

Introduction

When I started graduate school in 1984, interest in Central America was at a post–World War II high. A region whose politics and economics generated little interest had become, by the late 1970s, an area making daily international headlines. A civil conflict in Nicaragua ended with the overthrow of President (and dictator) Anastasio Somoza in 1979. In neighboring El Salvador and Guatemala, left-wing guerrillas fought military regimes backed by the United States. A conservative administration in Washington led by Ronald Reagan interpreted these events as part of a Soviet and Cuban conspiracy to gain control of the isthmus, one that it chose to battle in what became the cold war’s last decade.

More than three decades later, these events seem both distant and surreal. Interest in Central America has evaporated. It seems odd, perhaps even bizarre in retrospect, that both the left and the right spilled so much blood about the horrors or benefits of political change and social revolution. I wonder how many of these protagonists would agree with former Nicaraguan Vice-President Sergio Ramírez (1985–90) that the Sandinistas should have reached a compromise with the Reagan administration to end the bloodshed (Kinzer, 2001b). The U.S. decision, one spearheaded by the Barack Obama administration, to support or at least not oppose the Arab Spring (2011–present) reminds us how the Cold War put us on the wrong side of political change in so much of the Third World. I also wonder what participants and observers from the 1980s would say if we could transport them to the present, one that has seen an eviscerated Sandinista movement led by an aging Daniel Ortega be reelected president in 2006, in part by colluding with his erstwhile opponents, and obtaining supreme court backing to run for consecutive reelection to the presidency in 2012, which he won by a landslide, with 62.5 percent of the vote.

One objective of this book is to analyze political and economic developments since the 1970s in the countries of Central America. It is an effort that draws on more than three decades of research, travel to, and observation about the region. I first started thinking about Central America when I was an adolescent, when U.S. “allies” in the Third World, such as Somoza of Nicaragua

and the Shah of Iran, fell and became the subject of intense debate about the motivations and consequences of U.S. foreign policy decision-making. Articles in the *New York Times* about El Salvador by Raymond Bonner, Clifford Krauss, Stephen Kinzer, and others described how a reformist junta, which had come to power in a coup d'état in October 1979, was steadily drifting to the right. U.S. foreign policy makers ignored the shift; the Reagan administration defended the return of hardline governments – judging by their slaughter of thousands of civilians – as necessary to fight communism. I kept reading and turned to the pages of *Estudios Centroamericanos*, the journal published by the Universidad Centroamericana in San Salvador. It was the material in these pages and elsewhere that sparked my interest in speculating how inequality becomes the basis of political protest.

A more central objective is to marshal this experience to shed light on three central debates of comparative politics and political economy: why civil wars happen; why political systems democratize, especially in the aftermath of civil wars; and, finally, the impact of economic development on democratic consolidation. A key way to engage the fascinating cross-national literature on these issues is by asking whether its arguments are useful for making sense of macro change in specific societies. It is a necessary step, one that obligates us to identify the mechanisms that link macro characteristics with outcomes, and whether these are consistent with statistically based generalizations. My book therefore marries “old-style” comparative politics, and its concern with context, with the theoretical ambition of “modern” comparative politics, one that concentrates on generating cause and effect generalizations possessing cross-national validity. I hope the reader, whether a novice about the region or a sophisticated social science consumer, finds my creation to his or her liking.

The first of three literatures this study draws on is the origins and outcomes of civil war and revolution. Why some regimes fall and set the stage for major social revolution was a central concern of the comparative politics of development until the 1980s. Curiously, just as Theda Skocpol published her *States and Social Revolutions* (1979), interest in the study of revolution began to wane. By the late 1990s, however, interest in revolution resurfaced under a new rubric, the study of civil war, in large part because multilateral institutions such as the World Bank funded research on what Paul Collier insightfully calls *The Bottom Billion* (2007). With the important exceptions of the mid-level developing countries of Costa Rica and Panama, the other countries of the isthmus belong to a group of approximately 100 developing countries with gross domestic product (GDP) per capita rates of less than \$U.S. 10,000 (2009, purchasing power parity [PPP]). Like half the Central American isthmus, more than half the countries of the bottom 100 have experienced civil war or bad governance (or both).

