

# U.S. ECONOMIC AID POLICY IN CENTRAL AMERICA

LAWRENCE E. HARRISON

Why has Central America's progress been generally disappointing and for the most part impervious to U.S. efforts to promote change? Why did the Marshall Plan succeed and the Alliance for Progress fall short of its goals? Reflection on these questions and on U.S. assistance strategy in Central America over the past two decades brings four major points to mind. *First*, U.S. efforts to push democratic political development in Latin America have been largely ineffectual. *Second*, although substantial economic growth has occurred, growth has not led to higher real income for the masses except in Costa Rica. *Third*, there has been progress in education and health, but illiteracy, infant and child mortality, and population growth rates are still disconcertingly high, again except in Costa Rica. *Fourth*, Central American economic integration has fallen well short of hopes for it as an engine of growth and equity. Taken together, these four statements reveal a lot about the complexity and intractability of Central America's problems. And, considering the very substantial efforts the United States has made since 1961, the results should leave us with no illusions about the availability of quick fixes and easy solutions.

This article briefly reviews the evolution of U.S. development assistance to Central America. The four introductory assertions are then discussed, leading to some observations about what makes Central America the way it is. The article concludes with recommendations as to how to proceed in the future so as to enhance the constructive impact of U.S. economic assistance.

## HISTORICAL OVERVIEW

The first U.S. development assistance programs, principally technical assistance in agriculture, were initiated during World War II through the Institute of Inter-American Affairs, which was directed by Nelson Rockefeller. The United States was motivated principally by its interest

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Lawrence E. Harrison served for nearly 20 years in Central America and the Caribbean as an officer in USAID. He served as AID Director in Costa Rica from 1960 to 1970, Haiti from 1977 to 1979, and in Nicaragua from 1979 to 1981. He was also Director of Central American programs (AID) from 1975 to 1977.

in assuring a flow of raw materials for the war effort. Programs were administered by *servicios*, shadow ministries in Latin American countries directed by U.S. experts but staffed by both U.S. and Latin American employees. Technical assistance was expanded to other sectors, particularly health and education, under President Truman's Point IV Program.

In the post war period, the Export-Import Bank did some capital lending, principally for highways, but by and large its resources were diverted to the reconstruction effort in Europe.<sup>1</sup> A national policy to lend money on soft terms to poor countries for development projects did not materialize until the late fifties, with the creation of the Development Loan Fund, administered by the U.S. government, and the Inter-American Development Bank.

The Cuban Revolution and U.S. concerns about its possible replication throughout Latin America led to the Alliance for Progress. The Alliance's Charter of Punta del Este, signed on August 17, 1961, is a liberal democratic, free enterprise prescription for modernization:

This Alliance is established on the basic principle that free men working through the institution of representative democracy can best satisfy man's aspirations, including those for work, home and land, health and schools. No system can guarantee true progress unless it affirms the dignity of the individual, which is the foundation of our civilization.<sup>2</sup>

Brazil, Chile, and Colombia were the recipients of the largest aid flows during the first years of the Alliance. Most of their assistance arrived in the form of "program loans," the amount of which was calculated on the basis of balance of payments and budgetary gaps. Program loans were disbursed rapidly, unlike the "project loans" which were the principal source of assistance for the Central American countries. Aid for Central America was, however, significantly expanded. Presence in the countries was beefed up with the creation of the United States Agency for International Development (USAID) missions and new lending and technical assistance programs were initiated. The scope of these activities was very broad: in addition to the traditional Point IV programs in agriculture, education, and health, AID provided assistance in infrastructure development, public

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1. The Export-Import Bank, whose resources had been channeled almost exclusively to Latin America in the 1930s, changed character during — and especially subsequent to — World War II. Reconstruction and lend-lease credits of \$920 million were made available to Europe in the last six months of 1945. Latin American loan authorizations were only \$106 million for the same period. See Export-Import Bank, *First Semi-Annual Report to Congress for the Period July-December 1945* (Washington, D.C.: Export-Import Bank, 1946), appendix D.

