# ECLAC AND THE POLITICAL ECONOMY OF THE CENTRAL AMERICAN COMMON MARKET

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The Central American Common Market (CACM) was once described as "the most successful example of economic integration in the Third World."[1] Today the CACM is nearly defunct, a victim of the smoldering crisis that erupted in Central America in 1979 following the second oil shock and the Nicaraguan Revolution. Various arguments may be found in the literature on the economics of the region that purport to explain this collapse.

This analysis will begin by contrasting alternative hypotheses about the flawed nature of the economic model of the CACM. The first half of the article will focus on the work of the Economic Commission for Latin America and the Caribbean (ECLAC, previously called ECLA) and that of other analysts close to this tradition. To help locate the debate, a brief critical review of neoclassical and *dependentista* views will be provided. It will be argued that the ECLAC characterization of two decades of CACM economic growth as "additive" and "exclusive" is based on two doubtful propositions: namely, that economic redistribution was a necessary condition for sustained regional growth and that excessive attention was given to export agriculture at the expense of food agriculture. Moreover, such work has tended to treat export-promotion and import-substitution as alternative strategies and to equate modernization with a somewhat idealized view of capitalist development.

The second half of this article will suggest lines along which new thinking might proceed. Drawing on a neo-Kaleckian theorization of the small, open economy, particular attention will be paid to the economic logic of the relationships among extraregional commodity trade, the reform of peasant-based food agriculture, and the achievement of sustained regional industrial growth and integration.[2] A corollary holds that until substantial industrial integration of such economies has taken place, the scope for structural reform is likely to be limited and the model will remain highly vulnerable to external shocks. In the concluding sections, specific recommendations will be advanced for arresting the decline of the region's economy. An overarching theme of the article is that, contrary to popular belief, the current crisis of the region cannot be characterized as one in which the traditional oligarchy stands as the main obstacle to modernization and development. A more dialectical approach is required in which the oligarchy's role is perceived as both functional to and transformed by rapid capitalist development.

## ALTERNATIVE CHARACTERIZATIONS OF THE PRESENT CRISIS

First of all, it will be useful to review some empirical dimensions of the region's crisis. The rate of growth of regional gross domestic product (GDP), which had accelerated from an annual average of 4.6 percent in the 1950s to nearly 6 percent for the period between 1960 and 1978, became negative by 1982 in each of the five countries. Rates of inflation, negligible for nearly three decades, rose sharply but unevenly, causing individual currencies (traditionally pegged to the dollar) to move out of line as some countries devalued their currencies far more than others. The region's combined current-account deficit rose from 3.8 percent of GDP in 1977 to 9.3 percent in 1984 (1.8 billion dollars per annum), about half of which represented interest payments on an external public debt of 15 billion (versus 2.4 billion in 1977).

Indebtedness mirrored a 50 percent decline in external terms of trade over this same period, compounded by a sharp rise in interest rates and by private capital flight after 1978 estimated at 2.5 to 4.5 billion dollars.[3] By 1985 the value of intraregional trade equaled less than 40 percent of its 1981 peak of 1.2 billion dollars, or one-quarter of the region's total trade. Real per capita GDP for the five countries fell to levels as low as those in the early 1960s. To quote the Economic Commission for Latin America and the Caribbean, the "duration, intensity and special characteristics of this situation have no precedent in the postwar period" (ECLAC 1985, 19).

Many observers have held that the crisis, although triggered by exogenous factors, is rooted in the development model underlying the CACM. One version of this thesis, recently advanced in an ECLAC study (1985) and broadly representative of the Latin American structuralist school, holds that the CACM development model was "additive" in that it built upon the existing economic and social structure without changing it in any basic way.[4] Political development was constrained by the continued hegemony of a quasi-feudal oligarchy as reflected in the survival of a "weak" state that lacked legitimacy and could not attend to the interests of local industrialists. In economic terms, the traditional bias favoring export agriculture coupled with the region's notoriously inequitable distribution of income limited the scope for import-substituting industrialization.

By contrast, neoclassical orthodoxy has tended to view customs-union protectionism as suspect, as diverting rather than creating trade and leading to high-cost industrialization underpinned by inefficient state bureaucracy in a manner prejudicial to the development of an entrepreneurial bourgeoisie. According to the orthodox approach, an IMF-style strategy of dismantling protection and streamlining the state is necessary if Central America is to be "modernized" and become growth-driven by a dynamic export sector along the lines of comparative advantage. Both the "structuralist" and "monetarist" positions share the common premise that capitalist development in Central America was stinted by the adoption of an inappropriate model, although the two groups offer divergent explanations of the crisis.[5]

An alternative position, sometimes associated with the Marxist tradition but strongly influenced by dependency theory, is that while postwar capitalist development in Central America was dynamic, it remained largely subordinated to the interests of multinational (mainly U.S.) capital. The rapid spread of capitalism, particularly in the rural sector, led to the "quasi-proletarianization" of a significant part of the peasantry, thus setting the scene for revolutionary (and counterrevolutionary) upheavals. It is argued, moreover, that these features are intrinsic to peripheral capitalist development where exploitation assumes the double dimension of internal surplus extraction and external unequal exchange. Under such conditions, the social formation can only be guaranteed by an increasingly repressive state while the emerging middle class remains largely unincorporated into politics. In short, it is not the nature of the planning model so much as the perverse nature of peripheral capitalism that lies at the heart of the matter.[6]

The issue of whether the region has suffered from too little or too much capitalist development is interesting but lies outside the scope of this article and need not be discussed except to note that there may be more scope for theoretical accommodation between the views of the "modernizing" Left and Right than is generally supposed, a theme that will emerge in the concluding sections. Rather, I will turn now to a more detailed examination of the ECLAC position and argue that its characterization of the CACM model as "additive" and "exclusive" obscures the extent to which two decades of rapid growth have undermined Central American oligarchic despotism. Similarly, the "excessive openness" argument obscures the fact that for intraregional manufacturing trade to grow at a given rate, extraregional commodity trade will need to grow even faster, that is to say, import substitution and export promotion cannot be treated as alternative strategies.