Debate in what is an empirically rich and increasingly sophisticated field of study revolves around whether civil war is a product of greed, grievance, or closed political systems (Kalyvas, 2007). Central America offers a great opportunity to scrutinize the central predictions of this literature. This book suggests

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that inconsistently authoritarian regimes – ones afflicted by factionalism and unable to incorporate or eradicate their adversaries – gave rise to guerrilla movements on the isthmus. It was the inability to forge institutions regulating access to state power that led to a decade of civil war and conflict in much of Central America.

The second area of research this book draws on is democratization. The dramatic increase in the number of democracies during the 1980s, which Samuel P. Huntington (1991) dubbed the third wave, produced an outpouring of research on why political systems change. With the exception of Costa Rica, Central American political systems were authoritarian well into the 1980s and 1990s (Bowman, Lehoucq, and Mahoney, 2005), regimes aptly described as reactionary despotisms by Enrique Baloyra-Herp (1983). Nicaragua democratized by 1990, when political forces of the left and right began to compete in regularly scheduled and honest elections. El Salvador and Honduras completed their transitions from authoritarian rule by the mid-1990s. Military rulers in Guatemala gradually turned power over to elected politicians after trouncing their opponents in a brutal counterinsurgency.

Discussion is about whether authoritarian regime legacies shape transitions to democracy (Geddes, 2007) and how economic growth changes societies so democracy endures (Robinson, 2006). Central Americanist controversies revolve around whether the eclipse of traditional oligarchies was a product of the shift from landed to financial wealth (Paige, 1997) or the result of civil war, as I heard Rubén Zamora, a leader of the Salvadoran social democratic left, explain at the meetings of the Latin American Studies Association in the early 1990s (Zamora, 1997; also, see Rouquié, 1994; Wood, 2000). This is an argument consistent with the point that old orders rarely give up without a fight, without a sustained threat to their interests (Markoff, 1996; Tilly, 2004). This region-specific debate invokes another pioneered by international relations scholars, about the consequences of civil war (Gurses and Mason, 2008; Toft, 2010; Walter, 2010), one where the balance of evidence suggests that war improves the quality of political systems – perhaps because new regimes cannot but improve upon the old.

By examining why autocracy fell in Central America, this book shows that it was the struggle of peasants, workers, and guerrillas that forced despotic regimes – typically backed by the United States – to reform themselves. It was, in other words, the actions of thousands of ordinary people that, at enormous cost, changed Central America in a pattern that, one historian (Acuña Ortega, 1995) suggests, holds for other periods of political reform on the isthmus. The resiliency of reactionary despotism meant that violence was (unfortunately) the only way to make regimes more accountable, even if my analysis suggests that centrist compromises could have modernized political systems more peacefully; yet, at key points – Guatemala in 1954 and El Salvador (at least) in 1979, spring to mind – elites and the United States refused to endorse compromises that would surely have led to the spilling of less, perhaps significantly less, blood. It is a sobering conclusion, but one that strikes me as a central lesson

of a fair reading of the evidence. Social reform never comes easy, especially in unequal societies where autocrats are unwilling to share power.

Civil war and revolution, if they generate benefits at all, do so in the long term. In the short and medium term, they are costly, perhaps expensive enough to wonder why, *ex ante*, key actors do not compromise to maximize benefits and minimize costs. A look at macroeconomic indicators over the past three decades makes this point. Only in Costa Rica and Panama are economies, in per capita terms, richer than they were in 1980. In 2006, both have GDP per capita rates approximately 50-percent larger than they were on the eve of the revolutionary decade. Economic growth in Guatemala and Honduras, however, has stagnated. Both had the same GDP per capita by 2006 that each had in 1980. Although El Salvador's GDP per capita rate has slightly increased, Nicaragua's has declined by almost a fourth since 1980 (Maddison, 2010).

