nicaragua and internal conflict between liberals and conservatives created a perfect environment for United States intervention. William Walker, financed by the Cornelius Vanderbilt Accessory Transit Company and invited by liberals attempting to take over the Nicaraguan government, came to the country in 1855. With a small force of mercenaries and exploiting factional differences, Walker was able to bring about a peace settlement, and a coalition government, headed by a conservative, Patricio Rivas, was formed. Still, Walker maintained military power and after getting rid of his opposition won the presidency in 1856. (Woodward, p. 141)

Walker tried to Americanize Nicaragua, declaring English the official language and legalizing slavery, a move that, to Central American thinking, made the eventual annexation of Nicaragua by the United States even more likely. The United States, in spite of pressure from southern politicians, never officially recognized the Walker regime. In the end, a coalition of Central American forces defeated Walker in 1857 and the United States government attempted to make amends in the region with promises of goodwill and no future intervention in its affairs. (Findling, pp. 28-29)

Walker attempted twice more to take over Nicaragua with support from southern politicians and financiers but failed and was eventually executed in Honduras in 1860. Walker's intervention left a permanent mark on Central America. Although

the unity it created against the common enemy soon faded, the earlier champion of the union efforts, the liberals, were thoroughly discredited. This allowed for the victory of the conservatives almost everywhere, and meant a step backwards for most Central American prospects of achieving progress and modernization. Furthermore, another result of the war against Walker was the discrediting of the United States for a long time. This was to open the way for more economic penetration by the British and the first incursions by French capital, which would get involved among other things in the construction of the Panama Canal as early as 1878. (Woodward, pp. 145-146)

In sum, we can say that in the mid-nineteenth century turmoil and instability were the most observable characteristics of the Central American region. Foreign economic imperialism challenged Central America's new found political independence with the British taking the lead but with an eventual challenge from the United States on the horizon, as both sought advantage and economic gains in the region. Foreign penetration forced colonial aspects of the industrial revolution (capitalist expansionism especially) onto the region and, even if this resulted in greater economic activity, it created a dependence on foreign trade as a source of income and did away with any hope for reunion of the federation.

4.5 The Export Boom - The Advent of Coffee

The decline of the natural dye markets, occasioned by the discovery of aniline dyes, left the indigo and cochineal industries of Central America in trouble. Yet Central America still had a valuable agricultural product as the loose, volcanic soil, the constant year-round temperatures, and the single rainy season made the land ideally suited for coffee production. Transportation and port development had not progressed sufficiently to permit large-scale exploitation of coffee until the 1850's and it wasn't until the 1870's that coffee became the most important export for most of Central America.

The triumph of liberals over the conservatives during the 1870's was the result of the failure of the conservative's economic policies, the rise of unemployment, and also of the rising influence foreign capital (which sided with the progressive liberals) had in the region. The main policies of the new liberal regimes was to open the economies and political systems of Central American republics to greater external influence from the world capitalist system. Economic progress and expansion of exports were seen as one and the same thing, and liberals began to encourage the growth of coffee production by means of loans and foreign investment. Coffee, as it became the most important source of income for both local elites and

the state, was seen as the key element in the economic takeoff of the region.

Although the majority of the coffee estates were owned by a handful of wealthy Central Americans, many of the largest best-equipped, and most productive belonged to foreigners, mainly Germans but also British and North Americans. Even the estates held by Central American nationals usually were heavily mortgaged to European banks and firms, which advanced the necessary capital for their operation and then assumed a large measure of control over sale of the crop. Consequently, one way or another coffee production and marketing came to be controlled largely by foreigners.

(Munro, pp. 18-19)

With the exception of Costa Rica, coffee production extended and reinforced a near-feudal system of land use. Coffee growing estates took over all fertile areas leading to a great degree of concentration of land, confining the peasantry to marginally productive land, frequently on the mountain slopes and hillsides. In the case of Costa Rica, the land tenure system associated with coffee growing involved many small, independent peasants and only a few large estates. This situation would account for the political pluralism that has characterized Costa Rica for most of its history. (Weeks, pp. 12-13)

Liberal governments passed laws that made it easier for

individuals to acquire private landholdings. Public lands were offered for sale and communal lands in the hands of Indians were drastically reduced. Investment conditions were liberalized for foreign capital, and local taxes reduced in order to attract international investment. To provide adequate manpower for labor-intensive agricultural activities, legislation was passed which permitted forced labor both by means of debt peonage and by reducing the availability of small parcels of land for subsistence farming. (Ropp and Morris, p. 17)

The development of the export economies, mainly coffee at first, by the Central American states reflects their emphasis on material progress. With legislation favoring export crops and the entrance of foreign capital, they increased the flow of raw materials out of the country, while at the same time they enlarged the region's dependency on foreign markets and capital.

The foreign role was proportionately greatest in Nicaragua, where German, French, and North Americans together produced more coffee than the local producers, and in Guatemala, where a relatively small number of Germans produced an extraordinarily large percentage of the state's coffee. In Costa Rica, even if most of the coffee was grown by locals, British interests were quite important. (Helms, p. 248)

The peak of emphasis on coffee production was reached in

the 1880's, although it has continued to be the principal export of the region to the present day. The world demand for coffee accelerated greatly in this period, and while production more than doubled, prices tripled, producing vast increases in profits and revenues. In this decade there arose a number of important foreign and Central American family fortunes by which new oligarchies were established. (Woodward, p. 158)

By the 1890's coffee accounted for 96% of export earnings from Guatemala, 91 % from Costa Rica, 71% from Nicaragua, and 66% from El Salvador. This growth in the coffee trade needed an improvement in the financial system as well as in internal transportation. In both areas, foreign interests became quite important, and especially the transportation system, which needs large amounts of capital, fell almost completely under foreign control. (Bulmer-Thomas, pp. 4-5) Furthermore, even when banks were nationally owned, they were established with the aid of substantial foreign loans and usually employed foreigners as advisers. (Woodward, p. 164)

The original intent of the liberals had been to spark an industrial revolution with expanded productivity and exports. With the large revenue from exports, they expected the general standard of living to rise and secondary industries to spring up to satisfy the needs of the people. Although the governments ostensibly encouraged the organization of manufacturing and industry, the economic growth was

insufficient to stimulate adequate domestic markets. Furthermore, there was no technology present, no skilled labor, or capital interested in this type of project. In the end, only a few textile mills and some small factories opened, but it cannot be said that any sort of industrial revolution took place. (Woodward, p. 163)

On the other hand, the increase in exports resulted in a great increase in profits. But, instead of contributing to industrial development within Central America, the export profits were simply spent on imports of manufactured goods. The increase in consumption was uneven, as most of the population remained at the subsistence level, but there was clearly a great increase in imports which were paid for by the exchange gained in coffee exports. However, the fact that all of these countries maintained a favorable balance of trade throughout the period does not necessarily indicate an increase in national prosperity, for significant amounts of the profits received by local coffee planters and merchants were reinvested abroad and those received by foreign planters were mostly repatriated. Local elites chose to reinvest their profits abroad, mostly in the United States, due to the fact the local banking was still precarious and also because their capital received a higher interest there. Furthermore, the landowning elites were not interested in reinvesting their profits in other sectors of the economy as they did not want to create new

sources of labor that would take away workers from the countryside or increase wages. This capital flight was rarely reflected in official import-export figures, as it was difficult to measure. Most of the imports came from Great Britain, the United States, Germany, and France and foreigners played the major role in this trade, as they were the principal merchants handling it. (Findling, p. 50) The Central American governments gave generous concessions to foreigners for all sorts of distributorships and marketing of foreign manufactures, resulting in an increase in the number of foreign commercial firms. The stronger of these firms became powerful elements in the Central American economy and due to the shortage of currency and financial institutions, some of them also became financial agents and banks. (Woodward, p. 165)

The rise of the dynamic export sector had a great impact on the region's social relations. A powerful group associated with the export sector replaced the traditional elite which had based its power mostly on cattle raising and some commerce. This new elite, which had been actively promoted by the state during the progressive liberal reforms, formed a virtual oligarchy exercising economic, social and political influence out of all proportion to their numbers. Furthermore, the power and influence of foreign interests involved in the export sector also became quite important but without conflicting with the interests of the local coffee elite. This situation

produced a conflict between the export sector's need for modernization and traditional forms of land tenure, labor relations, social priorities, and national sovereignty. As the conflict was usually resolved in favor of the export sector, much resentment was created in traditional communities, among landless peasants, and in the circles of the old elites. (Bulmer-Thomas, p. 2)

Edelberto Torres-Rivas, with a more radical point of view, explains that coffee constituted the basis of an export-oriented economic structure which utilized abundant land and labor. He sees the manner by which internal activity was established and its links with international commerce as the main forces conditioning the entire internal social structure, the nature of political power, and cultural life. The export-oriented economy, he explains, notably retarded national and social integration and contributed to the extreme rigidity of political and social relations. (Torres-Rivas, p. 25)

In sum, it can be said that the limited liberal goal of bringing about rapid material progress and prosperity was achieved. Roads, ports, bridges, were constructed and agricultural production was expanded. Still, this failed to bring about general prosperity and development. One landed oligarchy dedicated to traditional values was simply replaced by another which, in concert with foreign investors, reserved the advantages of state-sponsored modernization for itself. By

the early twentieth century, it was evident also that the oligarchies had turned over control of their countries in large measure to foreign planters, merchants, financiers, diplomats, and in the case of Nicaragua (during United States occupation), even to foreign armies. In order to attract investment and development, the liberal governments had made exceedingly generous concessions, increasing the dependence of their countries on the world capitalist system and its most important representatives, Great Britain and the United States. (Woodward, p. 175)

The nineteenth century saw Central America break from Spain with hopes for prosperity and development. But what followed led the region to become a part of a new colonial empire, not based on occupation by military forces, but on economic and political dependence on foreign interests and markets. Central America had gone after modernization, but it didn't learn yet that general economic improvement depended on the growth of a larger domestic market and general improvement of wages and services. A new oligarchy, based mainly on producing and selling coffee to the capitalist nations, had political and economic control, but it had to share it with foreign interests, which dominated certain aspects of the coffee industry and which would be even more dominant by the advent of the large banana company.

5.0 The Consolidation of Export Dependence

5.1 The Second Export Boom - The Banana Company

Of all the projects that the new liberal dictators fervently promoted to develop the economies of their states, railroads became one of the most important. Rapid and large volume transportation was seen as the key to bringing about the sort of economic advantages they envisioned. All of the Central American countries made generous land concessions, mostly to foreigners which had the necessary capital, and by 1880 their efforts had resulted in several small railroads on the Pacific slopes. Nevertheless, the development of railroads in the Caribbean watershed proved to be more difficult as success there required either massive capitalization or enough available cargo to make the railroad return profits quickly, even before it was completed. (Woodward, p. 177)

Therefore, in order to attract the necessary capital to build these railroads in the Caribbean, Central American governments gave generous land and tax concessions to foreigners who were willing to invest in this expensive enterprise. From the land adjacent to the rails, foreign capitalists began shipping bananas to cover some of their costs. In a short period of time, these foreigners began to plant bananas as well, and by the late 1880's, began to make

profits. Shipping interests, especially North American, were also drawn in by the possible profits in the banana business. (Findling, p. 46)

Tracts of land were given over by the liberal regimes and export taxes were dropped in order to attract more foreign capital to the region. The trend toward large plantations began in this manner, and by the early 1890's some twenty-two United States companies were exporting sixteen million stems of bananas a year to the North American markets (Helms, p. 250) Furthermore, in just a few years it was possible to see how three major companies - Standard Fruit, Cuyamel Fruit Company, and United Fruit Company - were taking control of the whole banana production and marketing in an oligopolistic manner. (Findling, p. 47)

The banana industry, contrary to that of coffee, became a series of giant foreign-controlled plantation enclaves. It needed large amounts of land, which it usually got from government concessions, and it totally controlled the market, forcing small private growers to sell their produce to the companies at their prices. (Woodward, p. 181) Furthermore, the banana companies generally employed foreign laborers (cheap black Caribbean workers) under distinctly plantation forms of manager-laborer relations, and therefore created isolated and underdeveloped "islands" in lowland Central America. (Helms, p. 250)

According to John Weeks, the banana companies were more than simply economic enterprises. As enormous landholders, they became a law unto themselves, dominating every government in the region. Furthermore, Weeks argues, in the heyday of the "Banana Republics" era of 1910-1940, it is doubtful that any governments in the hemisphere were so subservient to narrow corporate interest as those of Honduras and Guatemala. (Weeks, p. 15) The economic interests and control of the companies went beyond their landholdings. In Guatemala, United Fruit owned the Caribbean railroad and it monopolized the docks of Puerto Barrios as well. Apart from these, United Fruit also had interests in power companies, telephone and radio, and an almost complete control over shipping. (Woodward, p. 182) United Fruit also owned railroads in Honduras and Costa Rica, and had interests in other service industries as in Guatemala, but at a smaller scale.

The near monopoly in transportation developed by United Fruit (UFCO) in both railroads and shipping had serious consequences for Central America. The rates were high and the service (for others than UFCO) was poor. The shipping lines connected Central American ports with the United States and Europe, but they did not connect those ports with each other, bringing about further disconnections between the region's countries and doing away with the hope for internal and regional growth. Furthermore, rates were disproportionately

higher for other than UFCO bananas and coffee producers, and railroad hauling fares were more expensive if going to Pacific ports rather than to Puerto Barrios, from where UFCO ships could carry the cargo. (Findling, pp. 48-49)

Although the banana boom greatly increased the foreign exchange earnings of the states in the area, excluding El Salvador, the nature of banana production resulted in, contrary to what liberals had hoped for, little modernization of the economies. Almost no skilled labor was required, so there was no spill-over training effect, and low wages and rather transient labor characterized the plantations until the emergence of trade unions in the 1930s. (Weeks, p. 16) Adding to this, due to the large land concessions and the cheapness of the land, there was little incentive for the companies to economize on its use. The policy of leaving large portions of land idle to control production and to limit possibilities of competition, created large degrees of landless peasants and drastically reduced the production of food for the local markets. In a short period of time, Central America became a net importer of foodstuffs, further draining the small amounts of foreign exchange gained from taxing the banana companies.

