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FOOD FIRST  
DEVELOPMENT  
REPORT

S E P T E M B E R 1 9 8

HELP OR  
HINDRANCE?

United States Economic  
Aid in Central America

Kevin Danaher  
Phillip Berryman  
Medea Benjamin

Archive

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Kevin Danaher and Medea Benjamin are senior analysts at the Institute for Food and Development Policy. Phillip Berryman is a noted author on Central America. His latest book is *Liberation Theology* (1987) published by Pantheon Books.

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Food First Development Report No. 1  
The Institute for Food and Development Policy  
September, 1987

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## FOOD FIRST DEVELOPMENT REPORT SERIES

"Help or Hindrance?" inaugurates a new publication series from the Institute for Food and Development Policy, long known for its seminal work on international development. Food First Development Reports offer lay people, specialists, academics, civic activists, and policymakers unique analyses of subjects of ongoing critical importance—internationally as well as nationally. This study of U.S. economic assistance will be followed by subjects as wide ranging as population, militarization, trade, and the environment. The series will both pinpoint arguments central to current debate and recommend steps to generate positive action.

Food First Development Report (ISSN: 0895-3090) is published by the Institute for Food and Development Policy, 145 Ninth Street, San Francisco, CA (415) 864-8555. Issues in this series are released periodically, with a minimum of four published per year. Annual subscription rates are \$24 for individuals and \$34 for institutions.

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Design: Constance King  
Typesetting: Access Typography  
Printing: West Coast Print Center

This report has been endorsed by: Maryknoll Missioners, Mennonite Central Committee, Oxfam America, Pueblo to People, and the Unitarian Universalist Service Committee.

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## CONTENTS

ONE	SUMMARY	1
TWO	REGIONAL OVERVIEW	5
THREE	HONDURAS	19
FOUR	EL SALVADOR	31
FIVE	COSTA RICA	45
SIX	GUATEMALA	57
SEVEN	CONCLUSION	69
EIGHT	RECOMMENDATIONS	79
APPENDIX	Statistical Tables	83
NOTES		93

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## TABLES

1. Unemployment in Central America, 1986
2. Debt Outstanding as Percentage of Annual Export Earnings, 1978–1986
3. Debt Service as Percentage of Export Earnings, 1983–1986
4. Economic and Security Aid to Central America, 1975–1988
5. Land Forces in Central America, 1977–1985
6. Combat Aircraft in Central America, 1977–1987
7. U.S. Aid to Honduras, 1975–1988
8. U.S. Aid to El Salvador, 1975–1988
9. Gross Domestic Product, 1980–1986
10. Annual Gross National Product Per Capita, 1978–1984
11. U.S. Aid to Costa Rica, 1975–1988
12. U.S. Aid to Guatemala, 1975–1988
13. Percentage of Arable Land for Subsistence and Cash Crops, 1985

## SUMMARY

Central America is torn by a profound economic and political crisis. During the 1980s, U.S. aid to the region has skyrocketed, yet the crisis persists.

This report addresses three central questions. (1) Does U.S. aid to Central America benefit the majority of Central Americans? (2) Does our foreign aid to Central America serve the interests of the majority of U.S. citizens? (3) How might U.S. aid play a more positive role in the region?

Our years of research in Central America have led us to the following conclusions.

- **Massive amounts of U.S. economic and military aid during the 1980s have coincided with a rapid deterioration of Central American economies and a widespread decline in living standards.** Annual U.S. foreign assistance to the four countries surrounding Nicaragua (El Salvador, Honduras, Guatemala, and Costa Rica)<sup>1</sup> increased nearly sixfold, from \$150 million in 1980 to \$895 million in 1986. From 1980 to 1987, U.S. bilateral aid to these four countries totaled more than \$5.2 billion.<sup>2</sup> Yet during that period, regional conflict escalated, intraregional trade plummeted, real wages and salaries declined to levels of ten years earlier, unemployment and underemployment jumped to levels not seen since the Great Depression, and per capita economic output declined to 1970 levels.
- **U.S. foreign aid has not addressed the key obstacle to economic development in Central America: the extreme inequality keeping most people too poor to be customers in a market economy.** U.S. aid has been based on a "trickle-down" thesis: by putting most of our assistance into the hands of generals, politicians,

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and business leaders it will be invested in ways that will create broad social benefits. The truth is that little of our aid trickles down to the poor—the majority in Central America. Unless people have money to spend, market forces cannot operate effectively. While touting market principles, U.S. aid policies have done little to address the major constraint on market development: the widespread poverty that limits demand.

- **The largest portion of nonmilitary aid, Economic Support Funds (ESF), is really security assistance which is often used to support military programs.** Aid to Central America in the form of ESF has burgeoned from \$9.1 million in 1980 to \$407 million in 1986—an increase of more than 4,300 percent.<sup>1</sup> ESF grew from 6.5 percent of all nonmilitary aid in 1980 to 57.8 percent in 1986. Under the human rights clauses (Section 502-B) of the 1974 Foreign Assistance Act, Economic Support Funds are classified as part of the Security Assistance Program along with four other types of security assistance.<sup>4</sup> Most ESF consists of direct cash transfers from the U.S. treasury to central banks of recipient governments. Although U.S. law prohibits this balance-of-payments support from being used for military purposes, it frees up other money to prosecute wars, make debt payments to foreign banks, and import equipment for police and military forces. The U.S. government has little oversight or control over this money and little of it reaches the poor. The Reagan administration's habit of counting ESF as economic aid is a deceptive practice which leads many U.S. taxpayers to assume, incorrectly, that most of our aid to Central America goes for economic development.
- **The emphasis on security assistance during the 1980s has reinforced the obstacles to a long-term solution.** The Reagan administration radically shifted the priorities of U.S. aid to Central America. Security assistance (military and ESF) jumped from just 13 percent of the total in 1980, to 68 percent of the total in 1986. By favoring security assistance over development

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assistance, U.S. foreign aid has strengthened those sectors — the military and the elite — that are resistant to precisely the changes needed to ensure broad-based development. By blocking developments such as free trade unions, effective land reform, and other mechanisms for empowering the majority, the elite recipients of U.S. aid guarantee a future of conflict.

- **U.S. support for a military strategy in both Nicaragua and El Salvador has undermined economic development in the region.** U.S. support for the contras' efforts to topple the Nicaraguan government and for the Salvadoran government's effort to achieve military victory over the insurgency, have resulted in escalating conflict. This conflict has destroyed human life and physical infrastructure, undermined regional trade, and exacerbated capital flight and declining investment.
- **Most U.S. economic aid strengthens an agro-export orientation which increases Central America's vulnerability to world market forces and exacerbates hunger in the region.** The emphasis on agro-exports has helped destabilize the region by making it even more vulnerable to fluctuations in world commodity prices. The historical record shows that these export-dependent economic structures contribute to widespread hunger because they help concentrate wealth — particularly land and foreign exchange earnings — in the hands of a few. It is this concentration of control, not exports per se, that makes the agro-export model so destructive. AID's current strategy of diversifying the mix of agro-exports into "nontraditional" crops may slightly improve a nation's balance-of-payments situation but it will not significantly alter the vast inequalities between rich and poor.
- **Most U.S. food aid to Central America is designed to support allied governments, not to feed the hungry.** More than 84 percent of U.S. bilateral food aid to the region during the Reagan administration has been Title I of Public Law 480. In contrast to Title II — agricultural commodities given to private

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relief groups and governments for direct feeding programs— Title I consists of low-interest credit for the recipient government to buy U.S. agricultural commodities and then sell them on the open market, keeping the proceeds. Those in greatest need do not gain access to this food. The U.S. government exercises little control over how Title I funds are used. Title I gets rid of surplus agricultural commodities, but it neither solves the U.S. farm crisis nor feeds the hungry in Central America.

- **While U.S. aid to Central America has supported a military buildup, the prerequisite for development in the region is a peace settlement.** Most Central American governments are spending large amounts on the military. The U.S. emphasis on security assistance has encouraged this shift in priorities away from development and has slowed the progress of Latin peace efforts. The Reagan administration has subverted the Contadora peace process (and has not fully supported the 1987 peace initiative by Costa Rica) because these efforts threaten a fundamental goal of Reagan administration policy: the overthrow of the Nicaraguan government. A regional peace accord would be the most significant contribution to development in the region.
- **By supporting a military and economic strategy in Central America that fails to address fundamental obstacles to development, U.S. aid policy does not serve the national interest of the United States.** Current aid policy benefits a small minority of U.S. individuals and institutions: the military, agribusiness corporations, banks holding Central American debt. The majority of U.S. citizens would benefit more from a Central America at peace, experiencing the kind of broad-based economic development that would raise the incomes and living standards of the majority. This would mean less U.S. tax money spent on aid, greater ability of Central Americans to buy U.S. products, and fewer Central Americans illegally emigrating to the United States.

## REGIONAL OVERVIEW

U.S. economic and military aid to Central America, which in 1980 stood at \$150 million, reached a peak of \$1.16 billion in 1985.<sup>5</sup> From 1980 to 1987 U.S. bilateral aid to Central America totaled more than \$5.2 billion.<sup>6</sup> Yet during the very years when aid was increasing rapidly, the economic crisis in the region deepened.

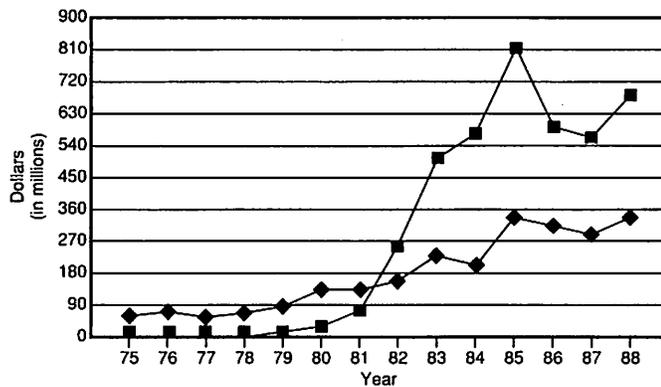
The crisis has numerous manifestations: economic growth rates are stagnant; regional trade has plummeted; capital flight is draining the region of investment funds; foreign debt payments absorb a large share of the region's export earnings; unemployment and underemployment have soared throughout the region, approaching 50 percent in El Salvador, Honduras, and Guatemala; and real incomes have declined to levels of the 1970s. The State Department admits that "even with successful stabilization programs and restored political stability, per capita wealth in 1990 would only be three-quarters of what it was in 1980."<sup>7</sup>

A natural response to this situation of human need is to send yet more economic aid. The very term *aid* conjures up images of hungry people receiving food, children being vaccinated, homes and schools being built, and wells being dug.

Yet if U.S. aid to the region during the 1980s has already totaled more than \$5.2 billion, what assurance is there that further aid will improve the lot of the Central American people? Recent developments such as the Iran-contra arms scandal, the disarray among the contras themselves, and renewed peace efforts by Latin American governments suggest the need for a broader re-examination of U.S. policy in Central America.

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**GRAPH 1: Security and Economic Aid to Central America, 1975-1988**



- Security Aid = military & ESF
- ◆ Economic Aid = DA, PL 480 I & II, Peace Corps

Note: Central America figures include Costa Rica, Guatemala, Honduras, El Salvador.

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This report, based on research by the Institute for Food and Development Policy and the expertise of development workers and scholars with experience in Central America, is an effort to contribute to that re-examination.

### Central America Is Experiencing Its Worst Economic Crisis in Decades.

Economic growth in Central America, measured on a per capita basis, declined in 1986 for the fifth year in a row.<sup>8</sup> Real per capita income, with the exception of Costa Rica, has deteriorated,

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lowering real wages and salaries to levels of 15 years ago.<sup>9</sup> Unemployment — even accepting understated official data — remains dangerously high (Appendix, table 1). Escalating conflict in the region has exacerbated the problem of capital flight. The mass exodus of investment capital, combined with consistent balance of trade deficits, has driven the Central American countries deep into debt. The four countries covered in this report, plus Nicaragua, had accumulated \$11.5 billion in foreign debt by 1986.<sup>10</sup> Total debt and debt service as a percentage of export earnings have grown to unmanageable proportions (Appendix, tables 2 and 3). This drain of resources is making economic development in the region impossible.

Government austerity programs designed to satisfy international lenders are requiring cuts in social services such as education, housing, and health care. These austerity measures, combined with unemployment, inflation, and declining real wages, are depressing the living standards of the majority and touching off strikes, protests by peasant organizations, and routine government repression.

### **Most U.S. Aid to Central America Is Security Assistance, Designed to Support Governments and their Armies.**

Between 1980 and 1987, annual U.S. foreign assistance to the four countries surrounding Nicaragua (El Salvador, Honduras, Guatemala, and Costa Rica) increased nearly sixfold, from \$150 million in 1980 to \$895 million in 1986.<sup>11</sup> During the period 1980 through 1987 we have sent more than \$5.2 billion of economic and military aid to these four countries. In addition, the Reagan administration has spent billions of dollars on military maneuvers, CIA programs, reconnaissance flights, and counterrevolutionary

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guerrillas (contras) — all aimed at overthrowing the government of Nicaragua.

Administration officials have claimed that the bulk of our aid is economic. This assertion is based on defining Economic Support Funds (ESF) — the single largest category of aid to the region — as economic. But as we will demonstrate, ESF, while not military aid, is best understood as security assistance: cash transfers which free up funds for governments considered strategically important. Thus, of total U.S. aid to Central America during the Reagan administration, more than two-thirds has been security assistance (graphs 1 and 2; Appendix, table 4). The 1980s emphasis on security assistance marked a radical break with the past. During the Carter administration, security assistance (military assistance and ESF) accounted for just 15 percent of the total aid package. In 1981, a year with some influence on aid levels by the Reagan administration, security assistance rose to 40 percent of total aid to the four countries. By 1983 the security assistance portion had risen to two-thirds of the total, remaining at that level or higher through the 1988 requests.

#### Economic Support Funds

ESF is officially designated as part of the Security Assistance Program under the human rights section (502-B) of the 1974 Foreign Assistance Act. ESF requests are presented in the president's budget as part of the security assistance program. Economic Support Funds are mainly cash transfers (balance-of-payments support) from the U.S. treasury to the central banks of governments of special political and security interest to the United States.

Aid to Central America in the form of ESF has burgeoned from \$9.1 million in 1980 to \$407 million in 1986 — more than a 44-fold increase. ESF money serves several purposes.<sup>12</sup> It can be tied to development projects, fund Commodity Import programs, or — as

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is the dominant method in Central America— take the form of cash transfers to governments with chronic balance-of-payments deficits.<sup>13</sup> The money freed up is then available for the government's own programs, payroll, and in the cases of El Salvador and Guatemala, for fighting wars.

Section 531(e) of the Foreign Assistance Act prohibits the diversion of ESF money to military uses. Yet a 1987 investigation by the U.S. General Accounting Office (GAO) concludes that "there is potential for such diversions."

Many cash transfers have been commingled with other recipient government revenues, which has made a specific accounting for some of these resources impossible.

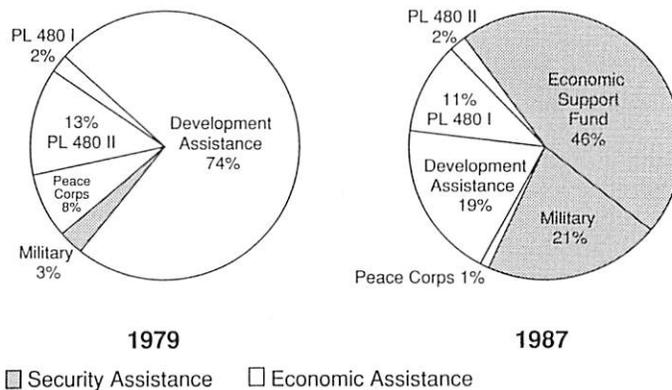
Providing dollar assistance frees up other resources to be used as the recipient chooses.

AID operates in an environment which makes the funds it administers vulnerable to misuse without detection. It must rely on recordkeeping by recipient country institutions.<sup>14</sup>

AID justifies large cash transfers by claiming they are used to import necessary raw materials and spare parts from the United States. But the GAO reports that AID exercises little control over how these funds are spent. AID's oversight process

has not required a change in what these countries buy with their foreign exchange or from whom they buy it. In other words, cash transfers are not directly linked to procurement of specific goods and services from the United States, but they do enhance recipient country ability to import all types of goods and services from the United States, Japan, Germany, or elsewhere.<sup>15</sup>

**GRAPH 2: Types of Aid as Percentage of Total Aid to Central America, 1979 and 1987**



In exchange for ESF transfers, recipient governments are often required to allocate equivalent amounts of local currency for development projects. But as the GAO reports:

AID officials told us that they do not attempt to closely control or monitor local currencies. They receive data on local currency uses but do not always visit the activity sites to determine how the funds are actually used.<sup>16</sup>

Another problem with ESF cash transfers is that there are few safeguards to keep the money from lining the pockets of powerful people in government and the private sector. In a survey of El Salvador, Honduras, and Costa Rica, the GAO found that controls to limit capital flight were either weak or nonexistent.<sup>17</sup> Our own research confirms that large amounts of U.S. aid money are

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being siphoned off into private accounts outside the recipient countries.<sup>18</sup>

### **Food Aid**

Many Americans might be surprised that most food aid to Central America does not go to hungry people but serves a function similar to that of ESF. Most U.S. food aid comes under two programs, Public Law (PL) 480 Title I and Title II. Title II consists of direct distribution of food, mainly via private voluntary organizations.

But 84 percent of U.S. food aid to Central America during the Reagan administration has been Title I and is designed to help financially strapped governments, not hungry people.<sup>19</sup> Under Title I, governments get low-interest loans to import U.S. agricultural commodities to sell on the open market. This generates local currency for the recipient government but because the food is sold, the poor do not get access. Thus, even most “food aid” is really little more than a budgetary transfer to recipient governments and serves a function similar to ESF — it frees up government resources for other things.

Given that most U.S. “economic” aid to Central America consists of non-project cash transfers with little control over end use, the Reagan administration’s claim that only a fourth of U.S. aid is security assistance is highly misleading.