2. Harrison, "Waking from the Pan-American Dream," pp. 168-69.

administration, tax administration, public safety, natural resource identification, and industrial development.

Importantly, because of the unprecedented amount of money that was made available during the Alliance years (most of which was channeled through bilateral programs), but also because both the Americans *and* the Central Americans were convinced that the Americans had all the answers, the clout of USAID missions was great. In fact, they became a kind of shadow government.

This clout was apparent in the design and evolution of the Central American Common Market (CACM). In the 1950s, the United Nations' Economic Commission for Latin America (ECLA) was the principal promoter of Central American economic integration. ECLA envisioned a planned integration movement, based on import substitution (ECLA's Raul Prebisch was the founder of the approach), in which the national governments would play a dominant role. With the advent of the Alliance for Progress, the U.S. government supplanted ECLA and integration took on a much stronger private sector cast, although still based on import substitution. A USAID mission (ROCAP, originally the Regional Office for Central America and Panama, now the Regional Office for Central American Programs) was established to further promote regional integration.

Stimulated by the CACM and a variety of tax and other incentives, investment in Central American industry increased rapidly, as did intraregional trade. But there were two major flaws in the import substitution strategy: (1) high tariff protection was fixed, thereby encouraging inefficient production as measured by world standards (which meant that Central American industries were not able to compete outside Central America); (2) the protective tariffs coupled with overvalued exchange rates encouraged capital-intensive production. As a consequence, employment generation was less than desired. Above all, Central America did not offer a large enough market to permit the indefinite continuation of an industrialization strategy based on import substitution. Evidence mounted over the years that the early high levels of new investment could not be sustained.

The CACM began to falter in 1967, as the limits on import substitution opportunities became apparent and as the movement reached the point where short-term sacrifices had to be made if long-term gains were to be realized. The countries were not disposed to make such sacrifices. Narrow national concerns got in the way of integration, reminiscent of the factionalism that tore the Central American Federation apart between 1823 and 1838. The 1969 war between El Salvador and Honduras inflicted a further wound on the CACM from which it never fully recovered.

In addition to these economic disappointments, Latin America was not immune to a spate of military takeovers in the early 1960s which jolted

the architects of the Alliance. President Manuel Prado of Peru was overthrown in 1962; in 1963, Presidents Bosch of the Dominican Republic, Arosemena of Ecuador, Villeda Morales of Honduras, and Ydigoras Fuentes of Guatemala (all of whom had been popularly elected) were overthrown by the military. This occurred in spite of strenuous U.S. efforts to prevent the coups. Consequently, "political development" became a major concern of U.S. policy as reflected in Title IX of the Foreign Assistance Act.

The Dominican Revolution and the U.S. intervention in 1965 left the Alliance bereft of its early missionary zeal. Just a few years later, Teodoro Moscoso, architect of Puerto Rico's Operation Bootstrap and the first U.S. Coordinator of the Alliance, and a person who saw the Alliance in its early years as a noble crusade, had this to say:

The Latin American case is so complex, so difficult to solve, and so fraught with human and global danger and distress that the use of the word "anguish" is not an exaggeration . . . The longer I live, the more I believe that, just as no human being can save another who does not have the will to save himself, no country can save others, no matter how good its intentions or how hard it tries.<sup>3</sup>

In 1969, President Nixon announced the Mature Partnership policy. Reflecting largely the fatigue of those in the United States who had been so deeply involved in trying to make Latin America safe for democracy under the Alliance, the Mature Partnership implied a retreat from the activism of the 1960s. Multilateral programs, particularly those sponsored by the International Bank for Reconstruction and Development and the Inter-American Development Bank, received new impetus and AID's bilateral program receded in importance. AID increasingly focused its reduced resources on the new "Congressional Mandate:" the needs of the poor majority, particularly in agriculture, education and health. Behind this focus was the recognition that the impressive economic growth of the 1960s was not trickling down. In effect, AID (and other donors, which in varying degrees adopted the same focus), was trying to compensate for the absence of equity-promoting political and social institutions.

