

Page Denied

Next 12 Page(s) In Document Denied

Approved For Release 2008/12/10 : CIA-RDP86M00886R001200340040-1

MEMORANDUM FOR: *FR* JAN 1984

Full text of Kissinger Commission report.

Dick

Approved For Release 2008/12/10 : CIA-RDP86M00886R001200340040-1

**EXECUTIVE SECRETARIAT
ROUTING SLIP**

TO:		ACTION	INFO	DATE	INITIAL
1	DCI		✓		<i>[Signature]</i>
2	DDCI		✓		
3	EXDIR		✓		
4	D/ICS		✓		
5	DDI		✓		
6	DDA				
7	DDO		✓		
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt			<i>BLL</i>	
13	D/EEO				
14	D/Pers			<i>Reo</i>	
15	D/OLL		✓		<i>[Signature]</i>
16	C/PAO				<i>[Signature]</i>
17	SA/IA				
18	AO/DCI				
19	C/IPD/OIS				
20	NIO/LA		✓	<i>(2)</i>	
21	C/LA/DDO		✓		
22					

SUSPENSE _____
Date _____

Remarks

[Signature]

Executive Secretary
1/10/84
Date

Executive Registry
CA - 065

Report of the National Bipartisan Commission on Central America



January 1984

ER Five

Embargoed for wire transmission and release until
3:00 p.m. EST, Wednesday January 11, 1984.

C-352

CHAIRMAN
DR. HENRY A. KISSINGER

COMMISSION MEMBERS:
MR. NICHOLAS F. BRADY
MAYOR HENRY G. CISNEROS
GOV. WILLIAM P. CLEMENTS, JR.
DR. CARLOS F. DIAZ-ALEJANDRO
MR. WILSON S. JOHNSON
MR. LANE KIRKLAND
MR. RICHARD M. SCAMMON
DR. JOHN SILBER
JUSTICE POTTER STEWART
AMB. ROBERT S. STRAUSS
DR. WILLIAM B. WALSH

EXECUTIVE DIRECTOR
AMB. HARRY W. SHLAUDEMANN

THE NATIONAL BIPARTISAN COMMISSION
ON CENTRAL AMERICA

SENIOR COUNSELLORS:
REP. MICHAEL D. BARNES
SEN. LLOYD BENTSEN
REP. WILLIAM S. BROOMFIELD
SEN. PETE V. DOMENICI
SEN. DANIEL K. INOUE
REP. JACK F. KEMP
AMB. JEANE KIRKPATRICK
MR. WINSTON LORD
SEN. CHARLES MCC. MATHIAS
MR. WILLIAM D. ROGERS
REP. JAMES C. WRIGHT

January 10, 1984

The President
The White House
Washington, D.C.

Dear Mr. President:

In establishing the National Bipartisan Commission on Central America, you asked its advice on what would be appropriate elements of "a long-term United States policy that will best respond to the challenges of social, economic, and democratic development in the region, and to internal and external threats to its security and stability."


The analyses and recommendations in this report seek to respond to that request. However, as we studied the region and its problems -- its crisis -- we found that the long-term challenge also requires short-term actions. In many respects the crisis is so acute, and the time-frame for response so limited, that immediate responses are a necessary element of any long-term policy. Thus to some extent we have discussed both, though we have tried to place such short-term recommendations as we make within the framework of a longer-term approach.

You also asked our advice on "means of building a national consensus on a comprehensive United States policy for the region." Our best advice on this is, I believe, embodied less in the specific language of the report than in its total message, which reflects the extraordinary experience of this Commission. Twelve members, of both political parties and of widely disparate views, studying the situation in Central America with intensity and dedication over a period of nearly six months, reached a degree of consensus at the end that I think few of us expected at the beginning. The lesson of this experience, I believe, is that the best route to consensus on U.S. policy toward Central America is by exposure to the realities of Central America.

-2-

On behalf of the members of the Commission, I wish to thank you for the opportunity you gave us to share this experience. We on the Commission hope that this report will contribute to a wider recognition of the urgency of the crisis in Central America, and to a deeper understanding both of its dimensions and of the opportunity it provides for a united people to help our neighbors toward a better future.

Respectfully,



Henry A. Kissinger
Chairman

The Commission

Nicholas F. Brady
Henry G. Cisneros
William P. Clements, Jr.
Carlos F. Diaz-Alejandro
Wilson S. Johnson
Lane Kirkland
Richard M. Scammon
John Silber
Potter Stewart
Robert S. Strauss
William B. Walsh

Harry W. Shlaudeman
Executive Director

Senior Counsellors

Jeane Kirkpatrick
Winston Lord
William D. Rogers
Daniel K. Inouye
Pete V. Domenici
Lloyd Bentsen
Charles McC. Mathias
William S. Broomfield
Jack F. Kemp
James C. Wright
Michael D. Barnes

With great respect, we dedicate this report to the late Senator Henry M. Jackson, who proposed the creation of a bipartisan commission on Central America and served as one of its Senior Counsellors. In his life and work Senator Jackson was devoted to the twin goals of national security and human betterment. These are also the goals that have guided this report, and we hope, in his spirit, that it will contribute to their advancement.

TABLE OF CONTENTSChapter 1

INTRODUCTION	1
How We Learned	2
What We Learned	3
No Room for Partisanship	5

Chapter 2

A HEMISPHERE IN TRANSFORMATION	7
Two Challenges	9
Three Principles	12

Chapter 3

CRISIS IN CENTRAL AMERICA: AN HISTORICAL OVERVIEW	15
The Land	16
The Colonial Legacy	17
Independence and After	17
Rule by Oligarchy	19
Stirrings of Change	20
Political Retrogression	21
Modernization and Poverty	22
The Growth of Communist Insurgency	25
The Present Crisis	27
The United States and Central America	34
U.S. Interests in the Crisis	37
The Future	38

Chapter 4

TOWARD DEMOCRACY AND ECONOMIC PROSPERITY	40
Current Economic Conditions and Their Causes	41
Causes of the Recent Decline	43
Efforts to Address the Crisis	45
An Emergency Stabilization Program	46
A Medium- and Long-term Program	50
The Nature of U.S. Development Support	52
Expanded Trade Opportunities	55
Improved Investment Conditions	56
Accelerated Agricultural Development	57
Organizing for Development	59
Appendix: Central American Financial Needs	63

Chapter 5

HUMAN DEVELOPMENT 68

 Developing Educational Opportunities 69

 A Region's Health 75

 Housing 80

 Humanitarian Relief 82

Chapter 6

CENTRAL AMERICAN SECURITY ISSUES 84

 The Path of Insurgency 86

 External Intervention 87

 Independent Momentum 87

 The Totalitarian Outcome 88

 The Cuban-Soviet Connection 88

 Strategic Implications for the United States 93

 The Problems of Guerrilla War 93

 The Situation in El Salvador 97

 The Insurgency in Guatemala 99

 Other Regional Security Problems 100

 Military Assistance 101

 Other Measures 102

 Human Rights 103

Chapter 7

THE SEARCH FOR PEACE 106

 El Salvador 109

 Nicaragua 113

 A Framework for Regional Security 116

 The Contadora Group 119

 Cuba and the Soviet Union 120

 Western Europe 123

Chapter 8

CONCLUSION 126

NOTES BY INDIVIDUAL COMMISSIONERS 128

* In a departure from custom, a Spanish language translation of this report is being made available contemporaneously with release of the English language version.

* An Appendix including materials prepared for the Commission's use will be issued at a later date.

Chapter 1

INTRODUCTION

For the members of this Commission, these past several months have been an extraordinary learning experience which we feel uniquely privileged to have shared.

In this report, we present an extensive set of concrete policy recommendations. But we also seek to share what we have learned with the people of the United States, and, based on what we have found, to suggest ways of thinking about Central America and its needs that may contribute to a more informed understanding in the future.

We hope, at the same time, to communicate something else we developed as a result of this experience: a sense of urgency about Central America's crisis, of compassion for its people, but also -- cautiously -- of hope for its future.

For most people in the United States, Central America has long been what the entire New World was to Europeans of five centuries ago: terra incognita. Probably few of even the most educated could name all the countries of Central America and their capitals, much less recite much of their political and social backgrounds.

Most members of this Commission began with what we now see as an extremely limited understanding of the region, its needs and its importance. The more we learned, the more convinced we became that the crisis there is real, and acute; that the United States must act to meet it, and act boldly; that the stakes are large, for the United States, for the hemisphere, and, most poignantly, for the people of Central America.

In this report, we propose significant attention and help to a previously neglected area of the hemisphere. Some, who have not studied the area as we have, may think this disproportionate, dismissing it as the natural reaction of a commission created to deal with a single subject. We think any such judgment would be a grave mistake.

It is true that other parts of the world are troubled. Some of these, such as the Middle East, are genuinely in crisis. But the crisis in Central America makes a particularly urgent claim on the United States for several reasons.

First, Central America is our near neighbor. Because of this, it critically involves our own security interests. But more than that, what happens on our doorstep calls to our

-2-

conscience. History, contiguity, consanguinity -- all these tie us to the rest of the Western Hemisphere; they also tie us very particularly to the nations of Central America. When Franklin Roosevelt proclaimed what he called his "Good Neighbor Policy," that was more than a phrase. It was a concept that goes to the heart of civilized relationships not only among people but also among nations. When our neighbors are in trouble, we cannot close our eyes and still be true to ourselves.

Second, the crisis calls out to us because we can make a difference. Because the nations are small, because they are near, efforts that would be minor by the standards of other crises can have a large impact on this one.

Third, whatever the short-term costs of acting now, they are far less than the long-term costs of not acting now.

Fourth, a great power can choose what challenges to respond to, but it cannot choose where those challenges come -- or when. Nor can it avoid the necessity of deliberate choice. Once challenged, a decision not to respond is fully as consequential as a decision to respond. We are challenged now in Central America. No agony of indecision will make that challenge go away. No wishing it were easier will make it easier.