### **The Increased Emphasis on Security Has Had a Negative Impact on Economic Development.**

A central finding of this report — elaborated in the country sections — is that the Reagan administration’s emphasis on security assistance exacerbated the economic crisis by fostering a shift in regional priorities away from economic development to military

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might. The size and cost of the region's armies has increased 400 percent since 1977.<sup>20</sup> Individual nations have expanded their air forces and upgraded the size and quality of their ground troops (Appendix, tables 5 and 6). Governments devote large shares of their national budgets to the military (Nicaragua and El Salvador roughly 50 percent, Honduras and Guatemala more than 25-percent).

This militarization has caused widespread suffering. Since the late 1970s, regional warfare has killed nearly 250,000 people and forced another two million to flee their homes and communities.<sup>21</sup> Considering the region has a population of just 24 million, these casualty levels are staggering. For many years to come, the region will spend millions of dollars recuperating thousands of wounded, caring for orphans, and rebuilding bridges, homes, and factories destroyed by war.

But militarization undermines development in many ways beyond the outright destruction of human life and property. The arms buildup is taking investment capital away from social services and development projects, workers in their most productive years are drawn off into military service, investors are scared away by the increasing militarization of social conflicts, and intraregional trade has plummeted to levels of the early 1970s.<sup>22</sup>

**The Reagan Administration's Emphasis on Security Assistance Has Exacerbated the Crisis in Central America because the Policy Fails to Address the Root Causes of Conflict.**

The Reagan administration's rationale for military-dominated foreign assistance is that only when these governments are safe from armed subversion can they undertake economic development.<sup>23</sup> Assistant Secretary of State Elliott Abrams described U.S.

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security assistance as a “defense shield so that our friends can make progress on the economic, developmental, and democratic political fronts.”<sup>24</sup>

This “shield” argument must be examined. Is the military component primarily a shield for development? Or is the military emphasis actually prohibiting development by blocking needed reforms? Can development efforts be successful in a context of war?

The shield rationale would make sense if the conflicts in the region were amenable to a military solution: for example, if they were caused by a small group of subversives relying mainly on outside support. But the conflicts in Central America are homegrown, caused by decades of extreme poverty and injustice suffered by the majority of the population.

Pouring security assistance into the region may make it possible for recipient governments to put down dissenters, but it does nothing to address the real causes of dissent. A U.S. policy of “keeping the lid on” change is doomed to fail because it misses the central fact that change is necessary if broad-based development is to take place in Central America. Without change in the structure of inequality, what small percentage of our current aid does “trickle down” to the poor is countered by the disproportionate strengthening of elites who receive and control most of our aid funds. Strengthening the wealth and power of an elite only makes rebellion inevitable.

Current U.S. aid policy assumes that economic growth and elections will reduce the appeal of insurgent groups and isolate them to the point where they will have no choice but to surrender or reincorporate themselves into the existing political and economic order. Yet in El Salvador, where U.S. counterinsurgency strategy has been most fully implemented, there is no indication that the insurgents are near defeat.<sup>25</sup>

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Moreover, we must question whether any development strategy can be successful in a context of war. The question is most acute in El Salvador, where military expenditures (roughly half the budget) make it impossible to address the mounting social and development needs of the country. Even Honduras and Costa Rica, which face no major insurgency, find genuine development hindered by their absorption into an overall war strategy.

Put simply, development cannot be a subordinate part of a military strategy; negotiated peace must be the starting point for genuine development.

### **The Development Model Promoted by U.S. Economic Assistance Contributes to Central America's Crisis.**

Of the 32 percent of U.S. aid to Central America designated for economic development (1981-1987), much of this aims to encourage export-led growth initiated by the private sector.<sup>26</sup> AID officials argue that most Central Americans are too poor to constitute a market for locally produced goods. Therefore, each country must orient its production for export markets, the closest and largest being the United States. In theory, the foreign exchange earned from exports will pay for needed imports of equipment and consumer goods, and the entire society will benefit.

The record of the last three decades shows that export-led growth in Central America greatly exacerbated the conflicts currently wracking the region because it intensified inequalities.<sup>27</sup> Based on exports of sugar, bananas, cotton, coffee, and cattle, Central American economies showed remarkable growth, averaging between 5 and 6 percent from the 1950s until the late 1970s. This expansion was led by the private sector. Yet even as overall economic indicators climbed, inequality worsened. In 1960 the poorest 40 percent of the population received 8.7 percent of

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national income. By 1975 their share of national income had *declined* to 7.7 percent.<sup>28</sup>

To expand production of export crops the large landowners took control of the best farmland. Thousands of peasants were thrown off their small farms as land and other productive resources became concentrated into fewer and fewer hands.<sup>29</sup> By the mid-1970s, 73 percent of Central America's land was owned by 4 percent of the population, while the poorest 77 percent of the population owned just 7 percent of the land.<sup>30</sup> The relatively capital-intensive industries that grew up in the cities could not absorb the growing labor supply.

The roots of today's crisis can be traced, not to a lack of development, but to a particular model of agro-export development that impoverishes the many while rewarding the few. It is this tendency to concentrate wealth and power in a few hands — not exports *per se* — that is the central flaw of this economic model.

The agro-export model not only fails the test of equity, it also violates simple rules of supply and demand: by concentrating wealth in too few hands the agro-export model fails to create the consumer buying power needed to sustain a market economy, and by sowing seeds of conflict it scares away investment capital.

Central American governments were able to keep the lid on this explosive inequality until the global recession beginning in the late 1970s sharply reduced the earnings of their export-dependent economies. The end of economic growth, added to decades of grinding poverty and political repression, touched off a wave of political organizing among workers and peasants.

The response of governments to this popular discontent varied. In Costa Rica and Honduras the governments' response to mass pressure was less repressive than in Guatemala, El Salvador, and

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Nicaragua. In the latter countries, widespread brutality by government forces led to further mass mobilization: the overthrow of the Somoza dictatorship in Nicaragua, and deeply rooted insurgencies in Guatemala and El Salvador.

As for U.S. development aid, there is no reason to believe that the revival of an export strategy — even the current emphasis on “nontraditional” exports such as flowers, spices, fruits and vegetables — will have any different impact from that of earlier decades. The export-oriented model has proven that it will not get money into the hands of the majority to create the demand needed to support a local market. *As long as the majority is impoverished, a market economy cannot flourish.*

In addition to fostering dependence on exports, U.S. policy has failed to support the kind of agrarian reform that could redress severe inequalities in land ownership. This official U.S. hostility to agrarian reform has sometimes been blatant: for example, the 1954 CIA-backed overthrow of the reform-minded Arbenz government in Guatemala. In other cases, lack of U.S. commitment to agrarian reform has been more subtle: in El Salvador, a U.S.-designed reform (which ignores the needs of most landless people) has been stalled by a government that is totally dependent on U.S. aid.<sup>31</sup>

Development Assistance programs make up only a small percentage of total U.S. aid to the region. Programs for agriculture, rural development, and nutrition in 1984 through 1986, for example, constitute just 7.6 percent of total aid to Central America.<sup>32</sup> As numerous examples from individual countries will illustrate, *U.S. aid strategy is seeking to stabilize and reinforce the kind of development that has led to the crisis*, rather than allowing a transition to a social order meeting the basic needs of the majority.

A detailed look at each country will provide the basis for recom-

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mentations as to how the U.S. government might overhaul its aid policies so as to benefit Central Americans and U.S. citizens alike.

## HONDURAS

From 1980 to 1985, aid levels to Honduras shot up nearly fivefold, from \$57 million to \$283 million (Appendix, table 7). Not only was there a dramatic increase in absolute aid levels, but there was also a dramatic shift in the composition of aid. While in 1980 security assistance (ESF and military aid) accounted for 7 percent of the aid package, by 1985 it had mushroomed to 76 percent. Development Assistance plummeted from 80 percent of total aid in 1980 to 16 percent in 1985.

What have been the effects of the massive influx of dollars into the Honduran economy? How has the shift from development to security assistance affected the country's economic and political life?

### **Despite Massive U.S. Aid During the 1980s, the Honduran Economy Is a Shambles.**

Honduras remains, after Haiti, the poorest country in the western hemisphere. Over 70 percent of the population live in poverty and 72 percent of Honduran infants are malnourished.<sup>33</sup> Infant mortality rates are the highest in Central America (78 per 1,000 live births), less than half the population has reasonable access to safe water, 84 percent of the rural population and 44 percent of the total population does not know how to read and write.<sup>34</sup> From 1979 to 1986, Hondurans suffered a steady decline in per capita income, and unemployment reached a staggering 41 percent.<sup>35</sup>

Massive capital flight has drained the country of investment resources.<sup>36</sup> Meanwhile, despite a host of incentives to attract business, the rate of private capital investment has declined steadily

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and is now half the level it was in 1980. By 1986 the balance of trade deficit swelled to \$300 million and the country's foreign debt reached \$2.6 billion, with 25 percent of export earnings taken by debt service payments. The depressed manufacturing sector is producing at 10 percent below 1980 levels and agriculture remains stagnant due to marketing problems, lack of credit and technical inputs, and the paralysis of land reform efforts.<sup>37</sup>

A review of the Honduran economy by the U.N. Economic Commission on Latin America and the Caribbean was blunt: "Long-term predictions for the quality of life in Honduras are as grim as they come."<sup>38</sup>

### **U.S. Aid Priorities and the Military Buildup in Honduras Are Undermining Development.**

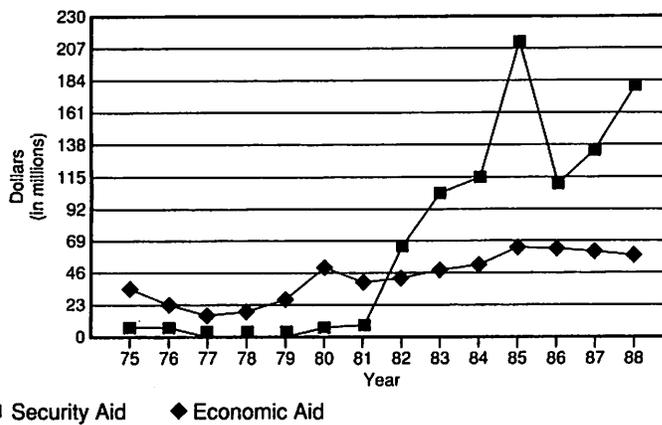
While U.S. aid to Honduras has grown by leaps and bounds, less and less of that aid is aimed at development efforts. Since 1980 Development Assistance has decreased in both relative and absolute terms: from 80 percent of U.S. aid in 1980 (\$45.8 million), by 1987 it had dropped to just 21 percent (\$40.9 million).<sup>39</sup>

The shift from Development Assistance to Economic Support Funds has had detrimental effects on the productive sector. By pumping in cash transfers not linked to development projects, ESF money sustains the commercial and banking sectors but does little for productive sectors. This makes it more profitable to trade than to produce. Thus elite consumption is maintained through U.S. support while agriculture and industry languish.

The U.S.-sponsored military buildup of Honduras has encouraged a reorientation of government budget priorities from civilian to military activities. While in 1980 almost two-thirds of government spending went for civilian social and economic programs and

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**GRAPH 3: Security and Economic Aid to Honduras, 1975-1988**



one-third to defense and debt, by 1984 the reverse was true: debt service and defense absorbed nearly two-thirds of the budget and only 37 percent went to other activities.<sup>40</sup>

Social services are being eroded at a time when the poor are experiencing severe financial hardships. Between 1986 and 1987, for example, the already underfunded health budget was slashed 25 percent, from \$130 million to \$97 million. Manuel Acosta, former Honduran finance minister, warned:

The cutbacks are bringing the population to a point of desperation. My worry is that we are in fact provoking a situation of violence and an internal rebellion by our very neglect of these basic needs of the people.<sup>41</sup>

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### **Honduras has Experienced an Escalation in Human Rights Abuses and a Weakening of Civilian Rule.**

When Honduras made a transition from military to civilian rule in 1980-1981 and began holding relatively fair elections, many observers hailed it as an historic turning point. Yet despite their abdication of formal political power, the Honduran military has increased its real influence over society.

Since 1980 the U.S. government has swamped Honduras with military aid, building or extending eleven airfields, two radar stations and electronic intelligence installations, in addition to lavishing equipment and supplies on the Honduran military. Between 1980 and 1985, the size of the Honduran military doubled.<sup>42</sup>

Honduras has also become the center for nonstop U.S. military maneuvers in Central America, designed to intimidate the Nicaraguan government. From January 1980 to May 1987, some 80,000 U.S. troops underwent training inside Honduras, and the United States maintains a permanent presence of 1,200 troops at the Palmerola Air Base. The United States has involved the Honduran military in its maneuvers and has set up a new military training center at Juticalpa.

The militarization of Honduras has had a direct negative impact on the human rights situation. For the first time in its history, Honduras has become the scene of disappearances, political assassinations, secret cemeteries, and clandestine detention centers. While before 1980 there was never a systematic policy of repression, from 1981 to 1984 there were 218 political assassinations, 110 disappearances, and 1,947 illegal detentions.<sup>43</sup> In a lengthy interview with the *New York Times*, a former Honduran army interrogator implicated the CIA in explaining "how army and police

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units were authorized to organize death squads that seized, interrogated, and killed suspected leftists in Honduras."<sup>44</sup>

In 1986 the office of the Honduran Committee for the Defense of Human Rights (CODEH) was attacked twice with gasoline bombs. CODEH's president, Dr. Ramon Custodio Lopez, has received death threats. In January 1987 the home and car of Leonor Meza, a labor leader and peace activist, were bombed, forcing her into exile. Although journalist Rodrigo Wong Arevalo is a conservative, he narrowly missed being killed when a bomb exploded in his car after he criticized U.S. policy and the presence of the contras in Honduras.

The strengthening of Honduras' military has produced a parallel weakening of civilian power. There is widespread support in Honduras for civilian rule, but with large increases in U.S. security assistance and Honduran priorities shifting toward the military, the ability of the Honduran armed forces to influence policy grows stronger every year. As U.S. Lt. Col. John Buchanan stated in testimony before Congress, "U.S. military aid to Honduras strengthens the hands of those who are most likely to terminate democratic government in that country."<sup>45</sup>

### **The Contra Presence in Honduras Is a Destabilizing Force and There Is Growing Opposition to their Presence.**

A large area of southern Honduras (more than 350 square km.) has been taken over by the contras. The U.S.-backed rebels have robbed cattle and pigs, raped local women, and disrupted normal commerce. Their presence along the Honduran border has destroyed the livelihoods of some 2,000 Honduran coffee growers.

The Honduran Association of Coffee Producers (AHPROCAFE)

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has lobbied the government to get the contras out of Honduras so the farmers can resume normal operations. After denouncing contra atrocities, the head of the coffee growers association, Antonio Erazo, received death threats. The coffee growers blame the United States for their predicament. In February 1987, a delegation of Honduran coffee growers visited Washington to demand \$25 million in reparations for destruction done by the contras.

Fighting between contras and Nicaraguan government troops has forced more than 16,000 Hondurans to flee their homes, thus creating an internal refugee problem of growing proportions.

The contra war has also brought Nicaraguan refugees into Honduras.<sup>46</sup> AID assists refugee camps and health projects for Miskito refugees from Nicaragua. AID programs in the Mosquitia region of Honduras have been tainted by charges that they are part of the contra war effort. Some of these programs take place closer to the Nicaraguan border than United Nations' standards for refugee safety allow. Journalists and relief agencies such as Catholic Relief Services have claimed that the border programs are designed more to assist the contras than to meet the needs of the refugees. The human rights group Americas Watch has documented contra kidnapping and forced military recruitment from the refugee camps. Questions have also been raised about whether U.S. road-building assistance is designed to develop the Honduran economy or to strengthen the contra infrastructure in the border region.

The flow of contra aid through Honduras has also had the destabilizing effect of aggravating the endemic corruption and infighting within the Honduran military. A 1986 report by the General Accounting Office stated that between November 1985 and January 1986, over one million dollars of congressional funds designated to aid the contras were diverted to the Honduran

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military.<sup>47</sup> An October 1986 shake-up in the military, in which 30 high-ranking officers were fired, was linked to the U.S. congressional passage of \$100 million in contra aid. The *Miami Herald* quoted a Western diplomat saying, "With all of this money around, where you are in the command structure becomes far more strategic if you want to line your pockets."<sup>48</sup> Former head of the Honduran military, Gen. Walter Lopez, accused top military officers of enriching themselves and fighting over who would get the biggest rake-off from U.S. aid to the contras.<sup>49</sup>

There is growing antipathy toward the contras in all sectors of Honduran society. The small farmers near the contra bases are the most outraged, and their protests have gained widespread sympathy throughout Honduras. The *Wall Street Journal* of August 1, 1986, reported: "The displaced Hondurans watch from hillside huts as trucks brimming with U.S. financed food and clothing roll past toward the contra camps."

The contra presence and the U.S.-sponsored military buildup in Honduras have been denounced by all major trade unions and peasant associations, even those traditionally affiliated with the U.S.-funded American Institute for Free Labor Development (AIFLD). Members of the Honduran legislature, military officers, and important sectors of the business community have also joined the call for an end to the contra presence on Honduran soil. Honduran businessmen are upset because the contra presence and the general militarization of the country have scared away foreign investors. The U.S. business consulting firm Frost and Sullivan now lists Honduras as a "high risk country" along with such problem areas as South Africa, Haiti, and Guatemala.

In early 1987, conservative leader of the Nationalist party, Nicolas Cruz Torres, introduced a congressional motion to expel the contras. Congressional President Carlos Montoya, Vice President Jaime Rosenthal, and even President Azcona have stated their

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opposition to the contra presence. As a major Honduran daily exclaimed, "The expulsion of the contras is a national demand."<sup>50</sup>

### **AID's Emphasis on Privatization Will Not Solve the Economic Crisis in Honduras.**

As in many other countries, AID is pressuring Honduras to "privatize" its economy: subsidize private enterprise, reduce regulation of the private sector, sell off state enterprises, and encourage private capital to diversify into "nontraditional" exports.

The results have been less than promising. Private capital investment has been sluggish. Despite a concerted effort by the U.S. Embassy to promote foreign investment in Honduras, total direct investment from 1981 to 1985 was only \$38 million, as compared to \$41 million in the two-year period 1978-1979.<sup>51</sup> Incentives for private investment only have meaning in a context of political stability. As long as the region is wracked by war, such incentives and lifting of restrictions on private investment only result in more capital flight.