Vertical integration among the banana companies was evident as they controlled all aspects of the industry from production to marketing, including internal transportation, loading, and shipping. And in many cases, self-sufficient

company towns with their own hospitals, schools, churches, horses, commissaries, and social clubs sprang up on the Caribbean coast to provide for the needs of foreign administrators and thousands of laborers. (Helms, p. 252) This situation allowed for no role for local capitalists in any aspect of the banana industry and impeded the growth of any local participation in it other than intaxing. Furthermore, as the banana trade was vertically integrated, export sales led to a demand for banking facilities in North rather than Central America. Most profits went North and local currency was required to meet a few local expenditures only, most of which consisted of wages and salaries. Few workers were in a position to open bank accounts and a high proportion of their expenditures returned to the company in the form of payments to the company stores in the plantations. (Bulmer-Thomas, p. 7)

Nevertheless, some of the liberal's objectives were met with the coming of the banana companies, even if it was to a large degree at the price of a further loss of national sovereignty and economic independence. Among the benefits were the development of transportation and ports, the increase in foreign exchange from taxes, the exploitation of the lowland Caribbean regions, and the eradication of many deadly diseases. (Woodward, p. 182) In the long run, the banana enclaves were also involved in creating new socioeconomic

groups and interests. Workers came together in the plantations and began to organize industrially, leaving behind their traditional values and social structures (even if at first most workers at the plantations were foreign to the region, later on thousands of Central Americans also joined the banana enclaves). Plantation workers were in this way more receptive than other groups to new ideologies, and they soon developed a working class identity. In some countries, especially Guatemala and Honduras, enclave labor organizations were to become instrumental in spreading mass social awareness and in promoting broad national political participation. (Ropp and Morris, p. 19)

5.2 More Foreign Investment - Increasing Dependence on the United States

While UFCO was the most obvious and most important case for the pouring of foreign capital into Central America, it was by no means the only figure in the picture. As the twentieth century began, a three-way struggle for economic control of the region was developing in which both business interests from the United States and Germany challenged the hegemony of Great Britain. The North Americans had obvious geographical advantages, yet German individual initiative in the coffee industry, the growth of German shipping and

manufacturing, and an aggressive diplomacy combined to make them formidable competitors. (Woodward, p. 183)

England's investments in Central America reached their peak in 1913 at about \$ 115 million. More than two thirds of the money was in Costa Rica and Guatemala, and of all the investments, about \$ 75 million represented British railroad holdings, while the other \$ 40 million was invested in government bonds. United States investments in Central America, on the other hand, climbed rapidly from \$ 21 million in 1897 to \$ 41 million in 1908, and then to \$ 93 million by 1913. United States investments differed from the British not only in the rapidity of growth, but also in the large amount (over 90 %) that went into such direct investments as banana plantations and mining, rather than into government securities, and in the power these monies were buying in Honduran and Nicaraguan politics. (La Feber, p. 35) German direct investments were never as large, but the percentage of commerce between Central America and Germany was quite large during the first years of the twentieth century , oscillating between 17% and 21%, compared to about 15% for Britain and 45% for the United States. (Woodward, p. 184)

Despite the importance of North Americans in bananas and Germans in coffee production, native Central Americans elites retained control of much of the agriculture of their countries, accounting for the rise of a strong oligarchy tied

to the liberal governments and foreign investors. This elite depended on foreign markets, capital inputs, merchants, and bankers and their plantations usually lagged behind the foreign-owned ones in their yields per acre due to the lead foreigners had in scientific farming. Furthermore, foreigners often financed the native-owned crops, resulting in mortgages and eventual forecloses in some cases. In the end, as Woodward explains, "the native landowners were at one and the same time in league with and controlled by the foreigners". (Woodward, p. 184)

In commerce and trade foreign control was even stronger. While Central Americans continued to manage most of the small scale local trade, foreign merchants and agents controlled international trade and even large-scale internal trade. By the twentieth century, there were British, German, Dutch, United States, French, and Middle Eastern merchants operating in Central America in growing numbers. (Helms, pp. 256-257) Before World War I the United States took the lead in trade, while Great Britain fell behind Germany. German trade in the region was temporarily displaced by the war, but it recovered in the following decade. Still the most consistent trend during the decades between the World Wars was the increasing share of the trade that the United States enjoyed. (see table 14) The total percentage of United States commerce with the Central American countries rose from 44% to almost 60%.

(Bulmer-Thomas, p. 9)

In processing and manufacturing industries, which were very small due to the reliance of the region in the import of finished goods, foreign capital and technical experience also took over. Monopolies on tobacco and alcohol, which had been controlled by the state, were sold to private interests, and foreigners - particularly British - gained control over these industries. (Woodward, p. 185)

In the area of transportation the only competition present was solely between foreign interests. British early control of the railroads gave way to increased United States capital and new railroad building. In shipping, Great Britain dominated the Pacific while in the Caribbean they were supplanted by the United Fruit Company and the Hamburg-American Line. (Findling, p. 54) But the effects of foreign control was even greater in the aspects of internal transportation. According to Woodward, the fact that internal transportation was owned by foreigners and that it was used principally for the transport of commodities to deep-water ports pointed to one of the real obstacles to Central American development and national integration. Guatemala and El Salvador are the only Central American states connected to each other by rail, and while steamers connected all of the states with the United States and Europe, it was often impossible to get service from one Central American country to

another. Thus, modern transportation improvements, which might have brought the states closer together, seemed instead to emphasize their separateness. (Woodward, p. 186) Foreign interests were best served by the disconnections among Central American states. The fact that all the countries in the region were so separated tended to make them compete with each other to attract foreign investment rather than to act collectively. Therefore, even if foreign interests were quick to complete railroads from the agricultural enclaves to the ports, they never fulfilled their promises of building other rail lines.

By the early 1900's, and especially after the Panama Canal Treaty in 1903, American economic influence in Central America continued growing rapidly. The depression of the 1890's had convinced U.S. business leaders of the necessity of developing foreign markets for their products, and the Spanish-American War and the fight for the Panama route had focused national attention on the region. The stage was set for a new direction in United States policy towards the isthmus. No longer could European nations be allowed to threaten intervention in order to collect debts and no longer could capricious dictators be allowed to interfere in the affairs of their neighbors. In this sense, a feeling of paternalism, further emphasized by the interventionist aspects of the Roosevelt Corollary to the Monroe doctrine, developed in the

United States towards Central America, which would lead to a strengthening of American control over this region. (Findling, pp. 51-53)

The outbreak of World War I in Europe did not affect Central America at first, as the United States absorbed most of the region's exports previously directed to European markets. Furthermore, the United States also increased its role as supplier of imports in Central America. By 1920, the United States accounted for 70% of all imports into the region and for 80% of all exports from the region. In the end, the impact of the war was felt only in the geographical redirection of trade rather than resulting, in a more beneficial manner, in the reallocation of resources towards new activities. (Bulmer-Thomas, p. 10) Therefore, the region remained basically committed to growth based on exports and came to depend more and more on United States markets and capital.

One particular case in the early 1900's shows how the United States not only grew in importance for Central America in economic matters, but how U.S. interference in internal politics became notorious as well. Since 1902, Jose Santos Zelaya, the dictator of Nicaragua, had been attempting to influence Central American affairs in a direction that would result in a regional federation or union with himself as head. Treaties signed for the settlement of regional disputes by

Central Americans themselves and the cancellation of a large concession granted by Nicaragua to an American company made the United States very uneasy. The American government intervened by signing treaties involving United States participation in settling regional disputes (without Zelaya present) and forced Zelaya to pay compensation to the American company. Later on, the United States would intervene in favor of a small group of conservatives (who by now were very similar to the liberals) who wished to overthrow Zelaya, sent money and weapons to them, and broke diplomatic relations with Nicaragua. In the end, the United States and its allies prevailed, forcing Zelaya out of power. (Findling, pp. 58-61) Unrest continued in Nicaragua until the United States sent the marines in 1912, what would be the first of many such direct interventions in Nicaragua's internal affairs until the formal withdrawal, in 1933, of the American military presence in that country.

Nicaragua went on to become a protectorate of the United States, without disturbing the local elites economic interests but taking over the job of running the country. The American government offered loans to pay foreign debts and, to secure these loans, took over control of the customs houses, the currency system, the national railway, and even internal revenues to North American banking firms and allied corporations. (Helms, p. 256) Following this, the United

States also attempted to reorganize Honduran finances, and approached Guatemala and Costa Rica with similar intentions. The United States went to the extreme of replying to a protest made by El Salvador and Costa Rica about the growing United States presence in the region with offers of protectorate status for them as well. These were angrily rejected. (La Feber, p. 53) Still, the United States intervened several times, in a less direct form, in all the other four countries of Central America. Different aspects of "Dollar Diplomacy" (a mixture of military pressure and intervention in local finances) and non-recognition policies made things easier for the interests of United States businesses and attempted to create some social and political stability.

Under the protective umbrella of increased United States intervention in the politics and economics of the isthmus, and the lessening of European influence in the region, American businesses vastly increased their own interests. The two major criticisms against this situation came from the fact that foreign companies had a great degree of political influence over local governments and also that these companies were developing in a monopolistic way. This last point resulted in many controversies, as local merchants and farmers complained constantly about extortionary rate structures, underselling by company stores, arbitrary rejection of native-grown fruit, and many other discriminatory practices. But, as

noted above, foreign companies were able to influence governments not to implement regulations that went against their interests. (Findling, pp. 83-84)

In spite of this, and leaving aside the fact that the banana companies were able to keep taxes low and the labor force non-unionized, to the extent that government revenue depended on the customs duties from the banana companies and not from taxes from the coffee elites, the government (in this case the bureaucracy and some militarymen) had some autonomy from the local oligarchs. In contrast to the large coffee growers, the banana companies (and other United States interests) did not require strong, repressive military and bureaucratic institutions, as they were not forcing peasants off their land (at least at the beginning) or taking land from populated areas and were not forcing peasants to work for them as coffee agriculture had done. Therefore, in comparison to coffee, the political economy of bananas and other United States interests created fewer social disruptions, even if they still remained strongly opposed to any type of wage and land reform. (Blackman, p. 8)

In sum, the early twentieth century was a time of increased United States political and economic interest in Central America. This resulted in an overt intervention in the affairs of Central American governments, to the extreme of United States commitment of marines to the region, but overall

it resulted in an increase of dependence by all Central American nations on United States capital and markets. As Woodward explains, not until the election of Franklin Roosevelt and the declaration of the "Good Neighbor Policy" would there be a willingness in Central America to believe that United States imperialism was diminishing. (Woodward, p. 201)

5.3 The Export-Led Growth Model - Problems and Consequences

By the 1920's, Central America had established the region's links with the world market on a permanent basis. These links were the result of the development of the export sector on the basis primarily of coffee and bananas. The growth of the economy rested heavily on the large scale production of the two major export crops, and little development of manufacturing and domestic-use agriculture had taken place. Home crafts, and regional production of small items such as candles, shoes, soap, and cigarettes provided a few essentials, but most manufactured goods, including textiles, furniture, agricultural machinery, and railway materials continued to be imported from the United States and Europe. (Helms, p. 259)

Economic development and stability were almost entirely dependent on the fluctuations of the world market for coffee

and bananas. And Central American producers had little, if any, control over these fluctuations. Furthermore, even when prices were high, the income realized from plantations and from custom duties on exports and imports was not effectively reinvested toward further economic diversification and development. This income was instead, diverted to United States and European banks, repatriated by foreign companies, went into servicing debts, and went also to support the lifestyles of the local oligarchies.

By 1920, signs of saturation of export markets were already present in the banana and coffee sectors. Peaks in the exports of coffee had been reached in the early 1900's in Costa Rica, Guatemala, and Nicaragua. Even in the newer banana sector, exports from Costa Rica had peaked as early as 1913 and somewhat in Nicaragua as well. Diseases in banana plantations were also beginning to appear regularly and many plantations had to be abandoned. Even if there was still room for increasing the exports of coffee in El Salvador and Honduras and of bananas in Guatemala and Honduras, the need for diversification became evident. This was true, Bulmer-Thomas explains, both in the area of export agriculture as well as for activities directed towards the local market. Unfortunately, the main problem was that a bias against diversification in both areas was present in the model of export-led growth. (Bulmer-Thomas, pp. 10-11)

Earlier attempts by liberal governments to diversify agricultural production, especially for export, had resulted in an attempt to encourage small enterprises in the production of sugar, cotton, rubber, wood, and cattle, but the initiatives met with little success. Mining had brought about some benefits for Honduras and Nicaragua, but the small amounts of capital available and the attractiveness of coffee and bananas had limited the impact of mining on the economy as a whole. (Findling, p. 50)

The efforts of diversification after 1920, even if more serious than its preceding ones, encountered many obstacles. The problem of introducing new crops into export agriculture came from the "monoculture bias of the social infrastructure system". (Bulmer-Thomas, p. 11) The banking system had developed as an instrument of support for coffee growers, and it was reluctant to adapt to new ideas. The state, at the same time, which had for so long used all its resources to increase coffee production, was now dominated by coffee interests in all the region except Honduras. And in the case of bananas, the monoculture bias of the system was even more entrenched. Banks tied to banana interests had no intentions of encouraging diversification and most of the railway system, due to its geographical location, could only be used for the transport of bananas and some coffee. Furthermore, even if to a lesser degree than the coffee oligarchs, the concessions

that governments had given to the banana companies had made them strong and influential with the regimes in power. Thus, they had no interest in any type of diversification of the export sector. (Bulmer-Thomas, p. 12)

Apart from these problems, even when coffee or banana prices were down - a time in which diversification in export agriculture could have been attractive even for local oligarchies and foreign companies - there was little room for flexible response. Land devoted to coffee could not be easily converted to the production of other crops, as it takes three to five years before coffee trees are mature, which made growers reluctant to cut them down. In a similar fashion, foreign banana growers were generally happy to leave land idle until the market price picked up again. (Blackman, p. 8)

The development of new sectors producing for local markets was to meet with similar problems, plus others characteristic to the Central American internal markets. The fact that coffee estates had taken over much of the fertile land left very little available for production of agricultural commodities for the local market. Furthermore, wages in both the coffee and banana sectors were kept low by the influence oligarchies and foreign companies had with the governments. Therefore, the size of the local market was small and most of the population had little purchasing power. Adding to the small size of the local market was the fact that even if

laborers received somewhat better wages in the banana plantations, they were forced to spent most of their money in company stores, which relied on imports and had no interest in encouraging domestic production of any sort other than bananas.

Apart from the prevention of diversification, the export-led growth model brought about other significant problems. Fluctuations in export earnings caused exchange rate instability, irregular government revenues, domestic inflation, and external debt. These problems are more acute when a country's economy is based on the export of only one commodity, and can be reduced by exporting other commodities. The development of the banana industry could have offered some solutions, but this was not the case as it was controlled by foreigners. This situation meant that because of the vertical integration within the fruit companies, the price paid to Central American growers was a fixed one and not dictated by the free market. In this sense, the host country lost the chance that a fall in coffee prices could be compensated by a rise in the price of bananas. And finally, another consequence of foreign control was the almost total exemption the industry enjoyed from taxes on trade, both exports and imports, for most part of the early decades of the twentieth century. (Bulmer-Thomas, p. 15)

The export-led growth model also had political and social

effects in Central America. The "banana republic" image that the countries in the region had was not simply due to the important presence of United States banana companies, but mostly due to the instability of its political system.

The ideological base of politics ceased to be of much importance as both liberals and conservatives began supporting the assumptions of the export-led model. Both parties were united in the belief that Central America's competitive advantage lay in the export of primary goods to the world market in exchange for manufactured commodities.

The advent of the coffee elite as a strong player both in economics and politics was to shift the environment from an almost chaotic situation to one of seeming stability. The expansion of exports gave members of the upper class a new route to increasing their wealth and social prestige and it also gave them a real interest in creating an atmosphere of political stability in which the control of labor supplies and access to land could be accomplished efficiently. Furthermore, more exports resulted in increases in public revenue and in the means by which order and control of the masses could be implemented. (Bulmer-Thomas, p. 18) These means did not always include the repression of demands by force, but also the implementation of some social programs. This was the case especially in Costa Rica, where workers demands resulted in the implementation of quite progressive and labor oriented

legislation.

