

Poverty and Progress

The Cases of El Salvador and Nicaragua

THE NEO-LIBERAL structural adjustment (SA) policies prescribed for less developed countries by the International Monetary Fund (IMF) have attracted public debate over the past decade; even those with faith that these reforms will get economies moving again feel that their impact on the poor can be cruel. Discussion of SA is especially intense in El Salvador and Nicaragua, two countries ravaged by civil conflict during the 1980s.

SA is a series of economic and financial reforms that the international donor community requires candidate countries to undertake to

the social safety net that usually results from mandatory cuts in government spending and the unemployment and wage reduction often generated by privatization. Additionally, exchange rates become market-determined, commonly making exported agricultural products more competitive. This shift transfers resources from the domestic agricultural sector and leaves poor farmers without production credit. Likewise, many urban consumer subsidies end, harming farmers. In El Salvador and Nicaragua, many farmers are net consumers of purchased foodstuffs and are also hurt by rising retail prices for necessities. Moreover, most poor farmers raise staples, not export crops, so there is little spillover to them when the external sector improves.

SA may have an even greater depressant effect on incomes of the poor in cities than in the countryside. In rural areas, those who have some access to land usually find ways to grow subsistence crops, and even the destitute often share food with the landless along kinship lines. Urban dwellers, who are completely dependent on the money economy, are often critically affected by reduced consumer subsidies, lower real wages and unemployment.

There is little consensus about what trade liberalization means for the poor. In the case of small developing countries like El Salvador and Nicaragua, a greater economic openness exposes farm people—and the economy generally—to the price swings common to internationally traded farm commodities (e.g., until the recent Brazilian coffee freeze-out, coffee prices had been low for years). Low prices may mean worker layoffs from harvesting and processing plants; there are usually no mechanisms to protect labor from sudden changes in volatile markets.

Curiously, SA can have different results in apparently similar countries because of important economic distinctions between the cases.

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obtain loans. SA includes structural efforts to realign relative prices, privatize public enterprises, liberalize trade and clarify property rights and rules for the smooth and unimpeded functioning of land, labor and capital markets. "Economic stabilization," the reduction of inflation and stabilization of currency, is a process necessary for, but distinct from, SA. The prescription for SA is remarkably similar from country to country: free markets and free trade, restriction of subsidized loans, cutbacks in government spending, market determination of foreign exchange rates and privatization of state-held companies—in addition to economic stabilization. Other SA policies intended to impede retrogression into excessive state interventionism are also set in place.

These measures will, it is hoped, strengthen a country's balance of payments and improve its growth potential. Since countries need loans badly and receive the credit on good terms (typically repayable with a negligible 0.5 percent interest and after a 5.5 year grace period), they usually comply with the conditions. Donors hope that the worst side-effects of SA are only short-run consequences—the relaxation of



Structural adjustment often has negative effects on the urban poor, at least in the short term.

El Salvador and Nicaragua have a similar proportion of their populations under the poverty line. El Salvador is a land-scarce, heavily settled country with the highest population density in Latin America. The smallest country in Central America, El Salvador is the size of Massachusetts, containing about as many people but lacking the industrial base to fully employ them; high joblessness and underemployment characterize the nation. In more sparsely settled Nicaragua, on the other hand, ownership security is a more important issue than land scarcity. Furthermore, El Salvador has a better social safety net, and its external balances are not as extreme as those of Nicaragua, where debt greatly limits policy options.

Economic Performance in El Salvador

Of all the Central American countries, El Salvador is most afflicted with rural landlessness, a problem that quickly translates into rural poverty. In the 1970s, 65 percent of the rural population was landless or land-poor (owning, on average, less than 0.7 hectares). At the same time, two percent of the landowners held 60 percent of the agricultural land. After a post-civil war land reform that affected one-fifth of the total area of the country and ten percent of El Salvador's population, sample surveys indicate that 54 percent of the agricultural work force remains landless, unemployed or land-poor. If the land promised under the 1992 peace agreement to 12,500 former combatants and 25,000 squatters (*tenedores* who

grew food for the soldiers in the combat zone) is eventually delivered, this figure should drop to 40 percent. However, the program is advancing very slowly due to lack of funds for land purchase and added political impediments, and grassroots protests have begun in an attempt to accelerate the process.