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THE ECLAC THESIS

In simplified form, the analysis presented by ECLAC and others can be summarized quickly.[7] Against a background of buoyant world demand for the region's primary-product exports, Central American economic integration produced two decades of unprecedented growth characterized by an increasing share of intraregional trade in total trade and of industrial manufactures in total output. But import-substituting industrialization (ISI) was not accompanied by key structural changes that were needed for modernization. In particular, food agriculture remained unreformed, and the state lacked the fiscal muscle to mobilize the domestic savings required for complementary investment; to use the ECLAC phrase, growth was additive. Moreover, growth was regionally and socially inequitable because the majority of the population remained economically and politically disenfranchised; in ECLAC shorthand, development was exclusive. As the momentum of import substitution slowed in the 1970s under the combined impact of domestic market saturation and deteriorating terms-of-trade for primary products, further growth could only be financed by foreign borrowing. By the early 1980s, political upheaval, disinvestment, and debt crisis combined to produce a cumulative process of contraction. The current outlook is one of indefinite stagnation (see ECLAC 1985, 41).

To set this view in historical context, one must recall the argument advanced by ECLA in the early 1950s, when Central American integration was first proposed. The key premise of that argument was that customs union, by creating a broad regional market that could sustain economies of scale necessary for modern industry, would undermine the economic and political power of the oligarchy and set the stage for a sustained process of ISI that would be insulated from world-market fluctuations. By implication, redistribution ("nonexclusive" development) was essential to prevent domestic growth from faltering for lack of effective demand. A corollary opinion held that Central American industrialization could only hope to succeed if the organizations responsible for integration were given sufficient power to ensure that key basic industries were equitably apportioned among countries and that mechanisms were created to regulate intraregional trade flows. Indeed, it was Raúl Prebisch's notion of the "extraordinary efforts" required to produce basic changes in economic structures that underlay the Programa de Integración Económica de Centro América advanced by ECLA in 1952. Instead, the Tratado General de Integración Económica Centroamericana, signed in Managua in 1960, promoted a U.S.–sponsored doctrine of free trade rather than ECLA's view of "limited integration with reciprocity."[8]

According to ECLA analysts, the purpose of integration was to



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promote sustained industrialization and, ultimately, a manufacturing export base. The view at the time was that an export-led growth strategy (*desarrollo hacia afuera*) was unsustainable and that ISI was therefore imperative. This conclusion followed from the (then-novel) proposition that income-inelastic demand for primary products and the emergence of primary substitutes must lead to a secular decline in international terms of trade. If export agriculture could neither "lead" growth nor produce the resource surplus required for industrial accumulation, the burden of savings-mobilization had to fall largely on the domestic economy, with foreign aid and direct investment playing a secondary role and subject to strict control. By the same token, priority for domestic-use agriculture—essentially, peasant-based food production—would guarantee the wage-goods supply and sustain domestic (and regional) demand for manufactures.

Although it is true that ECLAC today recognizes that Central American industrial growth was facilitated by the expansion of agriculture for export, they argue that such expansion occurred "at the expense of" structural change. While the argument generally refers to structural change in a broad political sense, its economic logic has been set out most cogently by Victor Bulmer-Thomas.[9] He argues that the "hybrid" strategy of grafting industrial growth onto export agriculture was incoherent and could only succeed under exceptionally favorable world-market conditions. First, export agriculture siphoned off much of the financing that otherwise could have gone to industry. Second, export agriculture crowded out land and labor previously available for food agriculture. Third, the "trickle-down" effects of the hybrid strategy were negligible; the persistence of extreme inequality not only limited the growth of demand for manufactures but provided the crucial catalyst for political crisis. Finally, by its very openness, the export-agriculture model left the region highly vulnerable to exogenous shocks, that is, changes in world-market conditions that the region could not control. In short, the structuralist critique of the CACM views the "additive" and "exclusive" nature of the model as the cause of its undoing, an outcome that might have been avoided at the outset by adopting a different development strategy.

## ADDITIVE DEVELOPMENT

One logical objection is that much like the concept of dependent development, additive development is defined by reference to its opposite (presumably "transformative") state, which is assumed to be synonymous with true development, and thus the concept collapses into tautology. In the ECLAC case, however, the alternative view has suffi-



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cient coherence to enable such an objection to be overruled. But a central problem with the ECLAC point of view is that it fails to address the economic complementarity and the political congruence of interests between the growth of export agriculture and the growth of industry.

One reason, I would suggest, derives from the manner in which the early political economy of ECLA was shaped by Prebisch's experience of the Southern Cone. But unlike the Argentine case where the conflict of interests between a sluggish agricultural-export sector and an emerging industrial sector remained locked in a stalemate whose costs could not be passed on to a well-organized working class,[10] export agriculture in Central America remained highly dynamic over much of the period and provided the basis for industrial accumulation. The growth and diversification of export agriculture generated the surplus to be absorbed by an emerging modern financial sector and then either ploughed back into export agriculture or transferred to industry. The point at issue is whether too much went to export agriculture. Yet because the industrial sector in its early stage of growth is unlikely to be a net saver of foreign exchange (even "trade-efficient" industry initially requires large doses of infrastructure investment), the ploughing back of surplus into export agriculture seems quite logical. Export agriculture provided the foreign exchange for imports of industrial capital goods and the raw material requirement as well as the market for several of industry's most dynamic branches (namely, petrochemicals). Nor can it be argued that the growth of export agriculture came at the expense of domestic-use agriculture. Throughout the period, domestic-use agriculture provided both sufficient labor power and cheap food to support surplus generation in the modern sector. Finally, the realization of surplus was constrained neither by narrow domestic markets nor by a secular deterioration in external terms of trade, a point developed below. In short, the Central American industrialization model was neither perverse nor doomed to failure; on the contrary, it has obeyed the classical logic of capitalist growth.[11]

