REVIEW ESSAYS

ALTERNATIVE PERSPECTIVES ON CENTRAL AMERICAN ECONOMIC RECOVERY AND DEVELOPMENT*

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THE REPORT OF THE INTERNATIONAL COMMISSION FOR CENTRAL AMERICAN RECOVERY AND DEVELOPMENT: POVERTY, CONFLICT, AND HOPE—A TURNING POINT IN CENTRAL AMERICA. (Durham, N.C.: Duke University Press, 1989. Pp. 131. $30.00 cloth, $10.95 paper.)

CENTRAL AMERICAN RECOVERY AND DEVELOPMENT; TASK FORCE REPORT TO THE INTERNATIONAL COMMISSION FOR CENTRAL AMERICAN RECOVERY AND DEVELOPMENT. Edited by William Ascher and Ann Hubbard. (Durham, N.C.: Duke University Press, 1989. Pp. 462. $77.50 cloth, $27.50 paper.)

THE POLITICAL ECONOMY OF CENTRAL AMERICA SINCE 1920. By Victor Bulmer-Thomas. (New York: Cambridge University Press, 1987. Pp. 416. $49.50 cloth, $16.95 paper.)

STUDIES IN THE ECONOMICS OF CENTRAL AMERICA. By Victor Bulmer-Thomas. (New York: St. Martin's Press, 1988. Pp. 246. $55.00.)

CENTRAL AMERICA: THE FUTURE OF ECONOMIC INTEGRATION. Edited by George Irvin and Stuart Holland. (Boulder, Colo.: Westview Press, 1989. Pp. 200. $27.50 paper.)

*The views expressed in this essay are those of the author alone and should in no way be interpreted as representing the policies of the U.S. Agency for International Development or any other part of the U.S. Government.

CENTROAMERICA: ESTRATEGIAS DE DESARROLLO. Compiled by Forrest D. Colburn. (San José, Costa Rica: Editorial Universitaria Centroamericana, 1987. Pp. 206.)

STRUGGLE AGAINST DEPENDENCE: NONTRADITIONAL EXPORT GROWTH IN CENTRAL AMERICA AND THE CARIBBEAN. Edited by Eva Paus. (Boulder, Colo.: Westview Press, 1988. Pp. 225. $35.00.)

CENTRAL AMERICA: CRISIS AND POSSIBILITIES. Edited by Rigoberto García. (Stockholm: Institute of Latin American Studies, 1988. Pp. 263.)

LOS EMPRESARIOS CENTROAMERICANOS ANTE LA CRISIS. (Guatemala City: Inforpress Centroamericana, 1988.)

EL EMPRESARIO Y SU ENTORNO ECONOMICO. By Noel Ramírez. (Alajuela, Costa Rica: Instituto Centroamericano de Administración de Empresas, 1987. Pp. 348.)

NATURAL RESOURCES AND ECONOMIC DEVELOPMENT IN CENTRAL AMERICA: A REGIONAL ENVIRONMENTAL PROFILE. By H. Jeffrey Leonard. (New Brunswick, N.J.: Transaction Books, 1987. Pp. 279. $29.95.)

The continuing economic crisis in Central America, which began at the end of the 1970s, has surpassed the depression of the 1930s in length and, in some cases, in severity. All the countries in the region have been profoundly affected.[1] The books reviewed in this essay focus much of their attention on the debate in and beyond the region on strategies for recovering from the crisis and achieving a more sustainable and equitable pattern of development than in the past. This debate is continuing into the 1990s.[2]

A limited economic recovery has in fact been under way in Central America since the mid-1980s. It has been strongest in Costa Rica, where the annual increase in the gross domestic product (GDP) from 1983 through 1989 averaged 4.4 percent, or 1.7 percent per capita. More modest progress has been made in Guatemala (after 1986) and also in Honduras. El Salvador's GDP growth since 1983 has just barely kept up with population growth, while Nicaragua's economy, after recovering during 1980–1983 from the sharp decline of the late 1970s, began to turn downward again in 1984.[3] Intraregional trade, which plummeted in nominal

1. In this essay, Central America is defined in the traditional way as comprising Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua, although some of the books under review also examine Belize and Panama.

2. See, for example, Economic Commission for Latin America and the Caribbean, *Changing Production Patterns with Social Equity* (Santiago: ECLAC, 1990).

3. GDP growth in Guatemala averaged 3.7 percent a year (1.0 percent in per capita terms) for the three-year period 1987–1989. In Honduras, where relatively large-scale economic assistance offset the effects of poor economic policies, it was 3.5 percent (0.7 percent per capita). In El Salvador, GDP growth from 1983 through 1989 averaged only 1.6 percent (0.1 percent per capita). Nicaragua's GDP grew by 3.4 percent a year (no change in per capita terms) during 1980–1983 but then fell by 3.1 percent annually (–6.3 percent per capita) during

terms by 65 percent between 1980 and 1986 (and in real terms by 74 percent), began to recover in 1987. Although world-market conditions for Central America's traditional exports were poor for most of the 1980s, nontraditional exports to markets outside the region grew at an annual rate of 17 percent between 1983 and 1989. Still, even Costa Rica's GDP growth rate lagged behind its performance in the 1960s and 1970s, and its per capita GDP in 1989 remained 5.4 percent below the 1979 peak. Moreover, all countries in the region evidence reason to be concerned about the sustainability of the progress that has been achieved and the distributional effects of stabilization and development policies.[4]

At the same time, a tendency has emerged since the mid-1980s for those with widely divergent views on political philosophy and economic strategy to move toward agreement on a core set of principles and policies emphasizing three points: export expansion and diversification, more efficient resource allocation through price liberalization, and a significantly different (although not necessarily reduced) role for the state in the process of economic development. Major differences remain, but the consensus on the desirability of extraregional exporting is particularly striking.

The books reviewed in this essay all focus to some extent on Central America as a region. Most authors regard closer integration of the five regional economies, or at least greater cooperation among them, as a good thing—sometimes as an article of faith rather than the outcome of serious economic analysis. Little attention is given to an alternative view, held by some individuals in the international financial community as well as some Central Americans, that the countries would be better off over the long run if the Central American Common Market (CACM) were to fade away, giving them greater freedom to pursue their own external trade policies.[5] At the same time, widespread agreement exists that if the CACM is to be revived during the 1990s, it must be substantially reformed and restructured.

The books under consideration include the report of an interna-

1984–1989. It should be noted, however, that per capita trends in Nicaragua are misleading because actual population growth has been less than the reported rate of 3.4 percent.

4. Poor data on income, wealth, and related variables in all countries except Costa Rica make it difficult to judge the accuracy of the widely held belief that income distribution became more unequal during the periods in which GDP declined in each country. In Costa Rica, real wages in the private sector fell more rapidly than GDP during the period of economic decline (1980–1982) but rose faster than GDP during the initial years of the recovery. Despite dropping slightly between 1986 and 1989, they remained 4 percent above their precrisis level. Open unemployment in Costa Rica, which had reached 9.4 percent in 1982, fell to 3.8 percent by 1989.

