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## 8 Development, Democratization, and Decay: Central America at the Crossroads

Economic development compels the modification or abandonment of traditional political institutions; it does not determine what political system will replace them.

—Samuel P. Huntington

Democracy has made few allies in Central America.<sup>1</sup> With the important exception of Costa Rica, the region has suffered an almost unbroken chain of dictatorial rule and military domination in which civil rights, human rights, popular participation, and governmental accountability have been conspicuously absent. Moreover, not only have the citizens of the region's states been largely ignored by their rulers, but also national sovereignty has been attenuated by heavy-handed foreign powers and transnational corporations. When all these factors are taken together, it is not surprising that the chickens have finally come home to roost; for the past six years at least, Central America has been caught up in an unprecedented combination of economic crisis, civil war, and foreign intervention. By any measure, these are certainly the worst of times.

Yet, it is paradoxical that as regards prospects for the development of democratic rule in the region, these are certainly the best of times. It has been lost on many observers that never before in the century and a half since their emergence from formal colonial domination have the nations of the region made greater progress toward the establishment of elected civilian government than they have in the last few years. Progress is evident from north to south. In Guatemala a Constituent Assembly was elected in July 1984, and eighty-eight deputies took their seats and began work on a new constitution. In December 1985, a civilian was elected president of Guatemala in

what most observers report was a fair and honest election.<sup>2</sup> In El Salvador, in the midst of a brutal civil war in March 1984, citizens voted in unprecedented numbers for a civilian government in elections that were clearly the freest ever held in that tiny republic.<sup>3</sup> Honduras has enjoyed elected civilian rule since January 1982, when a civilian president was installed after an election in which over 82 percent of the registered voters cast their ballots. In 1985, after another open election, one civilian stepped down and another took his place—a peaceful succession almost unknown in Honduras. Nicaraguans went to the polls in November 1984 in their first elections not dominated by the forty-year reign of the Somoza dynasty. While the U.S. press and State Department have widely condemned those elections as no more than a charade, a Latin American Studies Association delegation comprised of fifteen North American social scientists sent to observe the elections concluded that the process was in fact open and democratic.<sup>4</sup> An article recently published by one member of that delegation stated: "The Nicaraguan elections of November 4th were about as fair, competitive and democratic as anyone of minimal good will and objectivity could have demanded."<sup>5</sup> And in Costa Rica, in spite of the deepest economic crisis of the century, free elections were held in 1986 that peacefully transferred power in that country for the ninth consecutive time since the Civil War of 1948.

Central America seems caught between diametrically opposing forces of violence and terror, on the one hand, and the unmistakable movement toward rule by reason and popular consent on the other. Why has democracy, which for so long has been an orphan in this region, suddenly begun to find a home? And why would it pick this time, a period of economic crisis and civil unrest, to do so? That is the puzzle which needs unraveling, not only so that we can achieve a better understanding of how Central America has arrived at the present crossroads, but also so that we can make an educated guess as to the direction in which these countries are headed.

To be able to explain the past and predict the future—a tall order even for a political scientist—one needs to place the Central American cases in a far broader context than most observers seem willing or able to put them. Discussions in the press and in a spate of recent academic writings treat the region as *sui generis*, outside the main currents of political history. Moreover, there has been little willingness to think about the region from the perspective of social science theory. Finally,

virtually no effort has been made to consider Central American regimes in a comparative perspective—such as comparing them as to the extent to which they have or have not established democratic institutions. This chapter, in contrast to most of the previous research on Central America, seeks to overcome these limitations. Its theoretical background is outlined in the discussion of empirical democratic theory found in chapter 1. This essay begins by examining, in a comparative context, the levels of democratic development that each of the Central American nations has attained in recent decades. It then presents data on economic and sociocultural development since the 1920s and 1930s. Finally, the discussion shows why the impact of economic development on the region has helped to produce the paradoxical interplay of democracy and violence discussed above, and points to critical domestic and foreign policies that must be altered if democratic rule is to survive and prosper.

#### Democratic Development in Central America

Journalistic accounts highlight the frequent violations of democratic liberties in Central America, and even informed observers have suggested that few areas of the world suffer a worse record. Yet, when one steps back and views the situation from a wider perspective, the picture is rather different. Since 1945, scholars have been rating democratic development in twenty nations of Latin America. An examination of the rankings (referred to as the "Fitzgibbon-Johnson index") produced by these scholars' subjective, but nonetheless well-informed, opinions confirms this rather different assessment. Measured on a scale that includes five key measures of democratic performance (free speech, free elections, free party organizations, independence of the judiciary, and civilian supremacy over the military), Central American nations tend to fall in the intermediate range for Latin America (see figure 8.1). Costa Rica is the exception, ranking among the most democratic countries in all of Latin America, while Nicaragua generally falls below the others, ranking in the bottom quarter of Latin American nations.

One could reasonably argue that since few if any Latin American countries have been noted as paragons of democracy, comparisons within this region are of limited utility. Yet, when Central America is placed in a worldwide perspective, the results are similar to those limited to the regional context. Such a perspective is provided by

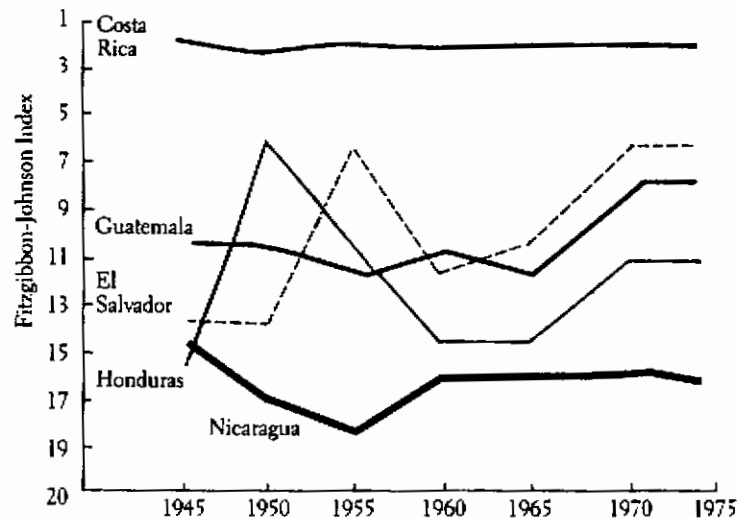


Figure 8.1 Subjective Rankings of Democracy in Central America, 1945-1975

Source: Adapted from Kenneth F. Johnson, "Research Perspectives on the Revised Fitzgibbon-Johnson Index of the Image of Political Democracy in Latin America, 1945-1975," in *Quantitative Latin American Studies: Methods and Findings*, ed. James W. Wilkie and Kenneth Ruddle (Los Angeles: UCLA Latin American Center Publications, 1977), p. 89.

Note: Rankings are based on expert opinion on the following criteria: (1) freedom of speech, (2) free elections, (3) free party organizations, (4) independence of the judiciary, and (5) civilian supremacy over the military.

Kenneth A. Bollen's "Political Democracy Index" of 122 nations, a measure that is generally regarded as the best one yet devised.<sup>6</sup> The basis for the index is less judgmental than the experts' evaluations presented above for the Latin American countries. It includes three measures of political liberty and three of popular sovereignty. Bollen's index avoids the errors of many of its precursors by excluding measures of stability and voter turnout.<sup>7</sup> Unfortunately, Bollen's data cover only 1960 and 1965 and therefore do not provide the longitudinal perspective of the Fitzgibbon-Johnson index.