First, if the growth of CACM manufacturing had been constrained by the narrowness of the domestic market, one might have expected those countries displaying a relatively egalitarian income distribution to have outperformed countries where the distribution of income was most skewed. This variant of the "head start" hypothesis states that for a set of countries of broadly comparable size and structure, the country enjoying the most egalitarian income distribution "before integration" should also have the highest share of manufactures in GDP. As a result of its head start, the same country should experience the highest rate of manufacturing growth after integration. In the Central American case, however, no clear evidence supports such a hypothesis. For example, between 1960 and 1970, the country of highest income concentration (Nicaragua) had the highest rate of manufacturing growth (10 percent), while the most "egalitarian" country (Costa Rica) had a rate of manufacturing growth only slightly higher than the average of the CACM countries (8.6 percent versus 7.9 percent). Moreover, during the same period, the more inegalitarian countries of Latin America (Brazil and Mexico) generally outperformed those where income was less concentrated (Argentina and Colombia).[12]

Second, it is misleading to suggest that export-led and import-substituting growth strategies can be treated as simple alternatives. Although the rate of growth of agricultural output for the five countries together between 1960 and 1978 averaged about half that of manufactures (4.2 percent versus 7.9 percent), agriculture grew more rapidly in Central America than in the rest of Latin America, and the share of export agriculture in total agricultural output increased greatly (see Bulmer-Thomas 1985).

Nor can one argue that the growth of export agriculture "at the expense of" domestic-use agriculture levied a burden on the regional economy. What is undoubtedly true is that the change in the pattern of land use took place at the expense of the food-producing peasantry and mostly benefited (although not in all countries) large and medium landowners producing for export. Hence by 1970, over 50 percent of the arable land in the region was devoted to export crops and cattle while only 16 percent was used to produce basic staples. Nor was growth in export agriculture simply extensive (pushing peasants onto marginal lands or into wage employment). The development of capitalist agriculture was both extensive and intensive (applying machines and purchased inputs to produce relatively high yields). The dynamism of this process is reflected in the finding by the Food and Agriculture Organization that the net value of output per unit area on holdings greater than thirty-five hectares was three times higher than on holdings of less than four hectares; that is to say, the "inverse-size law" does not hold for Central America (see Weeks 1985, 10).

It should also be noted that output growth for domestic-use agriculture lagged only fractionally behind the growth of total regional demand, with corn and beans growing more slowly and rice more quickly than the population. Although by the early 1970s the region as a whole was no longer self-sufficient in corn and beans (importing about 4 percent of its total consumption requirement in these crops in 1978), Central America had become a net exporter of rice. In short, food supply was not a brake on growth, and the capitalist erosion of peasant agriculture provided the "reserve army" necessary for modern industry and agriculture.

THE ISI PROBLEM

A further example of analysis typical of ECLAC is the argument that unplanned regional integration leads to "hybrid" or weak import substitution, or to different countries competing for each other's manufacturing-export markets in lieu of coordinating their industrial development plans. An extension of this argument (although not perceived as such) is advanced by John Weeks in his observation that the strategy pursued by the CACM countries combined the costs of both import substitution and export promotion while reaping the benefits of neither.[13] This outcome is one reason why, to quote ECLAC, "the lack of strategy of regional scope, has caused the economic interdependence among the five countries to become a mechanism that now transmits recessionary economic forces" (ECLAC 1985, 19).

The argument can be paraphrased as follows. Although industrial development appears to have been import-substituting when viewed from the perspective of the region as a whole, each country in fact followed a strategy of export promotion. Hence while the share of intraregional trade (largely manufactures) in total trade for the five countries rose from about 5 percent in 1950 to 26 percent in 1978, suggesting a significant advance in the internal articulation of the region, the actual degree of internal articulation in each country (when taken separately) was quite small. Nicaragua, which had the highest rate of manufacturing output growth of the CACM, sold the bulk of its output to other countries in the region. Common protection provides only part of the explanation for why such products were often internationally uncompetitive. Equally important is the fact that where firms operated with considerable spare capacity, average prime costs were high. When oil prices rose and regional economic activity fell after 1979, Nicaraguan exports suffered the double blow of rising unit costs and contracting regional demand. Nicaragua could neither absorb this output domestically nor readily adapt existing export-oriented plants to produce the other manufactures it required. More important still, even if Nicaragua could have absorbed these manufactures domestically, their relatively high import content would have exacerbated the country's already large external trade deficit. Broadly speaking, the same held true for each of the other countries, which is the reason why, when the CACM faltered, contraction quickly accelerated into a spiral dive. In summary, Weeks argues that the CACM industrialization model combined the worst of all worlds: it suffered from both the noncompetitiveness of import substitution and the inflexibility of export orientation.

The argument contains both truth and fallacy. The fallacy consists in assuming that the difficulty of switching exports to the home market is peculiar to the CACM. Imagine that Britain sells cars to West



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Germany and that the German market for cars contracts. The fact that Britain also purchases cars does not mean that its domestic market can absorb the excess. The more likely result is that unless some third market can be found for exports, British motor-car workers will be laid off. This outcome will reduce British demand for German exports, thus leading to further contraction. The logic of the deflationary spiral is just as valid for the European Economic Community (EEC) as it is for the CACM. Hence the contraction of the CACM trade cannot be attributed to a perverse model of regional ISI. But the element of truth is that while a policy of joint reflation by the EEC would stimulate both European and international demand and help Europe avoid the danger of running a large trade deficit with the rest of the world, a policy of joint reflation by the CACM would almost certainly aggravate its trade imbalance with the rest of the world for two reasons. First, CACM manufactures contain a far higher content of imports from beyond the region than EEC manufactures. Second, CACM expansion would not influence extraregional demand for its exports of primary produce.