Perhaps the United States should have paid more attention to Central America sooner. Perhaps, over the years, we should have intervened less, or intervened more, or intervened differently. But all these are questions of what might have been. What confronts us now is a question of what might become. Whatever its roots in the past, the crisis in Central America exists urgently in the present, and its successful resolution is vital to the future.

How We Learned

Before discussing what we learned, we believe it would be helpful to indicate something of how we learned.

The Commission held 30 full days of regular meetings in Washington, plus another 12 special meetings. In all, we met in the United States with nearly 200 people who had something particular to contribute to our deliberations. These included President Reagan, Secretary of State Shultz, all three living former Presidents, four former Secretaries of State, members of Congress, the Joint Chiefs of Staff, and an exceptionally wide range of organizational representatives and private individuals with knowledge of the region and of the kinds of problems encountered in the region.

-3-

During nine days of foreign travel -- six days in Central America, and three in Mexico and Venezuela -- we heard from more than 300 officials and other witnesses and briefers. On its trips abroad, the Commission met not only with heads of government, cabinet members and legislative leaders, but also with leaders of the political opposition, journalists, educators, business and labor leaders, military experts, church officials, Indian leaders, representatives of private organizations, experts on health and social services, economists, agronomists -- anyone who could broaden our outlook or deepen our understanding, including ordinary citizens from many walks of life. Similarly in this country, we sought the views of a wide variety of people and organizations, representing a wide variety of backgrounds and disciplines.

We sent detailed questionnaires to 170 selected outside experts. More than 230 other individuals and groups provided written materials, many of them extensive, for the Commission's use. All members of the Commission participated in the selection of those solicited for their views.

The entire operation amounted to an intensive seminar on Central America, conducted by what was probably the largest and most distinguished "faculty" on Central American issues ever assembled. Although we certainly did not become experts on the region in the same sense in which many of those we consulted are experts, we believe that we did become unusually well-informed laymen. And, in the process, we found that many of our perceptions changed.

What we have tried to bring to this report is essentially that well-informed layman's perspective, as influenced by the particular combinations of experience and values that, as individuals, we brought to the Commission. We have sought to apply that experience and those values to what we found in Central America, and to what we learned about Central America and the relationship between the crisis there and the larger world.

What We Learned

In the chapters that follow, we present our findings and recommendations in detail.

Chapter 2 places the Central American crisis within its larger hemispheric context, with particular emphasis on the twin challenges of rescuing the hemisphere's troubled economies and establishing principles of political legitimacy.

Chapter 3 places the crisis in historical perspective, tracing the background of the nations of Central America and the ways in which the crisis developed.

-4-

Chapter 4 examines the economic crisis in the region, and presents specific recommendations for measures that can be taken to meet it -- both emergency short-term measures and others for the medium and longer term, together with a means of ensuring that economic, political and social development go forward together.

Chapter 5 focuses on what we call "human development" needs -- particularly in health and education -- and on what must and can be done to meet them.

Chapter 6 explores the security dimensions of the crisis, including Soviet and Cuban involvement, the problems of guerrilla war, the situation as it is today, what can be done to meet it, and what we recommend that the United States do to help.

Chapter 7 examines the diplomatic aspects, including routes which could be followed in seeking a negotiated solution.

Certain common threads run through all the chapters.

* First, the tortured history of Central America is such that neither the military nor the political nor the economic nor the social aspects of the crisis can be considered independently of the others. Unless rapid progress can be made on the political, economic and social fronts, peace on the military front will be elusive and would be fragile. But unless the externally-supported insurgencies are checked and the violence curbed, progress on those other fronts will be elusive and would be fragile.

* Second, the roots of the crisis are both indigenous and foreign. Discontents are real, and for much of the population conditions of life are miserable; just as Nicaragua was ripe for revolution, so the conditions that invite revolution are present elsewhere in the region as well. But these conditions have been exploited by hostile outside forces -- specifically, by Cuba, backed by the Soviet Union and now operating through Nicaragua -- which will turn any revolution they capture into a totalitarian state, threatening the region and robbing the people of their hopes for liberty.

* Third, indigenous reform, even indigenous revolution, is not a security threat to the United States. But the intrusion of aggressive outside powers exploiting local grievances to expand their own political influence and military control is a serious threat to the United States, and to the entire hemisphere.

-5-

* Fourth, we have a humanitarian interest in alleviating misery and helping the people of Central America meet their social and economic needs, and together with the other nations of the hemisphere we have a national interest in strengthening democratic institutions wherever in the hemisphere they are weak.

* Fifth, Central America needs help, both material and moral, governmental and nongovernmental. Both the commands of conscience and calculations of our own national interest require that we give that help.

* Sixth, ultimately, a solution of Central America's problems will depend on the Central Americans themselves. They need our help, but our help alone will not be enough. Internal reforms, outside assistance, bootstrap efforts, changed economic policies -- all are necessary, and all must be coordinated. And other nations with the capacity to do so not only in this hemisphere, but in Europe and Asia, should join in the effort.

* Seventh, the crisis will not wait. There is no time to lose.

No Room for Partisanship

If there is no time to lose, neither is the crisis in Central America a matter which the country can afford to approach on a partisan basis.

The people of Central America are neither Republicans nor Democrats. The crisis is nonpartisan, and it calls for a nonpartisan response. As a practical political matter, the best way to a nonpartisan policy is by a bipartisan route.

This Commission is made up of Republicans and Democrats, nonpolitical private citizens and persons active in partisan politics. It has members from business and labor, the academic world, the world of private organizations, former members of the executive, legislative and judicial branches of government; a former Senator and a former Governor, both Republicans; a Democratic Mayor and a former Democratic National Chairman; among the Senior Counsellors joining its deliberations have been members of both Houses of Congress from both parties. We are immensely grateful for the contribution made by those who served as Senior Counsellors, though we wish to point out that the conclusions we have drawn are those of the Commission itself and do not necessarily reflect the views of the Senior Counsellors.

We have approached our deliberations in a nonpartisan spirit and in a bipartisan way, and we believe that the nation can and must do the same.

-6-

Because the Commission has twelve members, each with strong individual views, there obviously are many things in this report to which individual members would have assigned different weight, or which they would have interpreted somewhat differently or put differently. Such is the nature of commissions. But these differences were personal, not partisan. This report, on balance, does represent what all of us found to be a quite remarkable consensus, considering the often polarized and emotional nature of the debate that has surrounded Central America. Among ourselves, we found a much greater degree of consensus at the end of our odyssey than at the beginning. This in itself gives us hope that the nation, too, as it learns more about Central America, its crisis and its needs, will find its way to a united determination to take and support the kind of measures that we believe are needed in the interests of the United States and of the hemisphere, and for the sake of the sorely beleaguered people of Central America.

Chapter 2

A HEMISPHERE IN TRANSFORMATION

The Commission has been asked to make recommendations on Central America. We recognize that our mandate has this geographic limit. But as we examined the isthmus it became apparent that the crisis which gave rise to this Commission is a part of a broader reality and that United States policy in Central America must reflect a clear understanding of its hemispheric framework.

The hemisphere as a whole is in flux. Central America's difficulties are enmeshed in the Latin American experience, which is different from our own.

Central America's present suffering is to an important degree the product of internal conditions which can also be found in Mexico and South America. Much of Latin America has an Indian heritage; most of it was colonized by Spain. In Central America, the mark of that experience has remained on attitudes, political processes and ways of doing things, as it has throughout the hemisphere to this day. The conflicts in the isthmus derive in part from social and economic structures whose origins, as in South America and Mexico, lie in the sixteenth, seventeenth and eighteenth centuries.

The crisis in Central America is also partially the result of events and forces outside the region. The soaring costs of imported energy, the drop in world coffee, sugar and other commodity prices, recession in the developed world, the explosion of international interest rates, have undermined economic progress. International terrorism, imported revolutionary ideologies, the ambitions of the Soviet Union, and the example and engagement of a Marxist Cuba are threatening the hopes for political progress.

Throughout history, the U.S. policies toward the nations of the Americas that have succeeded have been those that related the individuality and variety of the different countries to a concept of the hemisphere as a whole. The Monroe Doctrine, the Good Neighbor Policy of Franklin Roosevelt and the Alliance for Progress shared a recognition that despite the enormous differences among nations as ethnically, culturally, politically and historically diverse as, for example, Mexico, Guatemala, Costa Rica, Argentina, Peru and Brazil, there was a commonality of interest and experience calling not for uniformity but for coherence in our policies toward the many individual nations of Latin America. So it is today. The

-8-

response of the United States to the conflict in Central America must take appropriate account of these national differences, but at the same time must relate our interests to those of the entire hemisphere in a way that evokes a sense of common purpose. Although it is beyond the scope of this Commission to recommend policies for the entire hemisphere, we have framed our recommendations with this broader context in mind.

The international purposes of the United States in the late twentieth century are cooperation, not hegemony or domination; partnership, not confrontation; a decent life for all, not exploitation. Those objectives must be achievable in this hemisphere if they can be realized anywhere.

Despite our different origins, the United States shares much with Latin America. We not only share a hemisphere, we share a history as well. Columbus's voyage, five centuries ago, helped shatter the old order of Europe, and opened the way to a truly New World.

We also share cultures, ideas and values. The colonial era and the overlapping of cultures have left in the U.S. South and West a permanent legacy of Spanish and Mexican architecture, customs, religion, law, patterns of land ownership, and place names. The idea of popular revolution to vindicate the right of people to govern themselves swept this part of the world first -- nearly simultaneously in its English and Latin regions -- a century and a half before the colonial empires of Africa and Asia began to disappear. Although North and South America followed different paths of national development, the nations of the Western Hemisphere have been moved from the beginning of their histories by a common devotion to freedom from foreign domination, sovereign equality, and the right of people to determine the forms and methods of their own governance.