Even though the Fitzgibbon-Johnson index is based entirely upon the subjective opinions of experts (whereas the Bollen index is based upon somewhat more objectively derived data), there is a very close association between them.<sup>8</sup> The correlation between the rankings of the Fitzgibbon-Johnson index for twenty Latin American countries for 1965 and the Bollen index ranking of the scores provided for those

same countries for the same year is .90 (Spearman's *rho*). As shown in figure 8.2, the two indices produce very similar results for the subset of the Central American nations as well; only in the case of Nicaragua did expert opinion yield a substantially different score, no doubt because the personal antipathy of many scholars toward the Somoza regime colored their judgment and resulted in somewhat more negative scores than the data warranted.

The Bollen index appears to provide a reasonably valid indication of the standing of Central American democracy in worldwide perspective. Figure 8.3, which presents the Bollen index scores for the

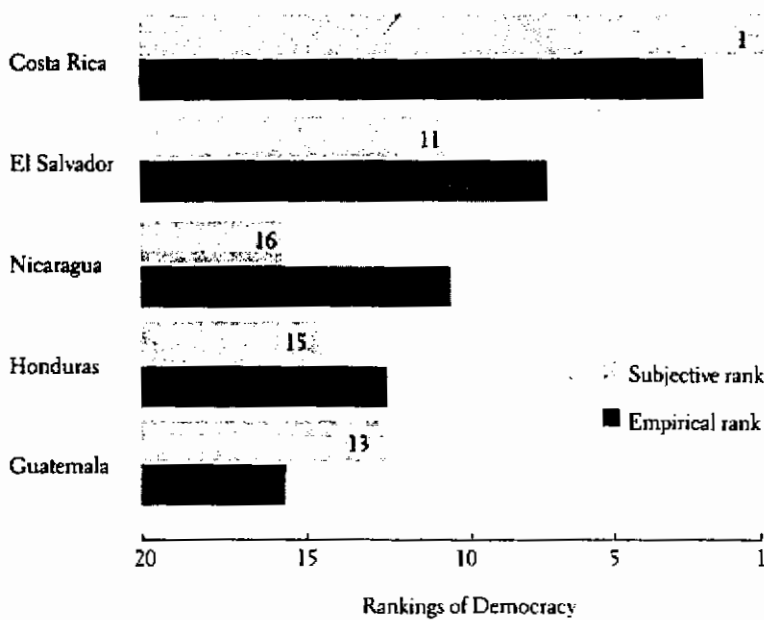


Figure 8.2 Subjective and Empirical Rankings of Democracy in Central America, 1965

Sources: Adapted from Kenneth F. Johnson, "Research Perspectives on the Revised Fitzgibbon-Johnson Index of the Image of Political Democracy in Latin America, 1945-1975," in *Quantitative Latin American Studies: Methods and Findings*, ed. James W. Wilkie and Kenneth Ruddle (Los Angeles: UCLA Latin American Center Publications, 1977), p. 89; Kenneth A. Bollen, "Issues in the Measurement of Political Democracy," *American Sociological Review* 45 (June 1980): 387-88.

Note: The empirical ranking (i.e., the Bollen index) is based on the degree of: (1) press freedom, (2) freedom of group opposition, (3) freedom of group political activity, (4) fairness of elections, (5) elections for executive office, and (6) legislative effectiveness. In this figure, the empirical ranking is based on only the twenty nations included in the subjective ranking.

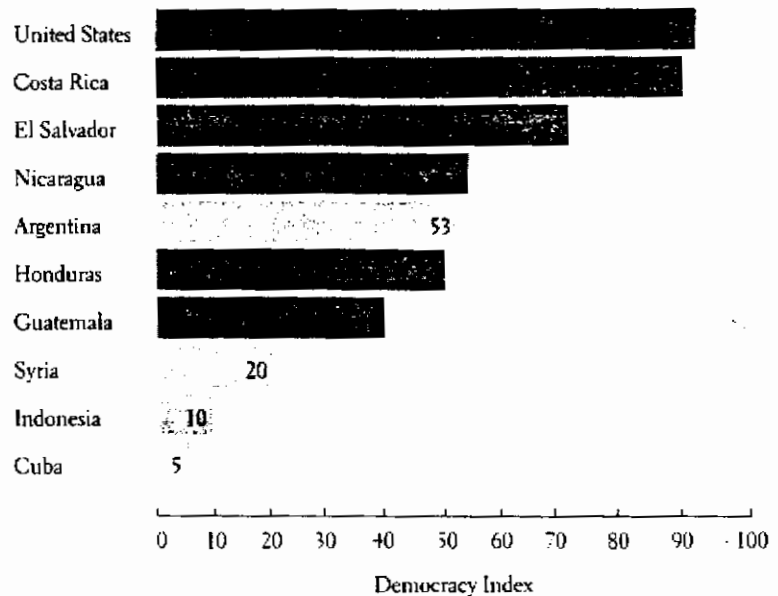


Figure 8.3 Empirical Index of Democracy in Central America, Compared with Selected Other Nations, 1965

Source: Adapted from Kenneth A. Bollen, "Issues in the Measurement of Political Democracy," *American Sociological Review* 45 (June 1980): 387-88.

five nations of the region and a few other selected examples, reveals that in 1965 the Central American nations held an intermediate position compared to other parts of the world. Costa Rica's score of 90.1 nearly approximates that achieved by the United States (92.4). At the other extreme, Guatemala's score, which is the lowest of the five (39.5), is far higher than that of some other developing nations in the Middle East and the Pacific.<sup>9</sup> Within Latin America, for example, only Guatemala scores substantially below Argentina (52.6), and all of the nations of Central America score far higher than Cuba (5.2). This global comparison of democratic achievement seems to show that when one steps back and looks at the wider picture, Central America, at least in 1965, was not as badly off as some would have us believe. These data suggest that many observers of Central America have been myopic—a tendency common to those who focus their attention upon only one small region and exaggerate the deficiencies that they find there.

### The Threshold and the Central American Case

I have shown in chapter 1 that minimum levels of wealth and literacy are necessary but not sufficient conditions for the development of democracy. The empirical studies reviewed in the introduction suggest that the threshold of around \$250 GNP per capita (in 1957 dollars) and 50 percent literacy must be crossed before democracy has any reasonable chance of survival in a given nation. The data to support this theory may be able to explain the evolution of democracy in Central America. Moreover, if the theory is of any value, it should enable us to explain the exception to the rule in Central America—namely, Costa Rica, which evolved a fairly high level of democratic rule by the 1930s and achieved stable democracy in the early 1950s.<sup>10</sup>

The data from Central America are indeed consistent with the theory. A look at the GNP per capita data shown in figure 8.4 reveals that in 1957, only Costa Rica had crossed the economic threshold. Moreover, only Costa Rica, with a literacy level of 79 percent in 1950, had crossed the sociocultural threshold. In the 1950s, it is clear, the fundamental prerequisites for democracy were simply not present in Central America outside of Costa Rica, and so it is therefore not surprising that democracy had not emerged there.

If the absence of the fundamental prerequisites for democracy can

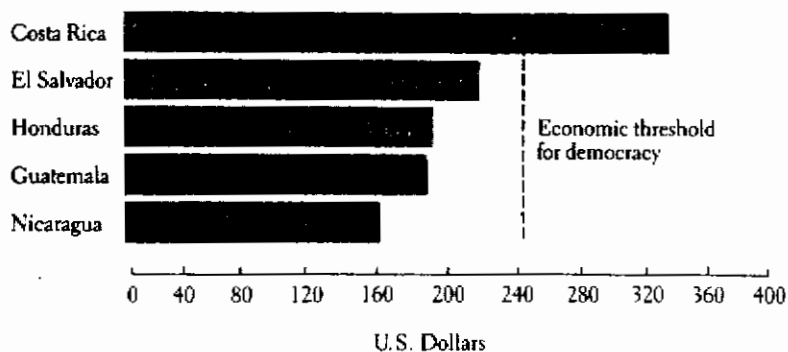


Figure 8.4 GNP Per Capita in Central America, 1957 (in U.S. dollars)

Source: Adapted from Bruce M. Russett, Hayward R. Alker, Jr., Karl W. Deutsch, and Harold D. Lasswell, *World Handbook of Political and Social Indicators* (New Haven, Conn.: Yale University Press, 1964), p. 165.