Capital flight is draining the country of development funds on such a scale that they cannot be replaced even by the massive infusions of U.S. aid. According to Gen. Walter Lopez, former head of the Honduran armed forces, capital flight over the past few years has totaled more than \$3 billion. General Lopez claims to have received confidential reports showing that wealthy Hondurans have deposited about \$1.5 billion in U.S. banks and a similar amount in Switzerland and the Bahamas, an amount higher than the nation's external debt in 1986.<sup>52</sup>

The endemic problem of corruption and capital flight was confirmed to us by a U.S. Embassy official in Tegucigalpa. When asked where all the U.S. aid money was going, he shrugged and said:

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“Most of it ends up in private bank accounts in Miami and Panama.”<sup>33</sup>

In early 1987, Vice President Jaime Rosenthal of Honduras touched off a national scandal by claiming that under the previous Honduran government more than half of U.S. aid was wasted or stolen, and that under the current administration 30 percent of U.S. aid was misused. He cited numerous examples of U.S. money spent on exorbitant salaries, technical studies with no practical uses, and a bilingual school for children of the rich. “Here in Tegucigalpa,” he said, “you find many people who earn \$500-1,000 a month and live in houses that could never have been built with the money they earned.”<sup>34</sup>

AID seems to have ignored this rampant corruption. Central to AID’s rationale for advising the sale of state corporations is that the private sector can perform most functions more efficiently than government bodies. Yet AID’s own documents, as well as U.S. Commerce Department records, show that the most notorious failure of a state corporation in Honduras — the bankruptcy of the National Investment Corporation (CONADI) — was a direct result of businessmen taking the state’s money and not producing anything in return. Of the corporation’s outstanding debt of \$315.5 million, only 5 percent is invested in financially sound enterprises. AID concludes that “in the case of CONADI’s enterprises, the private sector shares heavily in the responsibility, including poor judgement and inefficient administration.”<sup>35</sup>

Gautama Fonseca, former minister of labor, is blunt in his appraisal of AID’s privatization efforts:

This idea of privatization is nutty. They’re touting it as if they’ve discovered something new. What do they think has been the predominant system here for the past century? How do they think we got in this mess to begin with?

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There is nothing more inefficient and corrupt in Honduras than private enterprise. They steal millions of dollars every year from the government, from the people. Now we're supposed to sell off our public enterprises at rock-bottom prices to the thieves and mafiosos who sucked the government corporations dry to begin with.<sup>56</sup>

Another problem with the push for privatization of state corporations is that it is often coupled with demands for the recipient government to devalue its currency. From the standpoint of making a country's exports more competitive in world markets, devaluation may make sense. But when coupled with the sale of large-scale government operations, devaluation makes it easy for wealthy foreigners to buy up local assets.

A Christian Democrat member of the Honduran legislature, Efrain Diaz, summarized the effects of the privatization emphasis in U.S. aid:

This policy has the effect of eliminating those state activities oriented towards bettering the general living standards of the people; trampling initiatives that give priority to labor; reducing gains made in protecting wages; undercutting, above all, those agrarian reform groups, whether associative or co-op, that are worker controlled; and repressing the people.<sup>57</sup>

Another problem is with the Reagan administration's definition of the private sector. As one U.S. scholar specializing in Honduras notes:

If AID were to assist subsistence agriculture, the "informal" urban commercial sector, the unemployed and underemployed workers, small businesses, etc. — then a private sector strategy would be wholly welcome and justified. . . . But by focusing almost exclusively on an export-led strategy, the

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administration limits its benefits largely to agro-export elites and foreign investors.<sup>58</sup>

The Honduran experience underlines another general problem with AID's privatization emphasis under the Reagan administration. Stimulating market-oriented development is equated with strengthening the business sector. Yet this view reverses the way real-life markets develop. The prerequisite of a market is demand. If there are no consumers, or the consumers are too impoverished to exercise effective demand, there can be no flourishing of markets. Where consumer demand is strong, entrepreneurship automatically flourishes in response to the demand. What needs to be strengthened in Central America are the consumers, not the businessmen. Aid money currently going into the hands of business would be better spent raising the living standards and purchasing power of the majority.

### **AID Programs Reinforce Those Groups Blocking Agrarian Reform, the Country's Most Pressing Economic Need.**

Honduras remains an overwhelmingly agrarian society, with 60 percent of the population living in rural areas. Agriculture is the nation's main source of employment (60 to 70 percent), export earnings (70 to 80 percent), and income (30 percent of GDP). Therefore the issues of land tenure, land distribution, and access to credit and technical assistance are of utmost importance.

The land distribution pattern in Honduras is highly inequitable: the richest 2 percent of farmers own 44 percent of all farmland while the poorest 64 percent of farmers own 9 percent.<sup>59</sup> There have been attempts over the years to mitigate this inequality through land reform. Although the land reform has not been well enforced, it has acted as a safety valve for pressure from Honduras'

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landless and landpoor. The U.S. Embassy itself recognized that:

Honduras' attempts to broaden the base of private land ownership, together with other social programs, have probably saved this country from many of the problems now surfacing in neighboring countries.<sup>60</sup>

Despite the importance of land reform for Honduras' stability and development, U.S. aid programs have done little to assist its implementation. Instead, the Reagan administration has substituted a land titling program. The rationale for the program is that by giving farmers legal titles to land they already farm, they will have more secure tenure and be able to use the land as collateral to get bank loans.

But land titling is a poor substitute for agrarian reform. First of all, it does nothing to address the most severe agrarian problem — landlessness. An estimated 150,000 rural Honduran families have no land at all and are thus untouched by such a program. Secondly, it is doubtful that it will help poor peasants gain access to credit, since banks are not interested in lending to the poor, regardless of whether or not they have land titles. Furthermore, many Honduran peasant organizations see the land titling program as a way to divide the peasants and undermine cooperative efforts.<sup>61</sup>

The overall effect of U.S. aid to Honduras is negative because the sectors of Honduran society being strengthened (the military, politicians, and businessmen) are those that are most opposed to the reforms necessary to initiate broad-based development. Our aid to Honduras is widening the gap between the rich and the poor, and strengthening military over civilian rule. By exacerbating injustices and inequalities in Honduras, current U.S. policy is sowing the seeds of future instability.

## EL SALVADOR

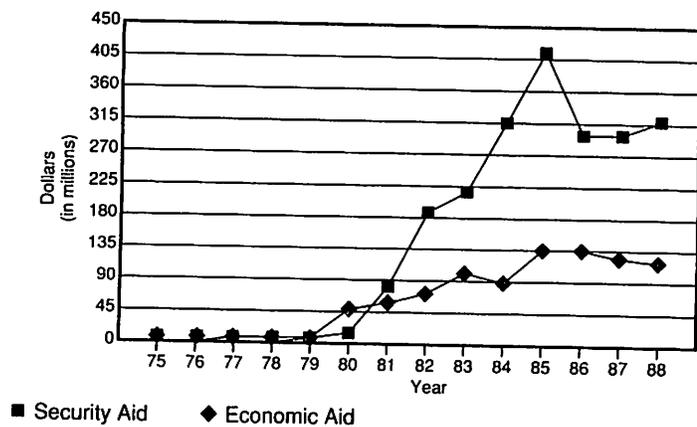
The people and the economy of El Salvador are being shattered by war. The widespread loss of life and human suffering would be enough reason to seek a rapid end to the war. But the economy is also dying, less from direct damage caused by the fighting than from the broader effects of war: one-fifth of the population has been displaced from their homes and communities, capital flight is draining the country of investment, what capital is available concentrates in banking and commercial sectors rather than production, unemployment and underemployment afflict half the work force, and per capita income has declined to levels of the early 1960s.<sup>62</sup>

Given the large amounts of U.S. money poured into El Salvador during the Reagan administration, we must examine what the people of El Salvador and the people of the United States have been getting from this aid.

### **El Salvador's Economy Was Already in a Depression Before the Destructive Earthquake of October 1986.**

AID's 1987 *Congressional Presentation*, seeking to portray the Salvadoran situation in a positive light, stated that the "steep decline in real GDP has been reversed as the economy grew by 1.5 percent in 1984."<sup>63</sup> The truth is that despite some \$3 billion of U.S. aid since 1980, the Salvadoran economy is a shambles. Gross domestic product for 1985 was 20 percent below that of 1978 and barely reached the 1973 level. Real per capita income sunk to levels of 20 years ago.<sup>64</sup> Inflation rose to more than 30 percent during 1985 and 1986. Open unemployment has remained at an estimated 30 percent while underemployment and unemployment

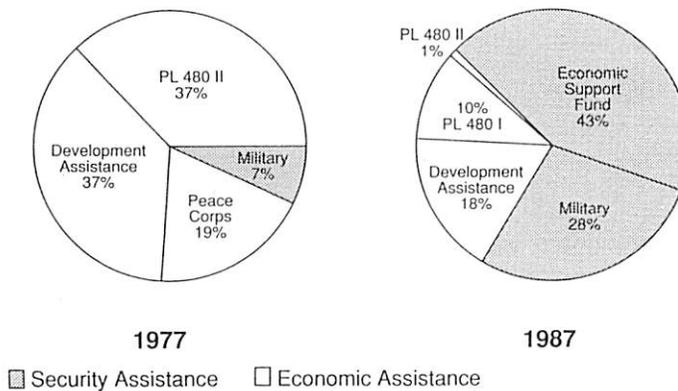
**GRAPH 4: Security and Economic Aid to El Salvador, 1975-1988**



afflict half of all workers. As AID reported in its 1987 *Congressional Presentation*, "Malnutrition is widespread, accompanied by a high death rate for children under five and high general morbidity."<sup>65</sup>

The October 1986 earthquake, which resulted in 1,000 dead, 10,000 people injured, and a fifth of the capital city without shelter, exacerbated the economic crisis. Property damage, conservatively estimated at \$904 million, is equal to 25 percent of the gross domestic product and 40 percent of the foreign debt. In proportional terms, the magnitude is higher than that of other recent natural disasters (for example, damage from the Mexican earthquake of September 1985 represented only 2 percent of GDP). While the destruction of numerous public sector buildings will place further strains on the government, those who suffered most were the poor who lost their homes and in many cases their livelihood in the form of a small shop or business.<sup>66</sup>

**GRAPH 5: Types of Aid as Percentage of Total Aid to El Salvador, 1977 and 1987**



Even in normal times, recovery from such a disaster would be a monumental task. Given the state of the economy and the ongoing civil war, there is little indication that the country can recover. Foreign aid in response to the earthquake falls far short of the amount needed to repair damage. Given the extraordinary strain on the economy, the Salvadoran government needs help in achieving peace, not continuing to prosecute an unwinnable war.

**Several Billion Dollars of U.S. Aid Have Kept the Salvadoran Government Afloat But the Overall Effect Is Not Beneficial to the Salvadoran Society.**

The largest sums of U.S. aid go for "stabilization," i.e., balance-of-payments support. Direct transfers of money with few strings attached — mainly ESF but also Title I of PL 480 — partially make

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up for El Salvador's huge balance-of-payments deficit (Appendix, table 8). The Salvadoran currency generated by both programs goes into the government's general budget, thus compensating for taxes the government is unable or unwilling to collect.

In recent years, most nonmilitary aid to El Salvador has been balance-of-payments support (1985 — 79 percent, 1986 — 70 percent, 1987 — 74 percent).<sup>67</sup> This allows the government to meet its debt payments and allocate enough foreign exchange so bankers and traders can keep imports from drying up completely. In 1985 nearly 84 percent of U.S. aid was either military aid or direct transfers to the government with no way of ensuring that the money would be used for development purposes. In 1986 the corresponding figure was 78 percent. Security assistance has far outweighed economic aid during the Reagan administration (graphs 4 and 5). The small percentages of total aid which go to agriculture (7 percent), health (4 percent), and education (4 percent) are overshadowed by the huge sums of nondevelopment money which allow the government and its military forces to prosecute the war.<sup>68</sup>

These questionable U.S. aid priorities — favoring war-making over development — have influenced the Salvadoran government in a similar direction. While military spending has risen to \$300 million per year, government expenditures on social services (when corrected for inflation) are lower now than in 1978.<sup>69</sup> The Salvadoran government has spent over \$2 million for each dead guerrilla.<sup>70</sup>

General living standards and President Duarte's popularity were both dealt serious blows by the U.S.-supported austerity package introduced in January 1986. The price of essential services such as bus transport jumped 20 percent; prices of basic foods nearly tripled during the course of the year, and increasing numbers of

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workers and peasant organizations have become vocal in their opposition to Duarte's policies.

Since the onset of the crisis in the late 1970s, wealthy Salvadorans have sought ways of exporting their fortunes to overseas bank accounts. Between 1979 and 1981 some \$800 million left the country as capital flight.<sup>71</sup> In 1980 the government took over banking and the trade of major exports in an attempt to stop this hemorrhaging, but it has not been able to stem the flow of capital flight. A 1984 investigation by the U.S. General Accounting Office found that El Salvador's central bank was ineffective at controlling capital flight.<sup>72</sup>

Faced with a debilitated war economy and more lucrative investment opportunities abroad, the wealthy are willing to break the law by exporting their capital. A favorite technique is false invoicing: overvaluing imports and undervaluing exports, and banking the difference. According to a 1985 congressional study:

AID's Inspector General found that 20 percent of the transactions reviewed by the Central Bank in a spot check for corruption were fraudulent, and a respected AID contractor, the Arthur Young accounting firm, concluded that corruption was "far beyond the control" of the Central Bank personnel charged with detecting it.<sup>73</sup>

In other words, U.S. aid finances continuing capital flight, and an unknown percentage of U.S. aid money goes into private bank accounts.

The massive amounts of U.S. aid not tied to specific development projects has had a negative effect on the structure of the Salvadoran economy. As was the case with South Vietnam in the early 1970s, U.S. financing of the balance of payments ends up bolstering the commercial sector to the detriment of productive sectors.

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As a result of this distortion, it becomes more profitable to engage in trade than in production.<sup>74</sup>

This is why AID's project-related aid to El Salvador has downplayed the privatization theme stressed in other countries and has put money into creating government jobs. The private sector has become structurally incapable of creating anywhere near the needed levels of employment, even though some 600,000 Salvadorans have emigrated to the United States.

**Many of the Problems Afflicting U.S. Aid to El Salvador Were Documented More Than Two Years Ago, Yet Nothing Has Been Done to Correct Them.**

In February 1985, Rep. Jim Leach (R-IA), Rep. George Miller (D-CA) and Sen. Mark Hatfield (R-OR) issued a report to the Arms Control and Foreign Policy Caucus entitled *U.S. Aid to El Salvador: An Evaluation of the Past, a Proposal for the Future* (hereafter Leach Report). Our own research substantiates many of that study's conclusions:

- Contrary to administration claims, about 85 percent of U.S. aid to El Salvador was (directly or indirectly) war related and only 15 percent could be said to be aimed at development.
- U.S. military strategy escalated from expanding the Salvadoran armed forces, to pacification programs, to an air war (bombing and troop mobility) in a manner reminiscent of U.S. involvement in Vietnam.
- Aid oriented toward change and reform, such as land reform, was being stymied.
- U.S. aid did not even "come close to compensating for the disruption caused largely by the war," and the war was disrupting implementation of aid programs.
- U.S. aid strategy was really one of "maintenance" (seeking to

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offset the worst effects of the war) and not one of long-term solutions.

- “Only U.S. aid equivalent annually to 55 percent of the Salvadoran Government’s budget and 15 percent of the Gross Domestic Product” was keeping “the Government, the Armed Forces and the economy functioning.”<sup>75</sup>

The report urged a shift toward “maximum support for a cease-fire, followed by intense and serious negotiations for a swift settlement.”<sup>76</sup> Toward that end, the congressional representatives urged that the United States stop funding the air war and redirect cash transfer programs to development and reform projects. They argued that such a shift would send “a powerful message . . . to all parts of Salvadoran society that the United States was putting its weight behind reform and negotiations, rather than a military solution.”<sup>77</sup>

Two further years of war and deteriorating conditions have only underscored the validity of the Leach Report’s analysis and recommendations.

### **True Development Will Not Be Fostered by Aid Programs That Are Subordinated to War-Making.**

The Salvadoran military has repeatedly expressed its theory of counterinsurgency: if the insurgents seek to swim like fish among the people, the logical response is to dry up the sea, that is, to depopulate areas of guerrilla influence. Indeed, some 20 percent of Salvadorans — more than one million people — have been uprooted from their homes.<sup>78</sup> This percentage is higher than that of the Vietnamese homeless at the height of the Vietnam War. These people have been made homeless largely by air and artillery attacks and ground sweeps by the Salvadoran armed forces.

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The military justifies this policy by calling the civilians who prefer to remain on their own land *masas* (masses), people who support the guerrillas and are thus not deserving of civilian status. Speaking of the forcible transfer of civilians around the Guazapa volcano in early 1986, Lt. Col. Carlos Armando Aviles said it was preferable "to justify putting 300 families in a refugee camp rather than justify the killing of those 300 families."<sup>79</sup>

When Salvadoran bishop Gregorio Rosa Chavez expressed concern for the safety of these civilians, U.S. ambassador Edwin Corr said that the bishop's homily was guerrilla propaganda. In an earlier cable, the U.S. Embassy had stated that such people were "something other than innocent bystanders when they and their armed companions come under fire during military engagements."<sup>80</sup> With this and similar statements, the U.S. Embassy has, in effect, endorsed the dry-up-the-sea policy of the Salvadoran military, in disregard of the Geneva conventions on the rights of civilians.

Under these circumstances U.S. government-funded programs for the displaced are not primarily an expression of humanitarian relief but rather part of a larger strategy of control. Between 1980 and 1988 Congress authorized more than \$57 million for care of people displaced by the war.<sup>81</sup> Thus the U.S. taxpayers finance both halves of the government's war strategy: the bombs and guns used to drive peasants from the countryside and programs to support the civilians who can no longer live in their villages.