We also share economic interests. Of all U.S. private investment in the developing world, 62 percent is in Latin America and the Caribbean. Latin America is a major trading partner of this country, accounting for more than 15 percent of our exports and about the same share of our imports. Our consumers and our industries depend on the region for coffee, iron, petroleum and a host of other goods. The Panama Canal is a vital artery of our international commerce. The economies of Argentina, Brazil, Mexico and Venezuela are among the most advanced and diversified in the developing world, and also among the most heavily burdened with debt. They are major contributors to world trade; the way that together we deal with their debt problems will be decisive for the future of the international financial system.

We also share a community with Latin America. So many of our own citizens are of Latin origin that there is a special kinship in this hemisphere. The transcontinental sweep of the

-9-

southern United States that stretches from Miami to Los Angeles, and which is home to many of our fastest growing urban areas and high technology industries, regards as a natural element of life its shared Gulf and Caribbean sea routes as well as a 2,000 mile land border facing south. Common time zones and short distances facilitate flows of information and constant travel for business, education, pleasure and employment.

The similarities should not be romanticized. Our historic experiences have not been the same. North America did not begin with an essentially feudal social structure, nor was military conquest as central to us as it was in Latin America's early history. The Iberian cultures planted different modes of thought, different attitudes. But despite these differences the Americas, North and South, have tried recurringly to shape a common destiny. The sense of interdependence and mutual reliance was manifest from the outset of the struggles for independence. It moved President Monroe to proclaim this hemisphere off limits to the territorial ambitions of European colonialism. That same sense of common destiny brought the Americas together in the first international organization for regional cooperation, the International Conference of American States in 1889-90. It led them some 60 years later to design -- under the Treaty of Rio de Janeiro -- the first mutual security system recognized by the U.N. Charter and to organize history's boldest venture of region-wide development in the Alliance for Progress in 1961.

We are aware that widespread ignorance about the area in this country is an obstacle, indeed a danger. We are also aware that our interests, our aspirations, and our capacity to grasp the essence of the complex reality of our age will be put to one of their most important tests in this hemisphere. This is the spirit with which we have approached our assignment of dealing with the prospects of a small but integral part of this hemisphere: Central America.

TWO CHALLENGES

The hemisphere is challenged both economically and politically. While that double challenge is common to all of Latin America, it now takes its most acute form in Central America.

The Economic Challenge

First, the commanding economic issue in all of Latin America is the impoverishment of its people. The nations of the hemisphere -- not least those of Central America -- advanced remarkably throughout the 1960's and 1970's. Growth was strong, though not nearly enough was done to close the gap

-10-

between the rich and the poor, the product of longstanding economic, social and political structures.

But then the situation turned down. Imported energy costs went up in the 1970's, while commodities prices fell. The developed countries went into recession. Many Latin American governments responded by borrowing in the hope that an early revival would allow them to carry their newly expanded indebtedness. Instead, the cost of servicing that debt began to rise rapidly, as international interest rates -- spurred by anti-inflationary monetary policy in the U.S. -- shot upwards. The nations of Latin America -- including key countries in Central America -- were forced to alter course sharply, cutting public expenditures on schools, health services, and roads, restraining growth and personal incomes, slashing imports and raising taxes along with exchange rates. The consequence has been that standards of living, already low in comparison to the developed world and badly skewed, have been cut back across the board.

What appears to the international financial system as a debt crisis has a profound human dimension in the area of this Commission's primary concern, as it does throughout Latin America. Joblessness is up. Malnutrition and infant mortality have escalated. Poverty was pernicious in Latin America even during the growth years. Fifteen years ago, at the Conference in Medellin, Colombia, the Catholic Church spoke of the need for a "preferential option" to concentrate public policy and public effort on a social ethic of responsibility for the poor. That need is more pressing today. Poverty is on the rise everywhere in Latin America.

No Central American policy for the United States worth its name can fail to meet this economic, social and financial challenge, nor can we deal with Central America in isolation from the rest of the hemisphere. The contraction of the hemisphere's economies, and the impoverishment of its people, must be reversed. Real growth must be restored.

The Political Challenge

Second, the political challenge in the hemisphere centers on the legitimacy of government. Once again, this takes a particularly acute form in Central America.

Powerful forces are on the march in nearly every country of the hemisphere, testing how nations shall be organized and by what processes authority shall be established and legitimized. Who shall govern and under what forms are the central issues in the process of change now under way in country after country throughout Latin America and the Caribbean.

-11-

Brazil is in mid-political passage, from almost two decades of military rule to popular elections of a civilian chief executive, an independent legislature, civilian ministries and a multi-party political system.

Argentina has elected its first civilian president in years, restoring democracy and civilian control of government. Ecuador ended military rule and elected its own civilian president in 1979; Peru did the same in 1980. In the Dominican Republic, free and uncorrupted elections have become the rule. Venezuela's own democracy remains vigorous, as was evident in its elections of December 1983, in which 92 percent of the eligible voters participated. Colombia's democracy is equally strong. In fact, only a handful of nations in Latin America today are ruled through political systems closed to the prospects of elections.

In short, democracy is becoming the rule rather than the exception. The nations of Central America are also, each in its own fashion, engaged in a struggle over how a nation shall be governed. Panama expects to elect a civilian president next year in an open and fair process. Costa Rica made its choice years ago and is living under an authentic democratic system -- and it is no accident that Costa Rica is the least violent society, the nation of the region most free of repression and the one whose relations with the United States are most particularly warm. Honduras has held a free election, choosing a civilian president with a strong reputation for impressive leadership. Guatemala is attempting to arrange an election for a Constituent Assembly this year. El Salvador is in transition; its present provisional administration is the result of a demonstration of popular will in 1982. In March 1984 it will elect a president under a permanent constitution. Of the nations in the region, only the Sandinista leadership in Nicaragua, perhaps intending to imitate the political arrangements in Cuba, has been ambiguous about -- if not hostile to -- what would be accepted by the international community as open, multi-party political contests. But even the Sandinistas face strong demands from both inside and outside the nation, especially from nearby democratic countries such as Venezuela and Costa Rica, that they return to the ideals of the democratic revolution against Somoza and keep their promise of free elections made in 1979 to the Organization of America States.

Experience has destroyed the argument of the old dictators that a strong hand is essential to avoid anarchy and communism, and that order and progress can be achieved only through authoritarianism. Those nations in Latin America which have been moving to open their political, social and economic structures and which have employed honest and open elections have been marked by a stability astonishing in the light of the misery which still afflicts the hemisphere. The modern experience of Latin America suggests that order is more often

-12-

threatened when people have no voice in their own destinies. Social peace is more likely in societies where political justice is founded on self-determination and protected by formal guarantees.

The issue is not what particular system a nation might choose when it votes. The issue is rather that nations should choose for themselves, free of outside pressure, force or threat. There is room in the hemisphere for differing forms of governance and different political economies. Authentically indigenous changes, and even indigenous revolutions, are not incompatible with international harmony in the Americas. They are not incompatible even with the mutual security of the members of the inter-American system -- if they are truly indigenous. The United States can have no quarrel with democratic decisions, as long as they are not the result of foreign pressure and external machinations. The Soviet-Cuban thrust to make Central America part of their geostrategic challenge is what has turned the struggle in Central America into a security and political problem for the United States and for the hemisphere.

There is no self-determination when there is foreign compulsion or when nations make themselves tools of a strategy designed in other continents.

THREE PRINCIPLES

For most of the first 200 years of its history, the United States turned its eyes primarily towards Europe. Tradition, trans-Atlantic alliances, cultural ties, even the physical location of the Eastern centers of power focused attention in this country on relations with such nations as Britain, France, Italy and Germany. For the United States, the Atlantic Alliance has been the central strategic relationship.

In the years since World War II, as Asia emerged as a center of both political conflict and economic power, the United States began to look westward -- fighting two Asian wars, forging Asian ties, strengthening its role as a Pacific power. Through all this time, whether looking east or west, the United States focused its attention only intermittently on the South.

As a result, the ties that bind this nation to Latin America have rarely been expressed in American foreign policy as firmly and consistently as the reality of our interdependence demands. We have tended to view the region superficially, too often stereotypically; our policy has sometimes swung erratically between the obsessive and the negligent. The 1980's must be the decade in which the United States recognizes that its relationships with Mexico and

-13-

Central and South America rank in importance with its ties to Europe and Asia.

And we require a design to express that interest. The Monroe Doctrine has sometimes been challenged by our neighbors to the south -- especially in some of its unilateral interpretations. But they have never questioned its central inspiration: the vision of a hemisphere united by a core of common commitment to independence and liberty, insulated from other quarrels, free to work out its own destiny in its own way, yet ready to play as constructive a role in world affairs as its resources might permit.

In any event, the challenges of today are not the challenges of 1823. A contemporary doctrine of U.S.-Latin American relations cannot rest on insulating the hemisphere from foreign influence. It must also respond in an affirmative way to the economic and political challenges in the hemisphere; U.S. policy must respect the diversities among the nations of America even while advancing their common interests. Three principles should, in the Commission's view, guide hemispheric relations; we have sought to apply them to our considerations of Central America.

The first principle is democratic self-determination.

The vitality of the Inter-American system lies now more than ever before in accepting a firm commitment of its member nations to political pluralism, freedom of expression, respect for human rights, the maintenance of an independent and effective system of justice and the right of people to choose their destiny in free elections without repression, coercion or foreign manipulation. The essence of our effort together must be the legitimation of governments by free consent -- the rejection of violence and murder as political instruments, of the imposition of authority from above, the use of the power of the state to suppress opposition and dissent. Instead we must do all we can to nurture democracy in this hemisphere.

The second principle is encouragement of economic and social development that fairly benefits all.