A few facts will provide a profile of the El Salvadoran economy. Agriculture in El Salvador accounts for 24 percent of GDP, employs 40 percent of the labor force and creates two-thirds of total exports. Fifty-four percent of the Salvadoran population lives in rural areas, which are dominated by export-oriented and agrarian-reform farms. Growth in national output during the 1990-1992 period surpassed population growth for the first time since 1978. El Salvador had one of the largest and poorest rural work forces and one of the most intransigent land owning classes of Central America, an incendiary combination frequently cited as the rationale for the civil war that racked the country during the 1980s. Whether the prolonged and tragic conflict, which resulted in some 65,000 deaths, has substantially modified the social situation remains to be seen.

In 1989, El Salvador's voters emerged from the war to elect as president Alfredo Cristiani, who represented the country's moderate right wing. In June 1994, further indicating how far the left wing had been divided and discredited during the hostilities, another conservative, Armando Calderón Sol, became the country's first post-

war chief executive. Like Cristiani, he is a member of the Nationalist Republican Alliance (ARENA); he was elected by a vote margin of two to one. In the same election, the left-wing alliance won twenty-four seats in the country's legislature. Its unity, however, was shaken almost immediately after the vote, when seven of these members broke ranks and opted for ARENA's slate of national assembly officers.

Voting for the right wing seems paradoxical given the poverty that still affects most citizens of El Salvador. It is also an ironic stance given the manner in which Salvadoran institutions treat people without resources. For example, an American consultant on court administration recently claimed: "Look around the courts and the jails—all you see are the poor. Anyone who has any pull here doesn't have to worry about the justice system. Without pull, you simply get trapped." The conservative voting records show that poor Salvadorans, however needy, do not under any condition wish to return to the brutality of the civil war period. They perceive right-wing leaders as most likely to deliver peace—a major plank in the campaign platforms of all parties.

Data collected in the 1980s show that, during the latter part of the decade, two out of three Salvadorans were either poor (with income insufficient to pay for foodstuffs, clothing, housing, health and education) or extremely poor (with income insufficient to buy the food needed to meet minimum nutritional requirements). At decade's end, nearly 30 percent of the urban population was extremely poor and 33 percent was poor. In rural areas, the picture was even starker. Estimates of those in extreme poverty range between 1.25 and three million people. Some of this poverty is chronic and some is due to the war, lack of productive resources and structural adjustment.

San Salvador, home to 26 percent of the country's population, is characterized by high rates of underemployment, especially in the informal sector. According to government figures, the informal sector in Salvadoran cities involves half of the active labor force. The average earnings of informal workers are barely one-third of the corresponding earnings in the modern sector. Moreover, whereas 70 percent of workers in the modern sector were included in social security or had some sort of pension plan, only three percent of the informal sector has that coverage.

Although the incidence of extreme poverty is probably still increasing, some social and economic indicators show improvement. While total agricultural production was lower in the early 1990s when compared to the early 1980s (export crops were especially hard hit by war and by low coffee and cotton prices), food production rose from an index number of 93 just after the onset of war to 123 between 1990 and 1992. On a per-capita basis, food production rose from an index number of 92 in 1980 to 105 in the 1990-1992 period. Furthermore, while adult literacy has been trending upward (though educational expenditures fell from four percent of GDP to two percent in the 1980s), Salvadoran illiteracy is still about twice the Latin American average and 20 percent below the Costa Rican rate.

Despite the paradoxical fact that health expenditures

fell from 1.75 percent of GDP in 1980 to less than one percent under SA, some social indicators remained heartening: infant mortality stood at 73.7 per 1,000 births in 1980 but fell to about 40 in 1992. The World Bank argues that the health budget cuts had no immediate detrimental effect on infant mortality because preventive medicine was widely practiced. Furthermore, war in the countryside drove people to the cities, where health facilities were more accessible. To qualify this favorable trend, it should be noted that child mortality in El Salvador, though less than in Nicaragua, Honduras and Guatemala, is three times Costa Rica's rate. The grim possibility exists that the lack of investment in health-care facilities during the days of SA may cause rates of child mortality to edge upward in the 1990s.