The new coffee oligarchy was able to have much power and influence in the political arena. Apart from minimal frictions with the old oligarchies and with some peasants who refused to leave their land, governments were able to guarantee an ideal environment geared to an increase of coffee exports. In this manner, the coffee oligarchy was able to gain a position of strength from which, up to the present, it could direct most of the politics of the Central American region excluding Honduras, where coffee interests are quite insignificant.

In the case of the banana companies, it has already been seen that they also developed some political influence, especially in Honduras and Guatemala. Nevertheless, they were somewhat isolated from the rest of the country by means of their plantation enclaves. Furthermore, their interests never really went against those of the coffee oligarchs, and were only interested in keeping taxes on banana production as low as possible. Only later on, when some government attempts were made to expropriate land left idle from them would the banana companies show how much power they really had in affecting local politics.

On the other hand, the accompanying economic growth of the export-led model - at least up to the late 1920's - did have a positive effect (negative for the oligarchies) in increasing

the number of people interested in politics. The middle sectors grew thanks to the well-being of the export sector, and they began claiming participation in political decision-making. Their demands in the sharing of political power and social privileges would be one of the main elements of the coming unrest. (Woodward, p. 202) And in the banana enclaves, the better-paid and organized laborers also began demanding more from the companies. The first labor-unions began to form and fight for more rights and rewards for the workers.

Socially, the export-led model had the effect of almost eliminating the self-sufficient farmer and of transforming this group into seasonal wage laborers in coffee and banana plantations. Apart from Costa Rica, which still had a relatively large number of small farmers, the rest of the countries in the region used both coercion and market forces to supply the plantations with both land and labor. Furthermore, especially in the beginning, governments in the area used all means possible to control labor costs and crushed all attempts coffee workers made to unionize.

The city population remained small, especially due to the lack of industry or jobs, and the cities developed solely as government seats and as centers of distribution, finance, and marketing. Very few factories began operations and the small number of workers prevented the formation of an important

labor movement or of unions with any real power. (Bulmer-Thomas, p. 22)

In sum then, it can be said that the export-led model of growth adopted by the region's governments had strong economic, political, and social implications for the development of Central America. By the 1920's coffee and bananas accounted for over 70% of export earnings in all the countries, nearly 90% in Costa Rica and Honduras, and over 90% in El Salvador and Guatemala. (Bulmer-Thomas, p. 33) Taxes on banana exports were only about 1 or 2 percent of their value and the banana companies were strongly entrenched as monopolies. Increases in the prices for both bananas and coffee solidified the position of the ruling class and prevented the appearance of other agricultural products, especially foodstuffs (which began to be imported), and industry in the economies of the region.

5.4 The 1930's and 1940's - Effects of the Depression and World War II on Central America

The impact of the world economic depression was felt mainly in Central America by means of a fall in the prices for its commodities. The reduction in world coffee prices

after 1928 was quite severe, falling to one third of the peak reached in the early 1920's, and remaining there for most part of the decade. Even at these low prices, coffee exports continued at the same pre-depression levels, although there were sharp fluctuations on a year to year basis. (Bulmer-Thomas, p. 49)

Banana companies, on the other hand, were able to maintain relative profits regardless of the depression. UFCO bought out one of its competitors (Cuyamel) and captured 60% of the market. By means of production decisions and cuts in the amount of land under use, UFCO was able to influence end-use prices, and by increases in efficiency it was able to reduce costs. (Kepner, p. 24) Furthermore, cuts in production brought fears to countries with large banana plantations, resulting in more concessions to the banana companies and the signing of unfavorable contracts (which included the lowering of taxes) for most of the Central American governments. (Bulmer-Thomas, p. 50)

Even if the banana industry managed to make it through the depression years without much loss, Central Americans did suffer due to the production decisions of the companies. Unemployment became rampant because of cut-backs in banana production and local growers suffered reduction of prices in the contracts they had with UFCO. In this way, UFCO was able due to its monopoly position to pass on the burden of

adjustment to the world depression to the Central American people. (Bulmer-Thomas, p. 51)

The fall in commodity prices did not affect the Central American nations at first, as reserves built up in the good years were used to support imports. But by 1931, the critical fall of prices for coffee and a sharp decline in the barter terms of trade, the problems began to be felt in full. Workers organized demonstrations as unemployment increased and their purchasing power reached record lows. The elites responded by seeking reassurance against the possibility of serious rural uprisings, and supported more authoritarian regimes. (Helms, p. 282) But although the social unrest in the countryside represented a challenge to both employers and government, another major threat was the deterioration of the public sector due to a fall in its revenue. Efforts to cut government and military salaries called into question the survival of many of the Central American regimes. (Bulmer-Thomas, p. 60)

The region's governments became unable to safeguard the interests of the export sector or to balance their budgets. Therefore, the rise of dictatorships was encouraged and welcomed by the coffee oligarchy, which demanded that all manifestations of social and labor unrest be crushed immediately. This period was known as caudillismo, as General Ubico took power in Guatemala, Maximiliano Martinez

in El Salvador, Tiburcio Carias in Honduras, and Somoza Garcia in Nicaragua. Costa Rica, on the other hand, met the problems of the depression in a different manner, with some control over labor unrest, but also with some concessions to workers in the form of minimum wage laws and some social programs. (Woodward, p. 216)

In order to maintain conditions of stability and protect United States interests, the American Government accommodated itself to the antidemocratic regimes in power in Central America. Furthermore, the United States pressured for and obtained the reduction of tariffs for United States products, which further cut Central American governments' revenue from import duties. Still, support and aid from the United States was needed and this measure, plus a concession from Honduras to cancel trade agreements with the Germans and arrange new ones with American businesses, were obtained quite easily. (Findling, p. 90)

In this manner, following the early effects of the depression in the United States, American foreign investment continued to flow into Central America. (see table 29) And the need for this investment and for new loans, which Central America had developed during the depression years, resulted in more and very advantageous concessions to foreign businesses, further undermining the possibilities of the development of locally owned industries.

In brief, it can be said that the world wide depression of the early 1930's exposed the weakness of the export-led policies and undermined the governments that had supported it. It can therefore be argued that the rise of caudillismo and repression of popular unrest in Central America were, to a large extent, the direct result of the effects of the depression on the local economy. Nevertheless, it should also be noted that the power of the elites tied to the export sector did not diminish, (even if the export-led model failed), as the new regimes were tied to, and to a large degree responded to, the needs of the coffee oligarchy and the banana companies.

The new dictatorships helped to maintain the volume of exports of coffee despite the huge fall in world prices. Exchange rate depreciation, the lowering of export duties, and control over the labor force were the most important state implemented measures. Therefore, regardless of the depression, coffee production remained quite profitable. (Bulmer-Thomas, p. 75)

Export diversification efforts were small, resulting in only small increases in the export of some minerals and of cotton, which reached 7.5% of the value of Nicaraguan exports by 1937. (Bulmer-Thomas, p.78) World wide protectionist policies virtually killed the promising sugar industry and prevented the growth of the cattle trade. Import-

substitution, on the other hand, was benefited by the diminishing availability of foreign exchange. Import substitution industrialization was encouraged by the introduction of small tariffs on imported goods, especially of European origin, and by currency devaluation. This resulted in the development of a few small manufacturing industries and some cotton mills. Nevertheless, the lack of energy supplies, credit, and the small size of the local market, prevented import substitution industrialization to gain the magnitude it would in other parts of Latin America. Import substitution agriculture had better results as there was no need for much capital or credit, and received some encouragement from the government. Maize, beans, rice, wheat, and cattle production for local markets increased, diminishing the amount of foodstuffs that needed to be imported. (Bulmer-Thomas, pp. 79-82)

The withdrawal of the United States marines from Nicaragua in 1933, and later of the United States Collector General of Customs in 1937, ended the last direct U.S. government presence in Central America. Nevertheless, in all Central American nations, many Americans remained as technical, financial, and military advisers, directing local government policies towards the fulfillment of United States economic and security interests.

The outbreak of World War II in Europe in 1939 had a major

impact on Central America not only during the war years, but also in the long term. The immediate impact was the loss of the European markets, especially for coffee, and also the abrupt end of the flow of imports coming from Europe. Some of these imports would be taken over by the United States, but due to the war, American production and shipping had more compelling priority than to supply Central America. (see table 15)

Central America was relatively successful in finding alternative markets for its exports and foreign capital began to flow to the region in an effort to meet the production targets and strategic requirements of the war effort. Another advantage Central American agricultural producers had during the war years was the Japanese occupation of many Asian suppliers of tropical products. In this way, Central America was able, at least for a while, to keep production at pre-war levels. (Weeks, p. 26) Banana exports were the only ones to show quite a fall after 1941, but this was only because the United States government requisitioned many of the companies ships for the war effort. Still, the companies were later compensated, which meant that only banana workers suffered due to the cuts in production. (Findling, p. 102)

Influenced by the United States government and as a show of support for the allies, Central American governments deported many German citizens and confiscated their

properties. Especially in Guatemala, Costa Rica, and Nicaragua this meant the taking over of very good land by the state and a further increase in revenue for the governments. In several cases, United States government officials worked closely with Central Americans to make certain no German influence remained in the region. (Findling, p. 103)

Washington had worked out a series of agreements to ensure access to all needed raw materials and food in the region. A coffee agreement was negotiated and a quota established, bringing about (even if only for a few years) assured markets and stable prices. The raw-materials producers, due to intense United States pressure, agreed to sell their goods far below the free market price, but they still were able to have relatively good profits. However, the foreign exchange received by Central Americans, bought few and expensive United States imports (as I said before United States production was geared towards the war effort) and as a result, inflation began to appear in the region (La Feber, p. 88)

The shortage of imports was reflected in a price rise, which surpassed that for exports in most countries. According to Bulmer-Thomas, the unit value of imports almost doubled between 1939 and 1945 in Costa Rica and Nicaragua, while the rise was near 50% in El Salvador and Honduras. Therefore, the terms of trade and the purchasing power of

exports tended to decline during the war and remained this way for quite a while after the cessation of hostilities in Europe. (Bulmer-Thomas, p. 94)

Inflation in import prices did not produce an advance in import substitution as it was taking place in some parts of Latin America. In spite of new loans coming in and an increase in foreign investment, especially by UFCO, there were no signs of growth in the industrial sector. Competition and isolation among the Central American states made each individual country too small a market to encourage investment in industries geared towards production for the local market. Also, the fact that foreign capital was not interested in developing local industries left the region's governments with no sources of capital to encourage industrialization. The only other source of the necessary capital, taxing the local and foreign elites tied to the agricultural export sector, was out of the question as they were still the most powerful group in every Central American country.

Agricultural export diversification received some support, especially in the form of credit for small-scale farming, but only for a short time as government revenue had begun to fall. Furthermore, efforts to regulate the prices of staples in the home economy, in the face of inflation, tended to reduce real farm prices and resulted in the decline

of agricultural production for the local market. (Bulmer-Thomas, p. 95)

As a result of the close cooperation between the United States and Central American governments in the war years, the system of caudillo rule gained a certain international legitimacy. At the same time, during the war, the United States supplied caudillismo with the material means to increase the chances of its survival. Indirectly, the United States had prevented the success of the middle-class challenge to dictatorship or the advent of more progressive regimes, other than in Guatemala, where the pressure from middle and lower classes resulted in a more socially-oriented, even if short-lived, regime. This situation was to become even worse, when after World War II the threat of communism would make it even harder for reformist regimes to come to power. (La Feber, pp. 88-89) Therefore, while many countries in Latin America were taking advantage of the closing of European markets and the reduction in amount and increase in price of American imports to develop import-substitution industries, Central America remained committed to the export of raw materials while paying little or no attention to the needs for industrialization. The key difference was not in resources or market sizes, even though important factors, but mainly in the type of regimes in power. While other Latin American countries had progressive

governments (even if non-democratic) committed to industrialization and development, Central American caudillos were simply responding to their personal interests, as well as those of the export sector.

In sum then, it can be said that World War II did not hurt the Central American economies as much as it could have been expected of those dependent on exports of a few commodities for survival. Nevertheless, inflation and further indebtedness, plus a continuation of the dependence on exports for economic growth and an increased overall dependence on the United States, were to condition future developments in the region.

Central America came out of World War II with a definitely underdeveloped economy. Exports continued to be dominated by earnings from coffee and bananas, foreign presence in the local economies was quite important, and the foreign debt was becoming a big burden. Although foreign exchange reserves had expanded during the war, there had been no possibility of translating this into imports of machinery to start new industries because of wartime shortages of those goods. This, added to the disinterest of the caudillos tied to the export sector to create new industries, resulted in the continuation of backwardness.

Production of goods for the home market whether agricultural or industrial, was held back by an inadequate

infrastructure, a weak financial system and a small local demand. The state's ability to correct these deficiencies was retarded by the influence of the export sector, which was overtly hostile to capitalist modernization, and by a regressive fiscal system, which was over-dependent on import duties. (Bulmer-Thomas, p. 105)

The case of the Arevalo regime in Guatemala brought some hope for true development and resulted in a lessening of control in politics by the coffee oligarchs and the banana companies. Arevalo gained power after the dictator Ubico was forced out by a progressive sector of the military and by pressures from the growing middle sector. Arevalo used the strongly centralized national government to implement serious social, political and economic reforms. (Helms, p. 225) But Arevalo's support of labor and peasant demands for better wages and agrarian reform brought him into direct conflict with the defenders of the old order. Coffee growers and foreign investors were fearful of losing the advantages they had in the past, and they began looking at the United States and right-wing factions in the military for ways to return to political power. Arevalo survived twenty two military revolts while the United States chose not to intervene until a later date. Still, the oligarchy and foreign interests were able to limit the extent of the reforms and continued to profit from their privileged position. (Woodward, pp.234-235)

Honduras also ended caudillismo in 1948 with the election of Manuel Galvez as president. Galvez turned out to be quite progressive and implemented some social and economic reforms. But at the same time, Galvez attracted more foreign investment believing it would bring about development, and more sectors in agriculture and industry fell under foreign control. (Rodriguez, p. 135)

In El Salvador, the dictator Martinez was forced to resign, but no real change came about as the following ruler, General Castaneda Castro, was the candidate of the coffee oligarchy and the military. He assumed power in 1945 after a fraudulent election and ruled until 1948 when he was overthrown by another military coup. (Findling, p. 203)

In Nicaragua, Anastasio Somoza remained in power and made the economy quite strong. Even if undemocratic, Somoza's regime was relatively open to some labor demands and it developed much of Nicaragua's infrastructure (roads, ports, schools, hospitals), creating some necessary conditions for the growth of the economy. Nicaragua continued to produce a larger share of its food for local consumption than any other Central American country, but some new efforts to diversify export crops resulted in more and more land devoted to cotton, cattle, and sugar at the expense of subsistence crops. (Woodward, p. 261)

Costa Rica underwent also some social discontent, which

ended in a revolution in 1948. Fraud in the elections of 1948 created unrest and sparked a revolt lead by Jose Figueres, a wealthy coffee grower. The fighting lasted only a few weeks, and Otilio Ulate, the real winner of the past election took power. Among the first reforms implemented was the dissolution of the army and the outlawing of the Communist party. Furthermore, he placed a 10% tax on private capital to pay for administrative changes and established agencies to promote agricultural production and control inflation. (Findling, pp. 105-106)

By the end of the 1940's, the Central American economies began to grow again as the value of exports surged. With land still available (other than in El Salvador) and capital from exports increasing, projects of agricultural diversification were undertaken. But the use of these land and capital did not have long term promise due to the fact that far from allowing Central America to escape the problems of export-led growth, it was used to introduce new export crops, especially cotton. In this manner, the benefits of export diversification and capitalist modernization were again narrowly distributed between local oligarchies and foreign investors. (Bulmer-Thomas, p. 106)

At this time, we can also begin to see how profit outflows on direct foreign investment (mostly from the United States by this time) increase dramatically. (see table 27) Even if

in some cases local governments attempted to negotiate better contracts with the banana companies - which accounted for a large portion of the investments - the rise in prices for bananas benefited only the companies and not the Central American countries. (Remember that the companies paid a tax per bunch of bananas regardless of its price). (Bulmer-Thomas, p. 108) Table 27 gives us a good picture of the incredible outflows of capital in the late 1940's.