The encroachments of poverty must be stopped, recession reversed, and prosperity advanced. Adherence to this principle involves something deeper than meeting a short-term emergency. It means laying the basis for sustained and broadbased economic growth. There must be encouragement of those incentives that liberate and energize a free economy. There must be an end to the callous proposition that some groups will be "have-nots" forever. Any set of policies for the hemisphere must address the need to expand the economies of its nations and revive the hopes of its people.

-14-

The third principle is cooperation in meeting threats to the security of the region.

The present international framework for dealing with challenges to the mutual security of the Americas is weak. With respect to Central America, the Inter-American system has failed to yield a coordinated response to the threat of subversion and the use of Soviet and Cuban proxies, which have become endemic since the day when the instruments of Inter-American cooperation were first drawn up.

A modernizing of the regional security system is imperative. Just as there can be no real security without economic growth and social justice, so there can be no prosperity without security. The Soviet and Cuban threat is real. No nation is immune from terrorism and the threat of armed revolution supported by Moscow and Havana with imported arms and imported ideology. The nations of Latin America -- and of each of its regions, as is being demonstrated in Central America -- have authentic local collective security interests. These should be expressed in new mechanisms for regional cooperation and consultation, and in a commitment to common action in defense of democracy adapted to the special circumstances and interests of the nations affected. Otherwise the temptations of unilateralism will become overwhelming.

In the past, other parts of the hemisphere have been the focal points of turbulence. Today's concentration of crises is in Central America. The chapters that follow focus on that region, and set forth the specific political, economic and security measures which the Commission believes are necessary. We see no way to avoid a comprehensive effort to respond to these issues together. The remainder of this report sets forth the ways in which this Commission believes a consistent economic, political and security effort, one which coordinates the best efforts of the people in Central America, its neighbors, and the United States, can be maintained. The way in which that combination of crises is addressed -- or any failure to address it with both the urgency and the comprehensiveness it requires -- will profoundly affect not only our national interest but the larger interests of the hemisphere as well.

Chapter 3

CRISIS IN CENTRAL AMERICA: AN HISTORICAL OVERVIEW

Central America is gripped today by a profound crisis. That crisis has roots deep in the region's history, but it also contains elements of very recent origin. An understanding of it requires some familiarity with both.

The impact of the crisis on the people of Central America has been shattering. Its potential impact on the hemisphere, on the United States, and, in a larger sense, on the world, is far-reaching.

If this crisis were a purely local matter, involving the peoples of that region alone, it would still deserve the urgent attention of the people of the United States as a matter of simple humanity. Its larger dimensions give us, in addition, strong reasons of national self-interest to be acutely concerned about its outcome.

There has been considerable controversy, sometimes vigorous, as to whether the basic causes of the crisis are indigenous or foreign. In fact, the crisis is the product of both indigenous and foreign factors. It has sources deep in the tortured history and life of the region, but it has also been powerfully shaped by external forces. Poverty, repression, inequity, all were there, breeding fear and hate; stirring in a world recession created a potent witch's brew, while outside forces have intervened to exacerbate the area's troubles and to exploit its anguish.

Those outside forces have given the crisis more than a Central American dimension. The United States is not threatened by indigenous change, even revolutionary change, in Central America. But the United States must be concerned by the intrusion into Central America of aggressive external powers.

In this chapter, we will explore the origins of the crisis and try to define its present nature. This requires a brief excursion into the region's history. That history is complex and in some respects controversial. We neither attempt nor pretend to present a comprehensive, definitive treatment of it. Rather, our aim is to give enough background to place the crisis in perspective, and to trace through certain trends that are important to any consideration of prospects and policies for the future.

-16-

This chapter deals principally with the five nations of the Organization of Central American States: El Salvador, Honduras, Nicaragua, Guatemala and Costa Rica. A sixth country, Belize, is geographically within Central America but its political, economic and cultural ties are primarily with the Caribbean. A seventh, Panama, is affected by the regional crisis but emerged in a different historical context. The term "Central America" tends to be rather loosely and variously defined -- sometimes as the five, sometimes as the seven, sometimes rather vaguely to include other contiguous parts of North and South America. In this report, we will generally include the seven for purposes of economic and social programs, while focusing our discussion of the security and diplomatic crises on the five. With respect to the latter, we follow the usage employed by the so-called Contadora Group (Mexico, Venezuela, Panama and Colombia), which is assisting in the effort to resolve the conflicts within and among the five.

The Land

A bridge linking two continents, the Central American isthmus winds in a serpentine arc between the Pacific Ocean and Caribbean Sea, stretching 1500 miles from the base of the Yucatan Peninsula to the Colombian border. It is dominated by an imposing range of volcanic mountains, whose rugged patterns have presented obstacles to commerce, communications, and cultivation. The mountains are punctuated by breaks in Panama, Honduras, and Nicaragua that have tantalized travellers and entrepreneurs with visions of a trans-oceanic passage. The mountains, where at altitudes from 3,000 to 8,000 feet the bulk of the Central American population lives, provide a spring-like, salubrious climate that contrasts with the pestilential rain forest, bush jungles, and swampy marshlands of the two coasts.

Central America is located geographically in a high-risk area. Three tectonic plates meet along the isthmus, pushing against each other relentlessly and creating several major and hundreds of minor geological faults. Earthquakes, which occur with alarming frequency, have destroyed cities, disrupted commerce, created human misery, and even altered political history. Lava flows and pollution have similarly wreaked havoc on town and farm. The Caribbean coast is in the hurricane belt, where high winds and rains have regularly wiped out settlements and set back efforts at tropical cultivation. The coming of rainfall in a single season between June and November is frequently followed by long droughts, presenting monumental problems to agriculture, navigation, and road travel.

-17-

The Colonial Legacy

Both conquest and the colonial experience left marks on Central America that have greatly hindered political and economic development. Except in a few areas, the Spanish conquerors imposed on the Indian peoples a semi-feudal system based on large land holdings and the exploitation of indigenous labor. These patterns persisted from generation to generation into our day, with wealth, education, and political power continuing to be shared unequally between the descendents of the conquerors and those of the conquered.

The modern history of Central America traces back to a "Kingdom of Guatemala," which gradually emerged in the middle of the sixteenth century. It was a product of synthesis, growing out of a struggle between rival Spanish conquistadores from the vice royalties of Peru and "New Spain," as Mexico was then called. One audiencia (judiciary/legislature) was established in Panama under Peruvian auspices, and another was established in Guatemala, nominally subservient to Mexico, encompassing the present-day countries of Costa Rica, Nicaragua, Honduras, Guatemala, and El Salvador plus the Mexican state of Chiapas.

During the three centuries of Spanish colonial rule, roughly from the 1520's to the 1820's, Central America's political system was authoritarian; the economy was exploitative and mercantilist; the society was elitist, hierarchical and made up essentially of but two sharply distinct classes; and both the Church and the educational system reinforced the patterns of authoritarianism. Nor did the colonial period ever provide much training in self-governance; the large indigenous populations were never integrated into the political life of the colonies.

There were variations up and down the isthmus, however. Guatemala had the most gold and silver for the Spaniards to take and the most Indians to exploit. Hence the impact of the Spanish colonial system was strongest in that country, leaving a legacy of political and social structures particularly resistant to change. Panama and Costa Rica, with small indigenous populations, little gold or silver, and located far from the main centers of Spanish rule, felt the Spanish colonial impact the least. El Salvador, Honduras, and Nicaragua occupied intermediate positions.

Independence and After

Independence from Spain brought a fragmentation of political authority but otherwise little to alter the social institutions and practices of three centuries. The five nations began independent life in 1823 as one: the United Provinces of Central America. From the outset civil wars disrupted the effort to consolidate a central government. Just

-18-

15 years later the union dissolved and the five went their separate ways. The isthmus became a region of what some have called city-states: small countries weak and vulnerable to outside forces, and with reduced possibility for economic growth and diversification. Professor Ralph Lee Woodward's widely read history of the area bears the title Central America, a Nation Divided.

Political independence brought with it no accompanying social or economic revolution. The new Central American nations retained important characteristics established in the colonial era:

- * Economies based on plantation agriculture.
- * A concentration of large land holdings in a few hands (except for Costa Rica).
- * Societies lacking vigorous middle classes and dominated by the landowning elites (again, except in Costa Rica).
- * Poor communications within the region and relative isolation from the outside world.
- * Habits of authoritarian government.
- * Ingrained reliance on centralized state jurisdiction and tolerance of corruption.

Politically, the five nations called themselves republics and adopted constitutions modeled in many respects on the U.S. Constitution of 1787 and on the liberal Spanish constitution of 1812. The resulting governments had presidential and electoral systems resembling those of the United States. But the substance was very different. Judicial traditions based on the Roman civil law served primarily to facilitate state control rather than as a bulwark of individual rights. The difficulties that arose from trying to reconcile two systems, one political and the other legal, with distinctly different foundations are still apparent in Central America today.

The first 30 years of independent life were chaotic for the five republics. As elsewhere in Spanish America, political parties labeled as "Liberal" and "Conservative" battled over the role of the state and church-state relations. Local leaders -- caudillos -- at the head of armed bands contended for power. Disorder and violent conflict afflicted the region. Central America had repudiated its colonial institutions, yet it had not begun to develop free institutions to replace them.

From the 1850's to the 1880's, after the first generation of men-on-horseback had died off, some order was brought out of the chaos. The "Liberal" parties, with their strong commitment

-19-

to commerce, came to power all across Central America, and for the most part they succeeded in establishing stable governments. But in this climate of greater order the landholding elites began to reconsolidate their power, while governments remained autocratic, generally under a single dictatorial leader.

