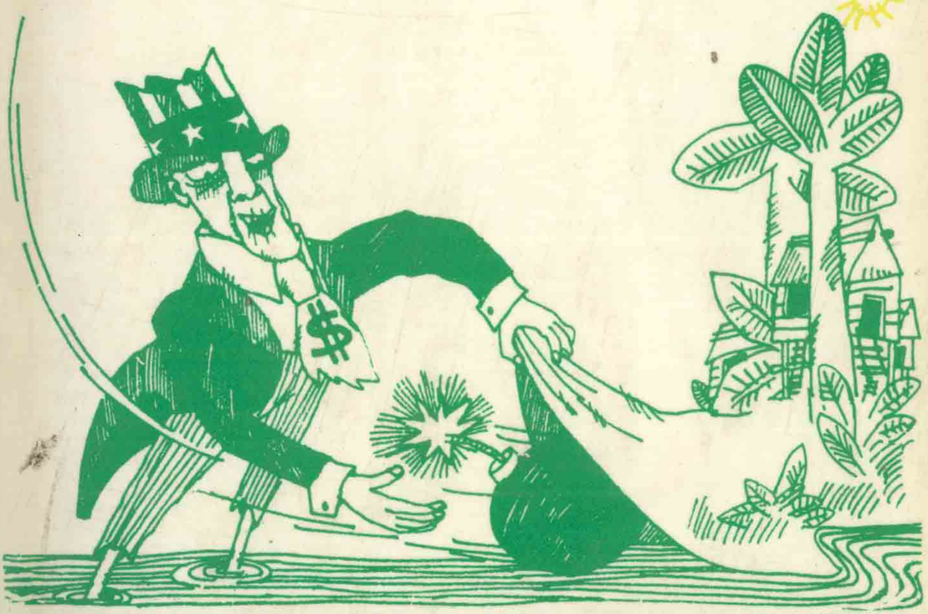
DOLLARS AND DICTATORS

A Guide to Central America



Tom Barry · Beth Wood · Deb Preusch

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A GUIDE TO CENTRAL AMERICA

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PART ONE

Chapter One

Overview: Tremors of Change

El Salvador's "greatest advantage lies in the character of the working people, who are industrious, adapt willingly to new methods, and demand lower wages than those prevailing in the developed world. It is said that if you tell Salvadorans to plant rocks and harvest more rocks, they'll do it . . . . "

– Rand Corporation, from a study
commissioned by the U.S.
Department of Commerce, 1981

"If we only had a little land and our freedom, just think what we Salvadorans could do . . . . "

– Salvadoran *campesino* in a church
refugee camp in El Salvador, 1981

Central America is a land of banana companies and coffee plantations, *marimba* bands and *pina coladas*, dirt-poor *campesinos* (peasants), affluent oligarchs, and military dictators. The isthmus, which links the two halves of the Americas, has since 1979 also become the land of Green Berets and Huey helicopters. After a popular uprising overturned the Somoza dictatorship in July 1979, the United States focused its attention on this narrow band of nations that stretch across the center of the hemisphere. The popular victory in Nicaragua was a sign that the old order of oligarchies and dictators in Central America was coming to an end. Not only did mounting social upheaval in the region threaten the interests of the region's economic elite, but it also threatened the continued dominance of the United States in Central America. Seeing the guerilla wars intensifying in Guatemala and El Salvador, the U.S. State Department in 1981 reported that Central America was the area of the world that presented "the main challenge to U.S. interests."

Land of Unrest

Tremors of change and revolution have been pulsing through Central America for more than 50 years. Augusto Cesar Sandino led a dedicated army of Nicaraguan rebels against the 1927-33 occupation by the U.S. Marines. A 1932 rebellion led by Farabundo Marti against El Salvador's coffee oligarchy was brutally crushed by military dictator Maximiliano Hernandez. A long period of repression set in, challenged only by occasional peasant protests and a couple of political assassinations. It wasn't until two decades later in 1951 that the pillars of traditional Central American society started to totter. A reformist civilian government in Guatemala dared to redistribute the immense idle landholdings of the nation's oligarchy and of the Boston banana company known then as the United Fruit Company. A 1954 military coup, famous for the backing it received from the United States, restored both the economic elite and the banana company to their traditional place of privilege in Guatemala. Shattered democratic reforms and growing repression by the military gave birth to an armed guerilla movement in Guatemala.