In essence, the Mature Partnership policy reflected two changes in U.S. outlook: first, precipitating change in Latin America was a lot more difficult than we realized; and second, particularly since no more Cubas had appeared, we would live with Latin America's traditional authoritarianism

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3. Statement by Teodoro Moscoso, the first U.S. Coordinator of the Alliance for Progress, quoted in Lawrence E. Harrison, "Waking from the Pan-American Dream," *Foreign Policy* 5 (1971-1972): 170-71.

and a slower pace of political and social progress. This was the prevailing attitude when the Salvadoran military stole the presidency after the 1972 elections won by Jose Napoleon Duarte and the Guatemalan military stole the presidency after the 1974 elections won by General Rios Montt. The U.S. government was clearly unhappy, but we failed to act. Had we intervened on behalf of democracy then as effectively as we did in similar circumstances in the Dominican Republic in 1978, Central America *might* look very different today. The stress is on the word "might" because, as Rios Montt's recent rise to power and overthrow have just demonstrated, the United States cannot be certain that its intervening in 1972 and 1974 would have produced enduring beneficial results.

Mounting concern in the United States about human rights abuses in Latin America in the early 1970s was mainly a response to conditions under military governments in Argentina, Brazil, Chile and Uruguay. But the two stolen Central American elections, plus Somoza's greed and high-handedness, made their contribution. Simultaneously with the deterioration in human rights, there emerged a new concern that Central America was headed for serious trouble.

Human rights was the pedestal of U.S. policy toward Latin America during the Carter years. Somoza, who had become the symbol for many Carter people of a cruel and abusive right-wing dictatorship (not entirely deserved), was denied some bilateral assistance. This, and other evidence of U.S. disenchantment with Somoza, doubtlessly contributed to his downfall. A similar policy was pursued with respect to the Guatemalan military, including aid reductions, but with quite different results. The Guatemalans' response was to clamp down even harder on the most repressed society in Central America and thumb their noses at the U.S.

As Somoza's grip on Nicaragua melted away, and with both the Salvadoran and Guatemalan militaries in increasing trouble, the Central American crisis predicted by many observers a few years ago was upon us. It coincided with the worldwide recession and led to unprecedented levels of U.S. bilateral assistance, much of it the fast-disbursing kind that was available only for the large South American countries (and the Dominican Republic at the time of the U.S. military intervention) during the 1960s. Costa Rica, El Salvador, Honduras and Nicaragua were all major recipients. (During the first 18 months the Sandinistas were in power the U.S. government was the principal source of reconstruction assistance for Nicaragua.) The crisis also led to the Caribbean Basin Initiative, the roots of which are to be found in the Carter administration.

To summarize this quick review of history, U.S. development and economic assistance for Central America has generally reflected the nature and intensity of our foreign policy concerns: limited interest in the forties

and fifties, intensification following the Cuban revolution, a drawing back after the frustrations of the Alliance for Progress and another intensification as the current Central American crisis started to unfold. It should be noted that throughout the past four decades the U.S. has also maintained a sincere humanitarian concern about the conditions in Central America.

During the twenty-three years since the Alliance for Progress was created, AID has done a creditable job, often in difficult circumstances. It has sent highly-motivated and effective people to established field missions, which has often resulted in a higher level of creativity, responsiveness and continuity than is possible when the donor works through visiting teams, as is the case with the IBRD and the IDB. But the donor-recipient relationship always involves frictions. Those frictions have, I believe, intensified over recent years as the Central American technocracies have matured and as Latin America's sensitivities about the substance and style of relationships with the United States have increased.

But the most important lesson the United States has learned is captured by Moscoso's words: ". . . no country can save others, no matter how good its intentions or how hard it tries."<sup>4</sup> The extent of progress in Central America has been determined overwhelmingly by the societies themselves. And in four of the five countries, the pace has been troublingly slow.