There is no doubt that both capital outflow and the disinterest of the local oligarchies in industrialization were important reasons for the lack of significant advances in industrialization in the region. The export-led growth model had also the effect of inhibiting the appearance of an internal and diversified demand, especially due to the low wages paid to labor. The elites had concentrated most of the income in their own hands, and this had resulted simply in an increase in the import of luxury and immediate consumption goods. And furthermore, the profits from coffee were not reinvested in the local economies, which had become quite risky, but sometimes even reinvested in the North American market (this comes to disprove the claim by many modernizationists that they lack entrepreneurship). (Torres-Rivas, p. 28)

But regardless of the lack of available capital, or the lack of interest to use it in the local market, the fact that

Central America needed industrialization was being accepted even by the elites tied to exports. Therefore, without abandoning the export-led growth model, the Central American republics would, in the 1950's, begin to attempt to industrialize. The problems ahead were many, as a lack of a domestic market and the presence of foreign interests would create serious, and at times unsurmountable obstacles.

6.0 Modern Times, Ancient Problems

6.1 The Early 1950's - Traditional Exports Maintain Control

By 1950 the coffee industry had become highly concentrated. Even in Costa Rica, where small growers had been an important influence in the pluralism that country was enjoying, 40% of coffee was produced by 6% of the farms. This concentration resulted in radical social differentiation and increases in poverty, but it also meant an increase in the size of the capitalist surplus needed for any attempt at capitalist modernization. (Bulmer-Thomas, p. 110)

Traditional exports reached new peaks and coffee and bananas were still responsible for nearly 90% of export earnings in Costa Rica, Guatemala, and El Salvador, for 78% in Honduras, while only in Nicaragua was the share less than 50%. At the same time, diversification in agriculture, especially in the area of foodstuffs for local consumption came to a halt, and in El Salvador, Guatemala, and Nicaragua, it began regressing. (Bulmer-Thomas, p. 115) (see tables 6 and 19) Therefore, the issue of land reform became very relevant, and to a large extent it was only addressed seriously by the liberal government of Arbenz in Guatemala, but without positive results due to the fall of that regime before the

reforms could be implemented.

The net profits from the high prices of traditional exports brought about some investment in the industrial sector. Despite the existence of the same obstacles than before, industrial share of GDP rose in every country, mainly due to some government incentives and some mild protectionist legislation. (see table 7) Furthermore, the first bilateral trade treaties were signed between Central American states, widening the market for locally produced manufactures. El Salvador was the most prolific in this sense, signing agreements providing for free trade in a limited range of goods with Honduras, Guatemala, and Nicaragua. (Feurelein, p. 61) Still, industry remained small and relatively unimportant, dominated by the traditional sector (food, drink, tobacco), and with only a few new industries coming to life (especially in textiles, rubber, and cement).

In this period, both UFCO and Standard Fruit had large profits but without this resulting in an increase in the state's share of revenue from taxes. The bulk of these profits were lost to the region, as the banana companies were only reinvesting (and only in their own operations) 20% of their gross profits. Some corrections to this situation began to be made by the local governments, mainly by raising taxes and by signing new contracts. Especially in the case of Costa Rica, the government was able to negotiate a contract by which

UFCO raised wages and passed on its small social service program to state management. (Woodward, p. 227) Also Honduras increased the taxes on the banana companies, resulting for the first time in some degree of independence from company control in government (this had been the case in the past due to the need of the Honduran government to rely on loans from the companies to balance its budget). (Bulmer-Thomas, p. 126)

Nevertheless, UFCO and other United States companies countered the tax increases with further expansion of their operations. Between 1950 and 1959 United States direct investment rose in the area during most of the fifties, concentrated mainly in agriculture for export, public utilities, and minerals. (see tables 27 and 29) In Guatemala it went up from \$106 million to \$131 million, in El Salvador from \$18 million to \$31 million, in Honduras from \$62 million to \$110 million, and in Nicaragua from \$9 million to \$18 million. Most of the increases were the result of UFCO's expansion in bananas, sugar, cacao, palm oil, abaca, and transportation. (La Feber, pp. 127-128)

The amounts of United States investment might not seem too important, but they represented in some cases a large sum compared to the GDP of the local states. United States investment in Guatemala was about equal to 15% of its GDP, in Honduras about equal to 30%, and in El Salvador about equal to

6%. Furthermore, by this time, Central America became important to the United States, not only for security reasons, but also economic as well. The United States obtained 10% of its imports and sold 10% of its exports to this small group of countries. (La Feber, p. 130)

Coffee growers continued to have a privileged position in the economies, as they paid a small export tax and even smaller income taxes. The governments, relatively dominated by coffee interests, lost the opportunity provided by high market prices for their exports to increase the fiscal contribution of the export sector. On the contrary, exporters (national as well as foreign) continued to receive special treatment from the governments, preventing the states from raising necessary revenue for industrialization campaigns. (Bulmer-Thomas, pp. 126-127)

United States influence in Central America had begun to increase even before the Cold War, and it had resulted in a policy with an emphasis on stability and security rather than on democracy and economic integration. Once the Cold War began, security was to become the first priority, and United States policy towards the region became obsessed with keeping communism out, regardless of the consequences for the Central American people. At the same time, this emphasis on stability benefited both local and U.S. business interests in the region, as any form of protest or opposition to the unfair

conditions existent, regardless of their origin or the issues involved, became quickly linked to communist efforts to overthrow the local governments.

The United States began programs to infiltrate and reorient Central American labor movements away from the left and also began to beef-up the local security forces. According to La Feber, by 1957, the United States had arms agreements with Guatemala, Honduras, and Nicaragua. These agreements went further than arms sales, and included clauses calling for United States intervention in order to "weaken Soviet ties" in the region. (La Feber, pp. 128-129) Regardless of the fact that this open interventionism by the U.S. was seen by everyone in Central America as a challenge to sovereignty, the local elites were more than happy to have the United States pay the bill to maintain the stability necessary for the orderly function of their businesses.

6.2 1954: A Year of Crisis

The year 1954 had great impact on the political, social, and economic future of Central America as well as in showing to what extent the United States would intervene to protect its economic and security interests. This year was not only important for the coup that overthrew the progressive regime of Jacobo Arbenz in Guatemala, but also for the partially

successful banana strike in Honduras.

Following the moderately progressive regime of Arevalo, Jacobo Arbenz assumed the presidency of Guatemala after defeating a right-wing coalition with a resounding 65% of the vote. Arbenz moved to advance Arevalo's plans and made efforts to better Guatemala's position with respect to UFCO. A new port and highway were to be built, challenging UFCO's monopoly over transportation, and also a new power-company was to be started to provide an alternative to the U.S.-owned electric company. (Kwitny, p. 222)

UFCO was also, especially as the largest landowner in the country, to suffer from the land reform bill of Arbenz's government. When the bill was enacted, less than 10% of UFCO's 3,000,000 acres was under cultivation. Therefore, the government proposed to expropriate about 250,000 acres and offered to pay a compensation of \$1.2 million, an amount equal to the value UFCO had put on the land for property tax assesment. UFCO, on the other hand, complained to the United States government and demanded \$16 million in compensation. (Findling, p. 110)

United States policy makers came to look at the Arbenz reforms as steps towards communism rather than towards a Guatemalan "New Deal". UFCO's fierce opposition to the reforms and an effective media campaign in the United States against the Arbenz regime were instrumental in creating this

perception. UFCO's influence was increased by the fact that high ranking United States government officials had, at one time or another, had direct business interests in the company. Furthermore, the Cold War ideology guiding United States policy towards Latin America made it easier for UFCO to convince the U.S. government to intervene against the "communist" Arbenz. (Blackman, p. 27)

Pressure from the United States, UFCO, and the Guatemalan conservative elite increased, forcing Arbenz to seek military aid from the Soviet Union (which responded in a very reluctant manner, only allowing for the sale of some small weapons). The United States began supplying arms and money for a Guatemalan opposition group based in Honduras, and also initiated direct CIA support for the implementation of a military coup. (Helms, p. 286) General Castillo Armas, leader of the coup, didn't have much of a problem taking over, as the Arbenz regime did not want to arm the workers and the military remained in their barracks.

Guatemala showed the rest of Central America the consequences for a small state if it challenged United States economic and security interests in the region. In a short time, the old oligarchy of coffee growers, as well as the foreign capitalists, were restored to power and protected under neo-conservative military regimes. (Woodward, pp. 238-241)

The other incident of 1954 did not have the publicity or flare of the fall of Arbenz in Guatemala. Nevertheless, the strike in Honduras against the banana company, had also an impact on Central America. By the mid 1950's, the urban elites and United States investors continued to control the country, but Honduras, guided by Dr. Juan Galvez, was becoming more pluralistic and progressive than ever before. In an atmosphere of rising expectations and newly organized labor unions, laborers refused to load UFCO's ships unless they were paid double time. UFCO's objections were supported by the courts, but the strike began to spontaneously spread through the banana companies, paralyzing also the other U.S.-owned producer, Standard Fruit. Nearly 40,000 workers were on strike, at the same time that the coup against Arbenz was under way, and to prevent any alliance between the strikers and the Arbenz regime the companies settled with the strikers. The workers gained only an 8% wage raise, some improvements in working conditions, and two-week vacations. Nevertheless, the strike transformed the unions into a political force, it politicized thousands of people and it set an example for other workers in the region. (La Feber, p. 133)

6.3 The Late 1950's - Towards a New Model of Growth

Unfavorable developments in the markets for bananas and

coffee after 1955 pushed Central America towards a new growth model. This model was to be based on the diversification of agricultural exports and the promotion of intra-regional trade in manufactured products.

As the dependence on the exports of coffee and bananas grew in the early 1950's, the vulnerability to the terms and fluctuations of trade also increased. The banana exports to the United States reached their peak in the late 1950's and the availability of new markets was limited by European favoritism towards its colonies and also by the incredible rise of Ecuador as a banana producer. At the same time, by 1957, world coffee stocks had increased rapidly and coffee prices began to decline, reaching 1940's levels. (Bulmer-Thomas, pp. 151-153)

This situation resulted in a commitment by local governments to capitalist modernization. But despite the efforts of the state, the external crisis provoked by the fall in the terms of trade could not be offset by increases in traditional exports. Other Latin American countries, faced by the same problems, had turned towards their own markets as a way out, but in Central America, inward development was not yet seen as an option, and efforts were concentrated instead on export diversification. (Bulmer-Thomas, p. 155)

Cotton production was increased, especially by access to credit, and in a short time it created a new, small, but

powerful, oligarchy. (see table 18) Cattle raising also received a boost, due to the availability of land and increases in world prices. And finally, sugar production began to increase as well, as some Central American states (Costa Rica, Guatemala, and Nicaragua) took advantage of the closing of United States markets to sugar from Cuba after its revolution. (Parsons, pp. 155-156)

In sum, it can be said that export diversification succeeded in reducing the share of total exports that coffee and bananas had, but it could not, however, compensate for the losses due to the worsening of the terms of trade, and the purchasing power of exports continued to fall. This failure of export earnings to grow in the face of import demands provoked a serious balance of payments crisis and brought about the need for alternatives to the model of development based exclusively on agricultural exports. (Bulmer-Thomas, p. 160)

Furthermore, the increase in land for export agriculture took more land away from agriculture devoted to the production of foodstuffs for domestic consumption. Also, the access to land for cotton, sugar, and cattle, was limited to those with capital, further increasing the concentration of land in fewer hands. By 1960, Costa Rica had 42% of landless workers, Nicaragua 32%, Honduras 26%, Guatemala 17%, and El Salvador 16%. (Bulmer-Thomas, p. 162) More labor was needed in the

new areas of export agriculture, but wages remained low, doing nothing to increase the size or purchasing power of the local market.

Foreign investment continued to grow, coming especially from the United States. By 1959, the United States had \$350 million invested in the region, but only 4% of it was in manufacturing. In this manner, the United States was instrumental in perpetuating the conditions of backwardness in industry and in increasing the reliance of the region's economies on agricultural exports. Profit remittances did diminish somewhat, due to higher taxes on the banana companies and other United States interests, (Bulmer-Thomas, p. 169) but the amounts of profits reinvested in other sectors of the local economies remained as small as before.