Most data from the early 1970s and the 1980s indicate much less economic capacity in the latter period. For example, growth in GDP averaged 1.3 percent a year between 1980 and 1992 after an annual rate of 4.2 percent in the 1970-1980 period. Agriculture grew at a rate of only 0.1 percent a year from 1980 to 1992, though in the 1970s it expanded at 3.4 percent a year. Although a growing economy gives no assurance that poverty is declining (most studies show that some trickle-down occurs only if the growth exceeds five percent a year), stagnant economies deprive even those countries with the will to alleviate poverty of the means of doing so. Moreover, the cruellest tax to be levied on the poor—causing wages to erode and food prices to rise—may be inflation, which was 10.7 percent a year in the decade of the 1970s and 17.2 percent a year in the 1980-1992 period.

Fortunately, a turnaround in this lethargic growth pattern came in 1992, when SA and the end of the war converged to brighten the economic picture. Economic expansion registered nearly five percent, the highest growth rate in 15 years. That the Cristiani government was able to engineer this turnaround assured Calderón Sol's election. The preliminary growth figure for 1993 was five percent and the same figure was forecast for 1994.

This high growth rate is welcome, but some fear that it is artificial, as it is buoyed by a temporary infusion of foreign capital. Although 1994 brought in a total of US\$250 million in foreign donations and another US\$300 million in loans, severe cutbacks of foreign aid to El Salvador are on the horizon. El Salvador, furthermore, is the largest Central American recipient of remittances from abroad. Approximately US\$800 million is returned each year by the more than one million Salvadorans living in the United States, but many of these Salvadorans reside illegally in the United States and face deportation. Another positive factor, the upturn of coffee prices in mid-1994, is also a quite transitory phenomenon. Calderón Sol must wean the country from dependence on foreign funds.

Cristiani claimed that his major policy priority, in addition to stabilization, was alleviation of the poverty that the war and SA brought in their wake. He proceeded to set in place a program that he said would "meet the needs of the poorest" Salvadorans. His program was not pure SA, but SA hybridized with the basic-needs approach that had appeared in many Third World countries at the end

of the 1960s. The basic-needs approach of the 1960s, like Cristiani's, was a top-down program targeted at the poorest. In the case of El Salvador, it was applied as a corrective to the negative effects of SA on the poor.

Peter Sollis of the Washington Office on Latin America, analyzing the Cristiani program in the *Journal of International Development*, concludes that it was ineffective in terms of its long-term impact: "The program mix—a combination of subsidies and short-term employment creation—was palliative and encouraged dependence. A bias towards subsidies rather than human capital formation shows that the government preferred, despite its stated intentions, a narrow and rather vertical approach to poverty alleviation....[It] lost the opportunity for a long-term return on investment." He reports that the program had little effect over the long term on either sustaining development or educating the population and providing other needed social services.

It did, on the other hand, blunt the negative effects of SA on some of the poor. During the war, the Christian Democrats and the modernizing military, joined at times by the United States, felt that a program of land distribution would defuse the left wing. The bulk of the agrarian reform was carried out in 1980, when a government decree mandated the reimbursed expropriation of all farms over 500 hectares in Phase I and their conversion to production cooperatives. Nearly 470 farms were taken; some landlords kept the legally permitted reserves of 100-150 hectares, though many did not.

Two other stages completed the reform in El Salvador. Phase II extended the process to persons holding 100-500 hectares, but was immediately postponed. Some speculate that this occurred because the bulk of coffee growers fell into this size category, and were still the major elite in the country. Others believe the government felt that it could not survive with lower export earnings. Phase III was a land-to-the-tiller law that allowed tenants of farms under seven hectares to file for legal title for the plots they rented.