Note: Nicaragua seems to be underestimated by this source. See figure 8.5 for more recent estimates.

explain why democracy has not flourished in the region over the past century and a half, then how are we to explain the recent positive democratic developments mentioned at the outset of this chapter? A look again at the data gives some clear answers. The turmoil of the past few years, accompanied by economic declines, has tended to obscure the longer-run pattern of growth. A new set of data that traces GNP per capita for each of the five countries for the period 1920-1982 makes this clear. The compiler of the data concludes that there is a pattern of

steady (but not spectacular) economic growth, with the exceptions provided by the long-run stagnation of Honduras and the collapse of the last few years. There is little support here for the notion of Central America as an area locked into traditional methods of production and isolated from advances in the world economy.

On the contrary, the evidence on growth presented . . . suggests an economy which over the last sixty years has been subjected to a considerable degree of transformation."

One would expect, from the theory presented, that the long-term economic growth enjoyed by the region, once it surpassed the \$250 per capita threshold, would allow democracy to develop, especially if that growth were accompanied by improvements in literacy. This expectation is confirmed. In 1939 Costa Rica had a GNP per capita of \$252 in 1950 dollars (see figure 8.5), and had achieved 70 percent literacy by 1940 (see figure 8.6). By that time, electoral reforms of 1925 and 1927 had instituted a secret ballot, a national voter registration system, and an independent election supervision board. The electorate was being expanded and regular elections were becoming firmly entrenched. By 1939 Guatemala also had broken through the \$250 threshold and in 1944 the first open elections in the country's history were held, although many restrictions on voting still remained. Guatemala's literacy level, however, was far below the minimum at 29 percent. By 1949 Guatemala's GNP per capita income had dropped to \$220 and in 1954 democracy was extinguished by a U.S.-supported invasion. The other three countries in the region had per capita incomes far below the minimum in 1939, and as figure 8.5 shows, remained below that minimum throughout the 1950s.

In the 1960-1969 period, however, steady economic growth, stimulated by the expansion of the Central American Common Mar-



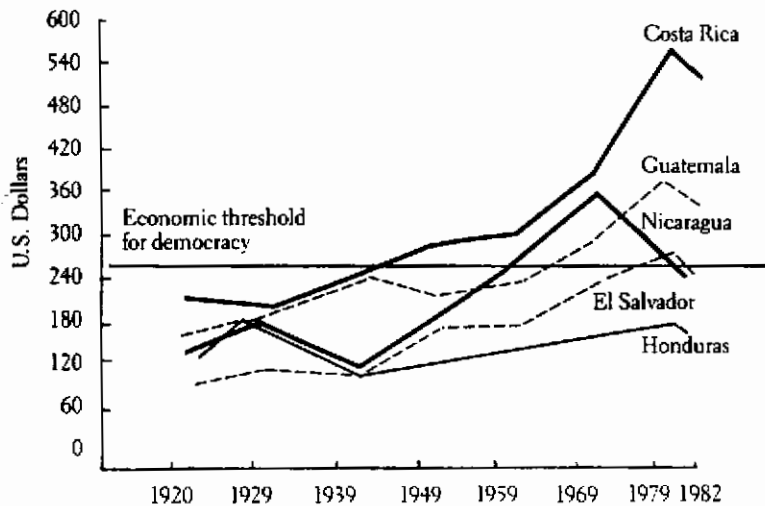


Figure 8.5 GDP Per Capita in Central America, 1920-1982 (1950 prices)

Source: Adapted from V. Bulmer-Thomas, "Economic Development Over the Long Run—Central America Since 1920," *Journal of Latin American Studies* 15 (November 1983): 276.

ket, pushed all of the countries in the region except Honduras above the economic threshold.<sup>12</sup> And an examination of the literacy data (figure 8.6) shows that during the 1960s, literacy levels for all of the countries exceeded 50 percent, with the exception of Guatemala, which remained slightly below the threshold.

The empirical evidence suggests quite clearly that the economic and sociocultural conditions that have been prerequisites for democratic growth elsewhere in the world have been emerging over the past ten to fifteen years throughout Central America. Central American countries, then, have entered what Samuel Huntington has labeled a "zone of transition or choice, in which traditional forms of rule become increasingly difficult to maintain and new types of political institutions are required to aggregate the demands of an increasingly complex society and to implement public policies."<sup>13</sup> Sociocultural and economic development are only necessary conditions, not necessary *and* sufficient conditions for democracy; their achievement does not guarantee its development and stability. Moreover, no teleological perspective in which all political systems are seen as "naturally" tending toward democratic rule is implied. Yet, in recent years there have been unmistakable signs

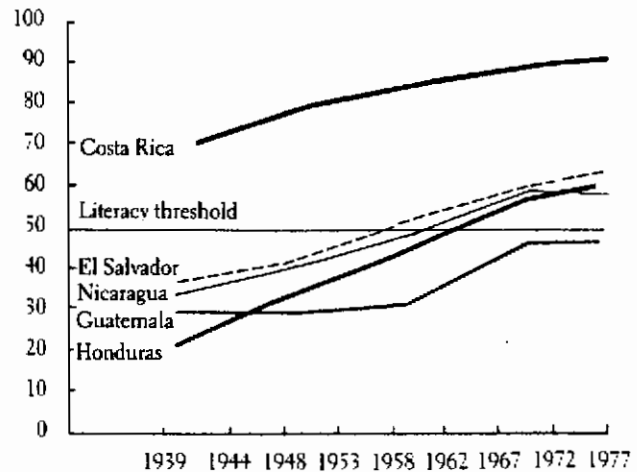


Figure 8.6 Adult Literacy in Central America, 1940-1977 (in percent)

Sources: 1940: James W. Wilkie and Maj-Britt Nilsson, "Projecting the HEC [Health, Education, and Communication] Index for Latin America Back to 1940," in *Quantitative Latin American Studies: Methods and Findings*, ed. James W. Wilkie and Kenneth Ruddle (Los Angeles: UCLA Latin American Center Publications, 1977), p. 81, which is based on Roberto Moreno y García, *Analfabetismo y cultura popular en América* (Mexico City: Editorial Atlantes, 1941), data adjusted to conform with the 15-year-old age standard.

Early United Nations data vary from these figures: El Salvador, 1930: 29.5% of 15-17-year-olds; Guatemala, 1940: 34.6% of those 7 years old and older; Honduras, 1945: 36.9%; Costa Rica and Nicaragua, no data. See *United Nations Statistical Yearbook, 1949-50* (New York: Statistical Office of the United Nations, 1950), p. 487.

El Salvador's figure is adjusted, because the Wilkie and Nilsson figure of 49% is identical with the 1960 figure reported by James W. Wilkie and Peter Reich, *Statistical Abstract of Latin America*, vol. 19 (Los Angeles: UCLA Latin American Center, 1979), p. 118, and nearly 10% above the 1950 figure reported by Bruce M. Russett et al., *World Handbook of Political and Social Indicators* (New Haven, Conn.: Yale University Press, 1964).