The problems brought about by the worsening of the terms of trade and their impact on government revenue meant that development projects became more and more dependent on foreign assistance, particularly on the World Bank and the United States government (through AID), for financial support. (Helms, p. 321) The development programs attempted to create economic integration and regional cooperation, but their flaws and ill-conceived projects made them inapplicable to the peculiar problems of Central America. The military establishments became the main beneficiaries of the aid, and the failure of the programs to recognize the need for the

basic restructuring of the society and economy of the region resulted in the perpetuation in power of reactionary and oppressive regimes. Thus, many Central Americans looked at the aid programs simply as devices to maintain the peoples of the region in economic subservience to the capitalists. (Woodward, p. 271)

Some efforts towards regional integration were beginning to take place. In 1955 the Organization of Central American States was formally founded, and a treaty aimed at the creation of the Central American Common Market was signed. Some bilateral trade agreements and plans for new industries were also made at a regional level, setting the basis for future cooperation in many areas of economic development. (Findling, p.120)

6.4 The 1960's - Illusions of Growth and Prosperity

Central American unity has been a dream of many people for a long time. By the late 1950's, and out of mainly economic considerations, the countries of the region had begun planning the formation of a common market as a way of bringing about industrialization and development. Finally, in 1961 the Central American Common Market came into existence when the economic ministers of Guatemala, El Salvador, Honduras, and Nicaragua signed a general treaty agreeing to work toward

common trade and industrial goals. Costa Rica would join in 1963 while Panama, even when invited, decided to remain out and rely on bilateral economic agreements with the United States. (Helms, p. 324)

In broad terms, the CACM aimed to stimulate economic development in the region by creating a larger consumer market for manufactured goods and by shifting emphasis from an almost complete dependence on export agriculture to greater industrialization. More specifically, the goals of the market were directed toward supplying jobs for Central America's lower sector and freeing the regional economies from the limitations and uncertainties inherent in the export oriented colonial economy existent in the region for so long. To these ends, CACM would work to achieve greater diversification of industrial production within the region, with greater emphasis on producing those manufactured goods being imported up to then in exchange for export income from the sale of coffee, bananas, and cotton abroad. (Denton, pp. 269-270)

The external environment in the beginning of the 1960's was quite good, not only due to changes for better in the terms of trade, but also because of United States support for CACM. The signing of the general treaty between the Central American states had coincided with the launching of the Alliance for Progress in early 1961. United States commitment to the region had been stimulated by the Cuban revolution and

the emergence of guerrilla activity in Guatemala and Nicaragua. The CACM was seen by the United States as a good way of promoting its strategic and economic interests, as well as fitting the suggestions of the Alliance for Progress. Therefore, United States assistance and aid was increased, and became instrumental in financing all the new regional institutions of CACM (as the regional development bank and the Central American Clearing House). (Bulmer-Thomas, p. 178) United States funding became so important that it had almost total control of some of the regional institutions. In some cases, contributions to some of those institutions from the Central American states was none, and even in the road-construction projects (key to regional integration) United States funding reached 75%. (Cohen-Orantes, p. 62)

In order to enlarge the local market, the five small national economies were linked into a larger economic network. In this way, industrial plants that could not be effectively operated within any single isolated country could produce successfully for the whole region. The CACM implemented free trade between the Central American countries and set a common outside tariff wall to protect new local industries from foreign competition. CACM also encouraged foreign light industry and manufacturing companies to establish plants in the region and it introduced "integration" industries. These new type of industries were based on the allocation to each

country of one type of specialized industry that would not be established elsewhere in the area and would produce goods for the region as a whole. This would help distribute industrial plants equally throughout Central America and would encourage balanced growth rates among the countries in the region. (Hansen, p. 6)

Norma Stoltz Chinchilla, on the other hand, sees the Common Market strategy as being based on a conscious plan to enlarge existing markets by linking them to each other as an alternative to broadening each internal market through higher wages, more government services, and agrarian reform. She explains that underlying the strategy was an agreement to maintain the power of existing economic groups and avoid pressures for potentially unsettling redistributions of wealth. Although the plan originally had a nationalist context, she continues, in which imported products would be gradually substituted by regionally produced ones (under conditions of careful planning and a certain degree of control over foreign investment), the active participation of United States advisors in CACM changed its philosophy from state planning and control to laissez-faire capitalism with open doors and generous incentives for foreign (primarily monopoly) capital. (Chinchilla, p. 2-3)

And in spite of most of United States capital being primarily of the monopoly type, it was the fact that

integration industries resembled regional monopolies that the United States strongly opposed them. Integration industries had been seen as key to the success of CACM by the ECLA and by some local economists, and their undermining by the United States resulted in the failure of a regional effort to break away from dependence and foreign influence in each individual country. (Vaitsos, p. 738) Also, integration industries were essential to equitably distribute the benefits of CACM, which would keep countries less industrialized (Honduras and Nicaragua) from being taken advantage by their neighbors. This issue of equitable distribution of benefits would end up being one of the main causes of the failure of CACM in the near future.

Still, during the 1960's, the CACM achieved notable successes in a number of areas. Trade among its members was greatly stimulated and impressive progress was achieved in establishing common external tariffs for the countries in the region. While developed countries still accounted for 70% of Central America's imports and exports, this represented a sharp drop from the previous decade, when the proportion was over 90%. (see table 16) Most of this decrease is represented by growth in intraregional trade, which was only 5% in the years before CACM and reached its peak of 26% in 1968. (Weeks, p. 86) (see table 17)

Intraregional trade, nevertheless did not favor all

Central American countries in a similar way. Honduras, the least industrialized country, ran regional trade deficits all the time (which influenced its decision to withdraw after 1969), while Nicaragua ran a deficit for most of the years of the CACM's operation. Nicaragua stayed in the CACM, regardless of its deficit, due especially to the influence in that country of some capitalists who were making big profits and of foreign aid tied to the common market effort. Costa Rica also ran a deficit for the most part, but it didn't hurt the country so much as intra-regional trade remained a small amount of its total trade. Both Guatemala and El Salvador, thanks to their advanced industrial sector (compared to the rest of Central America), their low wages, and their open repression of union efforts, had positive regional trade balances and were the strongest supporters of CACM. (Weeks, pp. 88-90) (see table 25)

The CACM and the generous state incentives for industry generated quite a large degree of interest among Central American investors. Still, the continuing attraction of investment in export agriculture and the heavy presence in local governments of influences from the coffee and cotton elites implied that a large share of the finance for industrial investment would have to come from external sources. For the period 1962-69, nearly 30% of the total capital required for new industries came from abroad. Within

this flow of external finance, 47% were loans, 36% was direct investment, and 27% were reinvested earnings. But the extent of foreign participation was much greater than these figures indicate. Firms with foreign equity were free to raise funds locally or make use of part of the aid coming into the region. In the end, foreign plants accounted for nearly half of all intra-regional industrial exports. (Bulmer-Thomas, p. 191)

The traditional oligarchy also invested in industry, often as junior partners to foreign capitalists, but they had little control and didn't play a leading role in any aspect of industrialization. The low industrial profile of the traditional oligarchy was reflected in the small impact they had in the Chambers of Commerce in each country. On the other hand, foreign owned subsidiaries were very active in all these chambers, so that purely domestic industrial interests had no institutional representation. (Bulmer-Thomas, p. 192)

The structure of incentives in CACM favored the production of consumer goods at the expense of all other branches of industry. By the end of the 1960's, the food-manufacturing sector accounted for 50% of gross industrial output and the non-traditional branches of industry were of little importance. The main conflict with this was that the highly unequal distribution of income in the region created serious problems for an industrial system so heavily dependent on consumer goods production. As wages remained low, consumer

goods industries would have problems expanding after the first few years of import substitution. (Weeks, p. 136)

But a more important problem was the dependence of industry on imported inputs. This dependence was the direct result of a tariff policy that discriminated against the production of intermediate and capital goods, so that much of the demand for these commodities had to be met with imports. (see tables 24 and 26) Also, the fact that foreign capital wasn't interested in producing intermediate and capital goods added to the problem. By the end of the 1960's, almost 100% of capital goods came from outside the region. (Bulmer-Thomas, pp. 192-193)

The capital-intensive bias of the CACM was responsible for the relatively small number of jobs created by the industrial expansion. One study estimated that the total number of new manufacturing jobs created annually by the CACM between 1960 and 1968 was only 3,000. (Frank, C., p. 158) Considering population growth and the continuous expansion of export-agriculture and its displacement of peasants, CACM was a total failure in providing new sources of jobs and therefore in raising the standard of living of the population (which would have been key in making the consumer goods orientation of CACM fare much better).

Regardless of the formation of CACM, export agriculture continued to dominate Central America. This was reflected by

a continuation of public policy favoring the agricultural export sector. Lowering of export taxes continued and credit going towards agriculture for export tended to rise, even at the peak of the industrialization programs. By the end of the 1960's, credit to agriculture was three times higher than to industry. And furthermore, lending for agricultural crops was completely dominated by coffee, cotton and sugar, which accounted for 85% in Guatemala, 76% in El Salvador, and 50% in Costa Rica. (Bulmer-Thomas, pp. 185-186) (see table 18)

The emphasis on the five traditional exports (coffee, bananas, sugar, cotton, beef) was reflected in their high share of extra-regional exports. By the end of the decade, these five products accounted for over 70% of the total from the region and over 90% from Costa Rica and El Salvador. This commodity concentration in exports left the region vulnerable to the performance of a few crops, and can be noticed in the sharp contrast between the first and second half of the decade. While prices and output per person were high in the first half, they declined after 1965, affecting the Central American economies. (see table 22) However, this decline was somewhat offset by a rise in production of the industrial sector. Also, as export agriculture continued to expand at the expense of food production, the region as a whole became a net importer of both corn and beans beginning in 1970. (Weeks, pp. 102-105)

6.5 The CACM Under Fire - Problems and Criticisms

As already noted, the concept of integration industries, which had been described by ECLA as an instrumental part of the common market strategy, ran into difficulties because the United States refused to allow its contributed funds to be used for what it described as a monopolistic purposes. Therefore, little could be done to prevent some of the members of the common market from benefiting more than others. The fact that Honduras and Costa Rica could not benefit as much as Guatemala, El Salvador and some economic sectors of Nicaragua, would result in their leaving the CACM in 1969 and 1972 respectively.

After ten years of industrialization, Central America became even more dependent on industrial imports than before the formation of the CACM. From 1960 to 1971, Central America's balance-of-payments deficit tripled and the high import content of foreign owned manufacturers reduced drastically the real economic contribution of industry. (see tables 24 and 26) Between 1960 and 1980, the value added by the industrial sector to the region's GDP ended up increasing only 4 percentage points. (Barry and Preusch, p. 166) The benefits of industrialization were further reduced by the rivalry between countries to offer the best incentives and tax breaks to foreign investors. Tax benefits granted to foreign

interests in El Salvador equaled about 85% of all industrial wages and in the country's capital intensive chemical industry, tax concessions were twice the wages paid. (Russell, p. 55)

Throughout the sixties, United States investors made Central America a tightly integrated part of their own system. Between 1961 and 1965, \$200 million of United States private investment went into CACM. Much of this capital did not create new industries but ended up buying out existing ones. Walter La Feber believes that, in view of the magnitude and characteristics of foreign investment and the type of industries developed in the region, CACM did little to break the region's dependence on United States capital and markets, it did little to lessen the region's dependence on a few crops, and it did little to better distribute the wealth of Central America. (La Feber, pp. 191-192)

Stoltz Chinchilla also sees foreign interests and local export-oriented agricultural elites as the major beneficiaries of CACM. The amount and composition of United States investment in the region, she explains, changed dramatically between 1959 and 1969. By 1969, United States investment represented 81% of all foreign investment in the region and it had shifted away from agriculture for export to greater concentration in manufacturing. In Guatemala and El Salvador, the most industrialized members of CACM, United States

investment in manufacturing reached 36% and 25% respectively. (Chinchilla, pp. 4-5) Also, as Weeks explains, foreign interests repatriated most of their profits. Between 1960 and 1969, net profit transfers were over \$110 million. This figure would grow fivefold by the end of the next decade. (Weeks, pp. 92-93) (see table 28)

At the same time that the industrial sector and the participation of foreign capital grew, the traditional elites expanded their production of agricultural goods at the expense of land for food production. This intensification of export-oriented agricultural production, coupled with a very high degree of monopolization of the production of goods and services outside of agriculture and the highly capital-intensive aspects of industrial production, resulted in a rapid increase in inequality and poverty. (Chinchilla, p. 5) (see tables 11 and 20)

It must also be noticed that apart from the impact of foreign investment and the influence of the agro-export elites in local government, there are internal problems that limited the success of CACM. Inefficient and disorganized national economic and political institutions, the lack of linkages between wider publics in mass organizations and political parties, and internal competition for the benefits of industrialization, all created obstacles for the development of the original goals of CACM. Furthermore, massive

illiteracy, low levels of political formation, erratic partisan competitiveness, and systematic repression of opposition prevented an extension of participation in CACM to wider interests. Therefore, elites gained control of CACM and made sure that, even if the region as a whole did not benefit, their interests would be served. (Schmitter, pp. 71-72)

Some authors also blame the CACM for being the main cause of the war of 1969 between El Salvador and Honduras. The growing inequality and uneven development among CACM members created conflicts between the bourgeoisies of different countries. As CACM favored El Salvador over Honduras, and as thousands of displaced Salvadoran peasants were encouraged to cross into Honduras, tensions mounted to the extreme of war. The war lasted only a few days, but it was seen by many as the beginning of the end for CACM, as Honduras chose to withdraw shortly after. (Woodward, pp. 274-276)

Regardless of the negative effects CACM had on Central America as a whole, it can also be argued that it had an important role in altering the class configuration of the region. The major effect of industrialization was the increase in proletarianization. Not only did the strengthened urban working class assume a more central political role, but the class outlook of many peasants changed as they were pulled into an expanding rural proletariat and semi-proletariat. (Chinchilla, p. 6)

In sum, it can be said that a project like CACM, in the absence of prior policy changes at the national level can be seen as simply another "Trojan Horse of Imperialism". Without redistribution of wealth, land and income, without the creation of stronger and accountable state institutions, without changes in center-periphery relations, projects like CACM do little, or nothing, to develop the region and to better the situation of the Central American people. Foreign capitalists, with their greater financial power, prior multinational articulation, organizational flexibility, and entrepreneurial aggressiveness have been in a commanding position to take advantage of the newly created opportunities. They are able to cartelize or monopolize the region, obviating any possible benefit from greater competition and economies of scale. In addition, their newly acquired freedom to locate regardless of national restriction, due to the removal of barriers to zonal trade, allows them to play one country against another, making ineffective any attempts by individual progressive regimes to control their activities. (Schmitter, pp. 2-3) The result of an integration movement as CACM is to maximize the interdependencies between branches of extra-regional firms rather than to create a series of common goals and mutual interests between Central American states. In this way, CACM seems to represent a replication on a regional scale of the pattern of national disintegration created by liberal

regimes and foreign interests in the later years of the nineteenth century. (Teubal, pp. 138-140)

6.6 The 1970's - The Failure of Integration and Industrialization

The beginning of the 1970's was a difficult time for the industrial sector of Central America. Heavy reliance on imported inputs made manufacturing industries very vulnerable to cost pressures emanating from the increases in world inflation. (see table 12) At the same time price increases were restrained due to state imposed price controls following the rise in oil prices, and also due to the fact that reliance on specific tariffs meant that local prices were kept below dollar prices in order to remain competitive with imports. (Bulmer-Thomas, p. 209)

This squeeze on industrial profits brought about serious consequences for the region. It reduced opportunities for funding investment by local capital and made access to foreign sources of finance much more important. The profit squeeze also increased the vulnerability of the small-scale industrial sector, which lacked access to foreign sources of capital, and it accelerated the process of industrial concentration. This resulted in the almost total destruction of the artisan sector of the economy and even of some middle-

size industries. During most part of the decade, the average firm size increased and the number of firms declined drastically. (Weeks, pp. 149-150)

These difficulties resulted in a slowing of the annual average rate of growth of manufacturing in all the countries but Costa Rica, in which state policies in support of industry had been applied most effectively. (see table 7) Hence, industrial performance for most of the countries was very disappointing. Difficulties within the CACM, the small size of the national markets, the highly skewed income distribution, and the increase of foreign presence within the local economies prevented the newly formed industrial sector from reaching any of the expectations of a decade before.