In Nicaragua, the Somoza family had ruled the country with an iron hand after the U.S. Marines in 1933 installed the family patriarch, Anastasio Somoza Garcia, as commander-in-chief of the National Guard. In 1962, a group of women and men, seeing little chance for democratic reforms, took to the hills and formed the National Sandinista Liberation Front (FSLN)*. For over 15 years the Sandinistas fought isolated skirmishes with the National Guard, but in 1979 the popular support for the guerillas broadened to include most sectors of society. Knowing that the end was near, the National Guard, the country's wealthy landowners, and Somoza himself all hastily left Nicaragua.

The Sandinista triumph was the harbinger of the possible fate that awaited the military despots and upper classes of Nicaragua's neighbors if something wasn't done to build up their defenses and stamp out all signs of popular opposition. The long-time rumblings of discontent in El Salvador and Guatemala broke out in open warfare in 1980 and the governments responded with new levels of repression. In Honduras, the most conservative elements of the military ousted the reformist officers in power and soon became accomplices with the United States in the increased militarization of the region. At the southern end of the isthmus, the leadership of Panama's National Guard announced its support for U.S. military intervention in Central America. Costa Rica and Belize haven't shared the Central American traditions of oligarchies, dictatorships, and military rule, but U.S. diplomats have intensified the pressure on these two countries to support U.S. foreign policy in the region. By 1982, the narrow strip of nations had become the center of an explosion of social and political forces that is now shaking the foundations of economic and political power in the region. In a last ditch attempt to stabilize Central

*Abbreviations often represent the original Spanish name of the organization or agency.

America, the U.S. government has tried to shore up old institutions and offer guns and dollars to those governments ready to fight the growing "challenge to U.S. interests."

Guns, dollars, and dictators are a combination with a long history in Central America. Anastasio Somoza Garcia, the prototype of Central American dictators, ruled Nicaragua for a quarter century before handing down power to his two sons. As commander-in-chief of the National Guard, "Somoza conferred upon himself the Cross of Valor, the Medal of Distinction, and the Presidential Medal of Merit. He organized various massacres and grand celebrations for which he dressed his soldiers up in sandals and helmets like Romans." In Guatemala, Jorge Ubico, who gained dictatorial power in 1931, considered himself to be another Napoleon. "He surrounded himself with busts and portraits of the Emperor who, he said, had the same profile. He believed in military discipline: he militarized post office employees, schoolchildren, and the symphony orchestra." Maximiliano Hernandez, a vegetarian and theosophist, became El Salvador's dictator in 1931. Hernandez, who ruled until 1944, said he was protected by "invisible legions" who reported all plots to him and were in direct telepathic communication with the president of the United States. "A pendulum clock showed him if food on a dish placed beneath it was poisoned, or showed places on a map where pirate treasures or political enemies were hidden."[1]

The Role of the United States

The United States hasn't been fussy about its Central American dictators as long as they looked out for U.S. interests; and it hasn't hesitated to send Marines to the shores of Central America if those interests were substantially threatened. Undersecretary of State Robert Olds stated the U.S. foreign policy clearly enough in 1927: "We do control the destinies of Central America and we do so for the simple reason that the national interest absolutely dictates such a course . . . Until now Central America has always understood that governments which we recognize and support stay in power, while those we do not recognize and support fail."[2] The United States, doing what was necessary to protect its national interests in Central America, kept quite a few unpopular governments and dictators in power. In the 1960s, the U.S. government started to modify its heavy-handed approach in Central America. President Kennedy proposed the Alliance for Progress in 1961 as a blend of development assistance programs, U.S. foreign investment, and counterinsurgency training for Central American military. The Alliance was Washington's strategy for counteracting the revolutionary tide that was sweeping Latin America.