1950: Russett et al., *World Handbook*, pp. 222-23. Honduras is estimated.

1960: World Bank, *World Development Report, 1982* (New York: Oxford University Press, 1982), pp. 154-55; Wilkie and Reich, *Statistical Abstract*, p. 118.

1970: Wilkie and Reich, *Statistical Abstract*, p. 118.

1977: World Bank, *World Development Report, 1982*, pp. 154-55; Guatemala, 1981: Robert L. Peterson, "Guatemala," in *Latin America and Caribbean Contemporary Record*, Vol. 2: 1982-83, ed. Jack W. Hopkins (New York: Holmes and Meier, 1984), p. 508; Nicaragua, 1975: World Bank, *World Development Report, 1980*.

that democracy, however fragile, is beginning to emerge in the region. At the same time, it appears paradoxical that just as these conditions have emerged, and the institutional bases of democracy are being established, the region has been caught up in unprecedented social unrest.

One easy explanation for this paradox can be derived from theories predicting that social and economic development will produce social unrest.<sup>14</sup> Hence, according to this perspective, the growth that is responsible for the emergence of democracy is also responsible for the social unrest that destabilizes it. But such theories posit unrest as a function of *rapid* growth, something that is clearly not a feature of Central America's economies (see figure 8.5). Similarly, theories suggesting that rapid declines produce "J-curves" of "revolutionary gaps" between expectations and performance have little applicability to the region. The economic declines of the late 1970s and early 1980s, brought on by rising petroleum prices and slipping coffee prices, occurred *after* the turmoil currently present in the region had already distinctly emerged. Moreover, a recent review of the best empirical evidence linking both economic growth and decline to political violence has led Ekkart Zimmerman to conclude, "In general it seems that rapid socioeconomic change cannot be considered to be an important direct determinant of political violence. Neither the rate of economic growth nor that of economic decline are consistent predictors of the dependent variable [i.e., violence]."<sup>15</sup> Another study of the linkage between economic growth or decline and political stability, conducted by Edward Muller, further undermines the thesis by showing that it does not even apply to the limited subset of developing democracies.<sup>16</sup>

#### Democratization and Inequality in Central America

The difficulty of applying these disputed explanations to the Central American case is that they ignore the particular nature of the economic growth that has taken place in the region. Simplifying a great deal of theory, it is possible to argue that economic questions can be reduced to only two: the production problem and the distribution problem. The economic growth that has taken place in Central America has begun to solve the production problem—although, it should be stressed, with an average GNP per capita for Central America of only \$936 in 1981, compared to an average of \$11,200 for the industrialized nations, the production problem is far from solved.<sup>17</sup>

The distribution problem, however, has not only not been solved, but has worsened over the past few decades. And it is the distribution problem that is a principal cause of the current dilemma. Ironically, economic growth is probably partially responsible for the growing

distortions in distribution in Central America and the consequently exacerbated inequality. Simon Kuznets won a Nobel Prize for showing that as nations move away from agriculture-based economies and toward industrialization, income distribution worsens. Only in the later stages of industrialization, when high mass consumption and the welfare state have emerged, are these increases in inequality reversed.<sup>18</sup> Much empirical research has tended to confirm Kuznets's thesis.<sup>19</sup> Unfortunately, the data on income distribution vary greatly in quality, and there are no universally accepted standards for their collection.<sup>20</sup> The problems are particularly severe in the developing nations, which have neither the resources nor the political will to conduct studies in areas of such potential political sensitivity. These problems limit greatly the data on income distribution for Central America.

The best data available for the region are summarized in figure 8.7, which presents information for the upper 20 percent of the income earners.<sup>21</sup> (However, see the limitations discussed in the table note.) The mean incomes earned by the upper quintile of the non-oil exporting developing nations and the industrialized nations are indicated by two vertical lines. The figure reveals that income is far more concentrated in all of the Central American nations than it is in the industrialized nations. This comes as no surprise, and is entirely consistent with the Kuznets thesis. What is surprising is that even when Central American nations are compared to other nations that are not oil exporters, a group of nations reasonably similar in level of development to those in Central America, only Costa Rica has a lower concentration of income. Although this is not shown in figure 8.7, Central America also fares worse than the group of oil-exporting nations (mean of top quintile = 57.4 percent) and also has a more concentrated distribution of income than the semi-industrial developing nations (mean of top quintile = 51.8 percent).<sup>22</sup> The country with the highest concentration of income in the world among the upper 20 percent of income earners is Ecuador, with 73.5 percent of the income earned going to that group. However, Ecuador exceeded Guatemala by only less than one percent (72.7 percent). And all of the Central American nations are far worse off in income distribution terms than Sri Lanka, a developing democracy with a GNP per capita of only \$300 (in 1981). This was half that of Honduras, the poorest in Central America.

Without underestimating the limitations in the quality of the data,

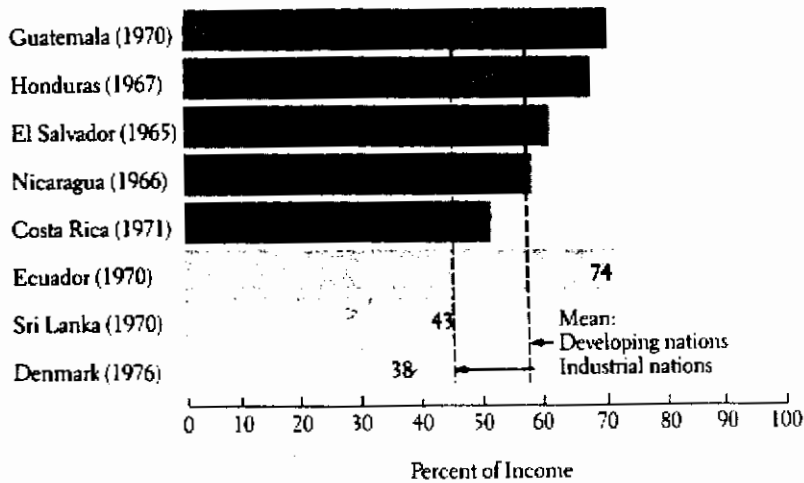


Figure 8.7 Income Share of the Top 20 Percent in Central America and Selected Other Countries, 1965-1970

Sources: Edward N. Muller, "Financial Dependence," in *The Gap Between Rich and Poor*, ed. Mitchell A. Seligson (Boulder, Colo.: Westview Press, 1984), p. 266; Guatemala and Nicaragua: Michael H. Best, "Political Power and Tax Revenues in Central America," *Journal of Development Economics* 3 (March 1976): 77.

Numbers are rounded. Disagreements among various sources abound, but most are reasonably close except for Guatemala. The Guatemala figure reported here is from a 1970 study based on personal income tax returns. Best also reports 63.5% for 1968, based on the income of salary earners. Figures of 58.8% for 1970 and 54.1% for 1980 are reported in the Economic Commission for Latin America, "Notas sobre la evolución del desarrollo social del Istmo Centralamericano hasta 1980," in *Indicadores socioeconómicos para el desarrollo*, ed. Francisco Rojas Arvaena (San José, Costa Rica: Ediciones FLACSO, 1983), p. 113). The figure of 63% for 1968 is reported by Clark Reynolds, "Employment Problems of Export Economies in a Common Market: The Case of Central America," in *Economic Integration in Central America*, ed. William R. Cline and Enrique Delgado (Washington, D.C.: Brookings, 1979), p. 243.

one can see unmistakably that economic development in Central America has not begun to resolve the distribution question. Indeed, a recent study concludes that the major impact of industrialization under the Central American Common Market has been to increase inequality.<sup>23</sup>

Economic growth, then, has simultaneously established the pre-conditions for democratic change in Central America, while it has exacerbated the region's already formidable inequalities in income distribution. Growth with inequality, therefore, has led to political decay in the form of increasing political violence. Such a pattern has

often been observed in other national settings; it is well established empirically that income inequality and political violence are closely linked. In a cross-national study by Lee Sigelman and Miles Simpson of a sample of forty-nine nations, a direct linear relationship was found between income inequality and political violence.<sup>24</sup> Using a refined and expanded data base, Muller and Seligson come to the same conclusion, but also find that inequality in land distribution, as it is mediated through income distribution, is also related to increasing violence.<sup>25</sup>

The logic of the preceding analysis suggests that Central America is caught on the horns of an inescapable dilemma. Economic growth is pushing the region in opposite directions: toward democratic development and toward political decay. Yet, closer inspection reveals that the dilemma is not only far from inescapable, but also largely of the region's own making.