The weakness of CACM, which began to be noticed by the end of the 1960's, was followed by an acceleration of world inflation in the early 1970's. (see table 12) The import price index began to rise long before the oil crisis of 1973, bringing with it inflation and pressures to the balance of payments. Because of the problems of saving foreign exchange through the import substitution aspect of the industrialization program, policies in the region shifted to increasing revenue by extra-regional exports. This meant a return to a heavy reliance on traditional agricultural exports. Therefore, at a time when long term economic and social planning suggested a need for the decline in the

relative importance of agriculture for export, short-term policies were pushing each country in an opposite direction. (Bulmer-Thomas, pp. 201-202) (see table 20)

A mixture of relatively good world prices and mild government incentives were enough to increase the outputs of coffee. Quota restraints were eliminated in many foreign markets and Brazil's crops suffered heavily from the 1975 frost, allowing for an increase in supply for the Central American region. The volume of banana exports also expanded significantly, but this did not bring great benefits to the region as foreign multinationals continued to control most of the industry. Del Monte replaced UFCO in Guatemala and Standard Fruit reentered Nicaragua, accounting for most of the increase in exports. By 1973, net output was 32% higher than in 1970. (Bulmer-Thomas, p. 203) (see table 18)

In 1974, the expansion of the banana industry and the usually cordial relationship it had with local governments came to a halt. Costa Rica, Guatemala, Honduras, Nicaragua, and also Colombia and Ecuador, established a banana growers' cartel. This new group, named the Union of Banana Exporting Countries (UPEB), demanded an immediate increase in its income from bananas. The demands were based on the fact that these countries had received only an average on seventeen cents on every dollar spent by North Americans on bananas, that the producing countries had been receiving the same

relative income from the banana companies for twenty years, and finally that these countries were all in need to raise their revenues in the face of a balance of payments crisis. (La Feber, p. 207)

The three United States banana companies refused to negotiate a price-fixing plan with UPEB and to accept the proposed tax of one dollar on each forty-pound crate of bananas. The main reason was not simply the higher cost for the banana companies, but mainly the fact that the companies wanted to keep the advantages they had while dealing with small, individual growers. To deal with a government-supported cartel would definitely challenge the control the companies had enjoyed for many decades. (Barry and Preusch, pp. 18-19)

The companies' refusal to negotiate immediately scared Ecuador, who quit the cartel and declared it would not impose the new tax. Costa Rica, whose costly welfare programs had made it very vulnerable to the economic crisis, gave in to Standard Fruit (which had threatened to close its operation in that country) and dropped the tax to twenty five cents a crate. Honduras followed suit and also dropped the tax to twenty five cents. Only a few months later it was discovered that United Brands had bribed the Honduran president in order to keep its taxes from rising. This angered all the members of UPEB, but it was not enough to prevent the collapse of the

cartel within a short period of time. The attempt to challenge the rules of the United States system in the region had met failure shortly after it began. It wouldn't be until 1981 that one nation in the region, Costa Rica, would be able to collect the one dollar tax. (La Feber, p. 208)

The emphasis on agricultural exports was also felt in the areas of sugar, cotton, and cattle production. The United States dropped its import quota for sugar and Central American producers were able to increase their production levels. Increases in the prices for cattle and cotton also benefited the region's producers, which resulted in large increases in the production of these commodities. Still, all these increases in production of agricultural products for export again took their toll on domestic use agriculture. (see table 20) Land reform was continually blocked by the oligarchies and by the end of the decade an estimated 40% of the rural labor force in El Salvador and Nicaragua was landless, while Costa Rica and Guatemala had also experienced a sharp increase in the inequality of land distribution. (see table 11) Only in Honduras had agricultural development brought about a reduction in the concentration of land. (Bulmer-Thomas, pp. 204-207)

The vulnerability of the economies of Central America became evident by the mid 1970's. Three events over which the regional economies had no control occurred almost

simultaneously. The first shock was the acceleration of world inflation, which was brought into the region by means of high dollar prices for imports. After almost two decades of stable prices, each country began to suffer double digit inflation. (see table 12) The fact that the process of industrialization was based on the import of quite large amounts of capital and intermediate goods made the whole situation even worse. Nevertheless, inflation had its gravest effect on the governments' ability to raise revenues from import duties. The reliance on import duties, much of which was obtained from specific tariffs, meant that collections did not keep pace with inflation and the ratio of import taxes to nominal GDP fell sharply. (Bulmer-Thomas, pp. 147-148)

The second shock was also external. The quadrupling of oil prices in October of 1973 not only had an impact on inflation, but it also disrupted the balance of payments current account. The share of oil in total imports went from 2.7% in 1970 to 10.2% in 1974. (Weeks, pp. 147-148) (see tables 24 and 26)

The third shock was a set of natural disasters which affected three Central American countries. An earthquake in Nicaragua in December of 1972 virtually destroyed the city of Managua. Hurricane Fifi ravaged the coast of Honduras in September of 1974, seriously damaging crops and buildings.

And finally another earthquake, this time in Guatemala in February 1976, also brought about much destruction. All these disasters reduced yields from many taxes and created many damage-related expenditures. Foreign aid helped, but in the case of Nicaragua it was later found out that Somoza had pocketed much of it himself. (Bulmer-Thomas, p. 213)

The effects of these shocks, added to the already existing imbalances of trade and the costs of industrialization, forced the Central American countries to borrow heavily from abroad. By the end of the 1970's the foreign debt had risen 40% in all the countries but Nicaragua. (see table 34) The beginning of serious civil war in Nicaragua forced the Somoza regime to borrow greatly to survive. By 1978, the Nicaraguan external debt had risen thirteen-fold, of which 75% was due to expenditures for military purposes. As a total for the region, the foreign debt rose from \$900 million in 1970 to \$8.4 billion in 1980. (Barry and Preusch, p. 133)

Had world primary product prices continued to rise after 1977, it is possible that the Central American countries, with the exception of those suffering from internal armed struggles, could have generated sufficient foreign exchange to satisfy their debt burdens and maintain a level of imports to sustain growth. But primary product prices did not rise, and began to fall, while import prices continued their upward trend. From 1973 to 1977, the value of Central American

primary exports increased by an average of 27% a year, but in the next four years by an annual average of only 1%. (see table 22) By 1981, extraregional exports were actually lower than they had been in 1977. (Weeks, p. 181)

Trade among the common market countries continued to grow in value in the late 1970's, but it began to show signs of problems. The peak reached in 1980 of over \$1 billion was followed by a very bad year. In 1981, for the first time in the twenty years of CACM, every member country had lower regional exports and lower regional imports than the year before. By 1982, regional trade would fall well below \$800 million. (Leonard, p. 54)

This growing crisis in trade was made worse by changes in capital flows. The oil crisis drained much of the reserves of the Central American countries, which had to be used to cope with the trade deficit. This situation became worse as private capital began to abandon the region due to the high risks present. These risks had become increasingly higher because of continuous social and political unrest and the beginning of serious guerrilla activity. From 1974 to 1978, the net flow of private investment and loan capital into Central America averaged almost \$400 million a year, but for the 1979-1981 period it was a negative \$50 million a year. To this we need to add an outflow of foreign exchange from private capital of \$290 million a year between 1978 to 1981

and almost \$450 million in 1982. (Weeks, p. 182) (see table 28)

In sum, it can be said that during the 1960's and part of the 1970's, the Central American countries generally imported more than they exported. (see table 24) This situation was sustainable along with relatively rapid growth because of capital inflows. With the rise in petroleum prices, the gap between imports and exports increased, while growth somewhat continued, supported through borrowing from foreign lending institutions. However, declines in primary product prices and the collapse of the CACM made the trade deficits and balance of payments situation untenable. (see tables 24 and 26) Capital flows into the region, both private and from foreign governments or agencies, declined largely because of political uncertainty. Therefore, the Central American countries entered the 1980's with large trade deficits and with no apparent means to finance them (later on, the United States would again increase capital inflows in the form of economic aid to prevent events similar to the one in Nicaragua from taking place elsewhere in the region).

6.7 The Rise of Social Unrest - A Challenge to United States Hegemony

Industrialization had, among many other things, brought

about the proletarianization of a portion of the peasants of Central America. During the 1970's the militancy of the labor movement increased dramatically, forcing the governments of Costa Rica and Honduras to bring about some social reforms aimed at bettering wages and increasing the coverage of social security programs. At the same time, in the other three republics, the labor movement was met with hostility and repression. The political unrest created by the clashes between workers and government lead in 1979 to the fall of Somoza in Nicaragua and of General Romero in El Salvador. In Guatemala, the levels of military repression were sufficiently brutal to avert similar events. The breakdown of social and political order and the emergence of a revolutionary government in Nicaragua presented the United States with a grave challenge to its hegemony in the region.

Three key elements can be identified in the rise of unrest and of challenges to the established order. First, part of the labor movement began to identify with the small revolutionary groups in existence since the 1960's or early 1970's. By doing this, labor gave these groups an important social base from which to launch more effective attacks on the government. (Bulmer-Thomas, p. 225) Labor leaders shifted support away from the political parties and to the revolutionary groups to a large degree due to the government repression they were suffering. Also, the fact that,

regardless of the political party in power, the conditions of the working class were not getting better convinced labor leaders to search for new alternatives.

The second element was the disillusion of a segment of the followers of the centrist parties due to the widespread use of electoral fraud by the right wing parties and the military. This had finally persuaded many middle-class people of the legitimacy of pursuing extra-parliamentary tactics to gain power. (Bulmer-Thomas, p. 225) These middle class groups formed alliances between center and leftist parties and gave, in some instances, support to the revolutionary movements.

And the third element was the appearance of serious divisions within the armed forces and within the main private sector pressure groups. In Nicaragua, where Somoza's greed had made him enemies among leading capitalists, business pressure groups were formed to fight against the monopoly power that Somoza enjoyed in many areas of the economy. On the other hand, in El Salvador and Guatemala, the private sector remained united and resisted economic reforms. Nevertheless, divisions within the military became apparent and reflected those conflicts in civilian society. In El Salvador the internal conflicts within the military led to the coup against ultraconservative General Romero. And in Guatemala, those conflicts led to the seizure of power by

officers supporting General Rios Montt following the electoral fraud that had kept him out of office. (Bulmer-Thomas, p. 227)

These incidents in Central America came as a surprise to the United States, which had become overconfident of its influence in the region. Cordial relations in the past had been brought about by United States support for repressive regimes, which had, over time, fueled the social unrest that plagued Central America in the 1970's. When Carter tried to force El Salvador and Guatemala to change their repressive policies by stopping aid, the governments of these two Central American countries voluntarily denied themselves access to such assistance rather than risk United States interference in their own internal affairs. At the same time, the cut-off of United States aid to Somoza in 1978 had also no effect whatsoever in stopping government repression. The Carter administration found that its ability to dictate the course of events in the region was very limited. This would become even clearer when Carter failed to have the Sandinistas excluded from the new government of Nicaragua.

The United States would again try to regain its influence in the region after the election of Ronald Reagan in 1980. Nevertheless, it seemed that United States control over Central American politics was to be limited by the success of the Sandinistas in Nicaragua and the strength of the

Salvadorean guerrillas. Furthermore, peace initiatives coming from other Latin American countries and regionally sponsored efforts for coexistence, limited the role of the United States in dictating policy in the region. Nevertheless, U.S. military and economic aid, and its influence in international lending agencies still make the United States a most important actor in the Central American theater of events.

7.0 Conclusions

The fall of Somoza in July 1979 was the beginning for Central America of a series of crises with serious social, political, and economic repercussions. Civil wars in Guatemala and El Salvador, plus the beginning of counterrevolutionary activities in Honduras and Nicaragua against the Sandinistas, added an incredible burden to the impact on Central America of the world economic recession. (see table 13) The terms of trade continued to deteriorate (see table 23), while higher world interest rates increased the cost of new and past external borrowing. As a result of all this, the fall in living standards all through the region was the most severe since the 1930's. (Bulmer-Thomas, p. 230) (see table 4)

The regional crisis provoked national and international responses. Ranging from increases in U.S. economic and military aid (see table 33) and U.S. pressure on multinational institutions for favorable credit treatment of the countries in the region (excluding Nicaragua), to mild national agrarian and fiscal reforms to meet local challenges, attempts were made to bring about the necessary stability for economic development. Nevertheless, by 1986, only Costa Rica and Honduras showed signs of a limited economic recovery. In El Salvador the military had somewhat regained the upper hand in

the civil war, but reforms (which were seen as key in bringing about lasting stability) had been blocked by the oligarchy. In Guatemala, the guerrillas were almost completely wiped out (as well as most other opposition), but the minimal reforms implemented did not bring about economic stabilization. And finally, in Nicaragua the social reforms of the Sandinistas did bring about a more fair distribution of wealth, but external aggression and some policy mistakes prevented any economic recovery.

These responses to the present crisis in Central America were again ignoring the fundamental issues behind the underdevelopment of the region and they were not addressing the problem of dependence, and therefore were doomed from the beginning. The influx of more aid, without adequate planning for serious change, and the adoption of mostly cosmetic reforms by the local governments would do nothing to develop the region, and could even further its underdevelopment. The important thing to note here is that in spite of the presence of people in Central American governments, in the U.S. government, and in international organizations, who were really looking for measures that would bring about some sort of development, the reality was that the oligarchic governments were not interested in development if it meant giving up profits and that the U.S. always put its national security interests over Central American development.

The fact that the local governments had and would continue to heavily depend on the export model of growth gives an idea of how influential local and foreign agricultural growers have been in the past and still are in the present. The region's present overdependence on a handful of exports and on external market conditions, its open economies and small local markets, its external debt (see table 34) and continuous need of foreign aid (see table 32), its backward industrial sector and lack of food self-sufficiency (see table 21), its unstable social and political conditions, its poverty and maldistribution of income (see table 9), wealth, and property, in sum, its underdevelopment, can and should be understood by means of a historical analysis of Central America.

Operating within a Dependency approach that incorporates some additional elements raised by of its critics, I have carried out a historical analysis of an underdeveloped region. I cannot claim to have answered every question about Central American underdevelopment, but this analysis has highlighted and explained some of the most important forces behind underdevelopment in Central America by bringing forth the past and recent histories of this region.

I began by explaining that underdevelopment is not an original state, for Central America as well as for anywhere else in the world. Underdevelopment is the result of the relationship between center and periphery as well as of the

role of internal structures set up by that relationship. At first, Spain's colonization of Central America did not mean much more than the displacement of some of the native population. Even when some trade developed between the isthmus and the colonial power, its small volume did not have that much of an impact, at least economically. Still, Spanish colonization set up the social, economic, and political structures which would affect the distribution of goods and benefits in the region for a long time. As described by dependency theorists, underdevelopment in Central America can be explained by looking at the history and expansion of world capitalism. By first understanding how the basic social, political, and economic structures were set in place in colonial Central America, we can more clearly see how world capitalism, and the relationships it developed with this region, brought about its underdevelopment. The role of the local elites in this process has been seen to be of critical importance, especially the way these elites adapted and benefited from their relationship with world capitalism. The issue of the preeminence of external over internal actors, or vice versa, in the underdevelopment of Central America is not very important. It is the interaction of these two actors in the relationship that can give us the clues to understanding the situation. As Cardoso and Faletto explain, it is the expression of various combinations of class interests (both

local and foreign) that vary from one historical situation to another that will determine economic development or underdevelopment. (Klaren and Bossert, p. 21)

The relationship that developed between the capitalist powers and Central America can be said to have begun early in the nineteenth century, but especially after the coffee boom of the 1870's we can see its effects beginning to appear. The principal structures, excluding a few involved in production for the local market, were all geared towards the export sector of the economy. Local elites attracted by the possibilities for profits in the export of coffee, and liberal governments themselves, attracted by the possibilities for modernization, directed all their efforts towards increasing exports without regards for the rest of the economy or social and economic needs present. This reliance on exports as a path to progress and prosperity also gave rise to the advent of the banana companies and later on of cotton and sugar production. Foreign capital gained control of certain sectors of the export economy - the banana plantations, transportation, some banking, services, merchandising - while local elites based on agricultural production for exports took over most aspects of local government.