Rule by Oligarchy

The period 1890-1930 was the heyday of oligarchic rule in Central America. In addition to the older landed oligarchy, a commercial import/export class had arisen. A coffee boom that began in Costa Rica in the 1870's transformed the export economies of Central America, providing substantial new wealth. Middle classes began to develop. Unwritten rules were established enabling the elites -- whether military or civilian or, more usually, a combination of the two -- to rotate or alternate in office. Military forces, which had largely been bands of irregulars in the service of powerful individuals, began to come under central authority and to develop into regular armies. This provided an important new avenue of upward mobility for ambitious young men, and transformed the politics of the region as the armies increasingly grew into autonomous institutions.

All these changes occurred under oligarchic auspices except in Costa Rica, which built upon its earlier democratic roots. Thus when the depression of the 1930's precipitated political and economic convulsions, Central America had no political infrastructure -- parties, regular elections, representative institutions -- out of which democracy could emerge.

By the first decades of the twentieth century, common characteristics in the economic development of the five republics had become apparent. The cultivation of a few basic agricultural crops for export -- coffee, bananas and sugar -- dominated their economies. Particularly after the coffee boom of the 1870's, plantations producing for export encroached on subsistence farming. A dual agricultural system emerged: large plantations for export crops; small plots to raise food. This reinforced the social divisions inherited from the colonial period. The bulk of the population survived on seasonal plantation labor at minimal wages, and on subsistence agriculture. A small group of families controlling the most productive land constituted the dominant elite. Export-oriented growth generated pockets of modernization and higher living standards in the urban areas. But the middle classes remained weak.

-20-

Stirrings of Change

The period of the 1930's was terribly disruptive in Central America. As the bottom dropped out of the market for Central America's products, a wave of instability swept the region; for the first time traditional oligarchic rule came under serious challenge. In El Salvador, Honduras, Guatemala, and Nicaragua new dictators appeared. While they typically ruled with strong-arm methods, they also often represented previously excluded middle classes. Having restored order, these dictators encouraged some economic development and social modernization, and they enjoyed a degree of popularity -- at least for a time.

By this point, two main political traditions were operating in Central America -- and an emerging third one.

First, there was the old authoritarian tradition. This historically dominant force still drew considerable strength from the difficulty of establishing democratic forms in the fragmented, violent, disintegrative context of Central America.

Second, there was a democratic tradition enshrined in political constitutions but of only marginal importance in practice. The democratic preference did emerge from time to time (in Guatemala in 1944, Honduras in 1957, El Salvador in 1972), but it lacked the practical roots democracy has had in the United States and elsewhere in the West. Except in Costa Rica, it was not institutionalized in the form of political parties and workable representative structures.

The third strain -- socialism -- also appeared in a variety of forms in Central America amid the turmoil of the 1930's and has remained present ever since, frequently mixed into both democratic (as in Costa Rica) and Marxist or even communist elements.

The problem for Central America was to devise a political formula capable of dealing with these diverse tendencies, none of which could command absolute majority support, and each of which was unacceptable to at least some of the main contenders for power in these societies.

Only in Costa Rica was the final formula democratic. After a brief but decisive civil war in 1948, regular elections have since led to periodic rotation in power by the two dominant groups.

Elsewhere, efforts were made to combine or reconcile the traditional and the liberal orientations, and at times even to hint at the socialist one.

In Nicaragua, for example, after the death of Anastasio Somoza Garcia (1896-1956), his elder son Luis made various

-21-

attempts to relax the harsher aspects of the old authoritarianism -- to allow a greater sense of pluralism and freedom. In Honduras, military and civilian parties rotated in office or else ruled jointly in an arrangement whereby military officers controlled security matters and acted as political arbiters, while the civilian elites managed the economy, held key cabinet positions, and staffed the bureaucracy. In Guatemala, after the United States helped bring about the fall of the Arbenz government in 1954, politics became more divisive, violent and polarized than in the neighboring states. But even there, there were efforts to combine civilian and military rule, or to alternate between them, in various shaky and uneasy blends.

In El Salvador a similar system operated from 1958 to 1972. There, a group of younger, more nationalistic officers came to power and pursued populist strategies. They allowed the major trade union organizations to grow and to have a measure of political participation. The Army created its own political party, modeled after the Mexican PRI. It held elections regularly, in which the official candidates generally won; on the other hand, through a system of corporate representation within the party, most major groups had some say in national affairs.

None of these regimes was truly democratic, but the trend seemed to favor the growth of centrist political forces and to be leading toward greater pluralism and more representative political orders. This trend gave hope for peaceful accommodations and realistic responses to the profound social changes occurring in the countries of Central America.

Political Retrogression

The trend of the 1960's toward more open political systems was reversed during the 1970's. Whereas in Honduras the military sponsored moderate reform and prepared the country for a return to democracy, a period of closed political systems, repression and intransigence began in Guatemala, Nicaragua, and El Salvador. In each of these three countries, resistance to change on the part of the dominant military and civilian groups became stronger as demands for a larger share of national income, increased social services and greater political participation spread from the middle class to the masses of the urban and rural poor. The armed forces tightened their control over the day-to-day activities of government and more harshly repressed perceived challenges to their power from trade union or political movements.

In Nicaragua, the political opening that had seemed to be promised in the 1960's was now closed off by Somoza's second son, Anastasio, Jr., who took power in 1966. His rule was characterized by greed and corruption so far beyond even the

-22-

levels of the past that it might well be called a kleptocracy; it included a brazen reaping of immense private profits from international relief efforts following the devastating earthquake of 1972. And as opposition to his regime increased, repression became systematic and increasingly pervasive.

In Guatemala, the more or less centrist civilian and military governments of the 1960's gave way in the 1970's to a succession of extremely repressive regimes. The administrations of General Eugenio Laugerud and General Fernando Romero Lucas were among the most repressive either in the recent history of the hemisphere or in Guatemala's own often bloody past. Possibilities for accommodation, assimilation, and further democratization thus faded.

In El Salvador, the pattern was similar. Military-based regimes that had been moderately progressive in the early 1960's had become corrupt and repressive by the 1970's. The annulment of the victory by civilian Christian Democratic candidate Jose Napoleon Duarte in the 1972 election ushered in a period of severely repressive rule. It was in this context, with its striking parallels to the developments in Nicaragua and Guatemala, that the present crisis in El Salvador began.

It is no accident that these three countries -- El Salvador, Guatemala, and Nicaragua -- are precisely where the crisis for U.S. policy is centered. While there were of course significant national variations, all three went through a roughly parallel process in which a trend toward more open, pluralistic, and democratic societies gave way to oppression and polarization, precipitating the crisis which has now spread throughout Central America.

Modernization and Poverty: The Economic Background of the Crisis

The economic developments of the post-war period -- modernization, rising expectations, persisting poverty, and ultimately the economic shock of the late 1970's -- also helped set the stage for the present crisis.

The period between the coming of World War II and the early 1970's was one of sustained growth. War and the post-war boom in the developed world revived the international markets for Central America's commodity exports. By the middle of this century many Central Americans had come to realize that some form of common action by the five might help to overcome the obstacles to modernization and development created by history and small national size.

The idea of union had never quite died in Central America. It was therefore natural enough that the post-war experience in Europe and the maxims of the Economic Commission for Latin America (ECLA) under Raul Prebisch focused Central America's attention in the 1950's on the possibility of economic unity.

-23-

On December 13, 1960, representatives of the five republics meeting in Managua signed the General Treaty for Central American Integration, leading to the establishment of the Central American Common Market.

The Common Market inspired a surge of energy and optimism throughout the region. Manufacturing for import substitution produced significant industrialization, particularly in Guatemala and El Salvador. Intra-regional trade grew from only \$33 million in 1960 to over \$1 billion in 1980, a proportional increase two and a half times greater than the growth in world trade during these decades. New regional institutions, such as the Central American Bank for Economic Integration and the Central American Economic Council, held out the promise of region-wide growth and development based on close cooperation among the five nations.

The Common Market, along with the external resources provided under the Alliance for Progress, made a substantial contribution to what the ECLA has described as a "sustained dynamism" in the region's economy in the 1960's. Generally favorable and stable international prices for Central America's export commodities also contributed to this dynamic economic growth. The region's exports went up dramatically, rising from \$250 million in 1950 to \$3.2 billion in 1978. Gross domestic product in the region increased at a rate of 5.3 percent per year in real terms between 1950 and 1978. Incomes calculated on a per capita basis rose at rates all the more impressive because they were accompanied by population growth with few parallels in the world. The five republics had a population of less than eight million in 1950, and of more than 20 million by the end of the 1970's. Yet between those years real per capita income doubled.

Post-war growth brought a sharp increase in urbanization. Capital cities doubled their share of the total population. New highways and port facilities were built. Telephone and electric systems were expanded. More people got access to radio and television. Advances were made in health and education. Old centers of social power such as the armed forces and the Roman Catholic Church lost some of their homogeneity in the face of new ideological currents. Central American societies became more complex. New middle groups emerged, especially in the mushrooming cities, but the gulf between the rich and the mass of the very poor remained.

Although some benefitted from social change and economic growth in those decades, many others benefitted little or not at all. In ECLA's judgment -- and the other experts the Commission consulted on this point were in virtually unanimous agreement - "the fruits of the long period of economic expansion were distributed in a flagrantly inequitable manner." Thus, as an example, in El Salvador in 1980, 66 percent of the national income went to the richest 20 percent

-24-

of the population, 2 percent went to the poorest 20 percent. According to ECLA's data, over 60 percent of the region's population was living in poverty, over 40 percent in "extreme poverty." The real incomes of poor families in Guatemala were actually lower in 1980 than in 1970.

While measures of absolute poverty are inevitably arbitrary and subject to considerable margins of error, studies show that in El Salvador, Guatemala, Honduras, and Nicaragua during the 1970's about half of the urban population and three-quarters of the rural population could not satisfy their basic needs in terms of nutrition, housing, health, and education. The population explosion magnified the problem of inequitable distribution of national income. As we have seen, the number of Central Americans almost tripled in 30 years. The World Bank projects a further increase in the region's population to 38 million by the end of the century. Except in Costa Rica, rapid urbanization and population growth overwhelmed the limited resources that governments were prepared to devote to social services -- or that private organizations could provide. This was true in all fields -- education, health, housing, and nutrition.