In short, abstracting away from extra-economic barriers to CACM trade, the crucial factors explaining industrial growth are the buoyancy of world demand for the region's traditional exports and the degree of intraregional articulation achieved. Had world-market demand remained buoyant and the extraregional import content of Central American manufacturing trade been reduced as regional articulation grew, the CACM eventually would have become less vulnerable to external shock. As argued below, vulnerability to external shocks had less to do with the general degree of openness of these economies than with the differing nature of the first and second oil crises. But the key point remains that the early stage of import substitution is likely to be accompanied by an increase in the import coefficient. One implication is that were CACM reflation to be attempted in future, the resulting rise in the extraregional foreign-exchange requirement would need to be financed by an increase in net capital inflows (the solution proposed by the World Bank Multilateral Investment Guarantee Agency) or by improved terms of trade for commodity exports (the solution proposed by the United Nations Conference on Trade, Aid, and Development) or else be geared to the growth of nontraditional export earnings (the International Monetary Fund solution).

## THE "EXCESSIVE OPENNESS" ARGUMENT

A further question is whether less reliance on export agriculture would have reduced the vulnerability of the model to fluctuations in world-market conditions. Supporting evidence for the ECLAC position is provided by Clark Reynolds, who argues: "A striking feature of econometric models of income determination in the region is the evidence of the continuing dominating effect of terms of trade and other export-related fluctuations on the level of domestic income and product. This is so, despite almost two decades of integration policy designed to diversify these economies to reduce their vulnerability to foreign trade cycles" (cited in Bulmer-Thomas 1985, 195).

If what I have argued above is correct, no a priori reason exists for supposing that first-stage industrial integration can reduce vulnerability. Indeed, the opposite is more likely to be true. Until such time as the share of industrial manufactures in total exports becomes relatively large, it is the diversification of the export-agriculture sector that reduces vulnerability. Judged by this criterion, considerable progress was made in diversifying both the composition and destination of trade. According to Weeks (1985), in 1950 the main export commodity of each country accounted for 70 percent of the region's foreign exchange earnings, and 80 percent of the region's total trade occurred with the United States; by 1978, both these figure had been halved. This summary does not imply that commodity trade was not still highly concentrated at the end of the period. The five main commodities (coffee, bananas, cotton, beef, and sugar) accounted for 72 percent of total exports in the early 1960s; a decade later, the percentage had fallen to 64 percent, the difference being explained largely by the growth of intraregional manufacturing exports. Geographical diversification is explained almost entirely by increased trade with the EEC and Japan. The point is that diversification would have to have proceeded much further and industrialization gone much deeper to withstand the magnitude of the external downturn after 1979.

The vulnerability issue is also addressed by Bulmer-Thomas. Although strongly critical of "excessive reliance" on export agriculture, he argues that: "Despite popular belief, the failures of the export-led model can be attributed neither to a secular decline in the net barter terms of trade nor to the degree of instability in export earnings . . . . [T]he terms of trade show no perceptible tendency to decline over the long run . . . [and] a recent article (Moran 1983) calculates an index of export instability for various LDCs over the period 1959–1975 with the Central American republics showing almost the lowest figures" (Bulmer-Thomas 1985, 197). To the extent that fluctuations in export earnings were relatively mild and little secular deterioration in terms of trade can be observed, the region's diversification strategy regarding export agriculture must be considered a success. It is true that the share of regional output entering trade grew dramatically, with the export and import coefficients for the region increasing from 18.6 and 16.3

percent respectively in 1950 to 30.4 and 33.6 percent in 1978 (ECLAC 1985, 5). But it is important to note that more than half the increase in openness is explained by growing intraregional trade. The corresponding figures for extraregional exports and imports are 16.7 and 19.8 percent in 1960, rising to 23.5 and 27.3 percent in 1978. These figures, rather than some general notion of openness, provide a useful clue to the meaning of economic vulnerability.

What the above reasoning suggests is that while much of the region's export growth took the form of intraregional exchange in manufactures, the direct and indirect import content of these manufactures came mostly from outside the region. This state of affairs is quite consistent with a first-stage import-substitution strategy because such a strategy by definition does not require industrialization to begin with investment in capital goods. At given terms of trade, unless extraregional exports (that is, export agriculture) can grow very quickly or nonessential imports can be curtailed, the region will run a deficit with the rest of the world. Stated more formally, for given techniques, prices, and wages, there is a warranted rate of export agriculture growth that will sustain the rate of profit required for industrialization to proceed at a given pace. Should the warranted rate not be realized, the gap will need to be filled by foreign borrowing. Servicing this debt will paradoxically increase the warranted growth rate of export agriculture, which is precisely what happened in Central America.

## THE REAL VULNERABILITY OF THE CACM

Between 1960 and 1972, the average annual deficit on the region's current trade account was 5.6 million dollars. The figure jumped sharply after the first oil crisis to an annual average of 261 million, reflecting the high direct and indirect energy content of the modern capitalist sector (manufacturing and export agriculture). The deficit was financed in the first instance by direct foreign investment, but by the mid-1970s, official assistance and commercial borrowing were required to cover the gap. Interest and profit remittances in turn grew so much that by 1977, the region's total current-account deficit was 573 million dollars, nearly half being the external factor payments. Following the second oil crisis and the downturn in commodity prices, external factor payments by 1984 reached more than half of the total current deficit of 1.8 billion dollars (ECLAC 1985, 21).