The integration of Central America so fully into a relationship with the world capitalist market as the supplier of primary products and of cheap labor for foreign companies,

resulted in creating a continuous dependence of the region on the core countries. (see table 8) The control that advanced capitalist countries had, and still have, over the markets, import-export houses, banking, insurance, shipping, and terms of trade, made the Central American economies extremely vulnerable to outside decision-making and market forces.

Furthermore, not only economic but also political dependence resulted from this relationship. Over time, the "close correspondence between the interests of national oligarchies and bourgeoisies and the structure of the (capitalist) international system" resulted in the dependence of these local elites on international support for survival against the internal forces of nationalism and revolution. (Johnson, p. 74) Also, as balance of payments problems and budgetary deficits began to skyrocket, Central American governments developed a dependence on foreign aid and loans for their own survival. (see tables 26, 32 and 33)

Dependence on exports and the uncertainties this involves have greatly diminished the long-term economic planning capacity of the Central American states. Sources of revenue are uncertain and pressure from the elites involved in the export sector have prevented local governments from implementing policies which go against the interests of these small groups. As many of the policies essential for the development of local industry and the expansion of domestic

markets go against the interests of the export sector, the foreign support for right wing governments tied to this sector only furthers regional underdevelopment.

The extent to which a nation is vulnerable to outside forces is directly related to the degree to which its export commodities are subject to price fluctuations (see tables 22 and 23), to the type of specialization in certain commodities, to the level of concentration in those commodities (see table 18), and to the state of the world economy in general. In the case of Central America, the commodities it exports fluctuate constantly, the export sector is highly concentrated in a handful of agricultural products, and therefore its economy is highly vulnerable to world market trends. Nevertheless, even when very high prices were paid for Central American exports and the fluctuations in world market prices were beneficial, this did not translate into economic development. Therefore, when the external conditions became worse, as they did during the world economic depression of the 1930's or the recession of the early 1980's, dependence on trade aggravated the adverse social impact of underdevelopment for the whole region.

As noted above, even in periods of world market price stability and of expanding demand for Central American exports there was no real economic development in the region. The mechanisms of surplus extraction (unequal exchange, unequal

trade, and unequal rewards) resulted in a net transfer of surplus value to the center from the periphery. In addition, those benefits that were received by the periphery were highly concentrated in a small group, while the only reward for the masses of workers involved in the export sector were wages small enough for mere survival.

The increases in coffee and banana production, plus the diversification efforts towards the production for export of cotton, sugar, meat, and other cash crops, did nothing more than to strengthen the external orientation of the economy. And the worst part is that this state sponsored diversification and increase in production, again as a result of pressures from the export elites, resulted in the reduction of the amount of land devoted to food production for the local market. Therefore, it can be argued that dependence on exports drove all the countries in the region away from self-sufficiency in food and transformed them into net food importers. (see tables 20 and 21)

Foreign investment, in almost every aspect, amplified the detrimental effects emanating from export dependence. Most foreign investment coming into Central America was attracted by the profit possibilities in the agricultural export sector and by the incentives given to foreign capital by the local governments. Even if relatively small in the coffee plantations, foreign capital took over the banana industry,

transportation, many banks, and service industries. The main effects of foreign investment was that it led to increasing income inequality, early monopolization, structural unemployment and, therefore, set up the conditions for the early saturation of effective demand and a lowering of the rate of capital formation. And, as capital formation is the most important determinant of economic growth, this situation can explain part of the negative effect of foreign investment on economic growth and development.

Foreign investment, as does international trade, involves surplus extraction from Central America. Both directly, as returns on the investments and loans, and indirectly, through interest payments on the external debt, foreign investments extract much of the surplus that could be used locally for economic development. (see tables 27, 28 and 34) Foreign investment, as we have seen, is usually invested in agricultural enclaves and some industries, where it captures high rates of profits and repatriates most of them. (see table 31) Foreign interests have also had a great impact on local politics and, allied with the coffee elites, have prevented any attempts at economic development that would cut into their profits.

Foreign aid also became a tool to further the dependence of the region on outside actors. Aid comes in with many conditions, which are based on modernizationist policies,

calling for further concessions to foreign investors, promotion of exports, and less social spending. At the same time, aid is many times used to support right-wing governments or to prevent progressive leftist regimes from taking power.

The efforts made towards industrialization which began in the late 1950's were quite ineffective due mainly to the disinterest shown by the export elites to invest in industry, to the pressure local elites and foreign interests put on government to keep labor costs low, and to the reliance on foreign capital and imports that local industries developed. The initial enlargement of the local market by means of regional trade treaties was not enough to create the necessary amount of demand for locally produced goods. This was aggravated by the fact that most new industries were capital intensive and, as the export sector was not willing to raise wages, the purchasing power of most Central Americans remained very low.

Foreign control over much of the new industries left little opportunity for the assimilation of new technologies and for the rise of entrepreneurial projects utilizing the knowledge of these technological processes. (Torres-Rivas, p. 30) The local bourgeoisie was reduced to a subordinate condition of administrator, and only in those areas in which foreign technology was not necessary and local capital was available, would they be able to become an important group.

U.S. capital took advantage of the incentives given by local governments to shift most of its investment from agriculture to industry. (see table 31) In a short time, American capital, whether associated with local capitalists or not, gained control of almost all areas of industry, especially of those most profitable. In this way, we can see how, even in industrialization projects aiming at regional economic development, foreign investments can easily assume a parasitic character and further increase the dependence of the region on external actors.

As a result of the growth of foreign investment (especially due to the concessions made to them by the local governments) and of the persistence of a high import coefficient (of capital goods and inputs), one of the key consequences of the CACM type of modernization was the increase of the external debt for all the countries in the region. (see table 34) Between 1963 and 1969, the value of imported industrial inputs declined, but that of industrial equipment doubled, and the tendency towards the export of utilities, royalties, and services of capital was equally high. (Torres-Rivas, pp. 31-32) Therefore, we can say that a great deal of the foreign debt is related to externally imposed conditions of this type of international accumulation of capital.

Other effects of foreign investment during the CACM years

were an increase in the concentration of capital, the destruction of most of the artisan sector, the increases in unemployment, and the increase in government repression to put down labor demands and preserve the social and political stability which businesses need to make profits.

Even if the economic costs of industrialization have been great for the region, it is the social cost which gives us an idea of the degree of underdevelopment that a project like CACM brought about. Increasing underemployment and low incomes translate into the perpetuation or even deterioration of truly deplorable living conditions, of infant mortality, malnutrition, illiteracy, homelessness, lack of opportunities for getting ahead, and at times even the actual physical degradation of the population.

Any attempt at solving the problems brought about by the crisis of CACM and of the export-led growth model must begin at a political level. With respect to CACM, we can argue that there are important benefits to be gained from such an integrationist (if it can become truly integrationist) path towards economic development. Nevertheless, there is a need to vitalize internal consumption in order to enlarge the regional markets. The politics of low salaries and regression of income have only increased consumption among the higher classes. Only if the influence of those elites and of foreign capital is checked, can internal consumption be socially

broadened. Furthermore, regulation over foreign investments needs to be increased to prevent monopolization and too large profit remittances. In the end, only if new social forces and new political alliances can have a presence in the state, will economic growth with social development and political democracy be possible.

In sum, I have attempted to show how internal and external actors have been involved in the underdevelopment of Central America. Regardless of the preeminence of either actor, it has been their relationship, and the effects of that relationship, which have prevented the development of the region. I have focused my attention in this study on trade and foreign investment which I believe are the most important elements of the relationship between Central America and the capitalist powers. In doing so, I have tried to show how the relationship affected not only the economies, but also the politics and social structures, of this region. I feel that, even if other aspects of the relationship may at times be of importance due to their particular effects, trade and foreign investment were, and still are, the main forces behind the underdevelopment of the Central American region.

8.0 Tables of Central American Socio-Economic Indicators

Table 1: Estimates of Central American Population (1500-2025)

Year	Population	Year	Population
1500	7,000,000	1945	8,141,493
1778	805,339	1955	9,155,000
1810	1,000,000	1965	12,515,000
1824	1,287,491	1975	17,670,000
1855	2,000,000	1985	24,218,000
1915	4,915,133	2000	37,178,000
1930	6,018,880	2025	65,113,000

Source: Woodward, p. 362

Table 2: Population, Area and Density (1985)

Country	Population (thousands)	Area (sq.miles)	Density (p/sq.mi)	Pop.Growth (1970-81)
Costa Rica	2,504	19.6	127.8	2.8
El Salvador	5,677	8.1	700.9	3.0
Guatemala	8,442	42.0	201.0	2.9
Honduras	4,400	43.3	101.6	3.2
Nicaragua	3,020	57.1	52.8	2.4
Total	24.043	170.1	141.0	2.8

Sources: Organization of American States, Inter-American Development Bank

Table 3: Gross National Products for Central America and the Largest Economies of Latin America, 1970 and 1980
(billions of 1980 dollars)

Country	1970	1980
Brazil	\$86.1	\$200.2
Mexico	62.1	107.3
Argentina	42.5	53.6
Venezuela	24.6	37.0
Central America	17.6	28.1
Colombia	13.7	24.1
Peru	15.4	20.9

Source: IDB 1981; and SIECA 1980

Table 4: Central American real GDP Growth Rates, 1960-82

Country	1960-70	1970-80	1980	1981	1982
Costa Rica	5.9	5.6	.8	-4.6	-5.9
El Salvador	5.6	3.2	-9.0	-9.5	-4.9
Guatemala	5.5	5.6	3.7	.9	-3.5
Honduras	5.0	4.8	2.8	1.0	-2.0
Nicaragua	6.9	.9	10.0	8.7	-1.0

Source: Organization of American States (1982)

Table 5: Per Capita Gross Domestic Product - 1960, 1970, 1980, 1984 (1982 U.S. Dollars)

Country	1960	1970	1980	1984	%Change 1980-84
Costa Rica	957	1,313	1,756	1,565	-11%
El Salvador	610	785	855	708	-17%
Guatemala	841	1,083	1,413	1,194	-15%
Honduras	536	640	746	663	-11%
Nicaragua	806	1,238	942	874	-7%

Source: Leonard, Jeffrey, p. 50

Table 6: Agriculture's share of GDP (%), 1920-84 (Export agriculture share in brackets (%), three-year average)

	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua
1920	46.9(28.0)	45.6(19.0)	41.8(22.1)	49.8(24.4)	56.5(13.1)
1929	42.1(25.4)	45.9(23.4)	36.2(18.0)	56.0(39.2)	66.0(17.3)
1939	35.1(16.2)	47.6(21.9)	44.9(11.6)	49.9(22.9)	53.1(14.6)
1949	39.0(20.8)	43.2(17.6)	37.7(11.3)	45.8(19.6)	35.3 (7.3)
1959	30.3(12.6)	37.1(18.4)	33.1(11.3)	36.3(12.7)	30.7(12.1)
1969	25.8(11.6)	29.9(15.3)	30.3 (9.7)	35.6(15.1)	28.4(14.7)
1979	19.6 (8.6)	28.9(14.5)	28.2 (9.5)	24.9(12.0)	29.6(16.2)
1984	21.5(10.3)	30.3(14.7)	28.4 (8.5)	26.8(12.8)	27.8(15.6)

Source: Bulmer-Thomas, Victor, p. 271

Table 7: Manufacturing share of GDP (%), 1920-84 (General government share in brackets (%); three-year averages)

	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua
1920	7.5 (3.0)	10.0 (5.6)	13.7 (3.9)	6.5 (4.6)	9.2 (0.6)
1929	8.7 (4.7)	11.7 (6.3)	13.7 (9.2)	5.0 (3.3)	5.0 (0.7)
1939	12.6 (4.7)	10.3 (5.9)	8.3 (3.3)	6.9 (3.8)	9.3 (2.1)
1949	11.0 (6.1)	12.5 (6.4)	11.7 (8.4)	8.4 (3.9)	11.3(10.9)
1959	12.4(10.7)	13.6 (9.1)	11.8 (8.8)	13.3 (5.8)	13.0(10.9)
1969	14.9(11.9)	17.7 (8.2)	14.7 (6.9)	13.6 (3.6)	18.2 (8.0)
1979	17.1(11.0)	17.6 (9.8)	15.3 (7.2)	14.8 (5.0)	22.1(11.1)
1984	16.6(11.4)	16.2(13.1)	14.8 (9.2)	13.8 (5.7)	23.2(14.0)

Source: Bulmer-Thomas, Victor, p. 273

Table 8: Trade Dependency of Central American Economies (1960, 1970, 1980-82)

	EXPORTS AS A % OF GDP					IMPORTS AS A % OF GDP				
	1960	1970	1980	1981	1982	1960	1970	1980	1981	1982
CACM--										
Costa Rica	21	28	27	33	44	26	35	37	37	39
El Salvador	20	25	34	27	24	25	25	33	34	30
Guatemala	13	19	21	17	15	15	18	24	23	18
Honduras	20	26	37	33	27	24	34	45	40	29
Nicaragua	22	27	43	NA	NA	24	29	27	NA	NA

Source: IMF, World Bank, 1983

Table 9: Income Distribution in Central America (U.S. \$)

	POOREST 20 PERCENT Average Income	% of Total	RICHEST 20 PERCENT Average Income	% of Total
Costa Rica	\$177	4%	\$1165	49%
El Salvador	\$ 47	2%	\$1536	66%
Guatemala	\$111	5%	\$1133	54%
Honduras	\$ 81	4%	\$ 796	59%
Nicaragua	\$ 62	3%	\$1200	58%

Source: Leonard, Jeffrey, p. 51

Table 10: Income distribution: Wage Shares (%), 1960 and 1971

	Costa Rica		El Salvador		Guatemala		Honduras		Nicaragua	
	1960	1971	1960	1971	1960	1971	1960	1971	1960	1971
Agricult.	55.4	45.5	NA	NA	42.7	34.9	NA	NA	63.4	75.8
Industry	33.8	39.5	58.0	61.0	57.9	56.1	57.9	45.2	63.2	61.0
National	50.2	49.2	42.6	41.2	40.7	37.4	43.8	41.3	49.3	55.1

Source: Bulmer-Thomas, Victor, p. 197

Table 11: Distribution of Rural Families and Agricultural Land by Size of Holding, 1970. Percentage Distribution of Rural Families

Size of Holding (Hectares)	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Central America
Landless	26.3%	26.1%	26.6%	31.4%	33.8%	28.1%
Less than .7	32.2	24.4	15.0	10.3	1.5	16.8
0.7-4	13.1	36.2	42.3	24.1	24.2	32.6
4-7	4.8	6.2	6.9	11.9	7.9	7.4
7-35	14.6	4.9	7.4	18.1	18.1	10.7
35-350	8.3	2.0	1.4	3.9	13.5	4.0
More/350	0.7	0.2	0.4	0.3	1.0	0.4
Total	100%	100%	100%	100%	100%	100%
Landless or insufficient land	71.6	86.7	83.9	65.8	59.5	77.5