5. Ignoring their treaty obligations, the Central American countries did in fact take many unilateral actions during the 1980s, most recently by lowering their tariff protection individually and to different degrees, beginning with Costa Rica in 1987. Their attitude toward reviving the CACM in the 1990s remains equivocal, as discussed later in this essay.

tional commission (the International Commission for Central American Recovery and Development, or ICCARD), an economic history (Bulmer-Thomas 1987), an examination of the region's deteriorating natural resource base (Leonard), two studies written primarily for leaders of the private business community (those by Inforpress and Ramírez), five edited volumes of essays by a variety of authors (Ascher and Hubbard, Colburn, García, Irvin and Holland, and Paus), and a collection of essays by a single author (Bulmer-Thomas 1988). Given the large number of edited publications, the present essay cannot analyze the contributions of each individual author, nor can it examine all the topics discussed in these works. Rather, this essay will seek first to provide a brief summary and evaluation of each work. It will then examine the diversity of views on the following topics: the origins of the economic crisis; internally oriented development versus externally oriented development, including the role of the CACM; the distribution of benefits from nontraditional exports; the region's dependence on external capital and the related subject of external debt; the problem of natural resource deterioration; and the political economy of policy reform.

Scope and Content of the Studies

The *Report of the International Commission for Central American Recovery and Development* (also called the Sanford Commission Report, after U.S. Senator Terry Sanford, the principal catalyst for the commission's work) was prepared by a group of forty-seven distinguished Central Americans, North Americans, South Americans, Europeans, and Asians.[6] Co-chairs of the ICCARD were Arthur Levitt, Jr., of the United States and Sonia Picado of Costa Rica. The commission's fundamental premise is that "lasting peace, genuine democracy, and equitable development are inextricable" (p. 1). The report proposes a four-pillared strategy based on "human resource development, more efficient production and export promotion, regional integration, and food security" (p. 3). The ICCARD proposals include an immediate action program emphasizing relief for refugees and displaced persons and a longer-term program for sustained development.[7] Other chapters focus on building democracy, revitalizing regional integration, and strengthening international cooperation.

The ICCARD Report is fundamentally sound. The linkages among

6. The ICCARD Report, sometimes characterized as a Democratic alternative to the 1984 Kissinger Commission Report (*Report of the National Bipartisan Commission on Central America*), was prepared with less haste and greater involvement by Central Americans than the earlier report.

7. The structure of the proposed program bears some similarities to the Special Economic Cooperation Program for Central America, approved by the United Nations General Assembly in 1988.

peace, democracy, and development are well explained, and most of the recommended policy reforms, which emphasize eliminating or reducing price distortions, are on the mark. Some minor irritants arise, however. The report exaggerates the severity of the crisis (for example, stating incorrectly that all health indicators declined), when it is clear without such excesses that the decline of the 1980s was a true depression and not just a recession. Similarly, the report does not sufficiently recognize the (admittedly limited) progress that has been made since the early 1980s. The absorptive capacity for the Immediate Action Program may be less than the commission assumes, and insufficient attention is given to potential recurrent-cost obligations that might be difficult for governments to meet without continued large-scale external resources.

Fifteen background papers prepared for the ICCARD by members of a study task force are presented in *Central American Recovery and Development*, edited by William Ascher and Ann Hubbard. The editors provide a succinct, solid overview of the major themes, along with an index, a too-infrequent "bonus" for an edited volume (but also found, happily, in the collections by Irvin and Holland, Paus, and Bulmer-Thomas). Most of the task force essays provide good-to-excellent coverage of the subject matter. Particularly insightful and well-presented (even if one does not agree with all the conclusions and recommendations) are those by Gustavo Arcia on rural development, Claudio González-Vega and Jeffrey Poyo on financial liberalization, Richard Feinberg on external debt, Stuart Tucker on the Caribbean Basin Initiative, Alan Stoga on the legacy of the Kissinger Commission, and Lars Schoultz on aid conditionality. Other solid contributions are those by Sergio Aguayo on displaced persons, Robert Healy on resource conservation, Colin Bradford, Jr., on industrial policy, and Philip Brock on intraregional finance. Sally Yudelman's comprehensive essay on access and opportunity for women is insightful in pointing out the many forms of discrimination against women, but it provides no clear guide for implementing a broad set of recommendations that would require a true revolution in attitudes by men.

Several essays are disappointing. Cassio Luiselli, in placing agricultural development within a macroeconomic context, presents a muddled analysis of interest rates, exchange rates, and other policy variables. He relies too much on top-down administrative measures that emphasize subsidies to small-farm producers and not enough on price incentives to encourage production and conservation without damaging overall prospects for economic growth.[8] The essay also suffers from insufficient quantitative documentation, references to phantom bibliographic entries, and repetition. These drawbacks detract from some positive suggestions

8. The importance of economic growth for reducing poverty is highlighted in the World Bank's *World Development Report 1990*.

for overcoming past discrimination against small farmers (for example, by carefully targeting expenditures on infrastructure, research, and extension and by providing more education in rural areas). Luiselli also makes a sound recommendation for regional integration in agriculture, which the ICCARD curiously chose to ignore, recommending instead food security policies at the national level.

John Freiberger's essay on health care provides an abundance of data, but much of it is dated. He offers few new insights, a reflection of what seems to be the author's limited experience in the region. Richard McCall looks at the Alliance for Progress in retrospect by summarizing the well-known 1970 book by Jerome Levinson and Juan de Onís.[9] Unfortunately, much of this analysis is superficial, and few lessons for the 1990s are drawn apart from the appropriate but well-worn admonitions to keep expectations modest, distinguish between development objectives and security considerations, and remember that foreign aid cannot substitute for a recipient government's own willingness to bring about democratic and modernizing change.

Also disappointing is the essay by Eduardo Lizano, one of Central America's outstanding economists, who for much of the 1980s served with distinction as president of the Central Bank of Costa Rica. The essay appears to have been written in 1984 and only slightly revised for the ICCARD. It exaggerates the strengths of regional economic integration during its heyday and hides from the casual reader some perceptive critical comments on the integration process. The problem is more one of tone and emphasis than of content. The essay contains relatively little discussion of specific macroeconomic reform requirements at the national level, a task that Lizano has performed masterfully elsewhere.[10]

Victor Bulmer-Thomas began studying Central America well before it became fashionable. The historical perspective and wide-ranging knowledge of the literature that he brings to the subject, together with a keen analytical mind and an evenhanded approach to issues of political economy, have resulted in two excellent volumes. Bulmer-Thomas's economic history, *The Political Economy of Central America since 1920,* seems destined to become a classic, and it should be required reading for all who wish to understand the economic, social, and political forces behind the regional turmoil since the late 1970s. His economic analysis is sophisticated yet accessible to the general reader and is intimately integrated with political and social developments. This approach enables Bulmer-Thomas

9. Jerome Levinson and Juan de Onís, *The Alliance That Lost Its Way* (Chicago: Quadrangle Books, 1970).

10. Eduardo Lizano, *Desde el Banco Central* (San José: Academia de Centroamérica, 1987). In this collection of speeches and essays, Lizano sets forth clearly for various Costa Rican audiences the case for "getting prices right" and for adopting a wide range of other structural economic reforms.

to draw insightful parallels and contrasts among countries. Those interested in a more technical analysis of specific economic topics might prefer to examine his other volume under review here, *Studies in the Economics of Central America,* which was written during 1983–1987 and covers much the same ground as the economic history. One of Bulmer-Thomas's major points is that Central America's traditional model of agricultural export-led growth was never abandoned during the heyday of the CACM, being given actual preference when the two parallel models came into conflict and then regaining a clear dominant position. Those who would blame the economic crisis of the 1980s primarily on the protectionism and other inefficiencies of the CACM should bear this point in mind, however right they may be about the problems of the CACM.