The intraregional distribution of this deficit, which was a source of continuous friction between CACM member states, need not be of concern here except to remark that Guatemala covered its extraregional deficit by running a surplus on intraregional account largely at the expense of Costa Rica, which covered its intraregional deficit by attracting a large inflow of direct foreign investment (see Weeks 1985, 79). But the intraregional distribution of industry remains of interest because although the main industrial product lines continued to be food, beverages, tobacco, and textiles, the fastest-growing lines were consumer goods and basic chemicals. Nicaragua, the country where the share of industrial output in total output grew most quickly, attracted the lion's share of basic chemicals and was able to pass on higher oil prices to end users, particularly in export agriculture, where rising world prices for sugar and cotton offset imported inflation for a time. In general, however, in those countries where industry produced mainly consumer goods, profit margins were squeezed and the momentum of industrial accumulation began to falter. Government deficits also reflected this strain as the states were called on to finance increased infrastructure to complement modern-sector capitalist growth without increasing fiscal pressure, which remained extremely low, even by Latin American standards.[14]

The second rise in oil prices in 1979, as Weeks (1985) rightly observes, differed from the first in that it was followed by a fall rather than a rise in the prices of primary export products. Moreover, the gap on extraregional current account could no longer be offset by inflows of private capital. Instead, political turmoil set off a wave of capital flight. With no way to sustain aggregate regional demand, intraregional trade rapidly assumed a "beggar-thy-neighbor" character, each country trying to take fewer goods from others and consequently finding it more difficult to place its own. The political crisis was intensified by, if not the result of, the economic crisis. Nevertheless, in terms of the economic characterization suggested above, the warranted rate of growth in export agriculture consistent with the new set of conditions was unfeasible. Under these conditions, it was perhaps inevitable that Central America should be forced into superpower receivership.

## THEORIZING THE INTEGRATION OF SMALL, OPEN ECONOMIES

The neoclassical theorization of regional economic integration, which focuses on the effects of trade creation and trade diversion in a comparative statics framework, holds limited interest for this discussion of accumulation and growth in economies that singly or collectively have a small domestic market and are highly trade-dependent. A Keynesian view emphasizing effective demand and planning can provide a powerful rationale for integration, although (as I have argued) it tends to obscure the extraregional dynamics of growth.

An alternative theorization of the small, open economy based on the work of Michal Kalecki and using Marx's expanded reproduction schema is provided by E. V. K. FitzGerald (1986a). Modifying FitzGerald's treatment somewhat, one can imagine largely peasant-based domestic-use agriculture as producing the wage goods or "necessities" guaranteeing the reproduction of the labor force (Department IIa), local industry (small and medium capitalist) as producing part of the "nonnecessities" for capitalist consumption (Department IIb), and (largely modern capitalist) export agriculture as producing the foreign exchange required for imports of investment and intermediate goods (Department I) and to meet the nondomestically produced requirements of the other departments. The disarticulated nature of the small, open economy arises from the fact that Department I and much of IIb are located abroad, so that under given technical coefficients, expanded reproduction depends both on how land, labor, and foreign exchange are allocated among the departments and on exogenous world-market conditions. Conventional "capitalist" strategy of regional integration promotes the internalization of Department II (first-stage ISI) and, ultimately, the development of intermediate and capital-goods industries. This model contrasts with the classical "socialist" model of growth that gives priority to heavy industry, although in practice the integration of small, peripheral economies into the Council for Mutual Economic Assistance (namely, Cuba) has stressed expanding Department IIa (wage-goods) and maintaining favorable terms of trade for export agriculture as the enabling conditions for internalizing Department I.

It will be noted, furthermore, that capitalist industrial internalization is not costless, requiring initial investment in plant and equipment that cannot be financed from reduced domestic capitalist consumption (because such an approach would limit demand for Department IIb's output). Nor can initial investment be financed entirely from direct foreign investment because the latter would hardly count as internalization. An expanding export agriculture sector—Arthur Lewis's classical integration of labor into capitalist production relations that increases the rate of exploitation rather than reducing consumption—is thus required to generate the required savings, part of which will need to be transferred to the state for complementary activities. Moreover, to the extent that internalized industries prove less efficient than their external competitors, inefficiency may imply an increase in the recurrent component of foreign exchange requirements, leading to greater demands on export agriculture. Peasant domestic-use agriculture plays the role of providing land and wage-labor for growing export agriculture as well as a sufficient food surplus to guarantee the real wage in the capitalist sector. So long as industry is too immature to assume a major role in exports, the crucial planning decision that determines the long-term growth path is how to divide scarce foreign exchange among export agriculture and other sectors.[15]

Such a characterization is useful in clarifying the critical role of the sector producing foreign exchange and in suggesting how the model adjusts to fluctuations in world-market conditions. An unfavorable change in external terms of trade can be offset by attracting more foreign investment and loans, although reliance on external savings will ultimately act as a brake on accumulation. This result occurs not so much because foreign savings may substitute for domestic savings, as suggested by Griffin (1973), but because the warranted rate of export agriculture growth must rise to service repayment and to meet growing import requirements.[16] For a time, growth in export agriculture can be extensive, although such growth must ultimately come at the expense of favorable internal terms of trade (unless one follows Lewis and assumes that domestic-use agriculture is already capitalist). An alternative is to increase the rate of exploitation in export agriculture, but because absolute exploitation has an upper limit, capital-intensive techniques must ultimately be adopted and the sector consequently becomes more vulnerable to world-market fluctuations (given that machines, unlike humans, cannot be laid off). In the longer term, therefore, any strategy must include export diversification as a hedge against risk.