The early stages of economic growth have been responsible for increasing income inequality in many cases around the globe, but not in all. The most dramatic exceptions are the cases of Taiwan, South Korea, and Japan. In Taiwan, for example, the upper 20 percent of the income earners in 1953 garnered 61.4 percent of the income. (Coincidentally, this was identical to the share earned by El Salvador's highest income earners in 1965; see figure 8.7.) By 1964, however, the richest 20 percent in Taiwan saw their share drop dramatically to only 41.0 percent, and by 1979 it had dropped even further to 37.5 percent, tying Taiwan with Denmark as the most equitable of all nonsocialist nations.<sup>26</sup> This major reversal of income inequality occurred during a period of unprecedented economic growth; in the thirty-year period 1950-1980, economic growth in Taiwan averaged 9.2 percent annually, with the GNP increasing more than elevenfold and per capita income rising from about \$70 at the close of World War II to \$2,280 in 1980. Most analysts agree that the major cause of the decline in income concentration in Taiwan was massive land reform and the establishment of a progressive tax structure.

Cross-national studies of the relationship between growth and equality have demonstrated that nations can escape from the Kuznets dilemma if they enact and enforce redistributive policies. Irma Adelman and Cynthia Taft Morris conclude their comparative study of seventy-four developing countries in this way:

The record of economic intervention in underdeveloped countries, good as it is in terms of economic growth, has been dismal in terms of social justice. Indeed, economic growth, whether planned or unplanned, has only made things worse. Since there is apparently no simple way of changing things for the better, some radical reorientation of both ends and means is apparently in order.<sup>27</sup>

And a more recent cross-national study by Muller finds no support for the theory that attributes increasing income inequality in developing nations to the dependent position of those nations in the world capitalist system. Muller suggests that variations in income distribution can be more directly attributed to the "internal dynamics" of nations.<sup>28</sup>

Empirical support for the internal dynamics thesis has recently come from a study of the impact of government expenditure policies on income distribution.<sup>29</sup> While the study's focus is limited to the developed market economies and therefore may not have more general applicability, the results show that expenditures on education, social security and welfare, housing, and community amenities serve to lessen income inequality. The weight of the combined evidence seems to demonstrate that income inequality is by no means an inevitable consequence of economic growth, but is very much subject to domestic policies.

One need not travel as far as Taiwan to find examples of economic growth yielding improvements in income distribution. In Central America, Costa Rica has achieved neither the spectacular growth nor the massive redistribution that has taken place in Taiwan, but its record has nonetheless been enviable. Over the period 1961 to 1971, the share of the income earned by the top 20 percent of income earners dropped from 60.0 percent to 50.6 percent.<sup>30</sup> This occurred at a time when Costa Rica's GNP was growing at an annual rate of 6.5 percent. Social progress was also marked during this period, with infant mortality dropping from 83.2 per thousand to 43.1 and life expectancy increasing from 63.3 years to 68.3 years.<sup>31</sup> The birth rate dropped from 46.7 per thousand in 1961 to 31.7 in 1971.<sup>32</sup> These achievements came as a direct result of government policies that emphasized social progress. State income was invested heavily in public education rather than in public security. For example, in

1960, 18 percent of the budget of the central government was spent on public education. By 1970, that figure had risen to 22 percent, and by 1976 had reached 30 percent as compared to only 7 percent for the world as a whole. During that same period, spending on public security amounted to only 5 to 6 percent of the budget.<sup>33</sup>

Cross-national comparisons within Central America of public expenditures on education and social security and welfare, two of the key expenditure categories that have been found to be directly linked to reducing income inequality, reveal substantial differences among the five nations.<sup>34</sup> Figures 8.8 and 8.9 show that Costa Rica directs a far greater proportion of its central government budget to these categories. In 1981, for example, over 54 percent of the entire budget of the central government was devoted to the combined categories of education, and social security and welfare. Of considerable concern is the steady decline in spending for education which is apparent for all of these nations in the 1975-1980 period; all of the nations in the region ended the decade spending a far lower proportion of their budgets on education than five years earlier. Scarce public funds were steadily being shifted into defense and debt service, a trend that does not bode well for income distribution.

Costa Rica's success at pursuing growth and social equity at the same time should not be overemphasized, however. The economic reverses of the past few years have been unprecedented. Growth rates

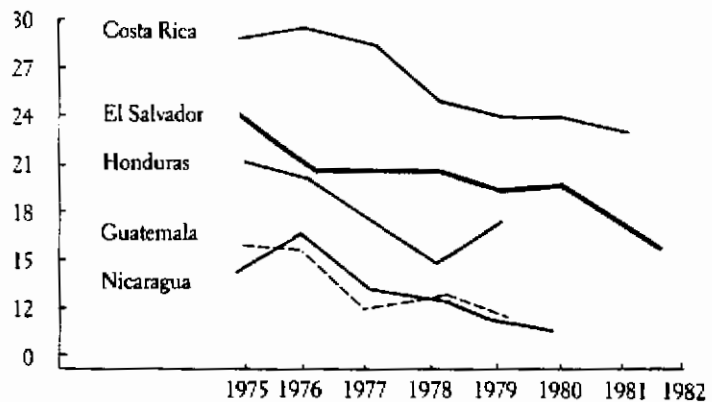


Figure 8.8 Central American Governments' Expenditures on Education (in percent)

Source: Adapted from the International Monetary Fund, *Government Financial Statistics Yearbook*, 1983 (Washington, D.C.: IMF, 1983).



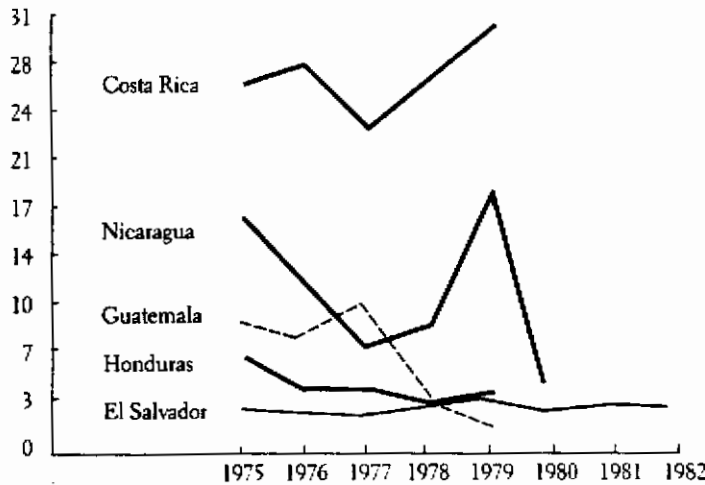


Figure 8.9 Central American Governments' Expenditures on Social Security and Welfare (in percent)

Source: Adapted from the International Monetary Fund, *Government Financial Statistics Yearbook*, 1983 (Washington, D.C.: IMF, 1983).

per capita of approximately 4 percent in 1976–1978 dropped to zero in 1979 and fell to approximately –3 percent by 1980 and –6 percent in 1981. The GDP per capita is not projected to return to 1980 levels until 1990.<sup>35</sup> The foreign debt grew to over \$3 billion, in a country of only 2.4 million persons—yielding one of the largest, if not the largest, per capita external debts in the world.<sup>36</sup> In 1982 inflation reached nearly 100 percent and the bottom fell out of the local currency, although both inflation and the exchange rate have been brought back under control at least for the moment.