#### POLITICAL DEVELOPMENT

Except in Costa Rica, there has been little progress toward establishing effective democratic institutions in Central America during the past two decades. Guatemala's partnership between the oligarchy and the military is no less rigid and self-serving now than it was when Ydigoras Fuentes was overthrown. Honduras is experimenting with democracy in a tentative way much as it was 20 years ago. But there, too, the military and oligarchy have preserved their position of dominant power, and our current approach to the Central American crisis may be both strengthening that position and further polarizing a society which has tended to be more unified and resilient than its immediate neighbors. Whether the turbulence and violence of recent Salvadoran history will enhance the prospects for democracy remains to be seen. Surely, there was little progress toward pluralism in the sixties and seventies. Nicaragua, which appeared to have a fighting chance for democracy four years ago, has been forced back into authoritarianism, albeit of a new variety.

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4. *Ibid.*, p. 171.

Only in the case of Costa Rica can those who believe that democratic institutions offer the most effective and humane route to progress find any satisfaction. Costa Rican democracy appears to be weathering a devastating economic crisis and the prior government's involvement with the Sandinistas. The "out" party has peacefully replaced the "in" party six times since the 1948 revolution. The National Liberation Party has moved steadily away from its personalist genesis toward a far broader and issue-oriented footing. There has also been impressive evidence of a functioning system of due process.

The United States should neither unduly castigate itself for conditions in Guatemala, Honduras, El Salvador and Nicaragua, nor congratulate itself for conditions in Costa Rica. In Central America's political evolution, the U.S. role has been far less influential than most people appreciate. The roots of current conditions penetrate deeply into history. Indeed, there are some striking analogies between the conditions observed in 1840 by an itinerant American scholar and diplomat, John L. Stephens, and conditions today.<sup>5</sup> Costa Rica, then too, was an oasis.

#### ECONOMIC AND SOCIAL DEVELOPMENT

As will be apparent from a comparison of the 1960-1981 and 1960-1978 columns in Table 1, the 1960-1981 figures are depressed by the political and economic disruptions of the past few years, particularly in the case of Nicaragua. In any event, even with the more impressive 1960-1978 figures, only Costa Rica and Guatemala have achieved the Alliance for Progress target of two and a half percent annual growth in per capita GNP. And with the Guatemalan system so stacked against the interests of the lower classes, only Costa Rica has performed in a manner consistent with the growth-with-equity spirit of the Alliance. The fruits of economic growth have not significantly trickled down in the other countries where the political systems have perpetuated privilege.

Tables 2, 3 and 4 indicate some encouraging trends in social development. Once again, however, only in the case of Costa Rica are absolute levels of achievement truly impressive. Costa Rica has kept pace with Cuba's strides in education and health since 1960. But there is a long way to go in the other countries. Especially troubling are the persistently high population growth rates, which make national health and education problems all the more difficult to solve.

AID can take some satisfaction from these encouraging trends. U.S.

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5. John Lloyd Stephens, *Incidents of Travel in Central America, Chiapas and Yucatan* (New York: Dover Publications, 1969, reprint of 1841 edition).

Table 1  
GROSS NATIONAL PRODUCT

	GNP per capita growth (%)		GNP per capita (\$)
	1960-1981	1960-1978	1981
Costa Rica	3.0	3.3	1430
El Salvador	1.5	1.8	650
Guatemala	2.6	2.9	1140
Honduras	1.1	1.1	600
Nicaragua	.6	2.3	860

Source: *World Development Report 1983 and 1980*

Table 2  
EDUCATION

	% of age group actually enrolled							
	% Literacy		Primary		Secondary		Higher	
	1960	1980	1960	1980	1960	1980	1960	1979
Costa Rica	NA	90	96	108	21	48	5	26
El Salvador	49	62	80	74	13	23	1	8
Guatemala	32	NA	45	69	7	16	2	9
Honduras	45	60	67	89	8	21	1	8
Nicaragua	<u>NA</u>	<u>90*</u>	<u>66</u>	<u>100</u>	<u>7</u>	<u>43</u>	<u>1</u>	<u>9</u>
AVERAGE	42	75.5	70.8	88	11.2	30.2	2	12