Calling for the development of the region through industrialization, the U.S. government proceeded to pave a path into Central America for U.S. transnational corporations. U.S. development planners promised that this increased U.S. investment would foster the expansion of social wealth and democracy in Central America. Instead industrialization brought on the establishment of a new bourgeoisie tied to U.S. corporations' branches and affiliates. By the 1970s, little was left of the early reformist hopes of industrial development. An increasingly brutal collection of U.S.-trained military dictatorships were entrusted with the job of keeping the region safe for U.S. investors. In the mid-1970s, U.S. investment in Central America changed from industrial production for the internal market to export-oriented runaway electronics and textile firms that employed cheap Central American labor to assemble capacitors and clothing for external markets. Also introduced into the region in the 1970s was the production of non-traditional agro-export items like flowers, frozen vegetables, processed fish, and beef. Development trends that have shaped the Central American economy originated outside the region, mainly in the corporate boardrooms of the United States, and as a consequence have not contributed to the development of Central America. Rather, the result of U.S. plans to develop Central America has been regional underdevelopment and increased dependency on the United States.

The Economic Predicament

The industrialization and development of Central America has invariably left the large landholdings intact and the oligarchs in power. The estates in Central America cover vast expanses of the most fertile lands with fields of cotton, sugar cane, and coffee trees. In contrast, 40-70% of the rural population in most Central American nations are landless and those who do have land often live on tracts too small to maintain their own families adequately. This skewed land distribution contributes to inequities in income distribution that give three percent of the Central American population 50% of the income.

Mechanized agriculture has contributed to the expansion of agro-export crop production and has forced more and more *campesinos* off their land and into the cities to search for ways to make a living. Urban population has expanded from 34% of the Central American population in 1960 to 41% in 1980. Many new urban residents set up their cardboard shacks on the outskirts of Central American cities. But the big move to the city solves few *campesinos'* problems, since urban-based industry is providing less and less employment. The many Central Americans who have migrated to the cities cannot scrape up a living for themselves and their families.

While unemployment is on the rise, so is the population, which puts more strain on the already weak economic structure of Central America. But population growth doesn't explain the poverty and desperate conditions in the region. In fact, much of Central America is still underpopulated when contrasted with other parts of the world. El Salvador, roughly the size of Massachusetts, is by far the most densely populated area of Central America, with 575 people per square mile, but it is less densely populated than Massachusetts, which has 733 people per square mile. Nicaragua, with 51 people per square mile, is less densely populated than the United States, which has a population density of 64 per square mile.[3]

The U.S. government generally points to the rates of growth in underdeveloped countries as evidence that these countries are indeed developing. But national income figures refer to the total amount of business activity and tell little about the way the income is distributed or if the income actually ends up in the hands of the country's citizens or in the hands of private foreign investors. Even this standard way of gauging economic development by measuring the rate of growth of the Gross Domestic Product (GDP) shows that Central America is confronting a severe economic crisis. As Table 1A indicates, the GDP has been growing more and more slowly since 1961. The United Nations Economic Commission for Latin America says that Central America is facing the most serious economic crisis in 35 years. While economic growth has slowed down, inflation has skyrocketed, mainly due to the increased costs of imports, like machinery and oil, supplied by the transnational corporations. Never before have the Central American nations been hit by such high rates of inflation. Costa Rica, which experienced little or no inflation in the 1960s, faced a 48% inflation rate in 1981. El Salvador, Guatemala, Honduras, and Nicaragua had inflation rates of one to two percent in 1970, but all the countries endured inflation rates of ten percent or more in 1981.[4]