AID has sought to channel refugee relief through private organizations, but many of the most experienced and most professional have refused such aid, aware of its underlying purpose. The Salvadoran Catholic church has refused to accept money directly from the United States, which it regards as one of the belligerent parties. After a 1984 fact-finding trip, Monsignor Roland Bordelon, Catholic Relief Services' top Latin American relief

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official said, "No matter how much U.S. AID denies this, the plan is a highly political pacification program."<sup>82</sup> Rejection by the major relief groups has forced AID to rely on less experienced conservative groups such as the Knights of Malta, Family Foundation USA, and World Relief.<sup>83</sup>

Even programs seemingly aimed at development are often in the service of the pacification effort. AID itself acknowledges that its programs support the National Plan (better known as United to Reconstruct), the Salvadoran government's pacification plan. AID's 1988 *Congressional Presentation* notes:

In 1983, it became clear that military efforts alone were not sufficient to win the war. A National Plan was developed to restore and strengthen civil authority in guerrilla-affected areas. It called for intense military action to eliminate the guerrillas, followed by a coordinated effort by GOES [Government of El Salvador] ministries to help local authorities restore essential services, promote development in newly secured areas, and form civil defense committees. AID's current objective is to help the GOES re-establish and strengthen local government authority.<sup>84</sup>

AID admits it is using PL 480 and ESF-associated local currency to assist this pacification plan.<sup>85</sup> Indicative of their role in pacification, most of the aid programs are aimed, not at long range results, but at short range impact (for example, public service jobs to lessen the impact of devastating unemployment). In another instance, AID has supported a crash program to build classrooms. Judging that the Salvadoran Ministry of Education was incapable of moving quickly enough, AID pressured the government to bypass the ministry and contract out the construction to private firms.<sup>86</sup> Such an approach gets classrooms built but it does not improve Salvadoran society's institutional commitment to education.

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Since 1984 AID has committed more than \$9 million ostensibly to help reform the judicial system in El Salvador. Yet by April 1987, human rights groups were reporting that "more than 1,100 political prisoners—the highest number since 1980—are now detained in Salvadoran jails, 90 percent without trial."<sup>87</sup> According to a 1986 report by the Non-Governmental Human Rights Commission of El Salvador, political prisoners are routinely subjected to torture.<sup>88</sup>

While the Reagan administration has been regularly certifying "improvement" in the Salvadoran human rights situation, abuses of the past have continued. In its 1985-1986 report, the Organization of American States' Interamerican Human Rights Commission revealed that in the first six months of 1986, 36 civilians were reportedly killed by armed forces, 24 were killed by death squads, and 52 were arrested and then disappeared.<sup>89</sup> There has yet to be a single prosecution of a Salvadoran military officer for any of the thousands of political murders during the last decade.

The story of Salvadoran land reform illustrates both how U.S. policy has supported pacification and how Salvadoran elites are able to block structural change. Land ownership in El Salvador is highly unequal and has been a major source of unrest. As large landowners diversified and expanded export crops, they pushed peasants off the land. The number of landless people grew from 12 percent of the rural population in 1961 to 40 percent in 1975.<sup>90</sup> During roughly the same period, per capita food acreage declined by two-thirds.<sup>91</sup> The deepening inequality, unemployment, and hunger fueled the growth of mass organizations seeking change.

In 1980, under pressure from the United States, the Salvadoran government decreed a land reform, followed immediately by declaration of a state of siege. AID states that the U.S.-sponsored agrarian reform "was designed to change the land tenure pattern and stem the radicalization of the rural poor."<sup>92</sup>

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In Phase I of the land reform some 300 of the largest estates were bought by the government to be converted into farmworker cooperatives. Phase III ("Land-to-the-Tiller") was enacted in May 1980 to enable renters and sharecroppers to buy the land they had been working.

The most important part of the land reform was Phase II, for it would have affected estates between 100 and 500 hectares, some 23 percent of agricultural land. Moreover, Phase II would have redistributed the best-quality land—the coffee estates. Phase II was first delayed and then gutted. Conservative legislators cut the acreage available for redistribution by more than 95 percent (from 343,000 to 17,000 hectares). Without Phase II, only 9 percent of the high-quality coffee acreage comes under the agrarian reform.<sup>91</sup>

The land reform did not fundamentally alter the agrarian structure in El Salvador. Perhaps between 10 and 15 percent of landless peasants have benefited economically from the program.<sup>94</sup> The Phase I cooperatives limp along with insufficient credit, technical expertise, and supplies. Most of the "Land-to-the-Tiller" participants received provisional, not definitive, titles:

Effective opposition mounted by landowners has caused Phase III to be implemented at a snail's pace. After the elections of 1982, the ministry in charge of land reform passed into control of the far-right, and titles have actually been taken back in some cases. Leaders of peasant cooperatives have been executed by the army and para-military groups, and it has proved a dangerous venture for a peasant to apply for title to land.<sup>95</sup>

Because the goal of the U.S.-sponsored land reform was to pacify, rather than empower the rural population, it was doomed from the start. A genuine land reform — one that would allow the rural poor

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to share in the country's agricultural wealth — would entail basic structural change. The government of El Salvador has neither the political will nor the popular support needed to carry out such a reform.

### **Genuine Democracy Will Only Be Able to Flourish When the War Is Ended.**

The centerpiece of U.S. efforts at democratization in El Salvador was the 1984 election of Jose Napoleon Duarte as president. Duarte and the Christian Democratic party administer the civilian side of the government. But the real power holders remain the military, the big landowners, businessmen, and the U.S. Embassy. The civilian government is an instrument in the overall enterprise of defeating the insurgency and maintaining U.S. influence.

Although Duarte is nominally commander in chief, the military often ignores or countermands his orders. For example, after Duarte ordered a "Christmas truce" in late 1985 the military bombed and strafed La Joya in Morazan. Col. Sigfredo Ochoa explained that Duarte may have ordered a truce but the high command had not. Similarly, in 1986 when the Duarte government and the FMLN had agreed to hold peace talks in the town of Sesori in eastern El Salvador, chosen precisely because it was not under government or FMLN control, the armed forces occupied the area, thus preventing the talks from taking place. On the key issues of war and peace, the civilian government is subordinate to the military.

The Duarte government has not been able to bring about a negotiated end to the war nor stem economic decline. As a result, many of those who once supported Duarte have taken part in strikes and demonstrations against government-imposed austerity measures and in favor of genuine peace negotiations. Despite

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occasional rumors, Duarte is not likely to be unseated by a coup since that would threaten continued U.S. aid. Rather, the military and business leaders will let the Christian Democrats be the target for people's dissatisfaction until the next elections in 1988.

The present electoral system in El Salvador is essentially a means for maintaining a government with sufficient legitimacy to pursue the primary task of waging war against the insurgency. In the process, the very notion of democracy is debased.

Although conservative sectors of the business elite oppose negotiations and support prosecution of the war, they are not willing to pay for it. In late 1986, when President Duarte announced new taxes to make the wealthy pay a bigger share of war costs he was met with a storm of protest. Conservative forces mounted challenges to the new law in the courts, in the legislature, and in public demonstrations. As a Western diplomat in El Salvador explained:

Since the guerrillas left the city in 1981, the war hadn't affected people in the capital. The rich had their shopping trips to Miami and weekends at their beach homes. They lived pretty well. Their children weren't going into the army. Now they are being asked to help pay for the war, and they're saying no.<sup>96</sup>

In late February 1987, the Salvadoran Supreme Court, which is controlled by the right, struck down Duarte's new war tax.

In presenting their recommendations, Representatives Leach and Miller, and Senator Hatfield predicted:

Tragically, if U.S. aid is composed in the future as it is at present, the next five years will be as violent and unproductive for El Salvador as the past five years. Under current U.S. aid strategy, there is no light at the end of this tunnel.<sup>97</sup>

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The Leach Report recognized a fundamental truth that is even more true today: what appears to be a military "standoff" between the government and rebel forces is much worse. While each army is unable to defeat the other, the economic and environmental conditions of the country are deteriorating rapidly. The present course of seeking military victory is not in the national interest of El Salvador or the United States. Since 1982 an estimated 400,000 Salvadoran refugees have fled poverty and war to enter the United States illegally.<sup>98</sup>

Proof that the government's 51,000-man army will not soon defeat the FMLN's 10,000 troops came on March 31, 1987, when FMLN guerrillas overran the government army base at El Paraiso. In addition to killing an American adviser and more than 60 Salvadoran soldiers, the attackers destroyed the intelligence center, officers' quarters, and administrative center of a base designed by U.S. advisers to be impregnable. Various experts concluded that the sophistication and success of the attack proved that a military victory for the government is not likely in the near future.

Under present conditions, development and democratization are impossible. What is required is a negotiated settlement, mediated perhaps by representatives of the Catholic church in El Salvador. Such a peace process would serve majority interests in the United States as well as in El Salvador. Funding an endless war with U.S. taxpayers' money and killing thousands of Salvadorans in the process is not in our national interest.

## COSTA RICA

Since the early 1980s, Costa Rica has been in the grip of a severe economic downturn. Large increases in U.S. aid — mainly balance-of-payments support — have bailed the country out for the short term but have done little to solve the underlying causes of the crisis. What have been the effects of U.S. aid policy on Costa Rica's ability to sustain its traditions of neutrality, democracy, and social welfare?

### **Costa Rica's Traditionally High Standard of Living Is Threatened by an Economic Crisis Rooted in the Very Type of Development That Brought the Country So Far in the Post-World War II Period.**

Costa Rica has achieved fame as the "country without an army." More than a quirk of national character, Costa Rica's democratic tradition has economic roots. The nineteenth century coffee boom was not monopolized by a small number of large plantations as in neighboring countries but was shared by small and medium growers — a mass base of yeoman farmers. After the 1948 civil war, which led to the abolition of the armed forces, successive Costa Rican governments stimulated economic growth and produced a social welfare system unparalleled in Central America.

Without the burden of military spending, Costa Rican governments have put considerable resources into education and health care. Although Costa Rica has a typically third world agro-export economy, many of its quality-of-life indicators (infant mortality, life expectancy, literacy) approach those of developed industrialized nations.

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But Costa Rica's orderly democracy, economic growth, and extensive social welfare system are being threatened. The country has suffered a sharp economic decline. Costa Rica's gross domestic product was lower in 1984 than it was in 1980 and only regained 1980 levels in 1985 (Appendix, table 9). Economic growth failed to keep pace with population increases: annual GNP per capita fell 23 percent from \$1,540 in 1978 to \$1,190 in 1984 (Appendix, table 10). Per capita foreign debt (\$1,445) is now higher than per capita GNP.<sup>99</sup>

The Reagan administration's analysis places the blame primarily on a bloated public sector and sees the solution in cutbacks in social spending and the privatization of many government functions. As part of its campaign against Nicaragua, the Reagan administration has pressured Costa Rica to expand its small security forces. In general, the Reagan administration has advocated a reversal of the very policies that gave Costa Rica the highest standard of living in Central America.

It is simplistic to blame Costa Rica's crisis on its welfare system since other governments, such as Honduras and Guatemala which cannot be accused of welfarism, are in similar straits. The administration's analysis downplays other structural elements such as Costa Rica's extreme dependence on a few export crops, the increasing concentration of land ownership, the rapid growth of a new group of landless rural people, and a type of industrialization that has failed to create enough jobs and has made the country more dependent on imported raw materials and machinery.

Seeking to offset the first oil price shock (1973), the country borrowed from banks eager to recycle petrodollars. Following a 1978 plunge in world prices for coffee and a second oil price increase in 1979, Costa Rica increased its borrowing. The country's foreign debt went from a modest \$134 million in 1970 (14 percent of GNP) to \$3.3 billion in 1983 (126 percent of GNP),

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with debt service payments absorbing more than half of export earnings.<sup>100</sup> In August 1981, Costa Rica became the first Latin country forced to temporarily suspend its debt payments.

The development model of agro-exports and import substitution industries that had created enough growth to fund extensive social services also generated structural flaws. The middle and upper classes became big consumers, pushing up the demand for imported goods. The light assembly plants that came to dominate the manufacturing sector are also heavily import dependent. This high demand for imports of finished goods and industrial inputs grew faster than agro-export earnings which were suffering from low world prices and depressed markets.

Another problem created by the agro-export model of development was an increasing concentration of land ownership and a growing class of rural landless. By the late 1970s, between two-thirds and three-fourths of those economically active in farming were landless.<sup>101</sup> Some of these small farmers, having been dispossessed of their land, survived by hiring themselves out to the larger landowners; others migrated to the cities where they added to the ranks of the unemployed and underemployed. This increased the burden on government social service expenditures.

The final element that made it difficult for the government to make ends meet was the wealthier classes' resistance to tax reform. Elites were successful in blocking efforts to increase their share of the tax burden. The combination of low tax revenue, large state expenditures for social services and infrastructure, and a growing balance-of-trade deficit fostered the government's attempt to borrow its way out of the crisis. Debt payments are now draining the country of much-needed development capital.

Infusions of aid money from U.S. taxpayers can substitute in the short-term for wealthy Costa Ricans' failure to share more in

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shouldering their country's burden, but in the long-term Costa Rica's economic difficulties can only be solved by structural reform.

**The Reagan Administration Has Used Large Increases in U.S. Aid to Push for Costa Rican Compliance with the U.S. Campaign Against Nicaragua.**

The Reagan administration initially allocated little aid to Costa Rica. This was partly due to the administration's focus on the military buildup in Honduras and El Salvador. It also reflected pique with then-president Rodrigo Carazo, who demanded an apology when U.S. Ambassador to the United Nations Jeane Kirkpatrick insisted that Costa Rica accept U.S. security assistance as a condition for receiving economic aid.

But the combination of Costa Rica not being able to make its debt payments and the replacement of Carazo by Luis Monge as president in 1982 opened the aid floodgates in Washington. From \$15 million in 1981, total U.S. bilateral aid to Costa Rica soared more than fourteenfold to \$218 million in 1983. In the six-year period 1976 through 1981, U.S. aid to Costa Rica totaled \$83 million, but during 1982 through 1987 it jumped more than elevenfold to \$941 million (Appendix, table 11).

Most of this increased aid was balance-of-payments support to help Costa Rica make its debt payments and maintain import levels. The main category of this flexible aid, Economic Support Funds, went from zero during 1975 through 1981, to \$675 million during 1982 through 1987. Another increase in balance-of-payments support came in the form of Title I of PL 480, which increased more than 164,000 percent, from \$74,000 during 1975 through

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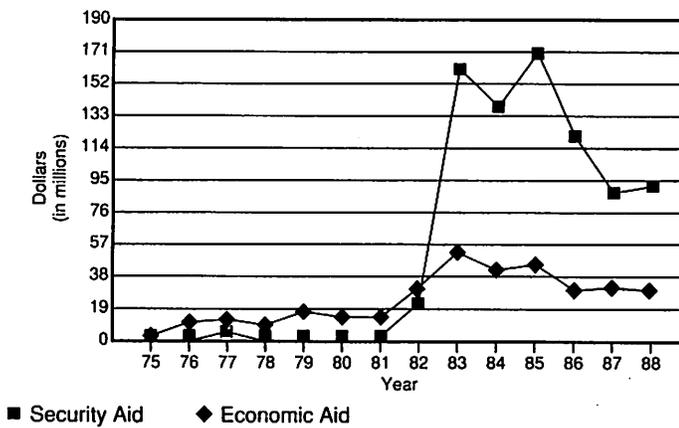
1981, to \$122 million during 1982 through 1987 (Appendix, table 11).

The composition of the aid package also changed. During the period 1976 through 1981 security assistance (ESF and military) constituted 6 percent of total aid. During the period 1982 through 1987 security assistance dwarfed development assistance by expanding to 75 percent of the total. The security portion of U.S. aid to Costa Rica — insignificant in the 1970s — now far outweighs the economic portion (graph 6).

The large increase in U.S. aid helped bail out the Costa Rican government but the new funds came with strings attached. The most obvious condition has been Costa Rica's cooperation in larger U.S. regional strategy. Since 1981 Costa Rica has formed a diplomatic alliance with El Salvador and Honduras, presenting a united, anti-Nicaragua front in regional negotiations. For example, in September 1984, Nicaragua announced its willingness to sign the Contadora peace agreement. The Reagan administration, which had been stonewalling Contadora, announced its dissatisfaction, and within weeks Costa Rica, Honduras, and El Salvador made counterproposals, effectively scuttling the agreement. An internal U.S. National Security Council memo gloated over having "trumped" the Contadora initiative.

Additional U.S. leverage came in the form of increased U.S. military and police assistance to Costa Rica. Though small in comparison to military aid levels in El Salvador and Honduras, military aid to Costa Rica increased more than sixfold, from \$5 million during 1976 through 1981, to \$31.4 million during 1982 through 1987 (Appendix, table 11). Tom Ghormley, a former AID official in Costa Rica, admitted in a 1986 interview: "Our embassy here applied pressure on Costa Rica to ask for military training and encourages the government to request modern military hardware."<sup>102</sup>

**GRAPH 6: Security and Economic Aid to Costa Rica, 1975-1988**



The Reagan administration has helped both the Civil Guard and the Rural Guard, formerly police forces, to upgrade their training and weapons so that these forces now resemble military units. AID's Northern Zone Infrastructure Development Project, justified as community development, is in fact a road-building project highly useful for the U.S. military encirclement of Nicaragua. Northern Costa Rica has been used for U.S. electronic surveillance of Nicaragua and for broadcasting propaganda into the country.<sup>103</sup>

The Reagan administration has managed to cultivate anti-Nicaragua allies within the Costa Rican security forces. But one by-product of the administration's drive to support the contras has been increased corruption by Costa Rican officials. A member of the Costa Rican legislature reports:

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This toleration of the contras has been reinforced through the active collaboration of government employees at all levels, from ministers to simple soldiers . . . Dismissed public officials have revealed how the contras paid for and received the aid of public security officers in the frontier zones. Money has played a critical role in this, because many of these officials would not otherwise collaborate.<sup>104</sup>

Costa Rica was pressured to tolerate the operations of contra forces near its border with Nicaragua. The Tower Commission reported on government documents showing that Lt. Col. Oliver North, Assistant Secretary of State Elliot Abrams, and U.S. Ambassador to Costa Rica Louis Tambs agreed to threaten Costa Rica's president with a cutoff in aid if the Costa Rican government interfered with the operation of a contra airstrip in northern Costa Rica.<sup>105</sup>

A CIA field officer from Costa Rica reported to the Tower Commission:

When Ambassador Tambs arrived in Costa Rica [July 1985], he called together the Deputy Chief of Mission, the Defense Attache and myself, and said that he had really only one mission in Costa Rica, and that was to form a Nicaraguan resistance southern front.<sup>106</sup>

The Reagan administration views Costa Rica as a strategic piece on a U.S. chessboard, rather than as a sovereign country in economic distress. The attitude is epitomized in a draft State Department report commenting on Costa Rica's request for U.S. money to modernize its police forces:

The money is potentially an important milestone in our relations. It provides an opportunity to help shift the political balance in our favor on Nicaragua's southern flank. It could lead to a significant shift from Costa Rica's neutralist

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tightrope act and push it more explicitly and publicly in the anti-Sandinista camp. That could pay important political and diplomatic dividends for us.<sup>107</sup>

Pressure to cooperate with U.S. geopolitical strategy has sharply divided Costa Rican society. One side strongly favors alignment with the United States, while the other emphasizes maintaining traditional Costa Rican neutrality. The strength of pro-neutrality sentiment is evidenced by the results of the 1986 presidential elections. Despite years of anti-Nicaragua propaganda—partly funded by U.S. aid money—Oscar Arias ran on a pro-neutrality platform in the 1986 elections and beat an opponent who urged a more pro-U.S. policy.