The gap between Central America and the developed world therefore has widened: Although Costa Rica and Panama had GDP per capita rates slightly more than a third of the average of Western Europe's twelve largest economies in 1980, this ratio fell to slightly less than a third by 2008. Lack of development not only has worsened international comparisons, but also has increased disparities on the isthmus itself. Whereas the richest Central American states had GDP per capita rates twice as large as their poorer neighbors in 1980, this ratio is now three or four times as large. Understanding why development continues to stagnate in much of the region and why some economies have prospered are questions worth asking in light of the cataclysmic events of the 1980s.

The third area of research this book examines is the political economy of democratic consolidation. My discussion uses the six Central America cases to determine whether economic decline leads to political decay, a long-standing claim in comparative political economy. It analyzes the operation of electoral governance, executive-legislative relations, party systems, and state revenues to explain why democratization has produced disappointing results and even been reversed in Honduras and Nicaragua. This book shows why, contrary to standard economic models (Meltzer and Richard, 1981; Romer, 1975), pressure for social reform does not (easily) translate into public policies that reduce the differences between the rich and the poor. After a decade or more of electoral competition, rates of inequality have hardly budged, even if rates of poverty have fallen in some countries of the isthmus. This is a particularly depressing finding because so many revolutionaries demanded that dictatorships reform themselves and address pressing social needs. I point out that the war-induced lack of economic growth has contributed to political market failures, ones that do little to foment the political accountability necessary to deepen democracy and promote development in most countries on the isthmus.

Analysis of all three issues will show that politics – its conflicts, dynamics, and institutions – is driving the core political economic trends on the isthmus. The persistence of reactionary despotism led to the bloodbaths of Central America, outcomes that point to the importance of modeling regime dynamics

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to account for the outbreak of violent conflict. Civil war led to the transitions from authoritarian rule; it was politics, through violent means, that reordered the Central American political landscape. It was the destruction of war that led to a permanent decline in rates of economic growth in El Salvador, Guatemala, and especially Nicaragua. It was a long history of political competition that helped Costa Ricans minimize the social dislocations of a negative shift in the terms of trade in the late 1970s and 1982 foreign debt crisis. It is deficient party systems, along with resource poor states, that lead to political market failures, to the inability of refashioned political systems to create the basis for sustained growth and to reduce the distance separating the rich from the poor.

Approaches and Sources in the Study of Central America

Writing a book about the political economy of Central America is not easy. The canonical texts, from those authored by Edelberto Torres-Rivas (1993; first published, in Spanish, in 1961) to Jeffrey Paige (1997), neglect the study of politics, in part because dictatorship and open-economy policies did lead to rather primitive states in most countries of the region. The Marxist or materialist social science that inspired so many of these accounts also led analysts to see states as little more than instruments of local elites, foreign companies, and of the U.S. government. Most studies thus focused on the economic and social constraints on political as well as economic development (Smith and Boyer, 1987; Smith, Boyer, and Diskin, 1988).

Dana Munro's much earlier study, first published in 1918, is an exception. This is a curious result because his *The Five Republics of Central America* is an outgrowth of his Ph.D. dissertation for the Department of Economics at the University of Pennsylvania. Munro argued that dictatorship and the often violent exchange of state power retarded development in Central America. Although poverty and the lack of economic growth contributed to authoritarianism and economic underdevelopment, Munro argued that political traditions and geostrategic factors also contributed to the region's backwardness. Unfortunately, Central Americanists largely ignored Munro's pioneering analysis, even as it anticipates contemporary political economic discussions about the origins of civil conflict, regime types, and lack of economic growth (Lehoucq, 2003).