Of the four remaining edited volumes, the most rewarding are those put together by George Irvin and Stuart Holland and by Forrest Colburn. Irvin and Holland's *Central America: The Future of Economic Integration* was funded by the European Community Commission and prepared under the auspices of the Institute of Policy Studies at The Hague. The focus on the future of Central American economic integration is said to be one that the EC member states regard as "an aim worthy of support" (p. 1). In their introduction, Irvin and Holland ably highlight major themes and summarize the individual essays, which are linked well with each other through cross-references. The editors also outline a proposed EC assistance program for Central America, emphasizing intraregional and extraregional trade as well as measures to help countries cope with external debt problems. The editors and most of the contributors are optimistic about the prospects for reviving regional economic integration, although they reject the CACM model of the 1960s and 1970s. A pessimistic chord is struck by John Weeks, who sees little hope either for integration or for economic recovery generally.

Forrest Colburn's *Centroamérica: estrategias de desarrollo* brings together seven essays on alternative development strategies for Central America. Perhaps the most interesting analytically is that by Marc Lindenberg, former rector of the Instituto Centroamericano de Administración de Empresas (INCAE). Lindenberg identifies six alternative strategies, evaluates their risks and potential payoffs, and discusses economic, political, and institutional obstacles to implementing them. (His scheme will be used later in this essay as a helpful starting point for discussing internally oriented development strategies versus externally oriented ones.) Noel Ramírez, now a dean at INCAE, questions the applicability of the Lindenberg scheme, arguing that Central American governments lack the economic and political resources needed to pursue any long-run development strategy. He maintains that they are locked into short-run strategy options, some of which conflict with the successful pursuit of longer-term strategies.

Essays by Anne Krueger and Adolfo Carvajal Quelquejeu support the orthodox argument for export-led development based on economic liberalization. Carlos Manuel Castillo concurs that such development is needed but insists that it must be based on regional integration, a premise rejected by many other Costa Rican economists, business leaders, and government officials. Roberto Artavia, Forrest Colburn, and Iván Saballos Patiño examine the reasons for Costa Rica's success in export diversification (discussed later in this essay). Benjamin Crosby focuses on identifying winners and losers from proposed policy actions.

The title of the volume edited by Eva Paus, *Struggle against Dependence: Nontraditional Export Growth in Central America and the Caribbean,* turns out to be somewhat misleading. Readers will discover that most of the country fieldwork on which it is based (Cuba being the exception) was funded by the U.S. Agency for International Development (AID) and the analysis is carried out within a relatively orthodox framework. The contributors view nontraditional exports as an important element in the process of economic recovery in Central America but not a panacea. Paus's introductory chapter ably summarizes the country case studies but goes beyond most of them in concluding that policies to promote nontraditional exports cannot be successful without "a solution to the issues of poverty, the agrarian structure, and the stagnation in regional integration" (p. 15).

The eight country case studies (on Costa Rica, Guatemala, Honduras, Belize, Panama, Cuba, the Dominican Republic, and Jamaica) for the most part follow a standard outline, which includes a set of useful tables and a summary of the results of interviews eliciting business executives' perceptions of the main obstacles to exporting from their respective countries. Although some case studies are more descriptive than analytical, they convey a great deal of information clearly in a short space, and the common outline facilitates comparisons among countries. Economists, however, will lament the absence of the econometric equations referred to in the text that seek to explain the major determinants of export performance in the countries studied. The most analytical chapters are those by Andrew Zimbalist (on Costa Rica, Cuba, and Panama), who stresses the importance of dynamic—not just static—comparative advantage. Although the development of dynamic comparative advantage implies an important role for government, readers will disagree over what that role should be. Some may conclude that both Zimbalist and Paus place undue emphasis on planning at the expense of market forces in the process of industrial decisionmaking.

Many of the papers in the volume edited by Rigoberto García, *Central America: Crisis and Possibilities,* were originally presented at a conference in Stockholm in 1986. For the most part, they are descriptive or elementary treatments of the subject matter, perhaps because the audience for which they were prepared may have included many with little expertise on Central America. The editor has done little in his introduction to place the papers in an integrative framework, nor has he eliminated duplicative background material in the individual essays. Of the three essays focusing on economic development strategy, the editor's own examination of the CACM is disappointing (see below), as is Nora Hamilton's muddled comparison of alternative economic models for El Salvador.[11]

The one gem in this volume is Stefan de Vylder's critique of economic policy in Nicaragua under the Sandinista regime, viewed as part of a pattern he encountered in other Third World countries seeking to implement socialist policies. While recognizing the role of the war in Nicaragua's economic crisis, de Vylder draws attention to the strong negative effects of extreme price distortions, which reflect "a fundamental lack of understanding of basic economic principles on the part of the revolutionary government" (p. 200). The critique is particularly effective because it comes from someone sympathetic to this type of progressive regime. It also exemplifies a trend, evident in the late 1980s, toward a loosening of inhibitions on the part of economists sympathetic to the Sandinistas but concerned about the implications of being publicly critical of them.

The study *Los empresarios centroamericanos ante la crisis* was prepared by Inforpress Centroamericana, publishers of the weekly newsletter *Central America Report*. It is based in part on responses to questionnaires answered by executives of more than two hundred firms belonging to the *cámaras empresariales* in the five Central American countries.[12] Country-specific chapters illustrate how firms have responded to the economic challenges of the 1980s and what they regard as the main obstacles to business expansion (which vary from country to country). These chapters are particularly informative on relationships between the government and the private sector and on those between different groups within the private sector.[13] Intrasectoral rivalries are said to be particularly strong in El Salvador, Honduras, and Nicaragua, thus limiting the sector's capacity to negotiate with and influence the government. Unfortunately, the chap-

11. For example, Hamilton states that "the domestic market/ regional cooperation model places greater emphasis on structural reforms" than the export promotion model (p. 257). One wonders, then, why so much controversy develops over structural adjustment lending by the World Bank and other institutions. What constitutes "reform" is in the eyes of the beholder, and it would be better to say simply that the two strategies emphasize different packages of reforms. While Hamilton correctly states that both models require external financing, she underestimates the foreign-exchange costs of the inward-looking strategy.

12. It is not clear how randomly the interviewees were selected. Still, the number of responses seems large relative to the universe of medium- and large-scale firms, and the results can probably be regarded as having reasonable validity.

13. The term *private sector* usually refers (consciously or not) to the industrial-commercial-financial elite, and it is used in that sense here.

ters on economic strategy from a regional perspective are confusing. Alternative development models, strategies, and policies are presented, but no clear guidelines are provided for choosing among them.

Noel Ramírez's *El empresario y su entorno económico* is also based in part on close contacts with Central America's business communities, in this case through the author's work at INCAE. It combines (somewhat awkwardly) chapters that apparently originated as seminar presentations, case studies, exercises, and a technical chapter applying the monetary approach to balance of payments analysis to Costa Rica and Nicaragua. Ramírez's main objective is "to place macroeconomic analysis at the service of management decisions" (p. 9), and at least for executives with good general educations, this goal should be achieved. The first part of the book deals with short-term analysis and emphasizes the examination of inflation and devaluation within an orthodox economic framework. Apart from the technical chapter (which Ramírez wisely advises be skipped by most readers), the explanations are clear (assisted by the kinds of diagrams appealing to readers who are not economists) and the analysis is sound. The second part of the book examines medium- and long-term economic strategy, emphasizing the choice between import-substituting industrialization and export-oriented development. Although less well-organized than the first part, it explains clearly the rationale for the kinds of policy reforms recommended by the international financial institutions. The case studies in both parts of the book challenge readers to test their knowledge and to apply independent thinking to selected problems.