Yet Arias frankly admits that his government needs large-scale foreign aid to survive. The fact that Arias and his government are caught between the neutrality he campaigned on and his economic dependence on the United States helps account for the the zigzag nature of Costa Rican policy toward contra activity on its soil. Pressure from Washington has helped to polarize Costa Rican society and to increase the level of internal political conflict.

### **AID's Emphasis on Exports Does Little to Address the Root Causes of Costa Rica's Economic Crisis.**

As part of its longstanding emphasis on expanding exports, AID now focuses a major part of its development strategy on promoting diversification away from traditional export crops such as coffee, bananas, and beef, to nontraditional exports such as flowers, fruits, and vegetables. Nontraditional exports do create more employment and they help cushion the impact of fluctuating world prices for traditional exports. But the nontraditional export strategy will do little to remedy the structural flaws of an economy which, due to its overdependence on exports, is extremely vulner-

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able to external forces, both economic and political. For example, U.S. flower growers can press Congress for barriers to imported flowers, thus reducing Costa Rican earnings. Rather than solve Costa Rica's dependence on external markets, the AID strategy simply changes the mix of exports.

This strategy is politically safe in that it does not threaten vested interests within the Costa Rican elite or U.S. agribusiness, but it does nothing about the structural weakness that caused the Costa Rican economic crisis in the first place. As the U.S. General Accounting Office concluded in a study of Costa Rica and several other countries diversifying into nontraditional exports:

GAO does not believe that nontraditional exports can generate the needed foreign exchange within the foreseeable future to compensate for the decline in traditional exports' earnings and provide the solution to these countries' economic growth and debt-servicing problems. GAO cautions that the countries will probably continue to need increasing levels of U.S. balance-of-payments support.<sup>108</sup>

Costa Rica is an agriculturally rich country but due to the emphasis on export crops it imports a large amount of the food it consumes.<sup>109</sup> By 1979 the country was devoting only half as much cropland per capita to food production as it did in 1950. Rather than addressing the skewed priorities of dependence on export crops and lack of food self-sufficiency, AID focuses its agricultural efforts on expanding and diversifying export crops. Costa Rica's economic crisis reflects serious structural flaws in the existing economic model that will not be addressed by merely changing the mix of exports.

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### **Economic Reforms Demanded by Washington as Conditions for Receiving More Aid Are Based on Faulty Assumptions and Are Likely to Exacerbate Inequality in Costa Rica.**

In conjunction with the International Monetary Fund (IMF), the Reagan administration is using Costa Rica's dependence as leverage to press for major changes in its economic policies: raising taxes, cutting social services, and reducing the size of the government, especially by selling off government enterprises.

Some such changes are clearly needed. For example, CODESA (Corporacion Costarricense de Desarrollo, S.A.), a state-owned conglomerate with diverse investments in manufacturing, sugar mills, and transport, was poorly managed and generated huge losses. But the Reagan administration's proposed reforms are guided more by ideology than by economic evidence. In pressing for the privatization of state enterprises, the Reagan administration has fostered the view that state-run enterprises are inherently inefficient, whereas private firms can perform nearly any function better than government. This government-is-bad-private-is-good perspective grossly oversimplifies economic reality.

Costa Rica's state corporations contributed to the fiscal crisis by spending large amounts of money. But the main flaw of these corporations is not simply that they are creatures of government. The public firms in activities such as water, oil and electricity are autonomous institutions, administratively and financially outside the control of the central bank, yet able to draw from state revenues. It is this lack of public oversight that allowed these enterprises to pile up such large losses. The solution is not simply to turn them over to the private sector—equally unaccountable to the public—but to institute controls ensuring that these enterprises operate honestly and in the national interest.

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There are many economic functions — particularly infrastructure development such as roads, schools, health care — that the state must perform because these activities are often not profitable and will not attract private capital. State economic activity is necessary but it must be accountable to the people and their elected representatives.

Measuring efficiency in financial rather than human terms can undermine the future productivity of a society. Conservative critics emphasize the financial losses of the state corporations, but they fail to note the many benefits to the entire society created by the state enterprises:

Thanks to the Costa Rican Institute of Electricity, the country produces almost all of its electricity from hydro-power, and has Latin America's most highly developed telephone system — with 99 percent automation, 12 phones per 100 inhabitants, and access by 80 percent of the population in 1983. The nationalized railroads feature Central America's only electric service, complete with modern continuous welded rail and concrete ties. The Insurance Institute, Social Security Institute, and national health service ensure high-quality health care to the entire population — as reflected by the 1.8 percent infant mortality rate, which ties Cuba's for the lowest in Latin America.<sup>110</sup>

Cutting social services may help to balance the government's budget in the short term but may exacerbate the long-term fiscal crisis by producing a less educated, less healthy, and more disgruntled work force.

Many Costa Ricans admit that their economy needs an overhaul. The issue is whether that change will be carried out through democratic means and in terms of the needs of Costa Ricans, or whether it will be imposed by the United States and the IMF.

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Moreover, if the price of external assistance is the surrender of its sovereignty and neutrality, the ultimate cost may be the sacrifice of the very traditions that have made Costa Rica distinct.

## GUATEMALA

Aid levels to Guatemala during the early 1980s remained relatively low. The U.S. government had banned military aid to Guatemala in 1977 because of its gross human rights violations. Although the Reagan administration asked Congress to resume military aid in 1983 and 1984, Congress refused to do so until 1985, when the Guatemalan army agreed to return the country to civilian rule.

Relatively small amounts of Development Assistance and Title II food aid flowed to Guatemala during the cutoff in military aid. Total direct aid to Guatemala from 1980 to 1984 never exceeded \$30 million per year (Appendix, table 12).

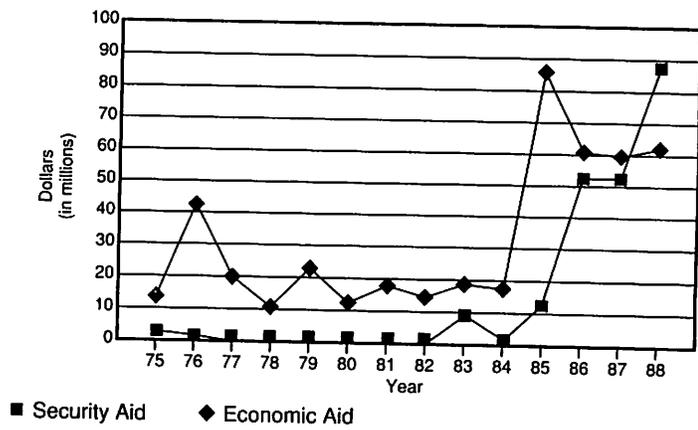
Due to human rights abuses, in 1984 Congress restricted economic aid for Guatemala to development activities carried out by private voluntary organizations (PVOs). But 1984 Supplemental Appropriations to Guatemala, citing positive steps taken by the Guatemalan government, did not carry such restrictions. Nor did subsequent aid allocations require disbursement through PVOs.

Between 1984 and 1985, aid to Guatemala shot up from \$18.6 million to \$98.1 million. By 1986 Guatemala was receiving \$114.2 million in U.S. aid. Estimates for 1987 show Guatemala receiving \$121.9 million (Appendix, table 12). Security assistance has grown from negligible levels just a few years ago to levels greater than economic aid in the 1988 request (graph 7).

Guatemala's comeback as a major recipient of U.S. funds can be traced to the election of a civilian president, Vinicio Cerezo. But has Cerezo's election signified an end to that nation's abysmal human rights record? Is U.S. aid addressing the stark inequalities

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**GRAPH 7: Security and Economic Aid to Guatemala, 1975-1988**



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that have spawned armed rebellion by peasant groups since the late 1970s?

**The Human Rights Situation in Guatemala Has Not Improved Sufficiently to Warrant an Unconditional Resumption of U.S. Aid.**

AID's 1987 *Congressional Presentation* uncritically states that 1986 marked Guatemala's "entry into the ranks of democratically elected governments." But the 1985 election of the civilian president Vinicio Cerezo has not changed the fact that since the 1954 CIA-organized coup that overthrew the Arbenz government, the army has been the unquestioned arbiter of events in Guatemala.

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In response to militant grassroots movements and a growing guerrilla insurgency in the late 1970s and early 1980s, the army unleashed what can only be called a campaign of slaughter of civilians. Between 50,000 and 75,000 people, mostly Indian civilians, were killed and 400 Indian villages were razed between 1982 and 1984.<sup>111</sup>

After the high point of this "dirty war," the army itself began to prepare for a return to civilian rule. During the 1985 campaign, candidates had to give assurances that they would not make changes in the army command structure. Days before handing over the presidency to Cerezo, the army issued itself an amnesty for all acts committed in the counterinsurgency campaign since 1982.

Thus, Vinicio Cerezo and the Christian Democrats manage the civilian side of a government in which the parameters are set by the military. As a top Guatemalan officer explained:

Vinicio [Cerezo] is a project of ours. . . . This civilian project is really a military project. We can defend the country better this way. That's why we were the first to press for elections, and that's why we want them to succeed.<sup>112</sup>

In accordance with current legislative conditions on military aid, the Reagan administration certified to Congress in 1986 that Cerezo's government had demonstrated its control over military and security forces and had shown progress in human rights. Human rights and church organizations monitoring Guatemala insist, however, that there continues to be a consistent pattern of violations of internationally recognized human rights.<sup>113</sup> Amnesty International, for example, in its 1987 report on human rights in Guatemala, stated, "Amnesty International continues to receive reports of the finding of unidentified, tortured corpses, disappearances, and individual 'death squad' killings."<sup>114</sup> A 1987 report by

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Americas Watch and the British Parliamentary Human Rights Group found that:

the armed forces continue to engage in great numbers of violent abuses, and they remain a law unto themselves. No headway at all has been made in accounting for the gross abuses of the past or in punishing those responsible.<sup>15</sup>

In a 1987 report to the United Nations' Human Rights Commission, the Guatemalan Projustice and Peace Committee reported for 1986 a total of 399 politically motivated murders, 91 cases of corpses showing evidence of torture, and 159 disappearances.<sup>16</sup> The Mutual Support Group (GAM), a Guatemalan human rights organization, presented the Cerezo government with a list of 1,300 disappeared since 1982, but not a single person has been accounted for. In April 1987, the president of the European humanitarian aid group *Terre des Hommes* categorized the human rights situation in Guatemala as "catastrophic."<sup>17</sup>

The Reagan administration's assertions that significant improvements have been made are belied by additional facts: the military's self-amnesty, the failure of the government to try a single member of the armed forces for violence against civilians or to remove officers associated with gross human rights abuses, the documented cases of army killings under Cerezo, and Cerezo's unfulfilled promise to end the military's forced recruitment of civilians into the rural militia. Given Guatemala's barbaric human rights record of the last decade, a narrow definition of "improvement" in human rights performance leaves much room for continued abuses.

Not only has the Reagan administration approved a resumption in military aid, but it appears to have pushed such aid on Guatemala's wary civilian president. In May 1986 President Cerezo was quoted as saying he had requested less than \$1 million

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in military aid, but the Reagan administration asked Congress for \$5 million, which was granted.<sup>118</sup>

In addition to military aid, the Reagan administration made a 1986 supplemental request for \$3 million to train Guatemalan police officials. The history of such training shows, however, that it actually exacerbated human rights violations. From 1961 to 1974, AID's Office of Public Safety trained some 32,000 Guatemalan police who participated in the wholesale massacre of Guatemalan civilians.<sup>119</sup>

In 1971 the Senate Foreign Relations Committee reported that "Guatemalan police operate without any effective political and judicial restraints, and the use of the equipment and technology which are given them is quite beyond U.S. control." The committee concluded that such assistance associated the United States with "police terrorism."<sup>120</sup>

As with the 1960s Green Beret training of Guatemalan military officers who went on to commit atrocities, it is naive to think that U.S. training inhibits human rights violations. Previous U.S. military and police aid only strengthened the hand of those responsible for gross abuses, and there is little reason to think the future will be any different.

### **Guatemala Is Wracked by an Economic Crisis That Cannot Be Cured by Infusions of U.S. Aid.**

As the 1988 AID *Congressional Presentation* notes: "Guatemala's economic crisis is severe, deeply rooted and reflective of the crises throughout Central America."<sup>121</sup> Between 1981 and 1986 the gross domestic product (GDP) declined by 6 percent, with GDP per capita dropping more than 20 percent.<sup>122</sup> During the same period, the purchasing power of Guatemalan exports declined more than

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16 percent. Real per capita income has declined to levels of the early 1970s.<sup>123</sup> Foreign and domestic investment has evaporated due to civil strife, capital flight, and inept handling of the economy by the military. Inflation climbed to more than 40 percent during 1986, debt service payments are taking a growing share of export earnings, and nearly half the population is unemployed or underemployed.

The stagnating economy has exacerbated the country's social crisis. As AID notes, for a country with great potential, Guatemala suffers from a "severely unbalanced distribution of income and widespread poverty."<sup>124</sup> The richest 20 percent of the population receives an estimated 57 percent of national income. The infant mortality rate—68 per 1,000 nationwide—reaches 150 in some rural areas. The adult literacy rate of 46 percent is the second lowest in all of Latin America.<sup>125</sup> The conditions that spawned armed rebellion in the late 1970s are in many ways worse today.

Rather than addressing these issues head-on through assistance aimed at changing the structural inequalities that keep Guatemala underdeveloped, AID is actually propping up Guatemala's inequitable structures through ESF bailouts. While in 1985 Development Assistance comprised 59 percent of U.S. aid to Guatemala, in 1986 it declined to 32 percent, and continued dropping in 1987 to 27 percent and in the 1988 request to 23 percent.

One of the major reasons the Guatemalan government is experiencing a fiscal crisis is the successful resistance to tax increases by the wealthier classes. Currently only 15 percent of tax revenues are derived from private earnings, while 85 percent comes from regressive revenue such as sales taxes which hit the poorest sectors hardest. Rather than seeking reform of this structural flaw, AID emphasizes flexible government-to-government transfers such as ESF and Title I of PL 480. In 1986, for example, these bailout funds constituted 55 percent of total aid. In essence, this amounts

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to U.S. taxpayers footing the bill for the Guatemalan elite and middle class so they won't be faced with the difficult task of funding their own government.

**AID Programs Do Not Address the Fundamental Issue Blocking Agricultural Development and Improvement in the Lives of the Rural Population: Land Reform.**

A 1982 AID-sponsored study revealed that Guatemala had the most unequal land distribution in all of Latin America. The report stated that 88 percent of all farms were too small to provide for the needs of a family. At the other extreme were the largest 3 percent of all farms, which controlled 65 percent of all farmland. It also reported the number of landless rural workers as 419,620.<sup>126</sup>

A sweeping redistribution of land is essential for reducing the extreme poverty in the countryside and creating a strong internal market to stimulate industrial production. Yet the United States helped reverse the land reform instituted by the Arbenz government in 1954. The CIA helped overthrow the Arbenz government for its attempt to institute what an AID document later described as a "moderate, progressive reform" aimed at redistributing idle lands held by large private estates.<sup>127</sup>

Since then, AID has rejected relatively inexpensive distribution of idle lands for expensive colonization schemes of less arable land (costing \$4,239 per family in a country where three-fourths of the population receives an annual per capita income of less than \$300).<sup>128</sup> While admitting the need for widespread land reform, AID failed to recommend such reform on the grounds that "questions concerning the character and pace of structural social and economic change in a country, as mirrored in an agrarian reform program, are best left to the host government."<sup>129</sup> Contrast this

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reticence to press for land reform with U.S. boldness in pressing for privatization of state enterprises or for compliance with the war against Nicaragua.

In 1984, AID introduced a pilot project to facilitate the purchase of land on the free market. In 1986 and 1987 AID invested \$25 million financing the purchase of land for 35,000 families. This project is designed to support the government's land reform program under the National Institute for Agrarian Reform (INTA). But INTA's program for 1986-1987 aimed to benefit just 4.3 percent of peasants in need of land.<sup>130</sup> Compare this to the land reform under the Arbenz government which benefited 40 percent of the landless work force between 1952 and 1954.

Meanwhile, 1986 marked a year of renewed pressure for land on the part of landless peasants. On May 1, 1986, 16,000 peasants marched to Guatemala City demanding land. Since then marches and protests have taken place throughout the country. But so far the Cerezo government has only offered to sell the peasants one state plantation.

In an agricultural country where over 58 percent of the economically active population are small farmers, there is no hope for long-term development if both the Guatemalan government and AID refuse to address the basic inequities of land distribution.

### **U.S. Aid Is Being Used to Pressure Guatemala to Acquiesce to U.S. Regional Strategy.**

There have been persistent indications that the U.S. government has tried to use aid to pressure the Guatemalan government to cooperate more closely with the United States in efforts to isolate Nicaragua.