Phase I of the agrarian reform was carried out in military fashion and greeted by right-wing backlash. A major post-reform criticism came from those who felt that cooperatives would not use the land as efficiently as the present owners and that reform would thus lower yields. Other detractors criticized the cumbersome bureaucracy required to service the beneficiaries with credit, fertilizer, seeds and technical advice. Most cooperatives did not make mortgage payments for their land (and the government tended not to evict debtors), resulting in heavy government subsidies. Interestingly, a 1993 study showed that, contrary to landlords' criticisms, the reformed sector used land more intensively than the non-reformed sector. The differences were not marked, however, and there was still idle ample scope for augmenting production. Furthermore, land titling efforts, designed to give tenure security to new property holders, were slow and expensive.

Economic Performance in Nicaragua

Economic growth in Nicaragua has been spotty. In the 1960s, when the economy boomed, growth was accompa-

nied by economic and social polarization: the elite received most of the income benefits. From 1977 to 1979, a bloody and expensive revolution toppled the dictatorship of the Somoza dynasty and led to the rise of the Sandinista political party and the presidency of Daniel Ortega.

The Sandinista agrarian reform began in July 1979 with the "confiscation" of property belonging to Somoza; this was extended to the close followers (*personas allegadas*) of Somoza. The vague wording and lax application of the decree allowed for the confiscation of property from any "follower" of Somoza and may have led to considerable abuse. Other decrees affected "abandoned" property, unused urban property and companies whose management was thought to be "de-capitalizing" the enterprise. Still other laws created an agrarian reform that provided for compensation and due process, though in practice these measures were applied informally and often without proper landowner compensation.

The Sandinista reform first established state and group farms and then, spurred on by the exigencies of counter-revolution in the mid-1980s, responded to peasant demands for individual allotments. Agrarian reform, designed to help the rural poor, was not well administered. Furthermore, expropriation often did not conform to due process and documentation requirements or actually pay the indemnization required by law. As a result of this casual approach, more than 70 percent of all land grants are now legally suspect, leaving agrarian reform beneficiaries insecure.

The counterrevolution raged from 1984 to 1990, inflicting enormous destruction on social and economic sectors. In 1989, Nicaragua began implementing an orthodox SA package. While SA tamed inflation, it has yet to lead to economic growth, and the plight of the poor within Latin America is probably worse only in Haiti. Inflation in Nicaragua dropped from 766 percent in 1991 to eight percent in 1992 (at its Sandinista apogee, the inflation rate was 13,500 percent in one year). Since 1990, Nicaragua has made progress in changing its macroeconomic policies under the Violeta Barrios de Chamorro government—one which brought peace, albeit an uneasy one, to the country. In addition to dampening hyperinflation, it has dismantled trading monopolies, permitted the reemergence of private banking, sold off state enterprises and reformed tax and trade laws. Furthermore, it has towed the line with monetary and fiscal constraint. Unlike Chile, which took seven years to reduce most tariffs from 90 percent to ten percent, Nicaragua dropped tariffs from an average of 200 percent in 1989 to 43 percent in 1990 and to 15 percent in 1991.

In 1991, however, unemployment was still estimated at 13 percent, with underemployment pegged at about 50 percent. Economic growth turned slightly positive in 1992 for the first time in eight years, but per capita income continued to decline. In 1993, economic growth was again negative as GDP declined by 0.9 percent.

Privatization and deregulation in banking have not filled the lending gap for poor rural families, either. Instead, the sale of state-owned banks, which had been ex-

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pected to service at least some land-poor peasants, caused credit to become severely rationed. The new banks prefer to lend to established, low-risk, urban enterprises, even leaving some wealthy rural citizens without the ability to produce at an optimal level.

Structural adjustment has not yet cured the underlying malaise. The biggest problems in both urban and rural areas persist: unemployment, underemployment and poverty. But the Nicaraguan urban populace seem to have fared better than their rural counterparts, accounting for about 58 percent of the population, but just 37 percent of the poor and just 22 percent of the extremely poor. Poverty in rural regions is more widespread, deeper and more severe. Still, urban poverty remains pernicious, causing some of the same problems that plague rural areas: poor healthcare, limited education, substandard nutrition, unemployment and environmental decay. Reports also show a dramatic rise in violent crime, prostitution, drug abuse and other antisocial behavior.