In the political sphere, it is up to the state to guarantee the necessary conditions for stability, something all the more important when the country or region is, for whatever reasons, not naturally attractive to investors and the peasantry is already highly exploited. Regimes capable of enforcing labor discipline are likely to be the rule rather than the exception; and particularly where the industrial sector is primitive and the urban middle class small, democracy is likely to be more nominal than substantive. Moreover, the logic of the model suggests that any land reform that takes place at the expense of export agriculture hinders, rather than helps, industrialization. Hence until such time as substantial internal articulation has taken place and part of the burden of generating foreign exchange can be shifted to industry, the model may be said to display structural characteristics that severely limit the scope for fundamental transformational development. Moreover, a severe external shock to the export-agriculture sector, by dramatically reducing the rate of profit, can easily set the industrialization process into reverse. In such a situation, stability conditions (although not necessarily reindustrialization conditions) can be restored in a capitalist framework only by reversing such transformational development as has taken place—that is, by freezing wages, cutting public expenditure, and taking other such measures.

## RETHINKING THEORY AND POLICY

The above framework is intended to serve principally as a heuristic device, illuminating points of debate rather than generating testable hypotheses. In this limited sense, it calls into question some key features of the ECLAC approach, as well as certain assumptions of their critics on both the right and the left.

First of all, the additive development thesis suggesting that the CACM model was in some sense perverse is, in my view, an empty box. It is not the case that export agriculture received too much emphasis, still less that ISI constitutes an alternative strategy. Agricultural export growth enabled industrial growth, and the rates achieved in both sectors reflect the particularly dynamic nature of Central American capitalism during this period.

Nor was ISI constrained by too narrow a domestic market or by stagnation in food agriculture. Regional food supply broadly kept pace with demand, that is, the precapitalist (mainly peasant) sector released both labor and wage goods at a sufficient rate to meet the needs of capitalist industry and agriculture. The fact that accelerated capitalist expansion exacerbated class differentiation among the peasantry is hardly unique to Central America. Nor was the problem chiefly lack of coordinated regional growth, that is, the lack of a strong regional authority capable of promoting the long-term interests of national capital in the region. While it is conceivable that such an authority might have alleviated some of the CACM's internal conflicts, the key problem was not so much one of achieving a more equitable intraregional distribution of industry or of regulating direct foreign investment. Rather, the problem was what to do about the growing deficit on extraregional trade account, a problem compounded toward the end of the period by severely worsening terms of trade. Whether any regional authority, however strong, could have dealt with the double political and economic shock of 1979 is doubtful.

As I have suggested, a more robust theorization of industrialization and integration is required to highlight such questions. Much contemporary ECLAC discourse is informed by that original core of prewar and postwar ECLA theory based on Keynesian macroeconomics and supplemented in the 1950s by what today might be called the dependency variant of neo-Ricardian trade theory. In many respects, this body of theory was tailored well to the ideological requirements of an ascendant Latin American bourgeoisie attempting to implement a program of economic and political modernization under the highly favorable conditions of the long postwar boom. It is perhaps not so surprising that, in a new phase of world recession and fiercely competitive capitalist restructuring, the ECLA tradition should have nearly



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capitulated to the revived orthodoxy of laissez-faire. Nevertheless, what is of supreme importance about this tradition is that industrialization has been kept at the top of the modernization agenda.

Arguably, in the Central American context, any agenda that seeks to abolish the remnants of a quasi-feudal social formation is modernizing, whether it originates on the left or the right. Popular mythology notwithstanding, the U.S.–sponsored political project (and its IMF and World Bank variants) seeks to establish a new and more durable alliance of centrist forces underpinned by a new model army, cemented by anticommunist ideology, rooted in wider capitalist property relations, and capable of legitimizing the institutions of bourgeois democracy (see Irvin 1987). The economic agenda calls for eliminating state welfare "patronage" while opening the regional economy and diversifying the export base as a precondition to renewing efficient industrialization. Given the magnitude of the regional crisis, immediate survival is ensured by massive infusions of aid; and once stability (the rate of profit) is restored, growth can be financed by internal savings and private foreign investment.

This logic does not imply that the right's modernization program necessarily will succeed. The program is flawed by serious political contradictions, and its economic logic begs a variety of issues. In this regard, important elements of the original ECLA doctrine can be salvaged and put to use, albeit with key amendments. Once ISI and export-led growth are accepted as complementary, there can be no objection to a strategy of export diversification per se. The salient point is that such a strategy will not work without ensuring the viability of the traditional export base, reflating and restructuring existing industrial capacity, and strengthening the role of the state as guarantor of accumulation.

My analysis suggests, first of all, that the region as a whole must attempt to influence the terms of trade for its main exports by seeking new commodity agreements and, where necessary, new regional trading partners. In this context, it would seem more sensible to tie the issue of debt repayment to new trade arrangements rather than simply to repayment capacity. In short, the relevant principle is to accept a strategy of export-led growth as part of ISI, but not on free-market terms.

The second principle concerns the efficiency of protection. It is not the case that Central American industry is highly inefficient because of protection. While grounds exist for rationalizing effective protection as provided for in the 1986 Common External Tariff Agreement, the effective protection level in the past was not high by the standards of most developing regions.[17] What is true is that installed capacity has tended to run well ahead of demand. Moreover, the cumulative contraction of regional trade compounded by a shortage of working capital (particularly foreign exchange for raw materials) has aggravated the tendency toward low-capacity, high-cost operations. In general, the argument against infant industries (for example, "protection prevents maturity") is not usually true, although what is true is that much protective legislation is ill-conceived and purely ad hoc in nature. The experience of the newly industrialized countries (NICs) has provided ample evidence that, when properly framed, "protection guarantees maturation" (IDS 1984). In contrast, premature liberalization merely raises the rate of infant mortality.