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While Guatemala outwardly holds a position of "active neutrality," according to the 1987 Tower Commission report the Guatemalan military provided assistance to the Nicaraguan contras for several years. A March 5, 1985 memorandum from Lt. Col. Oliver North to Robert McFarlane detailed plans to ship \$8 million worth of munitions for the contras through an unnamed third country. The *New York Times* reported that the third country was Guatemala. The memorandum also said it would be necessary to provide additional assistance to the unnamed country to compensate it for the "extraordinary assistance they are providing to the Nicaraguan freedom fighters" and that doing so would make "the right people" in the country "understand that we are able to provide results from their cooperation on the resistance issue." Shortly afterward, the administration recommended an 11,600 percent increase in aid to Guatemala from \$300,000 to \$35.3 million.<sup>111</sup>

Yet there are people in the Guatemalan government and military who are trying to maintain trade and diplomatic relations with Nicaragua and would like Guatemala to retain a neutral position vis-a-vis the United States. Among some military leaders, this position stems from their pique over the U.S. cutoff of military aid in the late 1970s, and their conviction that they have been more successful at counterinsurgency than the Salvadoran military with its extreme dependence on the United States.

Cerezo himself has taken independent diplomatic stands, such as his insistence that the 1987 Costa Rican peace initiative include Nicaragua. But the Reagan administration has tried to pressure Guatemala into line with U.S. policy. When Cerezo was asked about why the United States reduced its military aid from \$5 million in 1986 to \$2.4 million in 1987, he replied that the decrease could be interpreted as a pressure tactic by the Reagan administration to "make my government abandon its policy of active neutrality."<sup>112</sup>

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### **U.S. Aid Lends Support to the Guatemalan Army's Pacification Programs.**

Perhaps the most disturbing aspect of U.S. aid in Guatemala is its relation to the army's pacification programs. The army's strategy was embodied in a series of now classic counterinsurgency techniques: the forced mobilization of all adult males into civilian militias, the designation of areas of high military security called "development poles," and the resettlement of Indians driven from their homes into "model villages" similar to the "strategic hamlets" in Vietnam.

AID officials insist that their planning is independent of the military, and that their priorities are determined on a criterion of need. In a formal sense that may be true; the Guatemalan military does not participate in AID planning sessions, and Congress has prohibited AID from working in the military-run model villages. Nevertheless, the Guatemalan military controls all development in the country, especially in those areas that the army regards as critical. What is striking is how closely AID's programs—supposedly based on need—mesh with the army's programs based on counterinsurgency.

AID spent at least \$10 million in recent years for rural road construction and maintenance in zones that are high priority areas for the army. Such projects are justified as "integrating" the Indians into national life and enabling them to market their crops. This justification ignores the fact that the Indians are already well "integrated" as migratory labor for the agro-export plantations, and that the problems of small farmers are primarily lack of land and other productive resources, not access to markets. Whatever the intentions of U.S. planners, these roads permit the army to maintain a stronger presence in areas where peasants have staged armed uprisings.

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AID is training over 3,000 health "promoters." In 1984 AID funded two-thirds of the government's Department of Health Services and paid for the construction of rural health posts. The army intends to have health posts in the model villages. Ironically, the army killed hundreds of health promoters in the early 1980s because as community leaders they were judged to be "subversive." Viewed from a broad historical perspective, it is a tragic cycle: the U.S. taxpayers funded the training and equipping of Guatemalan security forces, the troops then went out and slaughtered the health promoters, and now U.S. taxpayers fund the training of new health promoters.

Since the 1970s AID experts have advocated that small farmers diversify into vegetables for export, such as broccoli and snow peas. Their argument is that a small plot can produce a greater cash value in such crops, and the family can buy corn and beans for its own consumption. Indians resist, partly because having their own corn makes them more self-sufficient. Small landholders would be vulnerable to the vagaries of international markets, unlike large growers whose accumulated wealth enables them to live luxuriously even through years of adverse prices. The army has aggressively pursued such diversification and spoken of eradicating the "culture of corn." Such a development would make the peasants dependent on the military for basic food supplies.

Guatemalan military and civilian officials admit that their programs would be impossible without U.S. funding. One Guatemalan official, Dr. Luis Sieckkavizza, pointed out that even though the United States may publicly disassociate itself from the Guatemalan military's civic action program "there are a lot of ways to do it under the table."<sup>13</sup> He cited the fact that U.S. Army doctors from Panama came to work in model villages for short periods.

From the Guatemalan military viewpoint, aid and U.S. Army

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civic action are simply different elements in an overall counterinsurgency scheme. Guatemalan military leaders are quite willing to allow U.S. officials to maintain the appearance of independence.

Since the military tightly controls the "development" process in Guatemala, they are not threatened by AID's economic programs.

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## CONCLUSION

The key findings of this report can be summarized as follows.

- The national economies of Central America are experiencing a profound crisis. The primary reasons are the extreme inequality that keeps the majority in poverty, and war. Policies of the U.S. government have exacerbated the crisis by striving for a military defeat of the government of Nicaragua and opposition movements in other countries.
- The greatest portion of U.S. economic aid is nondevelopmental, balance-of-payments support which props up governments so they can carry out this military strategy. Thus, simply shifting aid from military to "economic" would not necessarily change its negative impact.
- Because Development Assistance and food aid are subordinated to a larger military strategy, economic development programs get undermined by war efforts.
- In no country of the region is U.S. aid addressing the fundamental structural problems at the root of the crisis: the extreme disparities of wealth and power, particularly in highly unequal land-tenure patterns.
- The aid strategy of supporting export-led growth supports existing elites and maintains the region's vulnerability to external forces.
- A market-based strategy will fail unless it broadens access to resources so that the poor majorities can become significant consumers.
- Aid strategies to promote democracy will do little to improve the lives of Central Americans if limited to periodic elections. To contribute to development, democracy must mean the participation of the majorities in political and economic decision making from the village up.

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- Current U.S. aid to Central America undermines U.S. national interests by worsening the roots of conflict, fueling regional instability, and undermining prospects for the region becoming a profitable trading partner for U.S. producers.

Despite the good intentions and hard work of many AID personnel, the aid policies of the past must be recognized for what they are: a failure at supporting broad-based development. The situation in Central America is likely to deteriorate further if we maintain or simply tinker with current aid policies. In this section we elaborate on some of the conclusions that can be drawn from this report.

### **A Fiscally Conservative Position Regarding Our Aid to Central America is Most Consistent with Helping the Majority of People in That Region.**

Currently, a large percentage of U.S. aid is wasted or counterproductive. The largest portion of our aid to Central America is a transfer of U.S. taxpayer money to political, economic, and military elites. Most U.S. aid functions as a subsidy to Central American taxpayers.

Few safeguards are in place to ensure that U.S. aid stays within the recipient country. The General Accounting Office reports that “controls to limit capital flight” are weak.<sup>134</sup> State Department personnel stationed in Central America told us of significant amounts of U.S. aid money ending up in private bank accounts in Miami and Panama. The process calls to mind the satirical definition of foreign aid: “That’s when the poor people of rich countries give money to the rich people of poor countries.”

High levels of foreign assistance are necessary to prop up governments that often do not have the active support of their own

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people. Funding levels could be cut back if we were willing to allow each country to work out its own political destiny. The assumption—dating back to the Monroe Doctrine—that the United States must have veto power over the political coloration of regimes in the Americas has retarded development and has earned us a reputation as manipulators and bullies.

Large amounts of balance-of-payments support are detrimental to the recipient countries. Because these transfers are used mainly to pay foreign debts and purchase imports, they strengthen the commercial and finance sectors at the expense of productive sectors. Infusions of U.S. money also allow recipient governments to avoid tax reform and other needed changes. As a General Accounting Office study of Honduras and El Salvador concluded:

from an economic point of view, GAO believes it is difficult to justify U.S. financing of large-scale, balance-of-payments deficits in El Salvador and Honduras which are caused, in part, by inappropriate macroeconomic policies of these countries.<sup>135</sup>

Foreign aid is only as good as the government receiving it. If we continue to place greater value on a government's stance against communism than on its treatment of its own people, we will continue to spend billions of dollars on aid that does little to change the problems of economic stagnation and lack of democracy.

**The United States Should Provide No Aid (Except Emergency Relief) to Countries Whose Governments Are Systematic Violators of Human Rights.**

Section 502B of the Foreign Assistance Act of 1974 (PL 93- 559) expresses the sense of Congress that "the President shall substan-

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tially reduce or terminate security assistance [this includes ESF] to any government which engages in a consistent pattern of gross violations of internationally recognized human rights." This legislation should be strengthened and enforced to prohibit the transfer of U.S. funds—especially security assistance—to governments known to be human rights violators.

Presidential certification of "improvements" in a regime's human rights record are not sufficient. Security forces such as those in Guatemala and El Salvador have such a horrendous record of abuses that they can *improve* each year and still remain gross violators of human rights. We should demand an *end* to human rights violations by governments receiving our assistance. No matter how much a regime aligns itself with Washington and against Moscow, if it abuses its own people it will create local and international opposition. It is not in the national interest of the United States to befriend such regimes.

Our official definition of human rights should be expanded beyond freedom from political persecution to include survival rights such as those included in the United Nation's Universal Declaration of Human Rights: "food, clothing, housing and medical care and necessary social services."<sup>136</sup>

### **Military, Economic, and Political Elites Should Not Be the Recipients of U.S. Aid.**

As early as 1973 with the "New Directions" legislation, Congress called for aid projects "which most directly benefit the poorest majority of the people in these countries and which enable them to participate more effectively in the development process."<sup>137</sup> Yet this crucial insight has been ignored and most of our aid to Central America during the 1980s has gone to generals, politicians, and businessmen.

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The “trickle down” approach—putting most U.S. aid into the hands of elites and hoping some will get to the poor—should be abandoned. Aiding economic and state elites strengthens those sectors most opposed to the reforms needed to establish greater equity and justice. The current approach should be replaced by a “trickle up” strategy that concentrates on programs that *directly* benefit the poorest sectors of recipient countries.

The bulk of our aid should respond to requests from grassroots organizations. These movements of workers, peasants, students, and professionals represent large constituencies and they have legitimate grievances rooted in the failed development of decades past. By understanding these grassroots movements through direct contact, we could learn from them rather than trying to control them.

Such a bottom-up approach would be much more efficient than current aid and would allow sizeable reductions in overall funding levels. Peasants, workers, and other grassroots recipients would be less likely to spirit our aid away as capital flight to private bank accounts or waste our aid money on luxury consumer items. A far greater percentage of our aid money would be spent in productive, job-creating ways.

**U.S. Food Aid Programs Should Concentrate on Providing Appropriate Types of Food to Those in Greatest Need of Nutritional Assistance, Not on Providing Balance-of-Payments Support to Governments.**

Title I programs of PL 480—more than 84 percent of our food aid to Central America from 1982 to 1987—should be steadily re-

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duced. The Title I programs in Central America are little more than balance-of-payments support. Although local currencies generated from the sale of Title I agricultural commodities are supposed to be used for development purposes, the General Accounting Office reports that "AID's oversight of the actual use is limited."<sup>138</sup>

Title II funding should be restricted to 1) emergency situations, and 2) institutional feeding programs (e.g., in schools and hospitals). Strict procedures must be implemented for ensuring that the food 1) actually gets into the hands of the needy; 2) is not used by the government to control the population; 3) does not depress prices of locally grown food, thus reducing incentive for farmers to produce; 4) is of a type that does not undermine local food security (e.g., wheat does not grow well in Central America and should be phased out from U.S. food aid because it creates dependency).

To the greatest extent possible, Title II food should be purchased in the region, thus increasing incentives for local farmers. Our food aid should not be seen as a subsidy program for U.S. farmers, aimed at relieving our problems of oversupply by sending surplus commodities to poor regions such as Central America. The problem of U.S. oversupply of farm produce must ultimately be resolved within a domestic policy framework.

Finally, our food aid programs should be closely coordinated with our agricultural assistance to help countries move toward self-sufficiency and reduce dependence on imported food. In an agriculturally rich area such as Central America, there should be no need for large amounts of food aid.

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## **U.S. AID Should Stop Promoting Export Crops, Including “Non-Traditional” Ones.**

A central cause of Central America's economic crisis is its dependence on export agriculture. As World Bank data show, all major categories of third world agro-exports suffered real price declines in the period 1950-1984.<sup>19</sup> Yet AID continues its emphasis on agricultural exports. Switching some money over to the promotion of nontraditional exports amounts to little more than diversifying the structure of dependence.

Emphasizing food self-sufficiency would be far more democratic than the current agro-export model because it would seek to strengthen the rural majority: smallholders and landless laborers. By responding to requests for assistance from those working to support land reform efforts and rural public works, U.S. assistance could help stimulate productive farm and off-farm employment, and stimulate agricultural markets by putting more buying power into the hands of the poorest.

Rather than promoting capital-intensive monocropping, as practiced in the United States, the people and environment would be better off if we facilitated the spread of multicropping, “gardening” techniques which are well-suited for the smallholders who form the bulk of Central American farmers. Access to advanced methods of low-input, sustainable agriculture could increase food productivity while reducing dependence on costly imported inputs that exacerbate trade deficits and often degrade the environment.

Some U.S. chemical companies would stand to lose from this kind of reorientation but ultimately more markets would open up for U.S. products as the poor made economic progress.

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### **U.S. Aid Should Do More to Address Central America's Environmental Crisis.**

Although this report has focused on the *social* impact of U.S. aid policies, we would be remiss if we failed to mention the severe environmental crisis gripping Central America.

Most of Central America's prime farmland is devoted to cash crops rather than subsistence agriculture (Appendix, table 13). The agro-export model has been shown to take a heavy toll on the environment: export crops rely on large inputs of chemical fertilizer and pesticides; since 1950, more than two-thirds of Central American forests have been cleared; peasants pushed off their land are forced to farm less-fertile hillsides which are easily eroded; the resulting erosion silts up rivers and dams and exacerbates flooding.<sup>140</sup>

In addition to dropping its emphasis on agro-exports, AID should increase the share of its budget devoted to environmental programs.

### **Both Congress and the President Should Rely More on the Expertise of People with Extensive Field Experience in Central America.**

The failures documented in this report are proof of the need for more country-specific expertise in the shaping of U.S. foreign policy. Procedures should be established to increase the policy influence of those with field experience. Currently, we waste resources and blind our policy to the realities of the region by subordinating the expertise of Foreign Service personnel to high-level political appointees. In addition to government employees, there are church groups, private development organizations, and

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private citizens with valuable knowledge of the region. They should be consulted on a regular basis.

### **Congress Should Require Detailed Reports on the Actual Impact of U.S. Aid Programs.**

Congress and the American people can only make informed decisions about U.S. foreign aid if they have adequate information about the various programs and the real impact they have in recipient countries. Currently it is difficult for Congress, and nearly impossible for the public, to gain a detailed understanding of what our aid money is actually accomplishing. This is not a call for more paperwork and bureaucracy. It is a call for reorientation of existing reporting requirements. Current reporting guidelines, such as those contained in Section 709 of the International Security and Development Act of 1985, should be rewritten to stress the need for social and environmental impact assessments of ongoing and proposed programs.

## RECOMMENDATIONS

The most fundamental problem is one of worldview: we need to change our basic attitude about foreign aid. It should not be the role of the U.S. government to impose particular “models” of development such as agro-exports and privatization. Nor should we sabotage models of development we disagree with. Democracy and genuine development cannot be imposed from the outside but must grow from within.

Rather than assuming that we North Americans have the answer to Central America’s development problems, we should be responding to requests from governments and grassroots organizations in the region for assistance in the fields of health, education, employment generation, sustainable agriculture, and environmental protection.

We could simultaneously save U.S. taxpayers money and make a significant contribution to democracy in Central America by curtailing counterproductive military aid and cash transfers to governments. This would give the people of Central America a better chance to control—rather than be controlled by—their governments.

- **Greatly reduce military aid and support regional peace efforts such as the Contadora peace plan.** Strengthening the security forces of the region is counterproductive because it creates greater obstacles to the redistribution of power essential for broad-based development. A regional peace agreement could be the basis for more efficient and equitable use of the region’s resources.
- **Greatly reduce Economic Support Funds (ESF),** which do little

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more than buy time for mismanaged governments, allowing them to postpone needed reforms. Massive infusions of U.S. aid dollars distort the development process and give unfair advantage to the elite minorities who control access to U.S. assistance. Large aid programs create dependent relationships which are not healthy for recipient societies or the United States.

- **End military aid to the contras and terminate the economic embargo against Nicaragua.** The U.S.-sponsored aggression against Nicaragua has undermined regional development by 1) skewing priorities toward war-making, 2) destroying human life and economic infrastructure, and 3) scaring off investment capital.
- **Strengthen and expand human rights provisions and executive certification requirements for security assistance.** Executive certification should not be a *pro forma* exercise, ignoring unpleasant facts about allied regimes. Human rights requirements should go beyond freedom from political persecution to include survival rights such as access to food, housing, and health care as provided for in the United Nations' Universal Declaration of Human Rights. Special funding should be allocated for independent human rights groups to report on conditions in recipient countries.
- **Make U.S. aid contingent on effective agrarian reform.** Support agrarian reform by 1) encouraging governments to uphold existing agrarian reform laws, 2) funding programs to redistribute underutilized land to the landless and land-poor, 3) providing credit and technical assistance to those receiving agrarian reform lands.
- **Make U.S. aid contingent on governments giving top priority to human resource development and food self-sufficiency.** Emphasize programs to raise the living standards of the majority:

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expanded health care, greater access to sanitary water, education to foster literacy and technical training, public works projects to expand employment. Encourage recipient countries to balance the emphasis on export agriculture to earn foreign exchange with an emphasis on food self-sufficiency. Give priority to individual small farms and small-farmer cooperatives growing food for local consumption, while reducing assistance to large-scale export agriculture.

- **Gradually eliminate Title I programs of PL 480 while placing stricter controls on the use of Title II.** Food aid should not be used as a way to dispose of U.S. surpluses or as a way to transfer funds to other governments. Title II food should be restricted to 1) emergency situations, and 2) institutional feeding programs (e.g., in schools and hospitals).