Urban localities suffer a tremendous housing deficit, a shortage that began with the Managua earthquake in December 1972. This natural disaster destroyed about 50,000 housing units. Between 1970 and 1979, new construction met only about 26 percent of the increase in demand. Through the 1980s, the state itself took over nearly all housing construction. This failed to solve the problem, and housing became more inadequate during the decade. The present government recognizes the problem and plans to build 125,000 new homes, a project that is estimated to require about US\$625 million—resources that Nicaragua doesn't have. Less formal undertakings in which the administration provides a plot of land and permits construction by the inhabitants themselves have sprung up as a result of the government's ineffective response to deficient housing. While these innovative endeavors have contributed to urbanization, they have also provided housing in a more efficient manner.

Poverty continues to be a chronic problem in Nicaragua. Between the late 1970s and 1990, per-capita income fell by over 50 percent. In 1985, about 70 percent of the population was living under the poverty line (55 percent of those in urban areas and 86 percent in rural areas were poor). Today, over 50 percent of the Nicaraguan population lives on one dollar or less a day. In 1979, illiteracy exceeded 50 percent, with rural illiteracy in excess of 90 percent in some areas. This was reduced 25 percent by 1989—thanks mainly to the social program of the Sandinistas—but it increased again to about 30 percent in 1992 because of cuts in the education budget. In 1993, only ten percent of women of child-bearing age had access to health care; only 54 percent of Nicaraguans (18 percent in rural areas) had access to potable water. Faulty income distribution is also a major problem. Mean expenditures of the top ten percent of the population are twenty-five times higher than those of the lowest ten percent.

Between 1990 and 1993, foreign aid donations and concessional loans have been equal to nearly half of Nicaragua's gross domestic product. These funds allow Nicaragua to finance its deficits. Today, Nicaragua has a

debt-to-GDP ratio higher than any other country in the world except Guyana. In 1994, Nicaragua will pay US\$238 million (13 percent of GDP, 79 percent of the FOB export value) to service external debt. Nicaragua's current debt, US\$12 billion, is the equivalent of fifty years of current export earnings.

As a consequence of these woes, virtually no social indicator has turned upward lately. SA has taken place in the context of social disintegration combined with an accelerated reconcentration of whatever income is generated. For example, the demand placed on the economy to "adjust" via SA was compounded by the need to demobilize armed forces. Over 100,000 people have been or are in the process of being relocated. Insufficient means are available for moving former combatants into agricultural production or into other types of employment. Besides lack of growth, three major imbalances continue after SA: insufficient domestic savings, growing deficits and high unemployment and underemployment.

Some critics of SA argue that the Nicaraguan government is going beyond policies required by free market reforms in order to defeat the popular sectors, especially unions. They argue that SA is really economic counterreform meant to roll back the social gains (improvements in health and education as well as agrarian reform) made in the 1980s under the Sandinista government. Less cynical critics say the Nicaraguan government realizes that SA will bring a new measure of deprivation to the already poor and make the economy more dependent on foreign aid, but has no alternatives.

Several factors may explain the lack of growth in Nicaragua. First, Nicaragua imposed austerity measures on a no-growth or negative growth economy; hence structural adjustment may require more time in Nicaragua than in most countries that initiate a similar process. Further, there is often a delay in the positive impact of reform. Bolivia, for example, initiated its structural adjustment in 1985. Not until the 1990s was this belt-tightening considered to have had a positive impact in terms of economic growth (though its impact on poverty appears to be minimal, as in similar cases in Peru and El Salvador).

Second, Nicaragua has not complemented SA with other measures needed to ensure a healthy economy. Alexander Watson, US Assistant Secretary of State, believes that a *sine qua non* for Nicaragua to get its economy moving is to stimulate private investment, which will not occur until political stability can be assured. Unfortunately, confidence is generated by consistent economic policy, rule of law, secure property rights and greater political certainty, all of which are lacking in present-day Nicaragua. Potential investors in the countryside are still deterred by a lack of physical security and continuing allegations of corruption and politically motivated crime that plague the country. Official corruption in agricultural credit has reached the level of the minister of agriculture, who was caught allegedly misappropriating funds. In short, SA may be failing to achieve its objectives because of political as well as economic considerations.