Directly related to the above is the view that external imbalance can be cured by devaluation and deflation (which in practice go together). Some level of exchange-rate adjustment will always restore external balance. The case of Costa Rica is instructive: between 1979 and 1984, the *colón* was devalued by 80 percent and imports fell by 40 percent. This instance exemplifies the sort of "beggar-thy-neighbor" economics that ECLAC should vigorously oppose. At the same time, it must be recognized that regional reflation would increase the extraregional current deficit that, under today's conditions or indeed under any conditions likely to prevail in future, would not be offset by private capital inflows. Because over half of the current deficit consists of interest payments on external debt, the issues of regional reflation and debt go hand in hand. Although collective debt renegotiation by the five countries of the region seems unlikely, ECLAC might usefully promote some scheme along the following lines.

Because a proportion of the region's outstanding debt in reality must be (and, it can be argued, already has been) written off, to continue to roll this amount over indefinitely constitutes in economic terms little more than an exercise in bookkeeping. It would be in the long-term interests of both debtors and creditors to recognize that the stream of future export earnings nominally committed to servicing such a debt could be more usefully employed to increase present import capacity (preferably, at negotiated terms of trade). The alternative of "equitizing" debt by selling it in the international market yields little capital because of the high risk premium borne by any single investor. By contrast, joint negotiations (say, between the five CACM countries and the EEC countries within the San José–Luxembourg framework) aimed at stabilizing commodity prices and channeling noncommercial debt-service obligations into a jointly managed CACM reflation fund[18] would have the advantage of making finance available for extraregional imports now, rather than in future.

Two arguments exist for following this course of action. First, underutilized capacity is a wasting asset. Hence, growth now is not an alternative to growth tomorrow but is necessary if tomorrow's growth potential is not to be sacrificed. Second, both debtors and creditors gain because trade is a positive-sum game. In effect, instead of financing future accounting transactions of a nominal nature, creditors would be turning these obligations into long-term export credits generating metropolitan (as well as regional) employment now. The "aid variant" of a reflation scheme for the region, whether in its effectively defunct form of the Caribbean Basin Initiative (which is politically selective)[19] or in its EEC form (which is in principle nonselective), ignores debt and assumes that an injection of reflationary aid can be absorbed externally by reducing metropolitan trade barriers to nontraditional exports. Such measures are mere palliatives because nontraditional exports comprise only a small fraction of extraregional exports.[20] The main advantage of the scheme proposed above is that it ties into a single package the issues of debt, reflation, and stable terms of trade.

## CONCLUSION

These considerations lead back to the general argument, which has implications not only for the ECLAC thesis but for much international debate over the Central American issue. To repeat, the suggestion that major structural reforms in the region would have enabled a more robust process of industrialization to take place is a misconception of the problem. Between 1960 and 1980, the Central American region experienced a period of industrial growth more rapid than that of any set of countries at a comparable level of income per capita. Such growth was accompanied by substantial structural change, although much of that change was not particularly pleasant. The rapid spread of export-based capitalist agriculture did, for the most part, increase the relative deprivation of most of the rural population and, insofar as the benefits of growth trickled down at all, such benefits promoted the growth of a small middle and lower-middle class. Almost everywhere, politics remained the exclusive arena of contending fractions of large and mostly landed capital, with power going to that fraction best able to blend patronage with repression.

To expect capitalist growth to be painless is naive, but it is pure fantasy to suggest that the establishment of the modern bourgeois-democratic state always precedes and enables industrialization. What is true is that the rapid growth of Central American capitalism in the past three decades has greatly accelerated the erosion of the quasi-feudal order. Ancient systems of indentured labor and rent in kind have given way to wage labor and cash rent while the establishment of a modern transport infrastructure has greatly increased labor mobility. Petty trade is increasingly overshadowed by modern commerce. If the number of those living in poverty has grown, so too has the number of those emerging into modern sector employment, particularly in private and government services (including the armed forces). But most important of all, the landed oligarchy, that ancient enemy of nascent capitalism, has largely transformed itself into the entrepreneur of export-led growth and has put roots into modern finance and industry. At the heart of the Central American crisis is not the failure of a perverse capitalism but rather capitalism's recent success. It is this success that is finally breaking the hold of oligarchic "reactionary despotism" and placing modernization firmly on the political agenda.[21] Whether the CACM survives or not, capitalism in the region is alive and well.

What remains undecided is which modernization agenda, left or right, will win the day. Beneath their reciprocal ideological hostility, these agendas share more ground than is usually supposed, a communality determined by economic structure with little room for the "relative autonomy" of politics, although this interpretation in no way denies the authenticity of the struggle for such autonomy.[22] I have argued that the potential for industrial articulation of such economies, and hence for political autonomy, is determined chiefly by rate of growth and diversification of the external sector. Favorable international conditions accelerate this process, although they also increase economic vulnerability to external shocks and undermine the relations of production on which the traditional social and political order depends. Where international conditions are deteriorating, the rate of profit required to maintain growth can only be achieved by increased exploitation, which —in the absence of the mediating mechanisms of modern bourgeois-democratic polity—can lead to a spiral of resistance and repression. This phenomenon invites growing foreign assistance in restructuring capital and modernizing political institutions as an alternative to revolution.