Most observers believe that the Costa Rican economic crisis is having a deleterious effect on income distribution, perhaps reversing all of the gains made in the 1960s.<sup>37</sup> Indeed, one study, based on limited data, has suggested that those gains had already been eroded by the time the crisis began.<sup>38</sup> A more extensive study is now under way and the results should be available shortly, but if it is found that income distribution has considerably worsened, then Costa Rica may have to confront the violent protest of its citizens, a population long accustomed to active political participation as a method of achieving their goals.<sup>39</sup>

Of equal concern is that Costa Rica has made little progress in land redistribution. Land reform has been under way in Costa Rica since the early 1960s, but financial support generally has been limited. As a result, inequality in land distribution has remained extremely high, even for Central America. Only 3.3 percent of the national land area has been redistributed to the landless. This means that only about 8 percent of the potential population of beneficiaries has been given land. Moreover, the rate of growth of the landless and land-poor population exceeds the rate of land redistribution.<sup>40</sup> If the key to lowering income inequality in Taiwan was wealth redistribution through land reform, Costa Rica is not following the same path.

Looking at the region as a whole, one finds little evidence showing that public policies favor income redistribution. Indeed, studies have shown that public policy in the region favors increased inequality. One of the most powerful tools at the disposal of governments that can serve to redistribute income is the tax structure. In Central America, however, that structure is highly regressive. Even when compared to the Latin American region as a whole, a region not noted for progressive tax structures, Central America fares badly. Direct taxes in Central America average only 21 percent of total central government revenues compared to 32 percent for Latin America as a whole. Indirect taxes on consumption and production, generally considered to be among the most regressive of all taxes, averaged 44 percent in Central America. Not only are taxes regressive, but also tax rates are far too low to provide the developmental stimulus so badly needed in the region. Tax rates in Central America average only half the rate for Latin America as a whole, and income taxes exceeded 2 percent of GNP in only two countries—Honduras and Costa Rica. Collections in Guatemala averaged only .9 percent and only .7 percent in Somoza's Nicaragua. Translated into terms more directly related to income distribution, if the tax rate on the top 20 percent of income earners were increased to an overall rate of 20 percent (which would be far lower than it is in nearly all industrialized nations), this single source of tax revenue would be greater than the tax revenues from all other sources in all of the Central American countries except Costa Rica.<sup>41</sup>

These tax structures are not immutable. Improvements achieved in Costa Rica came about as a direct result of government policies in the 1950s and 1960s that resulted in the tripling of income tax revenues. And one need not take seriously the supply-side argument, at

least in the Central American case, that to increase taxes would discourage investment, since the extraordinarily low rates that have characterized the past have not stimulated investment. In the most extensive comparative study of taxation policy in Central America yet conducted, Michael Best was led to conclude that the region is characterized by a highly regressive tax structure, and argues that the actual tax structure is ideal for only one economic group: the large landowners.<sup>42</sup>

Large landowners not only enjoy a tax structure created in their own image, but in general have been able to block any major land reforms in the region. Land reform programs have been initiated in all of the countries, but with very limited success. The extensive reforms of the 1952-1954 period in Guatemala were largely reversed, and the annual rate of redistribution since that time has been only one-sixteenth of the 1950-1954 rate. Between 1974 and 1981, for example, only 5.7 percent of the estimated 309,000 beneficiaries had received land.<sup>43</sup> Analysis has shown that even if the existing land reform legislation in Guatemala were fully implemented, less than half of the landless peasants could be accommodated.<sup>44</sup>

Elsewhere in Central America, the prospects for land reform are not particularly encouraging. One study shows that over the period 1962-1979, only less than one-quarter of the Honduran landless and land-poor benefited from the reforms.<sup>45</sup> More distressing is that the rate of land redistribution in Honduras has slowed considerably in recent years, in spite of the fact that the population growth rate (3.4 percent annually in 1970-1981), one of the highest rates in the world, continues to swell the ranks of the landless. Since 1982, the emphasis has shifted from redistribution to title security.<sup>46</sup> Land reform in El Salvador got off to a promising start, but has been so highly politicized, occurring in the midst of civil war, that it is difficult to speculate as to its ultimate impact.<sup>47</sup> Nicaragua has made much progress in land reform, but indications are that there is considerable peasant resistance to at least some components of the reform.<sup>48</sup>

### The External Environment

A key external variable in the democratization-development-decay equation is the role of the United States. Samuel Huntington has recently argued that U.S. influence in a region helps stimulate

democratic development.<sup>49</sup> In his view, the growth of democracy in "transitional" nations during the immediate post-World War II period can be attributed in part to the growth of U.S. power, but that when that influence waned in the 1970s, democracy declined in both East Asia and Latin America.

Most experts on Central America would stand Huntington's observation on its head. For most of this century, at least, U.S. policy toward Central America has been defined by a national security doctrine that embraces strongmen who oppose the intervention of extraregional foreign powers, especially those allied with the Soviet Union.<sup>50</sup> That policy has almost inevitably led the United States to support a string of unsavory characters who seem to have spent most of their time brutalizing the peasantry and working class. The Somozas were only the best known of the lot, but other dictators in the region probably have surpassed them in cruelty and rabid anticommunism.

Beginning with President Carter's decision to curtail U.S. support for Somoza, one can sense a marked change in U.S. policy.<sup>51</sup> The policy certainly has been subject to many zigs and zags, but overall it appears that the State Department has finally come to recognize that it needs to support Central American leaders who have some chance of winning the hearts and minds of their citizenry. It would seem that, at least in part, U.S. policy has begun to recognize the wisdom of a comment made by Fernando Cardenal, the Sandinista minister of culture: "We only want for ourselves what you want for yourselves. If you don't want dictators in the United States, do not support them in our countries."<sup>52</sup> The strong support shown by the Reagan administration for reformist José Napoleon Duarte in El Salvador is only one sign of this shift in policy. Under the old policy, one would have expected that the Reagan administration might well have been a supporter of Roberto d'Aubuisson.

In order to be fully effective, U.S. policy must go beyond supporting reformist leaders and give full support to reformist programs. At present, U.S. foreign aid is a critical element in the stability of the economies of Honduras, El Salvador, and Costa Rica. Those funds need to be directed toward structural reforms that will yield growth with equity.<sup>53</sup> To emphasize growth alone would be sheer folly, because growth with inequality would merely fertilize the seeds of violence and thereby threaten the health of the roots of democracy. Democratic rule is by no means the inevitable outcome of economic

growth, not even under conditions of improved income equality. The case of Taiwan, discussed above, clearly points this out. But economic growth without improved distribution is a sure recipe for instability, government repression, and, eventually, revolution.