Jeffrey Leonard's *Natural Resources and Economic Development in Central America: A Regional Environmental Profile* focuses on a set of environmental problems that he correctly perceives as having received insufficient attention from Central American governments, regional institutions, and the international assistance community. Similarly, scholars examining the prospects for Central American economic recovery and development have demonstrated little concern for environmental issues, as evidenced by the scant mention of such topics in most of the books under review in this essay. Leonard's work, based in part on a series of country environmental profiles commissioned by the AID, is valuable for mobilizing in a single source much of the available data on natural resources in Central America. Its principal shortcoming is the author's limited application of technical economic analysis to specific policy measures that would make economic growth more sustainable over the long run by better conserving natural resources.

Origins of the Economic Crisis

It is something of a surprise that most of the books under review devote little space to analyzing the origins of the economic crisis, given that policy prescriptions for overcoming it should be based on careful diagnoses of the problems. On further reflection, however, one realizes that these books were written long after the crisis began and that the authors thus could assume that this subject was well-traversed territory requiring only a brief revisit.

Most authors recognize that the crisis is attributable to a combination of three factors: external events beyond the control of the Central American countries (notably, the second oil price shock of 1979–80, rising interest rates on external debt, and falling prices for commodity exports); flawed domestic and regional policies that did not permit flexible responses to changing international events; and civil war and other political conflicts that affected all countries in the region directly or indirectly. Although one finds few efforts to assign cardinal or even ordinal weights to these three factors, most authors explicitly or implicitly regard the external or exogenous forces as the most important, a view shared by this reviewer. Bulmer-Thomas, who likewise emphasizes the dominance of external forces, is one of the relatively few who discuss specific domestic and regional policy shortcomings in some detail (*Studies*, p. 187). This task is also undertaken by Ramírez, the ICCARD, and a number of the authors of ICCARD background papers in the Ascher and Hubbard volume. Less attention is devoted to these policy concerns in the Inforpress study and in most of the essays in the remaining edited volumes (some exceptions to this overall pattern have already been noted).

In the international financial community, in contrast, the tendency is for documents and discussions to be overweighted in the opposite direction. The constraints on Central American development determined by international economic trends and other exogenous events, although not forgotten, are often pushed into the background, and attention is focused instead on breaking down obstacles to economic recovery and development through stabilization, structural adjustment, policy reform, policy dialogue, and getting prices right.

John Williamson of the Institute for International Economics, a Washington think tank, has identified ten policy reform areas where he suggests policymakers and scholars have achieved a "Washington consensus," or perhaps more accurately, he reconsiders, a "Washington convergence."[14] These areas are fiscal discipline, priorities for public

14. John Williamson, *The Progress of Policy Reform in Latin America*, Policy Analyses in International Economics no. 28 (Washington, D.C.: Institute for International Economics, 1990). In this book, "Washington" is defined as including "both the political Washington of Congress and senior members of the administration, and the technocratic Washington of the international financial institutions, the economic agencies of the US government, the Federal Reserve Board, and the think tanks" (p. 9). This slim but valuable volume includes a brief summary of efforts at policy reform in twenty-one Latin American and Caribbean countries, including all those in Central America.

expenditures, tax reform, financial liberalization, exchange rates, trade liberalization, foreign direct investment, privatization, deregulation, and property rights. Many alleged policy errors in these areas are traced by some observers of the Central American scene to the pre-crisis period, although it is not always explained why GDP growth rates of 5 to 6 percent were sustained for nearly two decades under these policies.

The answer to this apparent mystery is twofold. First, the international economic environment of the 1960s and 1970s was more forgiving of economic inefficiencies than was that of the 1980s. Second, a number of potential distortions were in fact relatively modest because monetary and fiscal policies (facilitated by significant foreign-exchange inflows from commodity exports and from public and private lending institutions) kept inflation in the low single digits in the 1960s and close to the world average in the 1970s.

Policy shortcomings became much more evident in the 1980s with the onset of the economic crisis. For example, interest-rate ceilings in the face of rising price levels made real interest rates strongly negative, thus contributing to capital flight. Overvalued exchange rates prevented export diversification, negatively affected traditional exports, and made imports more attractive, thus helping to drain foreign-exchange reserves and then causing a growing divergence between official and black-market exchange rates. Inflation was fueled by fiscal deficits caused in part by tax structures that overdepended on revenues from foreign trade. Accelerating inflation in turn aggravated distortions in the form of low public-utility tariffs and other subsidized prices that were adjusted more slowly than inflation (and mainly benefited middle- and upper-income groups), thus increasing fiscal deficits and adding more fuel to the inflationary spiral. External borrowing to help mitigate the effects of the crisis was excessive in some countries, aggravating debt-servicing problems.

Other policy shortcomings in the 1960s and 1970s contributed to the social and political crises that erupted in El Salvador and Nicaragua in the latter half of the 1970s and in Guatemala on several occasions during both decades. As Bulmer-Thomas has explained and documented, the hybrid economic model followed during this period (agricultural exports plus regional import-substituting industrialization through the CACM) not only increased the region's vulnerability to external events but also aggravated income inequalities. The "winners" under the model were three groups: medium- and large-scale farmers engaged in exporting (who were consciously favored in credit and other policies at the expense of small farmers producing for the domestic market); industrialists (benefiting from tariff protection, cheap credit, tax advantages, and other subsidies); and those engaged in domestic commerce. The primary "losers" were small-scale farmers and the peasantry. The number of landless laborers significantly increased; real wages were kept low to maintain external competitiveness; and in El Salvador, Guatemala, and Nicaragua, the labor movement was strongly repressed.[15] In a comment originally published in 1983, Bulmer-Thomas states: "Political and social stability in Central America . . . threatens to break down *because* of the success of export-led growth rather than *despite* it" (*Studies,* p. 39, author's emphasis). While it is clear elsewhere that Bulmer-Thomas does not mean to apply this statement to all export-led growth strategies, it is a fair description of the outcome of the economic model of the 1960s and 1970s.

Internal versus External-Oriented Growth

The six alternative development strategies for Central America identified by Marc Lindenberg (in Colburn's *Centroamérica*) are export monoculture, inward-oriented development (import substitution), traditional agricultural exports and market diversification, diversification of traditional and nontraditional agricultural exports, a mixed strategy, and a multisectoral export strategy. Depressed commodity prices during the 1980s appear to have eliminated any vestigial support for export monoculture. Supporters of a pure inward-oriented strategy, numerous in the 1950s and 1960s, are also hard to find now.