Although this book looks to the comparative research on political economy for inspiration, it also takes cues from Munro's pioneering work. It builds, in particular, on Victor Bulmer-Thomas (1987) and Carlos Vilas's (1995) fine political economies on the region to analyze how economic policies and the material organization of society, respectively, shape the struggle for power. My book relies on the periodic reports on the *Estado de la Región* (State of the Region; e.g., PENR, 2008; 2011), which has commissioned a plethora of working papers on social science and public policy topics on the isthmus. The book incorporates findings of the newer research on the region that concentrates on electoral laws, party systems, public opinion, and executive-legislative relations,

which makes it possible to write a modern political economy of the region: one that explains how the nature and dynamics of the political system affect the economy as well as how economic interests and structures shape public policy. This book is part of a dialogue with friends and colleagues – past, present, and future – about the origins of the civil wars of the 1970s and 1980s and their political and economic consequences. It is to the conversations among Central Americanists that I bring to bear my reading of central debates in comparative politics and political economy, a combination that I hope benefits region-specific researchers as well as comparativists, more generally.

Civil War, Democratization, and Underdevelopment in Central America uses controlled comparisons among five cases over a forty-year period and what John Gerring (2007) calls “cross-case” analysis to examine central themes of comparative politics and political economy. I pursue cross-case analysis by drawing on the findings of social science research about three sets of cases: the universe of all nation-states; the population of developing countries, especially of politically fragile societies; and the set of eighteen Latin American countries. Having chapters revolve around core topics – and not countries – maximizes the opportunities for fruitful comparisons between the countries of the isthmus and the rest of the world. With the exception of Héctor Pérez-Brignoli’s (1989) impressive synthesis or Salvador Martí i Puig’s (2004) more recent tome, books on Central America typically assign chapters to each country of the isthmus (e.g., Bethell, 1991; Booth, Wade, and Walker, 2010; Dunkerley, 1988; Parker, 1964; Woodward, 1999), which hinders identifying commonalities and dissimilarities among Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama and, most importantly, how these experiences shed light on central themes in comparative politics and political economy.

Overview of Chapters

The first chapter depicts the political and economic setting of Central America in the 1970s. It analyzes the impact of an economic model, one based on exporting coffee and bananas (and, after World War II, cattle, cotton, and sugar), in unequal societies on growth rates and on social well-being. States were highly responsive to export interests not only because they were well-organized and vocal about their demands, but also because the prosperity of these societies – and of state revenues, in particular – depended on international trade. It scrutinizes classic arguments about the development of dictatorships in most countries and democracy in Costa Rica, suggesting that it was the structure of political competition that led to divergent regime trajectories on the isthmus. Where it produced partisan stalemates, as in Costa Rica, democracy emerged – a system that gave politicians an interest in compensating the losers as well as the winners in international trade. Where political struggle ended because one faction monopolized violence, tyrannies proliferated, ones that had little interest in improving social conditions for the majority. This chapter ends with an evaluation of the region’s post-World War II boom: Although most economies grew

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and social conditions (marginally) improved, the gains from trade were concentrated among agro-exporters; domestic industrialists; and, to a lesser extent, the urban labor force.

Chapter 2 concentrates on explaining why, in the 1970s and 1980s, civil wars erupted in El Salvador, Guatemala, and Nicaragua, but not in Costa Rica, Honduras, and Panama. Most quantitative, cross-national research emphasizes the impact of economic underdevelopment, poverty, and inequality. This chapter emphasizes the role of political factors, presenting the results of a new political system classification to explain how, what I call inconsistently authoritarian regimes, ignited the civil wars on the isthmus. This chapter analyzes why revolutionary forces only triumphed in Nicaragua, lost in Guatemala, and forced the government into a stalemate in El Salvador. It assesses the consequences of the cold war on political developments, demonstrating how the Carter administration's human rights policy weakened dictatorships (but hardly caused their collapse) before changing its policy – a stance the Reagan administration pursued and hardened – to prevent the overthrow of hardline governments in the region.

Chapter 3 analyzes the shift to semi-democratic and democratic forms of government during the last decades of the twentieth century. This chapter determines whether these transitions are consistent with cross-national models of democratization that highlight the impact of economic development on political change. It identifies the reasons civil war and peace negotiations paved the way for political and economic reforms, paying particular attention to the role foreign governments and multilateral institutions play in Central America. This chapter explores why, with the partial exception of El Salvador, post-conflict governments have done little to hold human rights violators of the past accountable for their actions.