Source: *World Development Report 1983*

\*This is an exaggerated figure which assumes total success of the Sandinista literacy campaign.

development assistance has concentrated on the education and health sectors for three decades. For example, one-third of all Nicaraguan schools existing in 1981 had been built with AID help. But the fact remains that much more could have been done if the governments of Guatemala, El Salvador, Honduras and Nicaragua had had a genuine commitment to social progress: Surely, illiteracy could have been substantially eliminated during those three decades. Although the Sandinistas have inflated Nicaragua's education statistics for 1980 and 1981, real progress has been made there in education since 1979 under a government that has substantially raised the priority of education.<sup>6</sup>

6. Nicaragua's adult literacy rate is believed to be exaggerated, based on the stated increase from 57 percent in the 1979 *World Bank Development Report* to 90 percent in the 1981 report. This may be an effort by Nicaragua to compare itself to Costa Rica which also had a 90 percent literacy rate in 1981.

Table 3  
HEALTH

	Life Expectancy (years)		Population Per Doctor (thousands)		Calories (% of rqr)
	1960	1981	1960	1980	1980
Costa Rica	62	73	10.0	3.7	116
El Salvador	51	63	5.3	3.0	99
Guatemala	47	59	4.4	8.6	93
Honduras	46	59	12.6	3.1	96
Nicaragua	<u>47</u>	<u>57</u>	<u>2.7</u>	<u>1.8</u>	<u>99</u>
AVERAGE	50.6	62.2	7.0	4.0	100.6

  

	Infant Mortality (per 1000)		Child Mortality (per 1000)	
	1960	1981	1960	1981
Costa Rica	83	27	8	
El Salvador	136	75	26	7
Guatemala	92	66	10	5
Honduras	145	86	30	9
Nicaragua	<u>144</u>	<u>88</u>	<u>30</u>	<u>10</u>
AVERAGE	120	68.4	20.8	6.2

Source: *World Development Report 1983*

Table 4  
POPULATION GROWTH

	(% annually)	
	1960-1970	1970-1981
Costa Rica	3.4	2.8
El Salvador	2.9	2.9
Guatemala	3.0	3.1
Honduras	3.1	3.4
Nicaragua	2.6	2.9

Source: *World Development Report 1983*

#### CULTURAL DEVELOPMENT

After twenty years of work on Latin America's development problems, including thirteen years during which I lived in five Caribbean Basin countries, I am convinced that the principal explanation for Central America's plight is cultural: most Central Americans, indeed most Latin Americans,

have been inculcated with a set of values and attitudes which are anti-democratic, anti-social, and, at least for the upper classes, anti-entrepreneurial and anti-work. Central America suffers from the perpetuation of an Hispanic culture transmitted during a period when Spain was slipping back into the Dark Ages while much of the rest of Europe moved toward the Enlightenment. Traditional Hispanic authoritarianism and anti-humanism were compounded by a harsh and exploitative colonial experience. Thus, Central America's underdevelopment is largely a state of mind.

There are numerous other factors which are relevant (e.g. geography, climate, resource endowment, the vagaries of history), but the taproot of Central America's current condition goes back to the sixteenth century. The condition of Guatemala, El Salvador, Honduras and Nicaragua today bears strong resemblance to their condition throughout the past four hundred and fifty years.

This view is shared by other observers, among them the distinguished Nicaraguan writer and Central American integrationist, Salvador Mendieta. Mendieta completed his principal work, *The Sickness of Central America*, in 1907 and updated it in 1934, shortly after Franklin Roosevelt withdrew the Marines from Nicaragua.<sup>7</sup> In this three volume book, Mendieta argued that Central America's failure to achieve stability and progress can be explained by an Hispanic cultural infection, aggravated by a demoralizing colonial experience. It is also worth noting that even though Mendieta was no great friend of the United States (which he viewed as an imperialist power), he nonetheless scarcely mentions the United States in his book.