Implement strict procedures for ensuring that food aid 1) actually gets into the hands of the needy, 2) is not used by the recipient government to control the population, 3) does not depress prices of locally grown food, thus reducing incentive for farmers to produce, 4) is of a type that does not shift tastes away from foods grown locally (for example, wheat does not grow well in Central America and should be phased out from U.S. food aid because it fosters dependency).

- **Change the reporting requirements on U.S. foreign assistance** so the full social and environmental impact of U.S. aid can be known by U.S. citizens and their elected representatives. This is not a call for more paperwork and bureaucracy. It is a call for reorientation of existing reporting requirements. Current reporting guidelines, such as those contained in Section 709 of the International Security and Development Act of 1985, should be rewritten to stress the need for social and environmental impact assessments of ongoing and proposed programs. Key features of these impact statements should be 1) how aid projects help to

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eliminate poverty, and 2) how aid projects help to ensure the sustainability of the natural resource base.

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## APPENDIX

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**TABLE 1: Unemployment in Central America, 1986**

Costa Rica	10% unemployment
El Salvador	30% unemployment
Guatemala	40% underemployment and unemployment 50% rural unemployment
Honduras	41% unemployment 25% underemployment

**SOURCES:** Guatemala underemployment and unemployment, Honduras underemployment, and Costa Rica unemployment from CIA, *World Fact Book*, 1986. Guatemala rural unemployment from AID mission report, 1986; Honduras unemployment from Honduran Economic Association; El Salvador from *Central America Report*, 17 October 1986.

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**TABLE 2: Debt Outstanding as Percentage of Annual Export Earnings, 1978-1986**

Country	1978	1979	1980	1981	1982	1983	1984	1985	1986 <sup>a</sup>
Costa Rica	186	204	266	286	313	340	310	335	339
El Salvador	107	74	80	159	208	217	218	231	218
Guatemala	64	64	56	90	122	182	201	228	199
Honduras	141	141	160	193	259	270	279	275	262

**SOURCE:** UN Economic Commission on Latin America and the Caribbean, *Preliminary Overview of the Latin American Economy 1986*, p.22.

<sup>a</sup> preliminary figures

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**TABLE 3: Debt Service as Percentage of Export Earnings, 1983-1986**

Country	1983	1984	1985	1986 <sup>a</sup>
Costa Rica	63.7	31.7	41.2	30.0
El Salvador	66.0	52.0	56.8	40.0
Guatemala	25.1	34.7	46.0	38.0
Honduras	38.0	39.0	39.2	25.0

**SOURCE:** *Central America Report* (Guatemala City, Inforpress Centroamericana) 13 February 1987, p. 44

<sup>a</sup> preliminary figures

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**TABLE 4: Economic and Security Aid to Central America, 1975-1988**  
(In millions of U.S. Dollars)

Year	Economic Aid <sup>a</sup>	Security Aid <sup>b</sup>	Security as % of Total
1975	56,000	12,600	18
1976	80,600	6,700	8
1977	51,300	9,100	15
1978	47,700	3,200	6
1979	83,100	2,300	3
1980	131,298	19,887	13
1981	131,387	89,365	40
1982	161,800	276,200	62
1983	231,400	507,200	70
1984	204,578	573,357	74
1985	337,480	820,340	71
1986	297,455	597,071	67
1987	277,942	573,486	67
1988	352,950	681,455	71

**SOURCE:** AID, *Congressional Presentation*, various years.

**NOTE:** Figures for Costa Rica, El Salvador, Guatemala, Honduras.

<sup>a</sup> Development Assistance, PL 480 I & II, Peace Corps

<sup>b</sup> Economic Support Fund, military assistance

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**TABLE 5: Land Forces In Central America, 1977-1985**  
(In Thousands)

Country	1977	1980	1985
Costa Rica	5.0	5.0	19.8
El Salvador	7.1	7.2	56.5
Guatemala	14.3	14.9	51.0
Honduras	14.2	11.3	25.5
Nicaragua	7.1	60.0	61.8

**SOURCES:** Nicaragua 1985 from Caribbean Basin Information Project; all other figures from *Latin American Regional Reports, Mexico and Central America*, 15 September 1986, p.4.

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**TABLE 6: Combat Aircraft in Central America, 1977-1987**

Country	1977-8	1986-7
El Salvador	21	40 <sup>a</sup>
Guatemala	11	16 <sup>a</sup>
Honduras	22	28
Nicaragua	13	24 <sup>a</sup>

**SOURCES:** *The Military Balance 1977-1987*, p.74; *The Military Balance 1986-1987*, p.184, 187-9, 191; The International Institute for Strategic Studies, 1986

**NOTE:** Unless otherwise indicated, statistics include only those aircraft strictly defined as "combat" aircraft.

<sup>a</sup> Includes armed helicopters.

**TABLE 7: U.S. Aid to Honduras, 1975-1988**  
(In Thousands of U.S. Dollars)

Year	Development Assistance	Economic Support Fund	PL 480-I	PL 480-II	Peace Corps	Military	Total
1975	25,400	—	5,300	3,700	1,000	4,200	39,800
1976	14,800	—	2,100	3,800	1,300	3,500	25,500
1977	7,800	—	—	2,800	1,500	3,100	15,300
1978	13,000	—	—	2,400	1,700	3,200	20,300
1979	22,200	—	2,000	2,800	2,100	2,300	31,400
1980	45,824	—	2,000	3,200	1,964	3,982	56,970
1981	25,660	—	5,800	4,646	2,442	8,935	47,483
1982	31,200	36,800	7,000	3,100	2,600	30,300	112,000
1983	31,200	56,000	10,000	5,500	3,200	48,300	145,200
1984	30,995	40,000	15,000	4,319	3,788	77,440	171,542
1985	44,333	147,500	15,000	3,351	4,983	67,404	282,571
1986	44,308	61,248	13,900	4,601	5,235	61,159	190,451
1987 <sup>a</sup>	40,854	71,406	12,000	5,021	5,105	61,200	195,577
1988 <sup>b</sup>	40,362	100,000	12,000	4,365	3,759	81,530	242,016

**SOURCE:** AID, *Congressional Presentations*, various years.

<sup>a</sup> estimates, excluding supplementals

<sup>b</sup> requested

**TABLE 8: U.S. Aid to El Salvador, 1975- 1988**  
(In Thousands of U.S. Dollars)

Year	Development Assistance	Economic Support Fund	PL 480-I	PL 480-II	Peace Corps	Military	Total
1975	1,300	—	—	1,600	800	5,500	9,400
1976	1,600	—	—	3,300	900	1,000	7,000
1977	2,700	—	—	2,700	1,400	500	7,300
1978	8,000	—	—	1,700	1,200	a	10,900
1979	6,900	—	—	2,900	1,600	a	11,400
1980	43,155	9,100	—	6,269	516	5,995	64,995
1981	32,792	44,900	17,200	9,077	—	35,495	139,464
1982	36,200	115,000	27,200	7,700	—	72,000	268,100
1983	58,800	140,000	39,000	7,700	—	81,300	326,800
1984	41,061	120,234	49,000	2,086	—	196,550	408,931
1985	87,755	285,000	49,000	3,071	—	136,250	561,076
1986	83,880	177,045	44,000	10,447	—	121,798	437,170
1987 <sup>b</sup>	75,457	181,747	42,000	5,201	—	116,500	420,905
1988 <sup>c</sup>	75,620	200,000	35,000	8,708	—	119,875	439,203

**SOURCE:** AID, *Congressional Presentations*, various years.

<sup>a</sup> less than \$50,000

<sup>b</sup> estimates, excluding supplementals

<sup>c</sup> requested

**TABLE 9: Gross Domestic Product, 1980-1986**  
(In Millions of 1982 U.S. Dollars)

Country	1980	1981	1982	1983	1984	1985	1986 <sup>a</sup>
Costa Rica	3,894	3,806	3,528	3,611	3,882	3,945	3,983
El Salvador	3,585	3,511	3,340	3,317	3,367	3,421	3,384
Guatemala	9,769	9,835	9,483	9,223	9,288	9,186	9,186
Honduras	2,761	2,777	2,743	2,730	2,806	2,890	2,994
Total	20,009	19,929	19,094	18,881	19,343	19,442	19,547

**SOURCE:** *Central America Report*, 19 September 1986, p.283 (based on figures from UN Economic Commission on Latin America and the Caribbean, and the Interamerican Development Bank).

<sup>a</sup> estimates

**TABLE 10: Annual Gross National Product Per Capita 1978-1984**  
(In U.S. Dollars)

Country	1978	1979	1980	1981	1982	1983	1984
Costa Rica	1,540	1,820	1,730	1,430	1,430	1,430	1,190
El Salvador	660	670	660	650	690	710	710
Guatemala	910	1,020	1,080	1,140	1,130	1,120	1,160
Honduras	480	530	560	600	660	670	700

**SOURCE:** World Bank, *World Development Report*, various years.

**TABLE 11: U.S. Aid to Costa Rica, 1975-1988**  
(In Thousands of U.S. Dollars)

Year	Development Assistance	Economic Support Funds	PL 480-I	PL 480-II	Peace Corps	Military	Total
1975	700	—	—	1,000	1,100	—	3,700
1976	6,700	—	—	1,400	1,200	—	9,300
1977	6,500	—	—	3,900	1,200	5,000	16,600
1978	7,000	—	—	800	1,300	—	9,100
1979	16,400	—	—	a	1,500	—	17,900
1980	13,561	—	—	74	1,453	—	15,088
1981	11,475	—	—	1,814	1,746	35	15,070
1982	11,500	20,000	18,000	1,100	1,000	2,100	53,700
1983	27,100	157,000	27,500	200	1,700	4,600	218,100
1984	15,400	130,000	22,500	—	1,826	9,133	178,859
1985	20,525	160,000	21,400	—	2,892	11,231	216,049
1986	10,949	120,582	16,200	263	2,639	2,615	153,248
1987 <sup>b</sup>	12,774	87,716	16,000	221	2,808	1,730	121,249
1988 <sup>c</sup>	12,900	90,000	15,000	240	2,894	2,450	123,484

**SOURCE:** AID, *Congressional Presentation*, various years.

<sup>a</sup> less than \$50,000.

<sup>b</sup> estimates, excluding supplementals

<sup>c</sup> requested

**TABLE 12: U.S. Aid to Guatemala, 1975-1988**  
(In Thousands of U.S. Dollars)

Year	Development Assistance	Economic Support Funds	PL 480-I	PL 480-II	Peace Corps	Military	Total
1975	9,500	—	—	3,400	1,200	2,900	17,000
1976	29,600	—	—	12,500	1,400	2,200	45,700
1977	14,800	—	—	4,500	1,500	500	21,300
1978	4,500	—	—	4,600	1,500	a	10,600
1979	17,400	—	—	5,300	2,000	a	24,700
1980	7,764	—	—	3,676	1,842	—	13,282
1981	9,135	—	—	7,554	2,046	—	18,735
1982	7,900	—	—	5,600	1,700	—	15,200
1983	12,200	10,000	—	5,400	1,900	—	29,500
1984	4,375	—	7,000	4,623	2,605	—	18,603
1985	58,033	12,500	19,700	4,396	3,040	455	98,124
1986	36,881	47,850	15,400	5,821	2,931	5,356	114,239
1987 <sup>b</sup>	33,031	50,787	19,000	5,311	3,159	2,400	121,958
1988 <sup>c</sup>	33,300	80,000	18,000	7,713	3,089	7,600	149,702

**SOURCE:** AID, *Congressional Presentation*, various years.

<sup>a</sup> less than \$50,000

<sup>b</sup> estimates, excluding supplementals

<sup>c</sup> requested.

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**TABLE 13: Percentage of Arable Land for Subsistence  
and Cash Crops, 1985**

<b>Country</b>	<b>Subsistence Crops</b>	<b>Cash Crops</b>
Costa Rica	38	55
El Salvador	50	50
Guatemala	50	35
Honduras	29	50

**SOURCE:** AID, *Congressional Presentation Fiscal Year 1988, Annex III, Latin America and the Caribbean*, pp. 58, 76, 108, 134.

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## NOTES

1. The report does not give equal attention to Nicaragua because it has not been a major recipient of U.S. economic aid under the Reagan administration. Nicaragua is a key factor in U.S. policy, however, and Nicaragua is discussed occasionally in the report where it pertains to U.S. policy toward the other countries. For a concise overview of congressionally approved aid to the contras see Senate Democratic Policy Committee, *Foreign Aid to Central America, FY 1981-1987*, 12 February, 1987, 75-77.
2. Throughout this report, years for aid levels are government fiscal years (FY1987 = October 1, 1986-September 30, 1987). Data from Agency for International Development, *Congressional Presentation*, various years.
3. This report focuses on U.S. bilateral assistance to four recipients: El Salvador, Honduras, Guatemala, and Costa Rica. In calculating U.S. aid to Central America we exclude Panama, Belize, and regional programs. Between 1980 and 1983 these latter areas received only 6 percent of total aid to Central America. Data from Agency for International Development, *Congressional Presentation*, various years.
4. The major components of U.S. security assistance are Economic Support Funds (ESF); Foreign Military Sales (FMS), which are credits enabling foreign governments to purchase U.S. military goods and services; the Military Assistance Program (MAP), which provides grants for the purchase of U.S. military goods and services; and International Military Education and Training (IMET), which provides professional military training to foreign personnel.
5. Agency for International Development, *Congressional Presentation*, various years.
6. The State Department estimates that between 1984 and 1990 U.S. aid will constitute between 48 percent and 57 percent of the total capital entering Central America (U.S. Department of State, *A Plan for Fully Funding the Recommendations of the National Bipartisan Commission on Central America*, Special Report No. 162, March 1987, 10). This figure does not include the large amounts of money repatriated by Central American emigrants working in the United States. For example, Salvadorans working in the United States are estimated to remit between \$350 million and \$700 million to El Salvador each year (James LeMoyne, "Salvadorans Stream Into U.S., Fleeing Poverty and Civil War," *New York Times*, 13 April 1987) 1.

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7. U.S. Department of State, *A Plan for Fully Funding the Recommendations of the National Bipartisan Commission on Central America*, Special Report No. 162, March 1987, 27.
  8. Most of the following is based on data from the UN Economic Commission on Latin America and the Caribbean (ECLAC). See "Economic Decline Continues in 1986," *Central America Report* (Guatemala City: Inforpress Centroamericana, 13 February 1987).
  9. "Economic Decline Continues."
  10. Richard E. Feinberg, vice president, Overseas Development Council, "Economic Assistance to Central America" (Statement before the Senate Subcommittee on Western Hemisphere Affairs, 19 March 1987) 10.
  11. These figures are for direct bilateral funds and do not include regional money such as Central America Regional funds and the Regional Office for Central America and Panama (ROCAP). All years for aid figures are fiscal years. See table 4 in the Appendix for complete data, 1975-1988.
  12. For more details see Larry Q. Nowels, "An Overview of the Economic Support Fund," Report No. 85-93 F, Congressional Research Service, the Library of Congress, 24 April 1985.
  13. For example, in 1986 the following percentages of total ESF were cash transfers: Costa Rica, 100 percent; El Salvador, 83 percent; Guatemala, 99 percent; Honduras, 100 percent. U.S. General Accounting Office, *Foreign Aid: Potential for Diversion of Economic Support Funds to Unauthorized Use*, GAO/NSIAD-87-70, 14 January 1987, 27.
  14. GAO, *Foreign Aid: Potential for Diversion of Economic Support Funds*, 2-3.
  15. GAO, *U.S. Economic Assistance to Central America* GAO/NSIAD-84-71, 8 March 1984, 4.
  16. GAO, *U.S. Economic Assistance*, 5.
  17. GAO, *U.S. Economic Assistance*, 4.
  18. See country sections of this report. The *New York Times* cited U.S. government audits revealing "the illegal diversion of funds for private gain, fraudulent accounting procedures and spending that never reached the people it was intended to help" (Philip Taubman, "Abuses Disclosed

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in Aid Programs in Latin America," *New York Times*, 20 February 1984) 1.

19. Figure is for 1982 through 1987. Calculated from AID *Congressional Presentation*, various years.

20. "Fueling the Fires," *Central America Report*, 3 October 1986. Figure includes Nicaragua.

21. "Fueling the Fires."

22. *Central America Report*, 13 February 1987, 43.

23. A major influence on the Reagan administration's policy in Central America has been the "low intensity conflict" doctrine being developed by military theorists. This doctrine is a 1980s update of the counterinsurgency strategy developed in Malaysia and the Philippines in the 1940s and 1950s and later applied to Vietnam.

Central America has become a laboratory for applying low intensity theory, since it offers examples both of governments fighting leftist rebellions (El Salvador and Guatemala) and U.S.-backed insurgents trying to "roll back" the leftist government of Nicaragua. In both types of conflict, low intensity doctrine identifies success not as simply the military defeat of an enemy, but as winning the allegiance or acquiescence of the population.

Low intensity conflict embraces some elements of development. Military dentists, for example, may go into a rural area to pull hundreds of teeth: surely some good is done for individuals who need teeth pulled, but for the villagers nothing systemic has changed. The object of the action is not change but gaining good will for the military. Salvadoran, Honduran, Guatemalan, and U.S. forces have all carried out this kind of civic action.

24. Elliott Abrams, "Our Goal Is Freedom," *Horizons*, Spring 1986, 6.

25. James LeMoyne, "Salvador Rebel Infiltrators Called Key in Raid on Base," *New York Times*, 2 April 1987, 6; Chris Norton, "In Northern El Salvador, Rebels Exude a New Confidence," *Christian Science Monitor*, 14 April 1987, 9.

26. Senate Democratic Policy Committee, *Foreign Aid to Central America*, 81; and AID, *Congressional Presentation*, various years.

27. Billie R. DeWalt, "The Agrarian Bases of Conflict in Central

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America" in *The Central American Crisis: Sources of Conflict and the Failure of U.S. Policy*, ed. Kenneth Coleman and George Herring (Wilmington: Scholarly Resources, Inc., 1985); Robert G. Williams, *Export Agriculture and the Crisis in Central America* (Chapel Hill: University of North Carolina Press, 1986); Richard S. Newfarmer, "The Economics of Strife" in *Confronting Revolution: Security Through Diplomacy in Central America*, ed. Morris J. Blachman, et al. (New York: Pantheon Books, 1986); Walter LaFeber, *Inevitable Revolutions: The United States in Central America* (New York: W.W. Norton and Co., 1984).