In short, the economic growth of the 60's and 70's did not resolve the region's underlying social problems. About 60 percent of the populations of El Salvador, Guatemala, Honduras, and Nicaragua (before the revolution) remained illiterate. Ten of every one hundred babies born died before the age of five, and, according to reliable nutritionists, 52 percent of the children were malnourished. Somewhere between four and five million people in the region were unemployed or underemployed. They and their families were often living on the edge of starvation.

The international economic crisis that developed in the late 1970's worsened the situation dramatically. World inflation, including the second steep jump in international petroleum prices in the decade, hit the five countries hard. (Only Guatemala among them has any domestic oil production of its own.) At the same time, the escalation in international interest rates drove up the annual cost of servicing external debt, a particularly stringent circumstance for democratic Costa Rica. Economic stagnation in the developed world also had a marked impact on Central American economies, which are especially vulnerable to the volatility of commodity prices. As a consequence of these factors, the region's exports now buy 30 percent less in imports than they did five years ago. By contrast, oil-importing developing countries as a group worldwide increased their export purchasing by more than 7 percent during this period.

The economic collapse of the late 1970's, coming as it did after a period of relatively sustained growth, shattered the rising hopes of Central Americans for a better life. Though

-25-

the period of modernization by no means lifted most Central Americans out of poverty, it did arouse expectations that the quality of life would improve. The frustration of these expectations, along with the disappointment of efforts to bring about political change in the region, thus offered fertile opportunities for those both in the region and outside of it who wished to exploit the crisis for their own advantage.

The Growth of Communist Insurgency

By 1979, in terms of modern military capabilities Cuba had become perhaps the strongest power in the Western Hemisphere south of the United States. It was also the country best prepared and most eager to exploit the intensifying crisis in Central America.

During the preceding two decades, the Cuban revolution had already had a major effect in Central America. Castro's successful insurgency was studied eagerly in the universities, where the attraction of revolutionary Marxism was already strong. Castroism was initially seen as a dynamic deviation from the mainstream Soviet-sponsored communist movements, and it spawned would-be revolutionary groups in all the countries of the isthmus.

The influence of Castroism also produced schisms in the small Moscow-linked parties of the region. They mostly held to the orthodox view that, in the conditions then prevailing, armed insurgency was an unworkable strategy. But during the 1970's, as political and economic conditions worsened, that view came under increasing challenge. At the same time, conservatives and the military were frightened by the Cuban revolution into hardening their attitudes toward political change.

In the early years, the major Cuban effort to export revolution to Central America occurred in Guatemala. There, Castro gave support to an armed insurgency that began in 1960. Though the Soviet Union was relatively inactive after the Cuban Missile Crisis, Castro provided arms, financing and training to the MR-13 guerrilla movement and later to the rival Armed Forces of Revolution (FAR). This was not an isolated tactic. Cuba was following the same practice in this period with similar movements in Venezuela, Colombia and Peru. Indeed, it was the discovery of Cuban arms landed in Venezuela which resulted in the OAS decision to require the other members to cut trade and diplomatic ties.

The Guatemalan Army's successful counter-insurgency campaigns, Castro's increasing disappointment over the factional infighting of the Guatemalan guerrillas, and his disillusionment with the effort generally to export revolution

-26-

to Latin America (climaxed by Che Guevara's defeat and death in Bolivia), greatly reduced the guerrilla threat in Guatemala by 1968.

In the succeeding years, and after Castro's decision to support the invasion of Czechoslovakia, the Cubans seemed to adopt the Soviet strategy of attempting to fashion normal diplomatic and commercial relations with a variety of governments in the hemisphere, while downplaying the revolutionary mission. Diplomatic ties were established with such leading countries as Argentina, Peru, Chile (before Allende's fall), Venezuela and Colombia. Contacts were opened with the United States and, in 1975, the U.S. cooperated in the OAS to eliminate the mandatory nature of that organization's sanctions against Cuba. Castro's venture into Angola put an end for a time to the U.S. effort to establish a basis for understanding with Cuba. But negotiations resumed two years later and led to the opening of diplomatic offices ("interest sections") in the two capitals. However, widening Cuban military involvement in Africa and Castro's unwillingness to discuss the question of Cuba's foreign interventions prevented further movement toward normalization of relations.

In 1978 Castro disappointed those who thought he had abandoned the export of revolution in this hemisphere. He saw new opportunities. Guerrillas were once again in the field in Guatemala; the elements of a promising insurgency were present in El Salvador; and, above all, a particularly inviting situation presented itself in Nicaragua where the Somoza dictatorship was beginning to crumble. The United States was still suffering the after-effects of Vietnam and Watergate. At the same time, Castro's Soviet patrons, who had not actively supported the armed struggle during the 1960's, were coming around to his view that the time for guerrilla war in Central America had arrived.

Their conversion to the doctrine of armed violence became complete with the collapse of Somoza in Nicaragua. Although Venezuela, Costa Rica, Panama, and other Latin American countries assisted the revolutionaries in Nicaragua, and although the refusal of the U.S. to supply arms helped precipitate Somoza's fall, Cuban support was a particularly important factor in the Sandinista triumph. It was Castro who unified the three Nicaraguan guerrilla factions and provided the weapons, supplies, and advisers that enabled the Cuban-oriented comandantes to establish themselves as the dominant group in the revolution.

Cuban and now also Nicaraguan support was subsequently critical in building the fighting forces of the Farabundo Marti Liberation Front in El Salvador, in maintaining them in the field, and in forcing them to unite in a combined effort in spite of the deep-seated distrust among the guerrilla factions. Indeed, it was a meeting hosted by Castro in

-27-

December 1979 that had produced agreement among the Salvadoran insurgent factions to form a coordinating committee, as was publicly announced the following month.

In March 1982, the Chairman of the Intelligence Oversight Committee of the U.S. House of Representatives stated that there was "persuasive evidence that the Sandinista government of Nicaragua is helping train [Salvadoran] insurgents and is transferring arms and support from and through Nicaragua to the insurgents. They are further providing the insurgents with bases of operation in Nicaragua. Cuban involvement in providing arms - is also evident." Specifically, Nicaragua's position on the isthmus facilitated the establishment of several guerrilla training camps and of guerrilla command and control facilities, as well as a variety of propaganda and covert activities and the transportation of tons of weapons.

The evidence reveals that arms flowed into El Salvador from Nicaragua in preparation for the Salvadoran guerrillas' unsuccessful "final offensive" of January 1981. Air supply of arms to the Salvadoran guerrillas came from Nicaragua's Papalonal airfield, small boats smuggled arms across the Gulf of Fonseca, and indirect supply routes which involved the use of Costa Rican territory were developed by the Sandinistas. The evidence also indicates that the Salvadoran guerrilla headquarters in Nicaragua evolved into a sophisticated command and control center.

At this writing, there are reports that the Sandinistas have cut back on their support for insurgency in the region, although the evidence is far from clear. One explanation may be that the Salvadoran guerrillas have been able to obtain ample arms within El Salvador. Moreover, some evidence indicates that arms shipments to El Salvador from Nicaragua, although reduced, continue -- particularly shipments of ammunition. In any event, nothing we are aware of would indicate that the Sandinistas' ultimate commitment to the cause of the Salvadoran guerrillas -- or to the cause of armed revolution in the region -- has diminished.

The Present Crisis

As we have seen, Central America's contemporary crisis has been a long time in the making. By the late 1970's, the increasingly dangerous configuration of historic poverty, social injustice, frustrated expectations, and closed political systems was suddenly exacerbated by world economic recession and by intensified foreign-promoted communist insurgency. And just as the economic collapse and political impasse offered an opportunity for the insurgents, the insurgency aggravated the economic and political crisis by spreading violence and fear. To varying degrees, but with many common elements, this crisis

-28-

is reflected in the situation of each of the five Central American nations.

El Salvador. Nowhere is the link between economic decline and insecurity more apparent than in El Salvador, once perhaps the leading beneficiary of the Central American Common Market. El Salvador today faces violence and destruction that threaten economic collapse. Planting and harvesting have been disrupted, buses and trucks burned, bridges and electric pylons dynamited. The cumulative direct cost of the war to the economy has been estimated at more than \$600 million, with indirect costs far higher. El Salvador's economy is now less than three-quarters the size it was in 1978, and national income on a per capita basis is roughly at the level of the early 1960's.

The insurgents themselves acknowledge that destruction of the country's basic infrastructure is a key ingredient in their strategy to bring down the government. They seek victory through both economic and military attrition. Although their absolute numbers have not increased over the last three years, and although they have not attracted the broad popular support they hoped for, the guerrillas after four years of experience in the field demonstrate an increasing capacity to maneuver, concentrate their forces and attack selected targets. They maintain sporadic control over areas in the eastern provinces and pose a hit-and-run threat virtually everywhere outside the major urban areas. Guerrilla forces regularly attempt to intimidate and coerce local populations with shootings, abductions and other strong-arm tactics. And the human costs of the war have been immense. Displaced Salvadorans driven from their homes and leading a precarious existence within the country number in the hundreds of thousands. Many thousands more have left El Salvador as refugees.

On the other side, the Government of El Salvador is severely hampered by the erosion four years of war have produced in the country's basic institutions -- by the difficulty it has in enforcing its authority and carrying out its functions. For their part, the armed forces have increased their manpower four-fold but still face problems in leadership and the command structure, as well as the need for more equipment and training. But the war effort suffers most of all from the terrible violence engulfing El Salvador's civilian population. Since 1979 more than 30,000 non-combatants have been killed. Government security forces and the right-wing death squads associated with them are guilty of many thousands of murders. These enemies of non-violent change above all threaten hopes for social and democratic reform.