Table 1A. Annual Variations in GDP

	Annual Average 1961-1970	*Annual Average 1971-1975*	*1980*	*1981*
Costa Rica	6.0%	6.1%	1.9%	-3.6%
El Salvador	5.7%	5.5%	-8.7%	-9.5%
Guatemala	5.5%	5.6%	4.0%	1.0%
Honduras	5.2%	2.1%	2.4%	-0.4%
Nicaragua	7.0%	5.6%	10.4%	8.9%
Panama	8.0%	5.0%	5.5%	3.6%

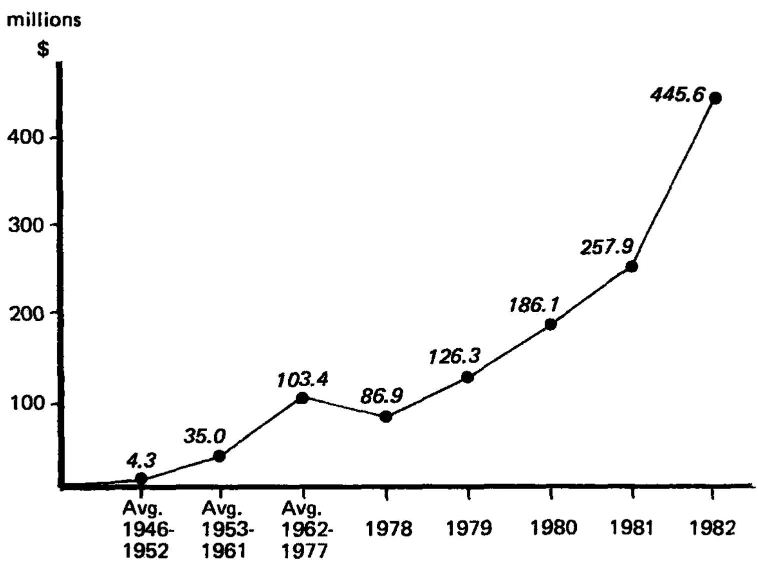
Source: United Nations Economic Commission for Latin America, 1982.

Foreign Investment

Central America has received an ever increasing infusion of foreign investment and capital without an accompanying redistribution of the wealth. The transnational corporations, with their superior control of capital, technology, and marketing, have relegated the nations of Central America to roles of producers of unprocessed commodities and providers of cheap labor. When President Reagan announced his plans in 1982 for increased economic aid to the Central American nations, he noted that the region was a major trading partner and the focus of substantial U.S. investment. "Nearly half of our trade, two-thirds of our imported oil and over half of our imported strategic minerals pass through the Panama Canal or the Gulf of Mexico," said Reagan. "Make no mistake," he declared, "the well-being and security of our neighbors in this region are in our vital interest."[5]

U.S. lobbyists who favor increased aid to Central America generally are the financial and industrial corporations with investment or trade in the region. They say more financial assistance to Central America will make the region a more stable and profitable area for their operations. The flood of economic and military aid to Central America, as illustrated in Tables 1B and 1C, raises the question of just how large U.S. interests are in the seven Central American countries. Three main forms of private economic interest are common to Central America: 1) direct investment, 2) bank loans, and 3) export and import trade. Each of these forms of economic penetration represents a multi-billion dollar interest in the Central American nations. While many U.S. citizens hardly know where these countries are located, the isthmus has not been ignored by U.S. corporations. Over 1,400 businesses in Central America have some U.S. ownership, and 70 of the 100 largest U.S. corporations conduct operations there. The U.S. Department of Commerce, in an