28. Richard M. Garfield and Pedro F. Rodriguez, "Health and Health Services in Central America," *Journal of the American Medical Association* 254, no. 7, (16 August 1985) 936.

29. H. Jeffrey Leonard shows that the poorest 20 percent of the population controls the following shares of total income in each country: Costa Rica, 4 percent; El Salvador, 2 percent; Guatemala, 5 percent; Honduras, 4 percent. The richest 20 percent of the population controls the following shares of total income: Costa Rica, 49 percent; El Salvador, 66 percent; Guatemala, 54 percent; Honduras, 59 percent. Leonard also gives the following estimates for percentage of rural population in absolute poverty: Costa Rica, 40 percent; El Salvador, 70 percent; Guatemala, 60 percent; Honduras, 77 percent (H. Jeffrey Leonard, *Natural Resources and Economic Development in Central America* [Washington, DC: The Conservation Fund, forthcoming 1987]).

30. *Report on Demographic Trends and Projections for Central America* (Washington, DC: Inter-American Development Bank, 1977).

31. Martin Diskin, *Land Reform in El Salvador* (San Francisco: Food First Books, 1984). Updated version forthcoming.

32. Figures are for direct bilateral aid to El Salvador, Honduras, Costa Rica, and Guatemala (AID, *Congressional Presentation FY1987, Annex III, Latin America and the Caribbean*).

33. Honduran Government Planning Agency (CONSUPLANE), *Lineamientos Estrategicos de Politica Para El Periodo 1986- 1989*, Document DPG/009.

34. Central Intelligence Agency, *The World Factbook 1986*; and U.S.

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Agency for International Development, *FY1987 Congressional Presentation, Annex III, Latin America and the Caribbean*.

35. *Boletín Informativo*, (Centro de Documentación de Honduras [CEDOH]) no. 62, June 1986.

36. *Boletín Informativo*, no. 68, December 1986.

37. Jose Vicente, "Honduras: Economy stagnates despite massive US aid," *Latinamerica Press*, 5 February 1987.

38. Quoted in "Honduras: Pervasive Poverty for Years to Come," *Central American Report*, 13 April 1984.

39. See Appendix, table 8. The kinds of projects funded through Development Assistance have changed as well. Money once directed at improving the living conditions of the poor through health, education, housing, and agricultural assistance now go to activities directed at the private sector.

40. Philip Shepherd, *The Honduran Crisis and U.S. Economic Assistance* (Boulder: Westview Press, forthcoming 1987).

41. Quoted on "Morning Edition," National Public Radio, 11 April 1984.

42. *Central America Bulletin* (Central America Research Institute) 4, no. 12 (October 1985) 7.

43. Honduran Committee for the Defense of Human Rights (CODEH), cited in *Honduras Update* 3, no. 1, (October 1984).

44. James LeMoyne, "Honduras's Army Tied to 200 Deaths," *New York Times*, 2 May 1987, 1. The same article reports that "United States Embassy human rights reports from Honduras between 1981 and 1984 appear to have consistently played down repeated instances of politically motivated killings."

45. Statement before the House Subcommittee on Interamerican Affairs, 21 September 1982.

46. In addition, U.S. support for a war strategy in El Salvador has created more than 20,000 Salvadoran refugees in Honduras. In addition to the normal hardships of refugee existence, these Salvadorans have been subjected to various abuses by the Honduran military. See Philip E.

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Wheaton, *Inside Honduras: Regional Counterinsurgency Base* (Washington, DC: EPICA, 1982).

47. Frank C. Conahan, "Humanitarian Assistance to the Nicaraguan Democratic Resistance" (Statement before the House Subcommittee on Western Hemisphere Affairs, 11 June 1986). Also see "GAO Charges Misuse of Millions in Contra Aid," *New York Times*, 12 June 1986, 4.

48. *Miami Herald*, 3 October 1986.

49. Alan Tomlinson, report from Tegucigalpa "Morning Edition" National Public Radio, 16 March 1987.

50. *Tiempo*, 30 October 1986.

51. Shepherd, *The Honduran Crisis*.

52. External debt was roughly \$2.5 billion in 1986 (*Boletín Informativo*, no. 68, December 1986). Reliable data on capital flight are very hard to come by. While it is hard to believe General Lopez's figure of \$3 billion in capital flight from a small, poor country like Honduras, it is possible that such vast sums are being spirited out of the country.

53. IFDP interview, Tegucigalpa, Honduras, September 1984.

54. *Boletín Informativo* (CEDOH), no. 71 (March 1987) 1.

55. AID, Project Identification Document Factsheet, Project #522-0289, 18 November 1985, 7.

56. IFDP interview, Tegucigalpa, Honduras, July 1986.

57. Efraim Diaz, "The Model in Crisis," in *Honduras Confronts Its Future: Contending Perspectives on Critical Issues*, ed. Mark B. Rosenberg and Philip L. Shepherd (Boulder: Lynne Rienner Publishers, 1986) 124.

58. Shepherd, *The Honduran Crisis*. The Reagan administration has gone to great extremes in its push for privatization: encouraging Honduras to sell off of its greatest natural resource, the forests, and suggesting user fees for agricultural extension and even for adult literacy programs. As Shepherd notes:

The manifest irrationality of this [privatization] strategy is evident in the fact that Honduras already has one of the most open, export-dependent, private-enterprise economies in Latin America and indeed, in the world. How, then, can increases in privatization

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and "openness" make it better? How can "statism" be the fundamental obstacle to Honduran economic progress when, at least until recently, the Honduran state played an almost negligible role in economic matters?... Furthermore, the absurdity of suggesting that Honduran economic improvement should be premised on increased U.S. foreign investment is revealed by its already overwhelming presence in Honduras. Nowhere else in Central America is U.S. business more prominent and important than in Honduras. Surely if it were going to develop Honduras into the garden spot it would have done so by now.

59. J. Mark Ruhl, "The Honduran Agrarian Reform Under Suazo Cordova, 1982-85; An Assessment," *Inter-American Economic Affairs* 39, no. 2 (Autumn 1985): 67.

60. U.S. Embassy, Tegucigalpa, "Reagonomics for Honduras," cited in *Boletín Informativo*, (CEDOH) no. 9, 1982.

61. Interviews with leaders of the National Peasant Union (UNC) and the National Congress of Rural Workers (CNTC), November 1986.

62. John Weeks, *The Economies of Central America* (New York: Holmes & Meier, 1985), 191; and "The Recent Evolution of the Salvadoran Economy," *Central America Report*, 17 October 1986.

63. AID, *Congressional Presentation FY1987, Annex III, Latin America and the Caribbean*, 84.

64. "The Recent Evolution of the Salvadoran Economy."

65. AID, *Congressional Presentation FY1987*, 88.

66. United Nations Economic Commission for Latin America and the Caribbean (CEPAL), "El terremoto de 1986 en San Salvador: danos, repercusiones y ayuda requerida," LC/MEX/L.39/Rev.1, 21 de noviembre de 1986.

67. AID *Congressional Presentation FY1987*, 80. The figure includes ESF and Title I of PL480.

68. Figures are for FY1986. AID, *Congressional Presentation FY1987*, 80.

69. Robert C. McCartney, "Even Duarte's Supporters Are Down on Him These Days," *Washington Post*, 7 April 1986, National Weekly Edition, 18.

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70. Charles Clements, M.D., Director of Human Rights Education, Unitarian Universalist Service Committee (Testimony before the House Subcommittee on Foreign Operations of the Committee on Appropriations, 21 April 1987) 4.
71. Weeks, *The Economies of Central America*, 191.
72. U.S. GAO, *U.S. Economic Assistance to Central America*, GAO/NSIAD-84-71, 8 March 1984, 4.
73. Rep. Jim Leach, Rep. George Miller, Sen. Mark Hatfield, *U.S. Aid to El Salvador: An Evaluation of the Past, A Proposal for the Future*, report to the Arms Control and Foreign Policy Caucus, February 1985, 3. (Hereafter, Leach Report)
74. Weeks, *The Economies of Central America*, 191.
75. Leach Report, 41.
76. Leach Report, 42.
77. Leach Report, 46.
78. Some 600,000 Salvadorans have entered the United States illegally since 1982. The hundreds of millions of dollars repatriated annually to El Salvador by these refugees are so important to the Salvadoran economy that President Duarte lobbied the Reagan administration [unsuccessfully] to refrain from deporting these aliens under the new U.S. immigration law which took effect May 5, 1987 (Robert Pear, "Reagan Rejects Salvadoran Plea On Illegal Aliens," *New York Times*, 15 May 1987) 1.
79. Aryeh Neier, vice-chairman, Americas Watch, "Human Rights in El Salvador" (Testimony before the House Subcommittee on Western Hemisphere Affairs, 14 May 1986), 3.
80. Quoted in *ibid*, 4.
81. AID, *Congressional Presentation FY1988, Annex III, Latin America and the Caribbean*, 95-99. An article in *Latinamerica Press* reports: "The U.S. Agency for International Development is directly coordinating and funding the Salvadoran army's counterinsurgency-oriented resettlement program." (Chris Norton, "El Salvador: USAID plays key role in military repopulation project," *Latinamerica Press*, 30 April 1987), 1.
82. *Miami Herald*, 17 December 1984. In a letter to the AID mission in

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San Salvador, the president of the Salvadoran Catholic church's relief agency, Caritas, rejected participation in an AID relief project, saying that accepting U.S. government funds could have "disastrous implications" for the church.

83. Chris Norton, "U.S. role in Resettling Salvadoreans Under Fire," *Christian Science Monitor*, 1 April 1987, 11.

84. AID, *Congressional Presentation FY1988, Annex III, Latin America and the Caribbean*, 82. The Salvadoran Army's secret counterinsurgency plan, "United to Reconstruct," states: "To fulfill the campaign, foreign aid funds channeled through the different ministries must be used first and foremost in support of this campaign."

85. *Ibid.*

86. GAO, *Providing Effective Economic Assistance to El Salvador and Honduras: A Formidable Task*, GAO/NSIAD-85-52, 3 July 1985.

87. Cited in Brook Larmer, "Scant Options Keep U.S. United Behind Salvador Leader," *Christian Science Monitor*, 8 April 1987, 1.

88. Non-Governmental Human Rights Commission of El Salvador (CDHES), "Torture in El Salvador," 24 September 1986.

89. "El Salvador: OAS — Human Rights Improve but Violations Persist," *Central America Report*, 5 December 1986, 373.

90. Martin Diskin and Kenneth E. Sharpe, "El Salvador," in *Confronting Revolution: Security Through Diplomacy in Central America*, ed. Morris J. Blachman, et al. (New York: Pantheon Books, 1986), 52.

91. Richard S. Newfarmer, "The Economics of Strife," in *Confronting Revolution*, 212.

92. AID, *FY1987 Congressional Presentation, Annex III, Latin America and the Caribbean*, 88.

93. Weeks, *The Economies of Central America*, 121-122.

94. A recent study by Oxfam America calculates that less than 23 percent of all rural families and less than 26 percent of the farmland has been affected by the land reform. In contrast, the Nicaraguan land reform has affected more than half the farm families and roughly half the farm

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area (Solon L. Barraclough, *Catastrophe in Central America: Oxfam's Role in Confronting an American Tragedy* [Boston: Oxfam America, forthcoming 1987]).

95. Weeks, *The Economies of Central America*, 122.

96. Quoted in Chris Norton, "U.S.-backed center-right coalition on rocky ground," *Latinamerica Press*, 19 February 1987, 6.

97. Leach Report, 41

98. James LeMoyne, "Salvadorans Stream into U.S., Fleeing Poverty and Civil War," *New York Times*, 13 April 1987, 1.

99. "Costa Rica: Arias Cornered by Foreign Debt," *Central America Report*, 5 December 1986, 370.

100. World Bank, *World Development Report 1985* (New York: Oxford University Press, 1985), 204.

101. Morris J. Blachman and Ronald G. Hellman, "Costa Rica," *Confronting Revolution*, 164.

102. Quoted in Tina Rosenberg, "Costa Rica's Dilemma Over Aid," *San Francisco Chronicle*, 7 May 1986.

103. The radio tower in the northern city of San Carlos, for example, is owned by a Costa Rican company but its main programming is Voice of America propaganda aimed at Nicaragua.

104. Interview with Javier Solis, delegate to the Costa Rican Legislative Assembly, *World Policy Journal* (Spring 1986): 342-3.

105. The Tower Commission reports that on September 9, 1986 Lt. Col. North informed National Security Adviser John Poindexter that he had spoken with Tams and Abrams and "they agreed he [North] would take a tough line with President Arias, threatening to withhold U.S. assistance" if Arias went ahead with a planned press conference to expose the contra airstrip. The report quotes from North's memo: "Tams then called Arias from his leave location in W. Va. and confirmed what I had said and suggested that Arias talk to Elliot for further confirmation. Arias then got the same word from Elliot . . . At 0300 Arias called back to advise that there would be no press conference." After the fact, North explained to Poindexter: "I recognize that I was well beyond my charter in dealing w/a

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head of state this way and in making threats/offers that may be impossible to deliver, but under the circumstances—and w/Elliott's concurrence—it seemed like the only thing we could do.” Later that day, Poindexter replied: “You did the right thing, but let's try to keep it quiet.” *The Tower Commission Report* (New York: Bantam Books/Times Books, 1987), 473.

106. *The Tower Commission Report*, 471. Tambs later explained that he had been operating under explicit instructions from senior officials in the Restricted Interagency Group, an informal organization directing U.S. policy toward the contras. Key figures in the RIG included its chairman, Assistant Secretary of State Elliott Abrams; Lt. Col. North; and CIA officer Alan D. Fiers. See Joel Brinkley, “An Ex-Ambassador Says U.S. Ordered Aid for Contras,” *New York Times*, 3 May 1987, 1.

107. Quoted in Rosenberg, “Costa Rica's Dilemma.”

108. GAO, *Foreign Assistance: U.S. Use of Conditions to Achieve Economic Reforms* GAO/NSIAD-86-157, August 1986, 4.

109. For example, of the major cereals wheat, rice, and corn, constituting 35.6 percent of the Costa Rican diet, one-third of the country's annual supply is imported (Interview with Carl Mabbs-Zeno, U.S. Department of Agriculture, Economic Research Service, February 1987; also see USDA, *World Food Needs and Availabilities, 1985 Update*, May 1986).

110. Andrew Reding, “Costa Rica: Democratic Model in Jeopardy,” *World Policy Journal* (Spring 1986): 305.

111. Chris Krueger and Kjell Enge, *Security and Development Conditions in the Guatemalan Highlands* (Washington, DC: Washington Office on Latin America, 1985).

112. Quoted in “Walking the Tightrope in Guatemala,” *New York Times Magazine*, 9 November 1986.

113. See *Human Rights in Guatemala During Cerezo's First Year* (New York: Americas Watch, 1987); and *Human Rights in Guatemala* (Guatemala City: Comité Pro-Justicia y Paz de Guatemala and the World Council of Churches, November 1986).

114. *Guatemala: The Human Rights Record* (New York: Amnesty International, 1987), 4.

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115. *Human Rights in Guatemala During President Cerezo's First Year* (New York: Americas Watch, 1987), 2.
116. *Addendum to the Report on Human Rights in Guatemala* (Guatemala City: Comité Pro-Justicia y Paz de Guatemala, January 1987).
117. *Enfoprensa* (Information on Guatemala) 5, no. 14, (10 April 1987), 4.
118. Nancy Nusser, "Guatemalan Seeks U.S. Military Aid," *Washington Post*, 22 May 1986.
119. Holly J. Burkhalter of Americas Watch reports: "With our help, the Guatemalan security forces became a giant computerized death squad. Victims were selected at secret meetings in the National Palace and plainclothes policemen tortured, executed, and abducted political opponents, trade unionists, students, peasant leaders, teachers, and lawyers by the thousands. A telecommunications center in the palace annex, which received generous assistance from the public safety program, was the headquarters of death squad activity" ("Guatemala Asks the U.S. for Trouble," *New York Times*, 30 March 1987, 19).
120. Cited in *Human Rights in Guatemala During Cerezo's First Year*.
121. AID, FY1988 Congressional Presentation, Annex III, *Latin American and the Caribbean*, 110.
122. UN Economic Commission for Latin America and the Caribbean, *Preliminary Overview of the Latin American Economy 1986*, LC/G.1454, 31 December 1986, 13-14.
123. AID, FY1988 Congressional Presentation, Annex III, *Latin America and the Caribbean*, 110.
124. AID, FY1988 Congressional Presentation, 110.
125. *Ibid.*
126. *Land and Labor in Guatemala: An Assessment* (Washington, D.C.: AID, 1983).
127. *Land and Labor*, 27.
128. *Land and Labor*, 42; and Blachman, et al., eds., *Confronting Revolution*, 30.

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129. *Ibid.*, 51.
130. *Inforpress Centroamericana*, no.694, 19 June 1986.
131. *New York Times*, 28 February 1987.
132. *Prensa Libre*, 20 January 1987.
133. Quoted in Tom Barry, *Guatemala, The Politics of Counter-Insurgency* (Albuquerque: The Resource Center, 1986), 48.
134. GAO, *U.S. Economic Assistance to Central America* GAO/NSIAD-84-71, 8 March 1984, 4.
135. GAO, *Providing Effective Economic Assistance To El Salvador and Honduras: A Formidable Task* GAO/NSIAD-85-82, 3 July 1985, vi.
136. Adopted and proclaimed by UN General Assembly Resolution 217 A (III) of 10 December 1948.
137. Mutual Development and Cooperation Act of 1973, Report of the Committee on Foreign Affairs on H.R. 9390 (Washington, DC: Government Printing Office, 20 July 1973), 1.
138. GAO, *U.S. Economic Assistance to Central America* GAO/NSIAD-84-71, 8 March 1984, 6.
139. World Bank, *World Development Report 1986* (New York: Oxford University Press, 1986), 7.
140. For details see H. Jeffrey Leonard, *Natural Resources and Economic Development in Central America* (Washington, DC: Conservation Foundation, forthcoming 1987).

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