There was little dispute among the witnesses appearing before the Commission that, in the words of one of them, "El Salvador needed a revolution" -- a democratic revolution. The

-29-

coup d'etat carried out by young officers in October of 1979 put an end to the brutal regime of General Romero and opened the way for that revolution. In the years since, even in the midst of escalating violence, the struggle for basic reform and a democratic transformation has continued. A sweeping program of land reform, now affecting 20 percent of the country's arable land, was launched; a Constituent Assembly election was held in which about 80 percent of those eligible went to the polls under very adverse circumstances; a new constitution has now been written and the country is preparing to elect a president in March.

Guatemala. Guatemala is also suffering from violence and economic decline. Its economy is the largest and most diversified in Central America. But it still depends on coffee exports for more than 60 percent of its agricultural foreign exchange earnings. With the decline in real prices for coffee during the last few years, the economic growth rates, quite satisfactory in the 1970's, turned negative. Insurgency and political violence dried up sources of international credit. Stagnation of the Central American Common Market, in which 80 percent of Guatemala's industrial exports are normally sold, hit the industrial sector hard. Gross national product fell by over 4 percent in 1983.

Guatemala's economic troubles affect a society long afflicted by the most extreme social inequity. Sanitation, potable water and proper shelter barely exist in the country's rural areas, where almost two-thirds of the population live. More than 50 percent of adults are illiterate, and life expectancy is less than 60 years. Overshadowing all social issues in Guatemala is the presence of a large and culturally distinct Indian population. Centuries of isolation and passivity are now giving way among the Indians to discontent and a drive to participate in Guatemala's economy and politics. Thus the crisis there takes on an extra dimension.

In 1982, young officers broke the political pattern of the past, overthrowing the brutal regime of General Lucas and installing a junta headed by the maverick General Efraim Rios Montt, who subsequently named himself President. Under Rios Montt the Guatemalan army made significant progress against the guerrilla forces, combining civic action with aggressive military action into a strategy of "beans and bullets." The government curbed the murderous activities of the security services in the cities, but set up secret tribunals with the power to give death sentences; and some rural areas were reportedly terrorized with killings designed to end local support for the guerrillas.

A new military regime, which replaced that of Rios Montt last year, has scheduled constituent assembly elections for July of 1984, promised general elections for 1985 and announced that the armed forces will stay out of the political process.

-30-

With 20 years of experience in counter-insurgency, the Guatemalan army has so far been able to contain the guerrilla threat, despite the lack of outside assistance, and despite shortages of equipment and spare parts. But violence in the cities -- terrorist attacks by the extreme left and the use of murder by the security services to repress dissent -- is again growing. Insecurity thus spreads through the country.

Nicaragua. In Nicaragua the revolution that overthrew the hated Somoza regime has been captured by self-proclaimed Marxist-Leninists. In July of 1979 the Sandinistas promised the OAS that they would organize "a truly democratic government" and hold free elections, but that promise has not been redeemed. Rather, the government has been brought fully under the control of the Sandinista National Directorate. Only two months after giving their pledge to the OAS and while successfully negotiating loans in Washington, the Sandinistas issued Decree No. 67, which converted their movement into the country's official political party and laid the foundation for the monopoly of political power they now enjoy. The Sandinista Directorate has progressively put in place a Cuban-style regime, complete with mass organizations under its political direction, an internal security system to keep watch on the entire population, and a massive military establishment. This comprehensive police and military establishment not only ensures the monopoly on power within Nicaragua, it also produces an acute sense of insecurity among Nicaragua's neighbors.

From the outset, the Sandinistas have maintained close ties with Cuba and the Soviet Union. There are some 8,000 Cuban advisers now in Nicaragua, including at least 2,000 military advisers, as well as several hundred Soviet, East European, Libyan and PLO advisers. Cuban construction teams have helped build military roads, bases and airfields. According to intelligence sources, an estimated 15,000 tons of Soviet bloc arms and equipment reached the Sandinista army in 1983. This military connection with Cuba, the Soviet Union, and its satellites internationalizes Central America's security problems and adds a menacing new dimension.

Nicaragua's government has made significant gains against illiteracy and disease. But despite significant U.S. aid from 1979 to 1981 (approximately \$117 million), its economic performance has been poor, in part because of the disruptions caused by the revolution, in part because of the world recession, and in part because of the mismanagement invariably associated with regimes espousing Marxist-Leninist ideology. National income per capita is less than \$1,000, about equal to that of the early 1960's, and Nicaragua is plagued by shortages of food and consumer goods, with the result that extensive rationing has been instituted.

-31-

Under military pressure from Nicaraguan rebels who reportedly receive U.S. support, and under diplomatic pressure from the international community, especially from the Contadora group, the Sandinistas have recently promised to announce early this year a date and rules for 1985 elections; have offered a partial amnesty to the anti-Sandinista guerrillas; have claimed a relaxation of censorship on La Prensa, the only opposition newspaper; have entered into talks with the Roman Catholic hierarchy; and have issued proposals for regional security agreements. In addition, reports from Sandinista sources in Managua have hinted at a permanently reduced Cuban presence and of diminished support to other Marxist-Leninist revolutionary groups in Central America -- although we have no confirmation that either has taken place or is likely to take place. Whether any one of these moves reflects a true change of course or merely tactical maneuvers remains to be seen.

Honduras. Honduras borders Nicaragua and believes itself threatened by the Sandinistas' highly militarized and radically revolutionary regime. In Honduras an elected government is struggling to preserve security and maintain a democratic order established just two years ago after the military backed a return to constitutional, civilian rule. The government is also struggling to restore economic growth in the face of what President Roberto Suazo has called the worst economic crisis in the nation's history. The Sandinista military buildup -- huge by Central American standards -- puts heavy pressure on Honduras to strengthen its own forces at the expense of its development needs. The clandestine transshipment of arms from Nicaragua across Honduran territory and over the Bay of Fonseca traps Honduras in the bitter conflict of its neighbor.

The Suazo government has pursued national security through closer military ties with the United States and by supporting anti-Sandinista guerrillas operating from Honduran territory, reportedly in cooperation with the U.S. Honduras has rejected Nicaraguan proposals that such issues as border security and arms trafficking be addressed on a bilateral basis, insisting that a comprehensive regional political settlement, including an unmistakable commitment to democratic pluralism by all five countries, is essential if peace is to be restored.

Honduras's economy is highly dependent on coffee and banana exports and has suffered severely in recent years from the weakness in the international commodity markets. High rates of economic growth in the late 1970's have been reversed. Gross domestic product grew by less than 1 per cent in 1981 and declined by 2.5 percent the following year. According to the government's own figures, 57 percent of Honduras's families live in extreme poverty, unable to pay the cost of the basic basket of food. Population has been growing by an extraordinary 3.4 percent annually, and 48 percent are below the age of 15. The mixture of extreme poverty, high

-32-

unemployment, steadily deteriorating social conditions and a very young population is potentially explosive.

Costa Rica. In Costa Rica a long-established democratic order remains healthy, but the nation's economy is in distress and Costa Ricans are increasingly concerned that the violence in the region will intrude on their hitherto peaceful oasis. The international recession and the stagnation of the Central American Common Market caused a severe economic decline. National income per capita fell by 18 percent between 1980 and 1982. Unemployment doubled. Deterioration in the country's trade balance -- in large part due to the drop in coffee prices and the rise in oil prices -- led to heavy international borrowing. Costa Rica's foreign debt is now over \$3 billion. Interest payments alone that were due in 1983 came to \$500 million, or 58 percent of anticipated export receipts; arrears currently stand at \$1 billion.

The government of President Luis Alberto Monge has responded seriously, adopting a severe austerity program, raising taxes, increasing fuel prices and public utility charges and freezing government employment. Efforts have been made to establish a realistic exchange rate, to cut public sector spending and bring the finances of autonomous agencies under central government control. However, the Monge administration is committed to maintaining the social and educational programs that have been so important in the nation's development. These programs have contributed to a 90 percent literacy rate and a life expectancy of 73 years -- among the best figures for those categories in all of Latin America.

On its visit to Costa Rica, the Commission found great anxiety about the situation in Nicaragua. Costa Rica has no armed forces beyond a small civil guard and rural constabulary. A dispute with Nicaragua over navigation on the San Juan River and the operations of anti-Sandinista guerrillas in the area have created a high degree of tension along the northern border. Sandinista and Cuban propaganda campaigns vilifying their country, and Sandinista political and intelligence operations there, have alarmed Costa Ricans. On November 10, 1983, President Monge declared strict military neutrality in Central America's conflicts, making clear that his government intended to remain unarmed and to continue to rely on international agreements for its security. But he also made clear that Costa Rica will not be neutral politically as between "democracy and totalitarianism."

The common dangers. Although the current situation differs substantially from country to country, there are many common elements.

The region as a whole has suffered severe economic setbacks. All five nations are markedly poorer than they were

-33-

just a few years ago. Intra-regional trade has fallen drastically. The Common Market is threatened with extinction as the resources necessary to sustain it dry up. Political violence and the menace of the radical left have caused huge flights of capital. Investment, even in the leading agricultural export sectors, has come virtually to an end.

The tragedy of the homeless is one of the most bitter fruits of Central America's conflict. Although no accurate count of refugees and displaced persons is available, the Commission received estimates of up to one million Central Americans who have left their homes: Nicaraguans moving into Costa Rica and Honduras to escape the oppression of the Sandinistas; Guatemalan Indians fleeing into Mexico from the conflict in the highlands; Salvadorans seeking safety in Honduras, or a better life in the United States. But those who must endure the worst conditions are the displaced, driven from their homes but unable to seek refuge in another land.