The fourth chapter examines economic growth and development over the long run. It assesses the impact of more than a decade of civil war on development, an outcome that coincided with the dramatic fall in the region's terms of trade (and debt crisis in Costa Rica, Nicaragua, and Panama). It analyzes the consequences of neoliberal reforms and why these have been unable to reignite economic growth outside Costa Rica and Panama. It shows how the absence of viable states, ones that collect revenue and invest it in infrastructure, public security, health, and education, undermines development on the isthmus. This chapter ends by analyzing continuities and changes in the region's production profile, one in which light manufactures and especially labor increasingly vie for dominance as the isthmus's key exports.

Chapter 5 examines the nature and consequences of democratization and war-induced economic decline. The most important accomplishment of the civil wars has been to incorporate the left into the political system. This chapter analyzes the interaction of voter turnout rates, public opinion, party system dynamics, and government expenditures to explain why most political systems have experienced market failure: Their structural characteristics undermine accountability, their ability to meet public demands to narrow the differences

between the rich and the poor and otherwise create the conditions for sustained growth. Several democracies have regressed, even if no Central American country has witnessed the return of civil war, an outcome all too common in post-war civil war settings.

The conclusion summarizes the findings of this book and identifies their implications for debates on comparative politics and political economy. It argues that the cross-national, statistical research on the political economy of income distribution generates the most useful findings, ones that help explain why the results of democracy have been meager on the isthmus. It suggests that the large-N research on democratization and the origins of civil wars is less useful, with much research on civil wars being the least useful. Politics, by which I mean the structure of political competition, the nature of regimes and of political institutions more narrowly, turns out to explain the outbreak of civil war, democratization, and the economic and political consequences of social policy. This chapter also identifies what has and has not changed since the civil wars of the 1970s and 1980 and, more broadly, how the past two and a half decades fit into broader patterns of development since the beginning of the twentieth century.

This book is as much a reflection on comparative political economy as it is an homage to teachers and friends. The person who introduced me to the region was Harold Sims, a historian at the University of Pittsburgh who helped me understand U.S. foreign policy toward the isthmus when I was an undergraduate. Another influential teacher was Richard Cottam, whose course on the Middle East, and how U.S. foreign policy makers struggled to fashion policy to an aging dictator, the Shah of Iran, and to its revolutionary replacement, I remember well almost three decades later. The parallels with U.S. foreign policy making toward Central America are striking, as his book on *Iran and the US* (Cottam, 1988) reveals. John Markoff's graduate course on historical sociology and revolutions introduced me to state-of-the-art thinking on rapid social change, one that sparked my interest in quantitative social science and to the systematic study of revolutions. Both his own award-winning works on the French Revolution (Markoff, 1996a) and on the role of social movements on democratization (Markoff, 1996b) mark my book. In graduate school, I was fortunate to take coursework with several gifted faculty. Arturo Valenzuela taught me to take political institutions in Latin America seriously. Judging from Chapter 5, Peter Lange's course on the political economy of advanced, industrial societies left an imprint, one that gradually got me to think hard about income inequality. Robert Bates ignited my interest in the political economy of development, and I have learned a great deal from his work.

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trips to Central America often overlapped with those of Marc Edelman and Steven Palmer, two North American researchers with whom I shared notes and observations, especially on Costa Rica (Lehoucq, 1998b). Marc's admonishment to take social protest seriously not only dovetailed with a central point of John Markoff's research, but also led to a central theme of this book. Steve was a constant source of insight on Central American history. Victor Hugo Acuña's friendship and intellect both inspired me and got me to reflect about so many things, especially long-term developments and comparisons among the countries of the isthmus. More recently, the researchers at the *Programa del Estado de la Nación* reignited my interest in the isthmus. Without its research, this book would have been much harder to write. I thank Miguel Gutiérrez and Jorge Vargas Cullell for their friendship and interest in my work.

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