Sources: INTAL 1973

Table 12: Annual average inflation rates (%) in Central America, 1950-79

	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua
1950-60	1.8	3.0	0.9	2.0	4.9
1960-70	2.0	0.8	0.7	2.2	1.9
1970-1	3.0	0.5	-0.5	2.3	1.6
1971-2	4.6	1.5	0.6	5.3	1.1
1972-3	15.3	6.4	13.6	4.5	20.1
1973-4	30.1	16.9	16.6	13.4	23.3
1974-5	17.4	19.2	13.1	6.4	2.7
1975-6	3.5	7.0	10.7	4.8	2.8
1976-7	4.2	11.9	12.6	8.4	11.4
1977-8	6.0	13.2	7.9	6.2	4.6
1978-9	9.2	15.9	11.5	12.5	48.1

Source: World Bank, 1984

Table 13: Economic Crisis of Early 1980's Indicators of burden of adjustment, 1980-3

	(1)	(2)	(3)	(4)
Costa Rica	-13.1	-33.6	+53	-26
El Salvador	-21.9	-31.2	+85	-39
Guatemala	-13.4	+19.2	+264	-9
Honduras	-10.8	-4.5	+98	-19
Nicaragua	-3.7	-34.1	-4	-39

- (1) Percentage change in real GDP per head
 (2) Percentage change in real wages
 (3) Percentage increase in unemployment rate (a minus sign indicates a fall). (The unemployment rate in 1980 for the five republics was 5.9%, 16.2%, 2.3%, 10.7%, 18.3% in the country order listed above)
 (4) Percentage change in real consumption per head

Source: Bulmer-Thomas, Victor, p. 251

Table 14: Percentages of Central American Commerce with Great Britain, Germany, and the United States

Year	Great Britain	Germany	United States
1913	17.6	21.0	44.6
1929	13.0	17.5	53.4
1938	6.7	18.4	55.8

Source: Woodward, R., p. 18

Table 15: Central American External Trade Shares (%) by main countries, 1939, 1940, 1945

	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua
Exports					
1939-USA	45.6	59.9	70.7	90.7	77.5
UK	16.9	0.2	0.4	1.8	1.3
Germany	25.0	9.0	11.5	1.9	10.9
1940-USA	58.8	75.2	91.0	95.6	94.2
UK	25.1	0.2	1.3	0.1	0.4
Germany	--	--	--	0.5	--
1945-USA	84.4	84.6	90.7	83.2	90.0
UK	--	0.4	0.5	--	0.9
Germany	--	--	--	--	--
Imports					
1939-USA	58.8	53.0	54.5	65.2	68.4
UK	4.0	6.9	3.7	2.0	5.2
Germany	17.7	17.5	27.0	11.4	12.2
1940-USA	75.0	67.4	73.8	62.7	84.0
UK	4.5	7.6	1.6	2.9	3.0
Germany	3.5	1.3	2.9	6.5	0.8
1945-USA	69.5	67.8	67.4	70.8	70.6
UK	1.5	2.3	1.7	0.9	--
Germany	--	--	--	--	--

Source: Bulmer Thomas, p.92

Table 16: Proportion of Total Commodity Trade of Central American Countries with the United States**Exports**

Years	C.Rica	El Salvador	Guatemala	Honduras	Nicaragua	Total
1960-64	51%	25%	38%	55%	33%	39%
1965-69	46	23	33	50	28	34
1970-74	37	24	31	54	30	34
1975-79	37	30	33	52	26	34

Imports

Years	C.Rica	El Salvador	Guatemala	Honduras	Nicaragua	Total
1960-64	47%	34%	46%	48%	48%	44%
1965-69	38	31	40	47	42	39
1970-74	34	29	32	42	33	34
1975-79	34	30	33	43	30	34 --

Source: SIECA 1973 and 1981

Table 17: Proportion of Total Commodity Exports Within the CACM

Years	C.Rica	El Salvador	Guatemala	Honduras	Nicaragua	Total
1963	4.2%	19.7%	11.4%	15.2%	4.5%	11.7%
1964	13.5	20.7	18.0	17.9	5.7	15.6
1965	16.3	24.1	19.1	16.3	8.3	17.4
1966	18.6	31.0	22.5	13.5	11.4	20.3
1967	18.7	38.2	29.3	15.0	12.0	24.0
1968	21.2	40.1	31.2	16.9	15.2	26.0
1969	19.9	37.0	32.8	13.3	20.0	25.7
1970	19.9	32.3	35.3	10.6	25.8	24.9
1971	20.9	35.5	32.5	3.0	25.3	24.6
1972	18.3	33.4	30.1	3.0	22.5	22.9
1973	20.5	31.4	29.8	4.1	21.7	23.0
1974	23.7	32.4	28.5	9.4	24.0	25.2
1975	21.7	27.6	27.0	9.1	24.7	23.3
1976	22.0	24.4	24.9	9.1	21.7	21.6
1977	21.0	21.8	19.2	8.5	21.0	19.1
1978	20.7	37.0	22.9	8.2	22.6	22.4

Source: SIECA 1973 and 1981

Table 18: Coffee, Bananas, and Cotton Exports of Central America in 1957, 1967, and 1971 as a Percentage of Total National Exports

	Coffee			Bananas			Cotton		
	1957	1967	1971	1957	1967	1971	1957	1967	1971
Guatemala	79.0	34.2	33.8	7.9	--	6.2	4.2	15.9	9.0
Honduras	19.0	13.6	12.3	60.1	49.8	51.0	--	--	--
El Salvador	78.2	47.6	40.6	--	--	--	15.6	8.1	12.7
Nicaragua	40.0	14.4	29.3	--	--	--	30.6	38.2	22.5
Costa Rica	48.6	38.2	26.3	38.6	21.7	28.4	--	--	--

Source: Helms, p.283

Table 19: Annual Average Rates of Growth (%) for Domestic Use Agriculture (DUA) and Export Agriculture (EXA), Value Added Per Head at Constant 1970 Prices, 1944-54

Period	Costa Rica		El Salvador		Guatemala		Honduras		Nicaragua	
	DUA	EXA	DUA	EXA	DUA	EXA	DUA	EXA	DUA	EXA
'44-49	+5.9	+11.2	+6.7	+3.2	+3.6	+0.3	+0.8	+4.6	-2.0	+4.3
'49-54	+1.0	-1.4	-1.2	+0.2	-1.8	+0.1	-0.5	-7.5	-1.0	+18.0

Source: Bulmer-Thomas, p.115

Table 20: Percentages of Harvested Areas of Basic Food Crops (BF) and Major Export (EX) Crops in Central America

Country/Crop		1965-1970	1970-75	1975-1979
Costa Rica	BF	56.8	47.4	48.4
	EX	43.2	52.6	51.6
El Salvador	BF	43.7	41.3	39.7
	EX	56.3	58.7	60.3
Guatemala	BF	67.3	61.9	57.6
	EX	32.7	38.1	42.4
Honduras	BF	63.9	65.5	61.1
	EX	36.1	34.5	38.9
Nicaragua	BF	52.8	49.1	48.9
	EX	47.2	50.9	51.1
C. America	BF	59.7	54.8	52.2
	EX	40.3	45.2	47.8

Source: SIECA, 1972, 1977, 1981

Table 21: Food Trade - Average Deficit or Surplus 1981-1983
(million of dollars)

Country	Cereals & Prepara- tions	Meat & Prepa- rations	Dairy Products & Eggs	Animal & Vegetable Oils	Fruits & Vegetables
Costa Rica	-24.2	+60.6	-6.1	-5.3	+228.3
El Salvador	-32.6	-3.1	-22.0	-20.2	-26.0
Guatemala	-31.6	+60.4	-10.1	-20.9	+69.7
Honduras	-18.5	+32.0	-11.3	-6.6	+210.0
Nicaragua	-28.9	+21.9	-11.1	-15.0	+13.1
C. America	-135.8	+171.8	-60.6	-68.0	+494.9

Source: Leonard, p.215

Table 22: Summary of the Static Terms of Trade (difference between exports minus imports at constant prices and exports minus imports at constant prices) for Central America 1969-1979 in millions of dollars

Years	C.Rica	El Salvador	Guatemala	Honduras	Nicaragua	Total
1960-64	+48	-104	+10	+51	+49	+54
1965-69	+41	-158	-108	+88	+41	-96
1970-74	-302	-95	-257	-23	-85	-762
1975-79	-544	+556	-804	+161	+110	-521
Total	-757	+199	-1159	+161	+115	-1325

Source: SIECA, 1971 and 1981

Table 23: Index of Terms of Trade, 1980-1984 (1970=100)

Country	1980	1984	Rate of Change 1980-84
Costa Rica	94	70	-25.3
El Salvador	103	83	-19.1
Guatemala	92	62	-33.3
Honduras	105	85	-18.9
Nicaragua	78	57	-26.6
Non-oil exporting			
Latin America	76	66	-14.3
Latin America	121	95	-21.7

Source: Barry and Preusch, p.132

Table 24: Balance in Commodity Trade (in millions of current dollars)

Years	C.Rica	El Salvador	Guatemala	Honduras	Nicaragua	Total
1960-72	-33.3	13.3	2.4	5.8	6.2	-5.6
1973-77	-132.7	2.6	-57.8	-34.3	-39.2	-261.4
(averages)						

Source: Weeks, p.80

Table 25: Balance in Regional Commodity Trade (in millions of current dollars)

Years	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua
1960-64	0.68	-1.58	1.58	1.98	-2.6
1965-69	-4.52	12.24	22.94	-14.11	-16.42
1970-74	-23.54	3.18	16.86	-18.94	-6.32
1975-79	-13.72	-31.70	71.12	-3.30	-14.36
(averages)					

Source: Weeks, p.88

Table 26: Balance on the External Current Account - Balance of Payments (in millions of dollars)

Year	C.Rica	El Salvador	Guatemala	Honduras	Nicaragua	Total
1960	-19.8	-27.7	-25.9	-3.3	-7.6	-77.5
1965	-67.2	-12.7	-48.7	-7.1	-22.0	-137.7
1970	-73.9	1.0	-11.1	-63.7	-38.3	-186.0
1975	-217.7	-91.8	-62.3	-119.9	-184.1	-675.8
1978	-363.2	-238.6	-262.2	-155.7	-25.0	-1,077.2

Source: SIECA 1973 and 1981

Table 27: Direct Foreign Investment and Profit Outflow from Direct Foreign Investment [in brackets] (in millions of Dollars) 1947-1954

Year	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua
1947	+6.6(4.7)	+0.1(0.6)	-0.6(2.2)	+9.4(22.4)	+0.9(4.3)
1948	+2.1(7.9)	----(0.8)	+1.0(7.1)	+4.6(22.6)	+0.9(4.5)
1949	-0.6(15.0)	----(0.9)	+3.3(7.2)	+5.2(18.4)	+1.1(4.5)
1950	+0.6(13.2)	----(1.4)	+1.5(2.8)	+0.1(20.7)	+2.1(5.9)
1951	+2.5(11.9)	-0.1(1.4)	-0.5(-0.2)	+12.1(18.9)	+1.1(6.3)
1952	+1.5(14.7)	-0.1(1.4)	-1.6(-6.7)	+15.7(13.5)	+2.3(5.4)
1953	+0.3(12.0)	----(2.0)	-2.1(-4.2)	+8.8(14.3)	+2.0(6.7)
1954	-0.4(11.4)	----(2.0)	-1.5(2.7)	+2.6(-3.6)	+2.0(5.6)
	+12.6(90.8)	-0.1(10.5)	-0.5(10.9)	+58.5(127.2)	+12.4(43.2)

Source: International Monetary Fund

Table 28: Direct Foreign Investment and Profit Remittances (in millions of Dollars), 1960-1978, for Central America as a Whole

	Net Profit Transfers	Net Direct Investment	NDI-NPT	<u>NDI-NPT</u> Exports
1960-64	\$153.6	\$158.5	\$4.9	0.2%
1965-69	450.5	332.8	-117.7	-2.7
1970-74	735.4	422.8	-312.6	-4.3
1975-78	1,132.6	768.9	-363.7	-2.7
Total	<u>2,472.1</u>	<u>1,683.0</u>	<u>-789.1</u>	<u>-2.9</u>

Source: SIECA 1973 and 1981

Table 29: Direct U.S. Investment in Central America (in millions of dollars)

	1887	1914	1929	1940	1950	1959	1967	1977
C.America	12	77	206	149	254	389	501	677

Source: Barry and Preusch, p.9

Table 30: Direct U.S. Investment by Country, 1977-1983 (in millions of dollars)

Country	1977	1980	1983	%Change 1977-83
Costa Rica	178	303	227	28%
El Salvador	79	105	113	43
Guatemala	155	229	198	28
Honduras	157	288	251	60
Nicaragua	108	89	-5	-105
Total	698	1,038	814	17

Source: Barry and Preusch, p.14

Table 31: Profits from U.S. Private Investments, 1977 (in millions of dollars) in Central America. Comparison With Other Latin American States

Country	Total Investment	Growth Rate of %	Return %	Industrial Investment	Growth Rate of %	Return %
Argentina	1,505	10.2	18.1	930	3.6	7.5
Brazil	5,956	10.0	11.4	3,935	7.1	9.2
Mexico	3,175	6.7	9.2	2,328	5.0	7.0
Colombia	706	8.0	13.0	436	12.4	15.6
C.America	734	7.9	13.2	248	8.3	17.3

Source: Torres-Rivas, p.31

Table 32: Cumulative Multilateral and Bilateral Loans to Central America, 1946-1984 (in millions of Dollars)

Country	Multilateral	Bilateral	Total
Costa Rica	1,273.4	797.3	2,070.7
El Salvador	1,045.5	1,049.1	2,094.6
Guatemala	1,289.6	587.0	1,876.6
Honduras	1,389.0	672.6	2,061.6
Nicaragua	793.1	444.4	1,237.5

Note: Multilateral includes IMF, IBRD (International Bank for Reconstruction and Development), IDB (Inter-American Development Bank), and others. Bilateral includes U.S. sponsored development programs as DA (Development Assistance), PL 480 (Food for Peace), Exim (Export-Import Bank), and others. Source: Barry and Preusch, p.25

Table 33: U.S. Economic and Military Aid to Central America, 1980-1986 (in millions of dollars)

Year	Economic	Military
1980	177.5	10.1
1981	258.2	44.8
1982	356.9	120.8
1983	632.0	139.8
1984	530.2	297.1
1985	1,184.9	226.6
1986	802.2	203.0

Source: Barry and Preusch, p.29

Table 34: Foreign Debt and Debt Service Ratios, 1970-1983 (in millions of dollars)

Country	Foreign Debt		As % of GNP		Debt Service as % of GNP		Exports	
	1970	1983	1970	1983	1970	1983	1970	1983
Costa Rica	134	3,315	13.8	126.3	2.9	22.7	10.0	50.6
El Salvador	88	1,065	8.6	29.2	0.9	1.8	3.6	6.4
Guatemala	106	1,405	5.7	15.8	1.4	1.6	7.4	11.7
Honduras	90	1,570	12.9	56.3	0.8	4.3	2.8	14.9
Nicaragua	156	3,417	15.7	133.3	2.4	3.2	11.1	18.3

Source: World Bank, World Development Report, 1985

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