One not strictly economic problem is the debate over property rights that flares up regularly. The Sandinista

government confiscated and expropriated property during the 1980s under legislation—highly popular when enacted—that attempted to redress the perceived inequities that had resulted from redistribution of wealth under the Somoza dictatorship. Conservatives have criticized how these laws were implemented, often noting the lack of due process and compensation. Former property owners now want either indemnization or the return of their land if compensation is not forthcoming; in some cases, former owners demand the return of property and refuse compensation. Neither the president nor the Sandinistas have demonstrated the political will to compromise in this regard. The president has promised not to roll back reform and to either compensate landlords or to give them back their property. If proper funding were available, there would be a way out of this dilemma. In its absence, the president is left with an insoluble problem.

While the poor struggle, the current social elites, the old oligarchy, high-ranking army officials and Sandinista functionaries, are living well. Nicaragua is seeing a return of a "new political alliance" oligarchy. The historically disadvantaged groups have again been excluded from economic participation. Nowhere is this demonstrated more clearly than in the choice of rather generous appropriations for military spending at the expense of education, social services and poverty alleviation. Today, some mothers are forced to choose which children to send to school because they cannot afford to pay 11 *córdobas* (about US\$2) per month to educate each youngster. In 1993, 87 percent of credit was allocated to larger enterprises, only 13 percent to small and medium producers.

This problem is not entirely the fault of the Nicaraguan government. US policy toward the country vacillates repeatedly. The Nicaraguan government does not seem to know how to interpret different views articulated by different branches of the United States government. One day, the US executive branch announces that solutions must come through national accord by way of dialogue and compromise among Nicaraguans and that Washington will not solve the country's problems. The next day a member of the US Congress may appear, saying that the United States supports former property holders in their bid for compensation. Similarly, the US government's ability to reward SA by granting aid was damaged by a congressional hold on US foreign assistance to Nicaragua from May to December 1992, with other funds withheld until April 1993. To some extent, lack of coherence in Nicaraguan SA policy follows US indecision, as Nicaragua counts on the support that the United States has pledged.

In June 1994, the Nicaraguan government officially agreed with the donor Consultative Group for Nicaragua, the Inter-American Development Bank, the United States, the IMF and the World Bank that it needed to intensify its efforts to combat poverty. Among other policy objectives, the government aims to further reduce the size of the public sector, thus yielding an increase in public savings and attaining greater control over social expenditures. The donors also called for continued action in four major areas: political consensus-building, debt reduction, public sector modernization and resolution of property disputes.

A Preliminary Assessment

Whether anti-poverty antidotes to SA are being administered successfully awaits further analysis, but from the vantage point of 1994, one is tempted to pronounce, "too little, too late." Yet the heavy-handed policy of the 1980s was little better in that regard. The way agrarian reform was carried out in El Salvador shows that government should not concentrate the bulk of any anti-poverty policy on people who are already among the most privileged of the poor by virtue of their having land. In El Salvador, Phase I beneficiaries got enormous subsidies while most Salvadoran peasants—who remained landless and poor—got nothing at all. Furthermore, El Salvador's reform questions the advisability of top-down programs. It would also seem that government could strip down the bureaucratic nature of the land reform administration, ceding some of the responsibility for poverty alleviation to non-governmental organizations already operating in the country. El Salvador should now be attempting to attack the rural poverty problem explicitly by targeting those who did not benefit from land reform in rural areas, especially the former combatants and *tenedores* who have been offered land under the peace accords.

As in El Salvador, it is clear that the government in Nicaragua will have to take a broader approach to stimulate productive capacity—specifically focusing on the rural poor and investing in those programs (increased farm production, health care and education) that have sustainable multiplier effects—in addition to maintaining a steady course on macroeconomic fiscal and monetary policy. No meaningful poverty alleviation program can be put in place in a no-growth atmosphere, so it is imperative that SA succeed.