Table 1B. U.S. Economic Aid to Central America



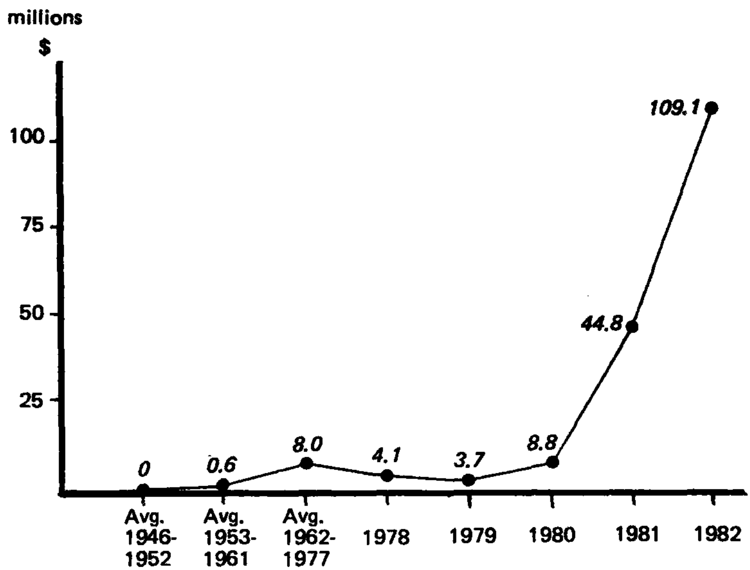
Source: Agency for International Development.

accounting of the direct investments in firms valued at more than $500,000, found that direct investments of U.S. financial and industrial investors in Central America had a book value of $4.2 billion in 1980.[6]

According to the U.S. Department of Commerce, for every dollar that U.S. companies invest in Latin America, an estimated three dollars accrues to the United States in income.[7] In Central America, the rate of return on U.S. investment is higher than Latin America as a whole – one prominent reason why U.S. corporations are so anxious to maintain a stronghold in the region. If the essence of power is money, then U.S. corporations have a great deal of power in Central America. The individual assets of corporations like Exxon, Texaco, IBM, and DuPont all surpass the combined national products of the seven Central American nations. Other corporations like R.J. Reynolds, Dow Chemical, Beatrice Foods, Goodyear, and Philip Morris each have more assets than the national product of any single Central American nation.

Another form of U.S. private economic interest in Central America which has experienced rapid growth over the last ten years is the lending business of U.S. banks. The U.S. transnational banks in 1981 had $3.3 billion in loans outstanding to the private and public sector in Central America.[8] The U.S. banks also pervade the local banking business in Central America, with branches of Citicorp, Bank of America, and Chase Manhattan spread throughout the

Table 1C. U.S. Military Aid to Central America



Sources: Agency for International Development; Department of Defense.

isthmus. Because of all this financial commitment in Central America, the U.S. transnational banks have strongly supported increased U.S. aid to the region and an expanded role for multilateral institutions like the International Monetary Fund (IMF).

The Balance of Trade

The import and export trade is the other main form of U.S. economic interest in Central America. The region represents a $2.6 billion market for U.S. goods, and U.S. suppliers feel that any loss of U.S. influence in the region could mean a trade reduction in this lucrative market.[9] The United States also depends on Central America for $1.1 billion in imports each year. Central America supplies the United States with 69% of its bananas, 15% of its coffee, 14% of its beef, and 17% of its sugar.[10]

The United States has promoted trade and investment as a way to develop Central America. Balance of trade and balance of payments figures show the movement of dollars and trade in and out of the region. These figures also point out the real beneficiaries of international trade and investment. Table 1D shows the state of the balance of trade in Central America (excluding Belize) from 1970 to 1980. Central America had a trade deficit of $369 million in 1970, meaning that it imported goods valued at $369 million more than those it exported. Ten years later, in 1980, the trade deficit expanded over seven times to $2.6 billion.

Table 1D. Total Trade Balance*
(millions $)

	1970	*1980*	*Increase*
Costa Rica	- 86	- 565	7x
El Salvador	15	- 256	18x
Guatemala	14	- 78	7x
Honduras	- 42	- 212	5x
Nicaragua	- 19	- 435	23x
Panama	-251	-1106	4x
Central America	*-369*	*-2652*	*7x*

**Exports F.O.B. minus imports C.I.F.*

Source: United Nations, *Monthly Bulletin of Statistics*

The United States has an especially profitable trade relationship with Central America. In 1981 the United States had a $759 million trade surplus with Central America.[11] The trade balance shows the trade relationship between countries but does not indicate the final destination of trade revenues. Honduras, for example, was the only Central American nation to experience a