The Economic Commission for Latin America and the Caribbean (ECLAC), which helped develop a large constituency for import-substituting industrialization in those earlier years, had begun by the mid-1960s to move toward a mixed strategy. ECLAC now states that "changing production patterns with equity must be achieved within the context of greater international competitiveness,"[16] and it supports most of the major economic liberalization measures advocated by the World Bank and the International Monetary Fund (IMF). Strong support for export diversification is also evident in the Central American countries' *Plan de acción inmediata* (1988), the European Community–Central America Joint Communiqué (1988), and the United Nations' *Plan especial de cooperación económica para Centroamérica.*[17]

Even Central Americans who strongly support the CACM, such as Carlos Manuel Castillo (in the Colburn volume), and Alfredo Guerra-

15. Greater tolerance of labor-union activity in Costa Rica and Honduras helps explain why they avoided the degree of social and political turmoil suffered by their neighbors. Trends in the labor movement in the five countries are given extensive treatment in Bulmer-Thomas's *The Political Economy of Central America since 1920.*

16. ECLAC, *Changing Production Patterns,* 14. Still, the strategy advocated by ECLAC is clearly mixed, as it continues to envision a major role for regional economic integration.

17. For the full references to these documents and a more detailed discussion of alternative development strategies for Central America, see Clarence Zuvekas, Jr., "Central America's Foreign Trade and Balance of Payments: The Outlook for 1988–2000," in *The Future of the Central American Economies: Transition or Continuing Crisis,* edited by Michael E. Conroy (Austin: University of Texas Press, forthcoming).

Borges, Juan Alberto Fuentes, and Luis René Cáceres (all in the Irvin and Holland collection), argue that Central America needs to expand and diversify its exports to the rest of the world, although they also regard import-substituting industrialization within a revived and reformed CACM as essential for long-run economic development in the region. Economists on the left from outside the region, such as Andrew Zimbalist (in the Paus volume) and E. V. K. FitzGerald (in the Irvin and Holland book), likewise support a more outward-oriented strategy. So do President Carlos Andrés Pérez of Venezuela and Prime Minister Michael Manley of Jamaica, both of whom strongly supported more inward-looking strategies in the 1970s.

A broad consensus, then, has developed in support of some form of four of Lindenberg's strategies: traditional agricultural exports and market diversification, diversification of traditional and nontraditional agricultural exports, and particularly a mixed strategy and a multisectoral export strategy. Lindenberg finds that throughout Central America (including Panama), leaders in the private sector give first priority to the mixed strategy and second to the multisectoral strategy, except in Honduras where the priorities are reversed.

The development of a consensus on export-led growth should not come as a great surprise, given the radical changes that have occurred in the world economy over the last decade or so. Small economies like those of Central America (combined as well as individually) depend heavily on imports for their economic growth, and import capacity is determined by the availability of foreign exchange. Several major sources of foreign exchange that permitted rapid import growth during the 1960s and 1970s were unable to play this role in the 1980s. Prices of traditional commodity exports were depressed for much of the last decade, and the medium-term outlook for significant price recovery remains unpromising. Loans from commercial banks, easily available at favorable interest rates in the 1970s, began to dry up in the 1980s as the Central American countries started to experience debt-servicing problems.[18]

Less substantial sources of foreign exchange, such as private foreign investment, were adversely affected by the political as well as the economic climate in the region. At the same time, capital flight and higher interest rates on external debt aggravated outflows of foreign exchange. Net disbursements from the international financial institutions declined and eventually became negative in some countries.[19] Sharply increased U.S. assistance offset some of these adverse developments, but the trend in U.S. assistance levels is now downward, after factoring out the effects

18. Although the hemispheric debt crisis of the 1980s is often dated from Mexico's troubles in August 1982, one could argue that a more appropriate starting date would be July 1981, when Costa Rica suspended servicing of its debts to commercial banks.

19. See Richard E. Feinberg, "Defunding Latin America: Reverse Transfers by the Multilateral Lending Agencies," *Third World Quarterly* 11 (July 1989):71–84.

of the renewal of assistance to Nicaragua in 1990. Recent developments in Eastern Europe have dimmed the hopes of some Central Americans for sharply higher resource flows from the Western European countries, although assistance from Japan could exceed earlier expectations. Debt rescheduling and partial debt relief have freed some foreign exchange, but this solution is only short-term. In these circumstances, a combination of export expansion and diversification has become a more attractive alternative source of foreign exchange. President Bush's Enterprise for the Americas Initiative, which emphasizes free trade with the United States, has received a surprising amount of support from Latin America.

Despite this broad agreement on the desirability of export expansion and diversification, strong proponents of reviving the CACM remain in Central America. Many represent elements of the business community, which prospered from the expansion of intraregional trade in the 1960s and 1970s, protected from outside competition by the CACM's relatively high common external tariff. Other important pro-CACM sentiment comes from the Secretaría Permanente del Tratado General de Integración Centroamericana (SIECA) and other regional institutions established in the 1960s to facilitate integration.

Is a revival of the CACM compatible with a more outward-oriented growth strategy emphasizing nontraditional exports? The argument for incompatibility is based primarily on the assumption that a structure of economic incentives strongly oriented toward the CACM (through high tariff protection, subsidies, and other price distortions) would shift resources away from nontraditional exports with higher economic (as opposed to financial) rates of return. In other words, resources would be diverted to economically less efficient import-substitution industries that depend strongly on imported inputs. Once they recovered their pre-crisis levels of activity, manufacturing growth would be limited by the overall expansion of the small domestic market, given the "exhaustion" of easy opportunities for import-substituting industrialization and the inability of these industries to compete in foreign markets.[20]

A revival of the CACM, however, need not depend on a return to the biased incentive structure of the 1960s and 1970s. Most authors reject the old CACM model (for various reasons), and some believe that a reformed, less protected CACM would permit intraregional trade to grow in a way that is compatible with a growth strategy led by nontraditional exports.[21] Much of the increase in intraregional trade between 1960 and

20. Bulmer-Thomas, who argues that a revival of the CACM can be compatible with export-led growth, recognizes that the two are incompatible under the circumstances described here. See his article, "Import Substitution v. Export Promotion in the Central American Common Market (CACM)," *Journal of Economic Studies* 6 (Nov. 1979):194.

21. For a good technical discussion of the conditions under which the two strategies are compatible, see Bulmer-Thomas, *Studies in the Economics of Central America,* 105–20.

1980 was made possible by foreign capital inflows and rising export earnings from traditional agricultural products. These elements constituted the main engine of economic growth during those decades[22] and provided the foreign exchange needed to clear trade imbalances between CACM members. Similarly, most of the decline in intraregional trade in the 1980s can be attributed to overall economic trends in the region as well as to increased intraregional trade restrictions.[23] Accordingly, a revival of economic growth and a removal of these restrictions should significantly benefit intraregional trade. Bulmer-Thomas has the sequence right in saying that "a necessary condition for the revival of the CACM is a recovery in extra-regional exports and regional growth rates" (*Studies*, p. 97). In other words, the expansion of the CACM will follow overall growth, not lead it. Ascher and Hubbard agree: "The export sector has always been the main engine of growth" (p. 8); and so do Irvin and Holland: "The key to Central American growth is foreign trade" (p. 3). Similarly, the ICCARD Report states that "growth will be sustained only if the region can earn foreign exchange through trade" (p. 14).