Furthermore, land policies need immediate attention. Nicaragua has already begun to address the problems of land-based disputes caused by lack of titling and overlapping claims, compensation of former owners and relocation of former combatants. Failure to deal with these issues effectively will mean continued marginalization for the historically disadvantaged. Resolution of the property-rights crises should induce an enhanced climate for savings and investment. The poor need to be given access to land via market mechanisms, probably requiring the establishment of mortgage banks. A coordinated, market-friendly strategy is required to ensure broad economic participation. Finally, with donor support, Nicaragua must further expand its export production capacity and improve its international competitiveness, measures that will create employment in the longer term.

Both countries must wean themselves from foreign loans by the time these funds dry up. In addition to SA, El Salvador and Nicaragua have major expenses pending for the ongoing processes of settling former combatants and alleviating poverty. Moving away from dependence upon foreign loans, instituting land reform, combatting poverty and increasing production while stabilizing the economy will be quite difficult. If progress is not made in each of these areas, however, peace and democracy—not to mention the well-being of the people—will be at risk. •

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When the wars in neighboring Nicaragua and El Salvador ended, so too did Washington's interest in Honduras. With no further need for the military's cooperation, military assistance, which reached US\$81 million in 1986, fell to just US\$2 million in 1994. Beginning with the Bush Administration, Washington set about trying to reverse the effects of previous policies by reducing the political influence of the armed forces. "What we're doing now is damage control," said one US official, reflecting on the

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Promoting Democracy on the Cheap

During the first two years of the Clinton Administration, several themes have emerged in US policy toward Central America. Like President Bush before him, Clinton has supported diplomatic efforts to achieve peace and national reconciliation, but he has been more willing than Bush to actively involve the United States in the pursuit of these ends. Twice the United States has suspended aid to El Salvador in order to force the government to comply with the peace accords. In Guatemala, the Clinton Administration is actively engaged in trying to broker a peace agreement. And, like Bush, Clinton suspended aid to Nicaragua in the hope of breaking Sandinista control of the army.

Reducing the power of the armed forces is obviously a necessary condition for strengthening democracy in Central America. Military aid to the region has fallen dramatically under Clinton, continuing the decline begun under Bush, and Washington has consistently supported efforts to down-size military institutions. More importantly, the United States has put its diplomatic muscle behind civilian control and the need to end military "impunity"—the tradition that military officers are above the law and can commit atrocities without fear of punishment. Such a change in political culture will not come overnight, to be sure, but Washington's commitment to civilian supremacy and military accountability is a powerful force for improvement.

At the same time, Clinton has sought to disengage the United States from partisan disputes within the Central American nations. In El Salvador, Washington stayed scrupulously neutral in the 1994 elections—for the first time since the electoral system was created in 1982. In Nicaragua, Washington has explicitly declared its unwillingness to arbitrate among bickering factions, and has retreated from Bush's policy of trying to undermine the political influence of the Sandinistas. "We are not going to play favorites," Ambassador John Maisto explained.

Another theme of US policy is more familiar. Despite the good intentions articulated by Wharton at the start of the administration, Clinton's Central America policy has been largely crisis-driven. Washington focused on Guatemala only when Serrano's attempted *auto-golpe* threatened the Constitution; it focused on El Salvador only when rising death squad violence threatened to demolish the peace process; and it focused on Nicaragua only when Senator Helms' legislation threatened to cut off US aid.

Out of Sight, Out of Mind

Why is it that US policymakers are wise enough to realize that they should avoid the mistake of paying attention to Latin America only in moments of crisis, yet fall into the same old pattern anyway? In the aftermath of the Cold War, with most Americans more worried about domestic issues than foreign policy, other countries tend to attract Washington's attention in direct proportion to their potential effect on the quality of life in the United States. Thus, issues like drug trafficking, immigration and, of course, international economic relations have moved to the fore.

With no external enemy to threaten US interests in Central America, the region's importance in Washington is defined by this new issue agenda. Economically, Central America is insignificant, accounting for less than 5% of US trade and direct foreign investment. Although hundreds of thousands of refugees from Central America fled to the US during the 1980s, the flow subsided along with the region's wars. Over the last half-decade, Cuba, Haiti and Mexico have generated far more immigrants than Central America. Drug trafficking is a growing problem in the region as producers look to diversify their smuggling routes north to the United States. But the Clinton Administration has scaled back US drug interdiction efforts, preferring to focus its resources on eliminating production facilities in the Andes and on treatment and prevention in the United States. In short, on the issues that count in Washington, Central America ranks low. Nothing is a better barometer of Washington's current interest than the diminishing foreign aid budget.