Why is Costa Rica different? Why was it different in 1840, when Stephens visited Central America? In early colonial times, Costa Rica was a backwater with few Indians to enslave and few precious metals. Consequently, it was settled several decades after the other Central American colonies. Moreover, the Spaniards who settled in Costa Rica had to work their own farms to survive. Theirs was a frontier life that had a leveling effect similar to our own experience. Costa Rica is thus different from the other Central American countries because Costa Ricans are different. Costa Ricans have a greater sense of shared national identity than do the other Central Americans. Traditional Hispanic concepts of authority, hierarchy, and "to-hell-with-the-rest" individualism are diluted in Costa Rica. The Costa Ricans' way of seeing themselves and the rest of the world explains why democracy has flourished and why public education and public health have been taken so seriously there.

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7. Salvador Mendieta, *La Enfermedad de Centro-America* (Barcelona: Tip. Maucci, 1936).

## CONCLUSIONS

As the United States shapes its economic policies toward the Isthmus in the future, it must be aware of the cultural and historical roots of Central America's condition, as well as the lessons of the United States' experience during the past few decades. U.S. policy should be aimed at helping Central America move away from its traditional authoritarianism and toward pluralism. Because culture is borne on the momentum of centuries, the United States must be prepared to measure progress not in years but in decades or even generations. What I have in mind can be thought of as a more patient Alliance for Progress.

In the short run, economic stability has to be the overriding concern. Programs of reform and development that might lead to the stability and progress which both the Central Americans and we want cannot get adequate attention in conditions of economic crisis. Tough stabilization programs are difficult to enforce, even by the most serious governments, in conditions of political crisis. So I see a need for substantial additional fast-disbursing assistance — several hundred million dollars annually — over the next few years to provide an economic cushion for political change.

These additional resources should be administered by the U.S. government. While its programs should be coordinated with the IMF, the IBRD and the IDB, it should provide these resources only to governments which are genuinely committed to democratic practices and social reform. One of the most important lessons of the last two decades that the United States has learned is that it gets the highest return for its aid dollars when it makes them available to serious governments.

If we take as given the achievement of a reasonable degree of political and economic stability within the next few years, then the United States must be prepared for a decade or more of frankly tutelary policies along the lines of what I shall label the Dominican model. What has happened in the Dominican Republic since the 1965 revolution should encourage the United States to believe that a long-haul U.S. commitment to promote democracy and progress and to suppress authoritarianism and militarism *can* work. The Dominican Republic's history is similar in many respects to the histories of Guatemala, El Salvador, Honduras and, particularly, Nicaragua. It is currently one of Latin America's more promising democracies, and while good Dominican leadership has been the principal explanation, a constructive U.S. role, and especially President Carter's intervention against the Dominican military during the 1978 electoral count, has been important.

Four elements in the U.S. aid program should be emphasized in the longer term:

(1) U.S. aid should continue to focus resources on governments that are making a genuine effort toward democracy and reform and be prepared to deny resources to governments that are not.

(2) Emphasis should be placed on educational reform, particularly the eradication of illiteracy. The education system offers one of the more promising means of modernizing the way people see the world.

(3) The numbers of Central Americans educated and trained in the United States should be substantially increased. The concern here is not just the large numbers currently studying in Eastern Europe. The education of future leaders in the U.S. can contribute significantly to Central America's democratization and modernization.

(4) There ought to be a reduction in the number of AID personnel in Central America. While the long-term policy of the United States would be a tutelary one, U.S. citizens should not be so heavily involved as tutors (and indeed on occasion as initiators) in the design of development policies, programs and projects. One facet of the basic change being sought in Central America is increased confidence on the part of Central Americans in their own ability to manage their destinies. Large, active AID missions can get in the way of this kind of growth and they can also be an irritant.

In conclusion, I want to repeat that our limited successes in the past two decades and the heavy weight of cultural momentum argue for considerable humility and patience on our part as we grapple with "Central America's anguish."