Others, however, place more stress on the role of the CACM in leading the region into recovery and development. Inforpress's *Los empresarios centroamericanos ante la crisis* appears to suggest that the CACM must play the major role. García and Hamilton (in the García volume) both advocate inward-oriented growth, while contributor Edgar Gutiérrez argues in the same volume that "integration or economic cooperation . . . is a prerequisite for stable long-term development" (p. 161). Similarly, Castillo (in the Colburn volume), while supporting a more externally oriented strategy, insists that "integration constitutes an essential condition for the development of Central America" (p. 144).[24]

An alleged major obstacle to a revival of the CACM, in the view of many Central Americans, has been a lack of foreign exchange for financing the large, uncleared bilateral balances that accumulated within the region in the early and mid-1980s, with Nicaragua the largest debtor and Costa Rica and Guatemala the main creditors. The Central American countries had sought external financing for this purpose since 1983, if not earlier, but were unsuccessful until the European Community (EC) agreed

22. Most studies conclude that the contribution of the CACM to economic growth in the 1960s and 1970s was rather modest. For examples, see those cited in Bulmer-Thomas, "Import Substitution v. Export Promotion," and Zuvekas, "Central America's Foreign Trade and Balance of Payments." More optimistic estimates are cited by Cáceres and Irvin (in the Irvin and Holland volume), but the methodologies of these studies may be questioned.

23. See William R. Cline, "The Role of Economic Integration in Central American Development," paper prepared for the International Symposium on Central America and Capitalization of the Central American Bank for Economic Integration, Cartagena, Colombia, 28 Nov.–1 Dec. 1984; and William O. Loehr, *Balance of Trade and Payments in Central America: Prospects for the CACM and Recommendations for ROCAP* (Ojai, Calif.: Loehr and Associates, 1990).

24. All quotations from the Colburn collection are my translations.

in 1990 to provide some resources. The reluctance of international donors was based primarily on the absence of policy reforms (particularly tariff and exchange-rate adjustments) that addressed the underlying causes of large bilateral trade imbalances. The political situation in Nicaragua was also a factor. The EC contribution was made possible by significant changes in both the economic and political spheres during 1989–90. The argument in favor of intraregional trade financing is made effectively by E. V. K. FitzGerald and Erwin Croes (in the Irvin and Holland volume) and by Philip Brock (in the Ascher and Hubbard collection) with emphasis on currency convertibility. William Loehr, however, has argued convincingly that "there is no indication that the lack of a clearing mechanism, or credits for financing trade clearing, is a major obstacle to trade."[25]

The argument of some economists that regional integration is essential for recovery and development could well be misplaced. Costa Rica's sustained economic recovery beginning in 1983, particularly its success in expanding nontraditional exports, demonstrates what can be done under a strong export-oriented strategy without much attention to regional integration, even by a country with a heavy external debt burden. Costa Rica's nontraditional exports to destinations outside Central America rose from 128 million dollars in 1983 to 566 million in 1989 (42 percent of total exports in the latter year), yielding an annual growth rate of 28 percent.

Artavia, Colburn, and Saballos Patiño (in the Colburn collection) maintain that Costa Rica's success with nontraditional exports "is not due to liberalization of the economy . . . but to making exporters the object of campaigns of persuasion, training and monetary incentives" (p. 110). While these factors clearly have been important elements of the Costa Rican strategy for nontraditional exports, this statement overlooks the significant economic liberalization that has occurred in exchange rates, interest rates, and, to a lesser extent, import tariffs. It is important to note, too, that Costa Rica was the first country in Central America to break away from the common external tariff (apart from Honduras's quasi-defection from the CACM in 1970) by unilaterally lowering its tariff structure in 1987. Bulmer-Thomas (in the García volume) predicts that "Costa Rican interest in the moribund CACM will wane" (p. 194) if its strategy continues to succeed and that the gap in living standards between Costa Rica and its partners will widen. He finds this prospect depressing from a regional standpoint but understandable given Costa Rica's options.

The depth and breadth of current support for regional economic integration in Central America may be questioned not only in Costa Rica but also in the other countries. Honduras still has not rejoined the CACM,

25. Loehr, *Balance of Trade and Payments in Central America,* iii.

although it participates in a variety of regional institutions. Nicaragua was marginalized after accumulating large trade debts with its partners. Moreover, in the early 1980s, all countries erected significant nontariff barriers to trade with each other. When high government officials voice support for the CACM, one wonders to what extent this stance represents genuine conviction and how much of it is a political position designed, for example, to attract more money from the EC. One way of judging support for integration is to examine the governments' financial contributions to SIECA, CABEI (the Central American Bank for Economic Integration), and the other regional institutions. This commitment was generally weak throughout the 1980s, as regional institutions were given low priority when the economic crisis forced cutbacks in government expenditures. The result is that SIECA and CABEI have been weakened considerably. Similarly, scarce foreign exchange that could have been employed to clear regional trade balances was deemed to have uses with higher priority.

Whatever the fate of the CACM,[26] intraregional trade should increase as economic recovery accelerates, additional policy reforms are adopted, and investments are made to rebuild infrastructure damaged by armed conflict or deteriorated simply with the passage of time. Appropriate exchange rates, tariff reductions, and other policy reforms should reduce the scope for significant imbalances in the distribution of benefits among countries. Bulmer-Thomas rightly perceives this distributional issue as a major concern, and he argues that a CACM with all five member countries actively participating is important for political and economic reasons. One can nevertheless question his call for a revival of the integrated industries scheme as a means of ensuring benefits to the weaker members.

Who Benefits from Nontraditional Exports?

Central America's experience with agricultural export diversification in the three decades before 1980 provides reasons to be concerned about adopting a similar strategy as a key element in the recovery from the crisis of the 1980s and the achievement of sustained, equitable development in the 1990s. As Bulmer-Thomas explains clearly in both his books, the rapid expansion of beef, sugar, and cotton exports during the pre-crisis period benefited medium- and large-scale farmers disproportionately, contributed to the rapid growth of landless laborers who could find only seasonal work, hurt production for the domestic market by small farmers,

26. Even in the 1960s and 1970s, the CACM was more of a customs union than a true common market because factors of production were not mobile internationally. With each country now lowering tariffs unilaterally and to different degrees, the CACM might well evolve into a free-trade area.

and damaged the natural resource base. Diversification into industrial exporting might also be thought to have negative distributional consequences: because many industries producing nontraditional exports are footloose and sensitive to rising costs, maintaining competitiveness "appears to require the maintenance of anti-labour policies" (Bulmer-Thomas, *Studies*, p. 14).

Yet expansion of nontraditional exports within an overall policy framework of price liberalization has the potential to produce a more labor-intensive pattern of economic development through eliminating subsidies to capital, including overvalued exchange rates and negative real interest rates.[27] Tariff liberalization, by encouraging more competition, should lower prices to consumers. Interest-rate liberalization should also help competition by mobilizing more savings and thus expanding the availability of credit. In the agricultural sector, many nontraditional exports now growing rapidly—fruits, vegetables, flowers, and plants—are highly labor-intensive and well-suited to small-farm production. Similarly, the greatest opportunities for industrial development are found in labor-intensive *maquila* (assembly) and light manufacturing activities. U.S. imports of manufactured goods from Central America have been rising at a healthy rate of 25 percent per year since 1983.[28]

With respect to wage policy, Gary Fields has stressed the importance of a long-run perspective. In the four East Asian "baby tigers" (Hong Kong, the Republic of Korea, Singapore, and Taiwan Province of China), he finds that wage policy was strict early in the period of rapid economic growth beginning in the 1960s. But over time, these economies have experienced greater income and employment gains, accompanied by a more equitable distribution of income, than those achieved in a group of Caribbean countries with lenient wage policies and slower economic growth (Barbados, Jamaica, and Trinidad and Tobago).[29] Still, such favorable long-run effects of price liberalization and initially strict wage policies should not be regarded as automatic. Additional policies and programs—particularly investment in human capital—are needed to address equity concerns directly.