### Conclusions

Central American nations seem bent on avoiding the major structural changes that are needed to reduce income inequality, while at the same time pursuing economic growth. Exacerbated disparities in income are not necessary concomitants of economic growth—it is public policies that largely determine how the benefits from growth will be distributed. It is a safe bet that unless the existing policies are reversed, one can expect continuing unrest and political violence. It is also a safe bet that if the United States—either out of frustration with the “inefficiency” of the nascent democratic regimes in the region or because of a need to demand guaranteed support for its misguided policies toward Nicaragua—returns to its policy of siding with military strongmen, the prospects for democracy will be greatly dimmed.

Central America today finds itself in the middle of a “transition zone” between its authoritarian past and a potentially democratic future. Domestic and external policies will determine which path the region will take.

### Notes

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1. This chapter concerns itself only with the five nations traditionally considered to form the Central American region: Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica. Panama, owing to the exceptional circumstance of its dominance by the Canal Zone throughout its independent history, has evolved rather differently from the rest of the region and is therefore excluded here. Belize became independent of British rule only in September 1981 and is therefore excluded from this study, which is concerned with long-term changes in democratization in the region.

2. John A. Booth et al., *The 1985 Guatemalan Elections: Will the Military Relinquish Power?* Report of the Delegation sponsored by the International Human Rights Law Group and the Washington Office on Latin America (Washington, D.C., December, 1985).

3. Many observers of El Salvador's elections were critical for a variety of reasons, not the least of which was the failure of the FMLN guerrillas to participate in them. But even critics agree that participation and competition were extensive, and the mechanical aspects were generally well run. See Pratap C. Chitnis, "Observing El Salvador: The 1984 Elections," *Third World Quarterly* 6 (October): 963-80.

4. Latin American Studies Association, "Report of the Latin American Studies Association Delegation to Observe the Nicaraguan General Election of November 4, 1984," *LASA Forum* 15 (Winter 1985): 9-43.

5. James M. Malloy, "The Elections of November 4th and Nicaragua's Uncertain Political Future," *Caribbean Review* 14 (January 1985): 44.

6. Kenneth A. Bollen, "Issues in the Measurement of Political Democracy," *American Sociological Review* 45 (June 1980): 370-90.

7. See Phillips Cutright, "National Political Development: Measurement and Analysis," *American Sociological Review* 28 (April 1963): 253-64; Robert Jackman, *Politics and Social Equality: A Comparative Analysis* (New York: Wiley, 1975); and Philip Coulter, *Social Mobilization and Liberal Democracy* (Lexington, Mass.: Lexington Books, 1975). Studies that include measures of stability end up giving higher scores to both authoritarian and democratic stable regimes. Voter turnout is problematic because in many nations voting is obligatory and in other nations low turnout may be an indication of either satisfaction or alienation.

8. Bollen's index is derived from major compilations of cross-national data such as Charles Taylor and Michael C. Hudson, *World Handbook of Political and Social Indicators*, 2d ed. (New Haven, Conn.: Yale University Press, 1972), which attempt to utilize the best "hard" data available.

9. According to Bollen, in 1960 Guatemala's score was far higher (69.8) than it was in 1965, as was Honduras's (70.1). El Salvador, however, was far lower in 1960 (53.5) than in 1965.

10. Mitchell A. Seligson, "Costa Rica," in *Latin America and Caribbean Contemporary Record*, vol. 2: 1982-1983, ed. Jack W. Hopkins (New York: Holmes and Meier Publishers, 1984); and "Costa Rica and Jamaica," in *Competitive Elections in Developing Countries*, ed. Myron Weiner and Ergun Ozbudun (Durham, N.C.: Duke University Press, forthcoming).

11. V. Bulmer-Thomas, "Economic Development Over the Long Run—Central America Since 1920," *Journal of Latin American Studies* 15 (November 1983): 276.

12. William R. Cline and Enrique Delgado, eds., *Economic Integration in Central America* (Washington, D.C.: Brookings, 1979).

13. Samuel P. Huntington, "Will More Countries Become Democratic?" *Political Science Quarterly* 99 (Summer 1984): 201.

14. Mancur Olson, "Rapid Growth as a Destabilizing Force," *Journal of Economic History* 23 (December 1963): 529-52.

15. Ekkart Zimmerman, "Macro-Comparative Research on Political Protest," in *Handbook of Political Conflict*, ed. Ted Robert Gurr (New York: Free Press, 1980), pp. 182-83.

16. Edward N. Muller, "Economic Development and Democracy Revisited," presented at the Shambaugh Conference, "Political Science at Iowa," University of Iowa, Iowa City, 1982.

17. Data are from the World Bank, *World Development Report*, 1983 (New York: Oxford University Press, 1983), pp. 148-49.

18. The longitudinal trend produces an "inverted U-curve," which has become the hallmark of Kuznets's theory.

19. Many of the major contributions to the debate over Kuznets's thesis are found in *The Gap Between Rich and Poor: Contending Perspectives on the Political Economy of Development*, ed. Mitchell A. Seligson (Boulder, Colo.: Westview Press, 1984). Recent writings on dependency theory hold that income inequality is produced in the periphery because of the contact of the periphery with the center. Although empirical research initially tended to confirm this perspective, much recent evidence has disputed it. See Erich Weede and Horst Tiefenbach, "Some Recent Explanations of Income Inequality," and Edward N. Muller, "Financial Dependence in the Capitalist World Economy and the Distribution of Income Within Nations," in *ibid.*

20. See World Bank, *World Development Report*, 1983, p. 212; P. T. Bauer, "The Vicious Circle of Poverty," in *The Gap Between Rich and Poor*, ed. Seligson, pp. 330-33; and William Loehr, "Some Questions on the Validity of Income Distribution Data," in *ibid.*

21. Some analysts prefer to look at other sectors of the distribution. A study by Alain de Janvry, for example, looks at the poorest 20 percent in Latin America for 1960 and 1970 (*The Agrarian Question and Reformism in Latin America* [Baltimore: Johns Hopkins University Press, 1981], p. 36). The range of variation in this quintile is so small, however, as to likely render meaningless the differences found, given the wide confidence intervals present in this type of data. For example, de Janvry's 1970 data for the poorest 20 percent range from a low of 2.0 percent of the income in Peru to a high of 6.7 percent in the United States. The poorest quintile of any nation in Latin America earns no more than 5.0 percent of the income. The conclusion that de Janvry draws from the examination of the changes from 1960 to 1970 is that "the share of income received by the poorest 20 percent of the population declined or remained constant between 1960 and 1970 in all Latin American countries for which data are available except in Colombia, where the change observed is virtually insignificant" (p. 35). Since all of the countries for which de Janvry presents data for the period 1960-1970 experienced per capita economic growth, generally averaging 2 to 4 percent per annum according to the World Bank, the greater inequality in income distribution might reasonably be seen as further support of the Kuznets thesis. One novel approach to the distribution curve is taken by Muller ("Financial Dependence"), who looks at the middle 60 percent.

22. Muller, "Financial Dependence," p. 266.

23. Hector Pérez Brignoli and Yolanda Baires Martínez, "Growth and Crisis in the Central American Economies," *Journal of Latin American Studies* 15 (November 1983): 365-98.

24. Lee Sigelman and Miles Simpson, "A Cross-National Test of the Linkage Between Economic Inequality and Political Violence," *Journal of Conflict Resolution* 21 (March 1977): 105-28.

25. Edward N. Muller and Mitchell A. Seligson, "Inequality and Insurgency," *American Political Science Review*, forthcoming. Studies by Hardy and Weede argue that the relationship between income and land inequality washes out when the effect of economic development is considered. M. A. Hardy, "Economic Growth, Distributional Inequality and Political Conflict in Industrial Societies," *Journal of Political and Military Sociology* 5 (Fall 1979): 209-27; Erich Weede, "Income Inequality,

Average Income and Domestic Violence," *Journal of Conflict Resolution* 25 (December 1981): 639-54.