## NOTES

1. The quote is from SIECA (1972), cited in INFORPRESS (1983), 44.
2. I refer to the Polish economist Michal Kalecki, a contemporary of Keynes, whose work on the macrodynamics of capitalist, socialist, and developing economies has been the subject of renewed interest in the past decade. See in particular Kalecki (1976).
3. See ECLAC (1985); the low figure for capital flights comes from ECLAC (1985), and the higher figure from Chapman (1986), based on data of the *Economist*'s Intelligence Unit.
4. To my knowledge, the expression *additive development* was first used in Cohen and Rosenthal (1983), an academic paper that (understandably) deals more explicitly with the political economy of the CACM than does ECLAC (1985).
5. The orthodox "customs union" critique of the CACM is that it diverts trade; see Willmore (1976). The term *monetarist* is used here in its Latin American sense, which, as Seers (1981) pointed out, predates contemporary Anglo-American usage.
6. See Torres Rivas (1985). While interpreting the present crisis as resulting from the failed attempts to modernize the institutions of the state and civil society, Torres Rivas insists on the peculiarities of Central American capitalism. Thus, "it is not

capitalism per se which has failed in Central America; rather it is a distinctive form of capitalist development, closely linked to the world market and foreign capital" (Torres Rivas 1985, 39). The classical account of dependent development and peasant proletarianization in Nicaragua is Wheelock (1976); a somewhat modified version stressing "semiproletarianization" is given by Baumeister (1982) and by Harris and Vilas (1986). See also Gorostiaga (1985), who characterizes the Central American bourgeoisie as the "local administrator" of foreign capital.

7. Cohen and Rosenthal (1983) are not really "others." The most recent comprehensive book on Central American political economy and one that is not merely sympathetic toward ECLA (as I am) but shares its basic premises is Bulmer-Thomas (1987). Sections of the book were kindly made available to me before publication by the author.
8. The phrase is taken from Bulmer-Thomas (1987), 311. A good summary of the rise and fall of the CACM is found in INFORPRESS (1983), which cites Prebisch (1952) at some length (p. 33). The standard work on the establishment of the CACM is Cohen (1972), which makes it clear that although ECLA's thesis of industrialization via integration held sway in the 1950s and was only challenged by the United States at the end of the decade, Central American *técnicos* were generally unwilling to challenge openly the interests of the agro-export based oligarchies. Hence the ECLA strategy required "the separation of economics from politics; a gradual instead of total integration . . . with reciprocity" (Cohen 1972), 15). My characterization of the ECLA position is oversimplified in this respect.
9. Although parts of the argument are to be found in Bulmer-Thomas (1985) and (1986), it is fully developed in Chapter 9 of Bulmer-Thomas (1987).
10. This characterization of the Argentine dilemma is given by Ferrer (1977); an early rudimentary version is Joy and Braun (1968).
11. In this sense, poverty "enables" rather than "hinders" accumulation; "classical" models such as Lewis (1954) are more instructive than "Keynesian" models emphasizing low income and therefore low savings.
12. See Weeks (1985), 64.; on the "egalitarian" nature of the Costa Rican model, see Peek and Raabe (1985).
13. The salient point is that while ISI is meant to benefit the domestic market by adding to local manufacturing capacity and employment, tariff protection may result in production that is inefficient in foreign exchange, with a consequent cost to the consumer and, in some cases, little increase in net employment. In contrast, manufacturing-export promotion, typically accompanied by generous financial incentives to multinationals, may result in the growth of export-platform industries whose products are unsuited to local markets and have a high import content and little value added. See Weeks (1985).
14. See Gallardo and López (1986) for the most recent figures on the share of tax revenue in GDP ("tax pressure") for the Central American countries (p. 143). The reluctance of Central American capitalists to finance government spending is notorious, with Guatemala registering the lowest tax pressure in Latin America. The point about "fiscal crisis" is made in Cohen and Rosenthal (1983), ECLAC (1985), Weeks (1986), and Bulmer-Thomas (1987).
15. The classical theorization of growth under a foreign exchange constraint is Raj and Sen (1961), although their alternatives are between allocating foreign exchange to Department I or Department II or simply consuming it (much as in the Dobb-Sen-Feldman model). This view is not entirely consistent with that in FitzGerald (1986a), which treats export agriculture as a "proxy" for Department I in an economy too small to have a "true" Department I.
16. See Griffin, Newlyn, and Papanek (1973). For evidence of the impact of CACM industrialization on the composition of extraregional imports, see Willmore (1976).
17. See Cline and Delgado (1978, 705, tables K6 and K7).
18. A possible mechanism would be to administer the fund through an expanded Central American Bank for Economic Integration (CABEI) with EEC membership. See FitzGerald (1986b), who argues for establishing a Fondo de Reconstrucción Centroamericana with the difference that the five countries—as part of a renegotiation of Central American debt with the World Bank, IMF, IADB and selected bilateral lend-

ing agencies—would pledge a proportion of future export earning to provide current working capital for intra- and extraregional export promotion.

19. For a right-wing indictment of the Caribbean Basin Initiative, see "Reviving the Wilting U.S. Policy in the Caribbean," the Heritage Foundation *Backgrounder* (Washington, D.C.) 10 Nov. 1986. This piece argues that massive amounts of U.S. aid have not resolved the region's problems and that "[f]laws in U.S. developmental assistance must be corrected with greater emphasis on structural economic reforms . . ." (p. 1).
20. On the desirability of the European Economic Community's extending Lomé-type arrangements to Central America—particularly, some form of STABEX (stabilizing exports)—and the relatively minor benefits to be derived from the Generalized System of Preferences (GSP), see Bulmer-Thomas (1986).
21. Weeks (1986) argues that the emergence of liberal regimes in Central America at the end of the nineteenth century did not represent the emergence of capitalism and its triumph over oligarchic "reactionary despotism." "In the 1950s in Central America, liberal capitalism was a revolutionary doctrine, much as it had been in Western Europe two hundred years before" (Weeks 1986, 47). For an earlier analysis of reactionary despotism, see Baloyra (1983).
22. I employ the phrase "relative autonomy of politics" in the sense used by Kitching (1983).

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