The books under review pay little attention to the distributional

27. For a discussion of the relationship between trade policy and employment, see Anne O. Krueger, *Trade and Employment in Developing Countries*, vol. 3, *Synthesis and Conclusions* (Chicago, Ill.: University of Chicago Press for the National Bureau of Economic Research, 1983).

28. It is widely recognized that relatively little of this growth is directly attributable to the benefits provided under the U.S. government's Caribbean Basin Initiative. But technical assistance and related activities associated with this policy have done much to help create an export mentality. See James W. Fox, "Is the Caribbean Basin Initiative Working?," manuscript, 1989.

29. Gary S. Fields, "Employment, Income Distribution, and Economic Growth in Seven Small Open Economies," *Economic Journal* 94 (Mar. 1984):74–83.

effects of strategies based on expansion of nontraditional exports. The International Food Policy Research Institute (IFPRI) has claimed that "most of the horticultural production of developing countries comes from small farms."[30] But in support of this statement, IFPRI cites only one of its studies of Guatemala. While some small farmers in Guatemala have achieved remarkable income gains by exporting vegetables, it is not clear what percentage of this production is grown by small-farm operators. Fortunately, research is now under way that should clarify this important issue.

Some concern has been expressed that the potential for Central American countries to export nontraditional agricultural exports to the United States, and thus provide new opportunities to small farmers, is very limited because markets may become saturated quickly and competition from other countries is keen. Protectionist pressures are seen as another problem (see Zimbalist's discussion of the Costa Rican cut-flower case in *Struggle against Dependence*), although with the passage of time, these pressures now seem to be less of a threat than was once feared. In reality, U.S. imports of horticultural products from Central America have risen from 52 million dollars in 1983 to 195 million in 1989. The overall market in the United States is many times larger and growing.[31]

In sum, I would repeat my argument elsewhere regarding export-led growth and income distribution: "Export-led growth per se does not inherently produce an inequitable pattern of economic growth. The distribution of income is determined more by who controls the levers of export-led growth, or of any other growth strategy. In this regard, a strategy of diversification is attractive because it broadens not only the range of products but also the range of producers."[32]

External Financing and Debt

The depth and duration of the economic crisis leave little doubt that significant external resources (including debt rescheduling and debt relief) will continue to be needed for years for Central America to complete its recovery process and achieve a relatively rapid and sustained rate of economic growth. But over the long run, as Bulmer-Thomas points out, "the emphasis should be on financing a much higher proportion of investment through domestic resources" (*Studies*, p. 213). Similarly, Rómulo Caballeros (in the Irvin and Holland volume) observes that "external

30. *IFPRI Report* 12, no. 1 (Jan. 1990):4. The International Food Policy Research Institute publishes this periodical in Washington, D.C.

31. U.S. imports of horticultural products from Mexico, Chile, and Colombia alone totaled nearly 1.8 billion dollars in 1989.

32. See Zuvekas, "Central America's Foreign Trade." Bulmer-Thomas makes a similar statement in his *Studies in the Economics of Central America,* 41.

resources are a complement to and not a substitute for national development efforts" (p. 126).

The need for external assistance will be less to the extent that Central American capital abroad returns home. Such a trend will require greater confidence in both economic and political stability than now exists in all countries except Costa Rica. Direct foreign investment can also play a role, but one that is likely to be relatively modest.

In the short run, González-Vega and Poyo argue (in the Ascher and Hubbard volume), too much external assistance can be counterproductive, particularly in reducing incentives to mobilize domestic resources through reforms of financial markets. Other economic returns can also be postponed, and some resources may be inefficiently used because of technical and administrative shortcomings and other problems involving absorptive capacity. Many international assistance professionals would say that El Salvador, Honduras, and Nicaragua were all affected by this syndrome, as major economic policy reforms were postponed until the end of the decade. In contrast, Costa Rica made good use of external resources beginning in 1983 and handled the associated conditionality well.[33]

Conditionality remains a controversial topic, but few observers today expect that large flows of external resources will be made without it. At the same time, those who propose such flows are sometimes reluctant to link them to policy reforms. This is the case, for example, with Cáceres and Irvin (in the Irvin and Holland collection), who discuss favorably the CABEI proposal that (gross) external flows to Central America be doubled from 2 billion dollars annually to 4 billion, but without relating these flows to a GDP growth target. The issue of conditionality is confronted squarely in Lars Schoultz's insightful essay in the Ascher and Hubbard volume. Schoultz argues that the economic conditionality associated with U.S. assistance programs in Latin America generally has not been effective, especially when governments strongly resist the recommended policy returns and U.S. objectives are primarily political.[34] Still, he views conditionality as inevitable. So does the ICCARD, which duly adds: "what matters is its form and objectives. Appropriate conditionality encourages short-term actions that fit within a longer-term time frame of renewed and sustainable growth. It . . . can and should be reached through con-

33. See John Newton et al., *The Effectiveness and Economic Development Impact of Policy-Based Cash Transfer Programs: The Case of Costa Rica,* AID Evaluation Special Study no. 57 (Washington, D.C.: U.S. AID, 1988).

34. This reviewer has made a similar point but believes that conditionality has had somewhat more impact in the region. See Zuvekas, "U.S. Economic Assistance to the Caribbean Basin Countries in the 1980s: The Revival of Program Lending," manuscript, 1989. As Central American (and East-West) political tensions began to ease in the late 1980s, U.S. policymakers started to pay relatively more attention to economic objectives.

sultations based on mutual respect. It is essential that these conditions reinforce rather than hinder regional integration" (pp. 84–85).

The ICCARD proposes an external assistance program for Central America consisting of four major elements: net inflows of 2 billion dollars annually for five years (compared with an existing level of 1.5 billion) to help support gradual achievement of a sustainable 5.5 percent rate of growth in GDP by 1993;[35] a three-year immediate action plan providing 850 million dollars annually, mainly for relief for refugees and displaced persons (a level deemed consistent with absorptive capacity and the desirability of not discouraging domestic production through excessive food aid); debt restructuring on a country-by-country basis;[36] and unilateral trade concessions by the industrial countries, including elimination of all tariffs on Central American exports for ten years.

While a net financial inflow of 2 billion dollars annually may appear relatively modest, it is roughly equivalent to the gross inflow figure of 4 billion dollars proposed by Cáceres and Irvin. The package as a whole is quite large, and it seems unlikely that actual assistance will reach this magnitude. New U.S. financial assistance obligations for Central America have been declining, although significant increased flows from the international financial institutions (and Japan) are possible if progress on policy reform continues. Assistance for refugees and displaced persons may be much less than the targeted amount, which reflects perhaps undue optimism regarding absorptive capacity and disincentive effects. The new Enterprise for the Americas Initiative (EAI) offers Central America the prospect of free trade with the United States. But the potential benefits are more long-term than short- or medium-term, and it is unclear whether other countries are prepared to provide the region with any significant trade benefits. Partial relief on official debt to the United States, another EAI component, could modestly benefit some countries. More important, however, would be a debt-relief package of the kind recently negotiated between Costa Rica and its commercial bank creditors.

Managing Natural Resources

Jeffrey Leonard maintains in *Natural Resources and Economic Development in Central America* that long-term, sustainable economic develop-

35. The ICCARD background paper on assistance flows was prepared by Colin I. Bradford, Jr. (in the Ascher and Hubbard volume). His calculations are presented in an annex. Bradford's GDP target is 6.0 or 6.5 percent, depending on the country (higher than the ICCARD target), but his estimates of net annual flows are somewhat lower than the ICCARD recommendations because of optimistic assumptions for incremental capital-output ratios.