26. John C. Fei, Gustav Ranis, and Shirely W. Y. Kuo, *Growth with Equity: The Taiwan Case* (New York: Oxford University Press, 1979); Shirley W. Y. Kuo, Gustav Ranis, and John C. H. Fei, *The Taiwan Success Story: Rapid Growth with Improved Distribution in the Republic of China, 1952-1979* (Boulder, Colo.: Westview Press, 1981), and "Rapid Growth with Improved Income Distribution: The Taiwan Success Story," in *The Gap Between Rich and Poor*, ed. Seligson.

27. Adelman and Taft, *Economic Growth*, p. 199.

28. Muller, "Financial Dependence," p. 279.

29. Vincent A. Mahler and Claudio J. Katz, "The Impact of Government Expenditures on Growth and Distribution in Developed Market Economy Countries: A Cross-National Study," presented at the annual meeting of the American Political Science Association, Washington, D.C., 1984.

30. Victor Hugo Céspedes S., *Evolución de la distribución del ingreso en Costa Rica*, Serie Divulgación Económica No. 18 (Ciudad Universitaria Rodrigo Facio: Universidad de Costa Rica, 1979), p. 47.

31. Carlos Denton and Olda Ma. Acuña, *Población, fecundidad y desarrollo en Costa Rica, 1950-1970*, Informe de Trabajo No. 19 (Heredia, Costa Rica: IDESPO, 1984), p. 119. These demographic figures are for the census years 1963 and 1973, and hence do not precisely coincide with the 1961-1971 inequality data. However, the trends are consistent throughout the 1960s and 1970s and therefore there is little distortion in their interpretation.

32. *Ibid.*, p. 97.

33. *Ibid.*, pp. 60-61; International Monetary Fund, *Government Financial Statistics Yearbook, 1983* (Washington, D.C.: IMF, 1983), pp. 41-44.

34. Expenditures on housing and community amenities were also found to be related to income distribution, but this is generally a very small budget item in Central America, generally summing to no more than 3 percent of the total budget and is therefore not discussed here.

35. Seligson, "Costa Rica"; Victor Hugo Céspedes S., Ronulfo Jiménez R. and Eduardo Lizano F., *Costa Rica: Crisis y empobrecimiento* (San José, Costa Rica: Editorial Studium por la Academia de Centroamérica, 1983); Victor Hugo Céspedes S., Ronulfo Jiménez, Claudio González Vega, and Eduardo Lizano, *Costa Rica: Estabilidad sin crecimiento* (San José, Costa Rica: Academia de Centroamérica, 1984).

36. Dirección General de Estadística y Censos (Costa Rica), "Indicadores sociales y económicas" and "Población de la República de Costa Rica por Provincias, Cantones y Distritos, No. 52, Estimación al: 1° de julio 1983," San José, Costa Rica: Ministerio de Economía y Comercio, 1984.

37. Fuat M. Andic, *What Price Equity? A Macroeconomic Evaluation of Government Policies in Costa Rica*, Caribbean Occasional Series No. 4 (Puerto Rico: Institute of Caribbean Studies of the University of Puerto Rico, 1983); Claudio González Vega, *Temor al ajuste: Los costos sociales de las políticas económicas en Costa Rica durante la Década de los 70* (San José, Costa Rica: Academia de Centroamérica, 1984).

38. Juan Manuel Villasuso E., "Evolución de la crisis económica en Costa Rica y su impacto sobre la distribución del ingreso," Documentos de Trabajo No. 40, San



Pedro de Montes de Oca, Costa Rica: Instituto de Investigaciones en Ciencias Económicas, 1982.

39. Mitchell A. Seligson, *Peasants of Costa Rica and the Development of Agrarian Capitalism* (Madison: University of Wisconsin Press, 1980); Seligson, "Trust, Efficacy and Modes of Political Participation: A Study of Costa Rican Peasants," *British Journal of Political Science* 10 (January 1980): 75-98; Seligson, "Costa Rica and Jamaica"; and John A. Booth and Mitchell A. Seligson, "Peasants as Activists: A Reevaluation of Political Participation in the Countryside," *Comparative Political Studies* 12 (April 1979): 29-59.

40. Mitchell A. Seligson, "Implementing Land Reform: The Case of Costa Rica," *Managing International Development* 1 (March/April 1984): 29-46.

41. Michael H. Best, "Political Power and Tax Revenues in Central America," *Journal of Development Economics* 3 (March 1976): 49-82.

42. *Ibid.*

43. This estimate of the potential beneficiaries excludes the permanently employed plantation workers, a total of some 110,000 in 1981, even though under the 1952 agrarian reform legislation these workers were eligible beneficiaries. If this group were included, only 4.3 percent of the landless would have been benefited during the 1974-1981 period. For calculations, see Richard Hough, John Kelley, Stephen Miller, Russell Derossier, Fred L. Mann, and Mitchell A. Seligson, *Land and Labor in Guatemala: An Assessment* (Guatemala City: Ediciones Papiro, 1982), p. 15.

44. Hough et al., *Land and Labor*. The estimates range from a worst-case scenario of accommodating 23 percent of the landless to a best-case scenario of accommodating 64 percent. The latter scenario, however, excludes all permanently employed workers. Including this landless group lowers the best-case scenario to 48 percent. But even this calculation assumes utilization of most of the karst and swampland in Guatemala, land which could only be considered arable if vast sums of money were spent on draining swamps and upgrading karst soil with expensive cultivation and fertilization methods. Since these assumptions are very unrealistic, it is probably safer to assume that only 23 percent of all landless, or 31 percent of the landless and not permanently employed peasants could be accommodated under existing legislation. For an extended discussion of these calculations, see Hough et al., annex 2.

45. Mark Ruhl, "Agrarian Structure and Political Stability in Honduras," *Journal of Interamerican Studies and World Affairs* 26 (February 1984): 53.

46. Mitchell A. Seligson, Earl Jones, Edgar Nesman, Jack Hood Vaughn, and Michael Wise, *Baseline Survey of the Honduran Small Farmer Titling Program: Design, Field Work and Univariate Distributions* (Arlington, Va.: Development Associates, Inc., 1983); Earl Jones, Edgar Nesman, Mitchell A. Seligson, and Jack Hood Vaughn, *Baseline Survey of the Honduran Small Farmer Titling Project: Descriptive Analysis of the 1983 Sample* (San Francisco, California: Development Associates, Inc., 1984).

47. Checchi and Company, "Agrarian Reform in El Salvador," Report Prepared for the Agency for International Development (Washington, D.C., 1981); Michael Wise, "Agrarian Reform in El Salvador: Process and Progresses," Report Prepared for the United States Agency for International Development (San Salvador, El Salvador, 1983).

48. Forrest D. Colburn, "Rural Labor and the State in Postrevolutionary Nicaragua," *Latin American Research Review* 19, no. 3 (1984): 103-17.

49. Huntington, "Will More Countries Become Democratic?" pp. 205-07.

50. Robert A. Packenham, *Liberal America and the Third World* (Princeton, N.J.: Princeton University Press, 1973).

51. Lars Schoultz, *Human Rights and United States Policy Toward Latin America* (Princeton, N.J.: Princeton University Press, 1981).

52. As quoted by Penny Lernoux, *Fear and Hope: Toward Political Democracy in Central America* (New York: Field Foundation, 1984).

53. This is a point stressed by Huntington in "Will More Countries Become Democratic?" p. 218, but he also emphasizes that the United States should increase its own military and political power so that it can increase its influence among countries in the "transition zone."