For Central Americans, Washington's shifting priorities have come as a shock. After the tumultuous 1980s, when US foreign policy seemed to hinge on events in Central America, the disinterest of the 1990s has been disquieting. "It is as though a hurricane passed through," a Honduran businessman said, "and all that is left is the bad aftermath"—an aftermath that, more and more, the United States expects the Central Americans to manage for themselves. •

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Promoting Democracy on the Cheap

During the first two years of the Clinton Administration, several themes have emerged in US policy toward Central America. Like President Bush before him, Clinton has supported diplomatic efforts to achieve peace and national reconciliation, but he has been more willing than Bush to actively involve the United States in the pursuit of these ends. Twice the United States has suspended aid to El Salvador in order to force the government to comply with the peace accords. In Guatemala, the Clinton Administration is actively engaged in trying to broker a peace agreement. And, like Bush, Clinton suspended aid to Nicaragua in the hope of breaking Sandinista control of the army.

Reducing the power of the armed forces is obviously a necessary condition for strengthening democracy in Central America. Military aid to the region has fallen dramatically under Clinton, continuing the decline begun under Bush, and Washington has consistently supported efforts to down-size military institutions. More importantly, the United States has put its diplomatic muscle behind civilian control and the need to end military "impunity"—the tradition that military officers are above the law and can commit atrocities without fear of punishment. Such a change in political culture will not come overnight, to be sure, but Washington's commitment to civilian supremacy and military accountability is a powerful force for improvement.

At the same time, Clinton has sought to disengage the United States from partisan disputes within the Central American nations. In El Salvador, Washington stayed scrupulously neutral in the 1994 elections—for the first time since the electoral system was created in 1982. In Nicaragua, Washington has explicitly declared its unwillingness to arbitrate among bickering factions, and has retreated from Bush's policy of trying to undermine the political influence of the Sandinistas. "We are not going to play favorites," Ambassador John Maisto explained.

Another theme of US policy is more familiar. Despite the good intentions articulated by Wharton at the start of the administration, Clinton's Central America policy has been largely crisis-driven. Washington focused on Guatemala only when Serrano's attempted *auto-golpe* threatened the Constitution; it focused on El Salvador only when rising death squad violence threatened to demolish the peace process; and it focused on Nicaragua only when Senator Helms' legislation threatened to cut off US aid.

Out of Sight, Out of Mind

Why is it that US policymakers are wise enough to realize that they should avoid the mistake of paying attention to Latin America only in moments of crisis, yet fall into the same old pattern anyway? In the aftermath of the Cold War, with most Americans more worried about domestic issues than foreign policy, other countries tend to attract Washington's attention in direct proportion to their potential effect on the quality of life in the United States. Thus, issues like drug trafficking, immigration and, of course, international economic relations have moved to the fore.

With no external enemy to threaten US interests in Central America, the region's importance in Washington is defined by this new issue agenda. Economically, Central America is insignificant, accounting for less than 5% of US trade and direct foreign investment. Although hundreds of thousands of refugees from Central America fled to the US during the 1980s, the flow subsided along with the region's wars. Over the last half-decade, Cuba, Haiti and Mexico have generated far more immigrants than Central America. Drug trafficking is a growing problem in the region as producers look to diversify their smuggling routes north to the United States. But the Clinton Administration has scaled back US drug interdiction efforts, preferring to focus its resources on eliminating production facilities in the Andes and on treatment and prevention in the United States. In short, on the issues that count in Washington, Central America ranks low. Nothing is a better barometer of Washington's current interest than the diminishing foreign aid budget.

For Central Americans, Washington's shifting priorities have come as a shock. After the tumultuous 1980s, when US foreign policy seemed to hinge on events in Central America, the disinterest of the 1990s has been disquieting. "It is as though a hurricane passed through," a Honduran businessman said, "and all that is left is the bad aftermath"—an aftermath that, more and more, the United States expects the Central Americans to manage for themselves. •