36. For a good discussion of the different kinds of debt problems facing individual Central American countries, see Richard Feinberg's essay in the Archer and Hubbard collection and that of Rómulo Caballeros in the Irvin and Holland volume. The essay by Juan Fuentes and Lars Pira in the García volume is less interesting.

ment benefiting all socioeconomic groups will require better management of the region's base of renewable natural resources, which has been deteriorating rapidly in a number of dimensions since 1950. The agricultural frontier has expanded because of population growth, the rapid development of cattle ranching (stimulated by favorable international markets before the 1980s and by domestic policies), and improvements in medical and other technologies facilitating settlement of the lowlands. Unfortunately, many of the lands brought into production are ecologically fragile. Deforestation, land degradation, and watershed deterioration have reduced their productive capacity, while coastal resources have been destroyed by overfishing and damage to mangroves and other crucial habitats.

Leonard notes that the Kissinger Commission paid no explicit attention to management of natural resources, although many of its recommendations would support this objective. The ICCARD, in contrast, commissioned a survey of environmental problems (Robert Healy's essay in Ascher and Hubbard) and recommended adopting "an integrated, regional environmental plan" (p. 55). The ICCARD also rightly noted that the relationship between the environment and poverty can work in both directions: alleviating poverty can be an important instrument of environmental protection. Leonard and Healy both regard unequal land distribution and insecure land tenure as major factors contributing to the deteriorating natural-resource base, but Leonard and the ICCARD Report shy away from recommending any major agrarian reform program (perhaps because of disappointment with both the politics and economics of the Nicaraguan and Salvadoran agrarian reforms), thus placing greater pressure on other means of halting the deterioration of agricultural lands.

Leonard's *Natural Resources* is rational in tone, neither hysterical nor apocalyptic, as some environmentalist literature tends to be. The book is also well-written, although it could have been shortened by eliminating the considerable repetition. But Leonard's economic analysis, while basically sound, is limited. Thus his recommendations give little attention to the specific policy measures needed to induce reallocation of resources toward investments that would best ensure sustainable, long-term development by taking into account the secondary effects that economists typically ignore when analyzing economic projects. When, for example, are subsidies or taxes appropriate for offsetting externalities? What policies are needed to "encourage the maximization of food production on prime agricultural lands" (p. 190), and is this in fact always a desirable objective? Although the gap between environmentalists and economists is narrowing (Leonard's book itself is encouraging evidence of this trend), it remains wide, with economists perhaps having the more to learn.

Another strength of Leonard's *Natural Resources and Economic Devel-*

opment in Central America is that it brings together much of the available data on the natural resource base in the Central American isthmus, including Belize and Panama. The disappointing news is the paucity of these data, particularly on rates and directions of change. Still, the overall picture seems clear: the natural resource base has been deteriorating rapidly, and the response by all interested parties has been inadequate.

The lack of attention to natural resource issues reflects a more general pattern observable in Central America during the 1980s: concerns over short-term economic stabilization, the rapid recovery of pre-crisis living standards, and (some would say) U.S. political objectives in Central America have resulted in a relative neglect of measures important for ensuring sustainable economic development. Other areas suffering from this inattention include agricultural and applied industrial research as well as investment in physical and human capital. Fortunately, toward the end of the 1980s, most of these areas began to receive more attention. Concern with the environment is growing, although economic analyses still tend to neglect the important secondary environmental impacts of development projects.

The Political Economy of Policy Reform

Why was Costa Rica well ahead of its neighbors in implementing major policy reforms to adjust to the radically changing international economic environment of the 1980s? What caused the other Central American countries eventually to follow suit? Why did the Guatemalan reforms, so promising in 1986, begin to unravel in 1989? How important were the roles played by the international financial community and the United States, the major bilateral donor, in encouraging (some would say forcing) such reforms? Readers of the books under review here will find clues for responding to these questions, but they will have to do a lot of work on their own to obtain the answers. The thriving scholarly industry on the political economy of policy reform is not much in evidence in some of these studies.

The process of policy reform is to a significant extent the outcome of various interactions between national governments and the business elites in their respective countries. Analyzing these relationships is complicated not only by divided interests within each group but also by the fact that some individuals simultaneously occupy key decision-making positions in each group. Other domestic interest groups, including the military, may also play important roles. Meanwhile, the timing of decisions on policy reforms is influenced by domestic, regional, and international events and also by electoral politics.

Inforpress's *Los empresarios centroamericanos ante la crisis* provides the most detail on current relationships between governments and business elites in each country. But to the extent that policy changes are recommended, they seem more supportive of elite interests than of national interests. Bulmer-Thomas chronicles elite-government relationships effectively in a comparative and historical perspective. Most of the writing for his two books was completed by 1986, however, and readers will need to turn to his more recent articles to pick up the changes in the story since then.

Ramírez's *El empresario y su entorno económico* (and his essay in the Colburn volume) and Lizano's already cited *Desde el Banco Central* take educational approaches to policy reform by targeting influential audiences, thus helping to overcome widespread ignorance about economic relationships. Economic events are best understood by the public at large in Costa Rica, which is probably one reason why it was the first Central American country to undertake significant economic adjustments in the 1980s. Several essays in the Colburn volume, notably Benjamin Crosby's, ably address political economy issues related to policy reform. Crosby, Ramírez, and Bulmer-Thomas all emphasize the importance to government (and private-sector) decision makers of seeking to identify clearly the likely winners and losers of alternative policy measures before they are implemented. These three analysts also stress considering what political and economic steps could be taken to compensate losers. It is also advisable to consider how winners may be taxed, both literally and figuratively.

While it may be premature to say that a consensus has developed on key policy-reform issues, one can at least say that acceptance is growing of the following principles: the best time for governments to implement major policy reforms is during their first few months in office; shock treatments work better than gradualist approaches but require measures to offset the effects of the shocks on low-income groups; sticking to economic policy reforms in the face of strong political opposition is good long-term economics but poor short-term politics in a democracy or aspiring democracy; and not sticking to policy reforms can also be politically disastrous.

John Williamson's already cited work, *The Progress of Policy Reform in Latin America*, offers an excellent starting point on the status of economic policy reform in Latin America, regionally and in individual countries, at the end of 1989. In a companion volume, Williamson presents papers from the November 1989 conference on which the shorter work was based.[37] In noting how much the attitudes of Latin American policymakers toward policy reform had changed during the 1980s, he relates IMF Managing Director Michel Camdessus's comment in June 1989 that

37. *Latin American Adjustment: How Much Has Happened?*, edited by John Williamson (Washington, D.C.: Institute for International Economics, 1990).

"whereas [Camdessus's] predecessor Jacques de Larosière used to spend all his time trying to persuade ministers about what they ought to be doing, he himself found that they all *want* to do the right thing" (p. 1, emphasis in original). Have they all concluded that participation in the world economy is the best game in town? Have the United States and the international organizations become, as Crosby argues, "the strongest and most influential political actors in the region" (Colburn, p. 33)? Will the liberalizing policy reforms they advocate reduce poverty, narrow income inequalities, and make the process of economic growth more sustainable, as they maintain? By 1995, we may know some of the answers.