Other costs are also evident. According to testimony before the Commission, health, nutrition and educational services that were already badly deficient are declining further. Unemployment and underemployment are spreading -- an overriding social and economic problem in all five countries. The high rate of population growth magnifies these problems. Job opportunities are vanishing, even as a quarter of a million young people are entering Central America's job markets each year. In a region where half of the population is below the age of 20, the combination of youth and massive unemployment is a problem of awesome -- and explosive -- dimensions.

The configuration of economic recession, political turbulence and foreign intervention makes the crisis in Central America both exceptionally difficult and exceptionally ominous. Although turmoil has often accompanied economic difficulty in Central America, it has never before been so calculated to create chaos and want. This both intensifies the conflict and accelerates the economic and political decay of the region.

The prospect of even greater calamities should not be underestimated. None of the five Central American states is free of war or the threat of war. As the conflicts intensify, and as Nicaragua builds an armed force with firepower vastly greater than anything ever seen before in Central America, the threat of militarization hangs over the region. Were this to happen, it could further warp Central America's societies and shut off the possibilities for internal and external accommodations.

-34-

The United States and Central America

Historical perspective. The United States has been involved, sometimes intimately, in the affairs of Central America for more than a century. The record of that past is a mixed one; it must be understood if we are to address today's crisis constructively.

After the 1848 war with Mexico, the United States developed a keen interest in opening a secure transportation route to its new territories on the Pacific. It took that era's sailing ships no less than three months to get from New York to California. A canal through Central America would serve both safety and speed. At first, Nicaragua seemed a particularly favorable site. The canal was eventually built in Panama more than half a century later, after President Theodore Roosevelt secured U.S. rights to the Canal Zone by helping to arrange a coup that established Panama's independence from Colombia. But it was interest in a canal that first spurred U.S. involvement in Nicaragua and the isthmus.

For the most part, U.S. policy toward Central America during the early part of this century focused primarily on promoting the stability and solvency of local governments so as to keep other nations out. This was reflected in Theodore Roosevelt's Corollary to the Monroe Doctrine, which held that the United States should take action to prevent situations from arising that might lead to interventions by extra-hemispheric powers. Theodore Roosevelt once defined the sole desire of the United States as being "to see all neighboring countries stable, orderly and prosperous." This formulation reflects both a great-power interest in keeping the hemisphere insulated from European intrigue and the concern for others' well-being that has often animated our foreign policy. The result, however, was a high degree of interventionism in Central America during the early 1900's.

The United States intervened directly in Nicaragua in 1909, landing Marines and deposing a president in an effort to restore stability. The Marines returned in 1912 and, with one brief interruption, they stayed until 1933. Before leaving, the U.S. authorities created a single National Guard with responsibility for all Nicaraguan police and defense functions. The immediate purpose was to provide stability; the ultimate result was to create the instrument Anastasio Somoza used after the occupation to impose a personal dictatorship once the Marines left. The ability of Somoza and later his sons to portray themselves as friends and even spokesmen of the U.S. began with the use they were able to make of the legacy of U.S. military occupation, thereby creating an identity between the U.S. and dictatorship in Central America that lingers, independent of the facts, to this day.

-35-

Besides military interventions, the U.S. used other forms of pressure as well. At various times these included customs receiverships, debt refundings, and non-recognition of governments that had come to power by force. None of these policies worked very well, and they aroused considerable resentment. In addition, private U.S. citizens sometimes engaged in free-wheeling operations of their own -- such as an invasion of Nicaragua in the late 1850's by freebooter William Walker, or the financing of a revolution in Honduras in 1911 by Samuel Zemurray to protect his shipping and banana interests. The legacy of these private interventions also continues, understandably, to color the attitudes of many Central Americans towards the United States.

Franklin Roosevelt's Good Neighbor Policy was designed to signal the end of the era of intervention and to put relations with all of Latin America on a basis of mutual respect and friendship. But in practice -- and particularly when World War II put an added premium on good relations with neighboring governments -- this policy of friendship and non-intervention had the paradoxical effect of continuing to identify the United States with established dictatorships.

The importance of the United States to the region's economies has also been a powerful element in shaping Central American attitudes toward us. Beginning in Costa Rica almost a century ago, U.S. capital developed the banana industry and monopolized it throughout the isthmus. For decades, the United Fruit Company was known in the area as "the octopus." It controlled much of the region's transportation and communications. Bananas were vital to the economies of several countries, and United Fruit dominated the international markets for the fruit. Since the 1950's patterns of both land ownership and distribution in the banana industry have diversified. United Fruit itself no longer exists; its successor, United Brands, is widely regarded as both a model citizen and a model employer. But the questionable practices followed by the fruit companies in those early years, together with the power they wielded over weak governments, did a lot to create the fear of "economic imperialism" that to some degree still persists among Central Americans.

A history of cooperation. This, however, is only one side of the history of U.S. relations with Central America. The U.S. government has also made extensive positive efforts to advance Central American development, beginning at the turn of the century with a public health campaign against yellow fever. During the Second World War the Institute of Inter-American Affairs, headed by Nelson Rockefeller, was established. The Institute developed a system of "Servicios" -- bilateral organizations to finance and manage projects in health, education and housing. Through the decade of the 1950's the Servicios provided training and experience to a new generation of Central American technicians and professionals.

-36-

With the launching of the Alliance for Progress in 1961, the role of the United States in Central American development underwent a major transformation. This was a bold and unprecedented effort to encourage comprehensive national planning and to promote a wide array of social, political, tax and land reforms, supported by significantly increased resources from the United States, the newly created Inter-American Development Bank, the World Bank and other aid donors. The assistance from the United States, and perhaps equally as significant, the personal identification of President Kennedy with the program, was a critical factor in the surge of Central American development which began in the 1960's.

U.S. assistance was instrumental in the creation of effective central banks and private intermediate credit institutions, and in the establishment of agricultural cooperatives, housing projects, roads, health centers, population assistance, and technical training. The Alliance for Progress also provided major funding and cooperative planning to the Central American Common Market, which was perhaps its most important single contribution to Central American growth during this period.

In essence, the Alliance was a compact between our government and the governments of Latin America. The goals of the Alliance were three: economic growth, structural change in societies, and political democratization. But as we have seen, it was only in the first area that significant progress was made. Central America's growth rate of over 5 percent per capita during the 1960's far surpassed the 2.5 percent target for all of Latin America laid down in the charter of the Alliance. An impressive inventory of physical infrastructure was constructed in the five Central American countries during this period, including schools, hospitals, low-cost housing, and sewage systems.

But the other two goals of the Alliance, structural change and political democratization, proved much more difficult to achieve.

Direct private investment in Central America by U.S. firms also continued to grow during these years. While that investment might seem small in relation to total U.S. investment abroad (currently about 2.4 percent, including Panama), it was large in Central American terms. It has contributed substantially to the region's growth, as many Central Americans are quick to acknowledge. At the same time, it has been a constant target of the propaganda of the radical left, which has played upon the theme of economic hegemony and "imperialism."

Central America's dependence on trade with the United States has, of course, always been high. Though the portion of

-37-

the region's exports that came to the United States declined from 61 percent in 1955 to 36 percent in 1975, the U.S. still led all other countries as a market for Central American products and commodities. While such dependence remains a sensitive issue, investment from the U.S. and trade relations with the U.S. are critically important to the economies of Central America.

Mixed results. The record of United States involvement in Central America during these critical years is, in short, mixed. The Alliance for Progress was a major force for modernization and development. U.S. assistance programs have made and continue to make an important contribution. Whatever the mistakes of the past, private U.S. investment in the region now plays a vital and constructive role.

It may be that U.S. diplomacy gave too little attention to the growing problems in Central America during the past two decades. Certainly, the U.S. has at times been insensitive, at times interfering, at times preoccupied elsewhere. This is a far cry, however, from saying, as the Sandinista National Directorate and others say, that this nation's policies have been the principal cause of the region's afflictions.

U.S. Interests in the Crisis

When strategic interests conflict with moral interests, the clash presents one of the classic challenges to confront societies and statesman. But in Central America today, our strategic and moral interests coincide. We shall deal later in the report with the specifics of those interests. But in broad terms they must include:

- * To preserve the moral authority of the United States. To be perceived by others as a nation that does what is right because it is right is one of this country's principal assets.
- * To improve the living conditions of the people of Central America. They are neighbors. Their human need is tinder waiting to be ignited. And if it is, the conflagration could threaten the entire hemisphere.
- * To advance the cause of democracy, broadly defined, within the hemisphere.
- * To strengthen the hemispheric system by strengthening what is now, in both economic and social terms, one of its weakest links.
- * To promote peaceful change in Central America while resisting the violation of democracy by force and terrorism.

-38-

- * To prevent hostile forces from seizing and expanding control in a strategically vital area of the Western Hemisphere.
- * To bar the Soviet Union from consolidating either directly or through Cuba a hostile foothold on the American continents in order to advance its strategic purposes.

In short, the crisis in Central America is of large and acute concern to the United States because Central America is our near neighbor and a strategic crossroads of global significance; because Cuba and the Soviet Union are investing heavily in efforts to expand their footholds there, so as to carry out designs for the hemisphere distinctly hostile to U.S. interests; and because the people of Central America are sorely beset and urgently need our help.

The Future

We think this challenge can -- and must -- be met. The Commission takes heart in the refusal of Central Americans to succumb to despair. Everywhere we found hope for a democratic future and a readiness to sacrifice toward that end. The high level of sustained economic growth during the postwar period demonstrates that Central America has the human and material resources to develop rapidly. The region's leaders, both in government and in the private sector, expressed their understanding that there must be greater equity in the distribution of economic benefits and greater justice in social relations. If that understanding is translated into reality, the opportunity for more balanced and sustained development should be at hand.

We shall discuss in a later chapter what can be done to revive the economies of the region. Let us simply note here that the small size of these countries means that significant but not vast amounts of outside assistance can make an important difference -- and that with such assistance Central America can progress.

The people of Central America have lived too long with poverty, deprivation and violence. The current turmoil must not be allowed to shatter their hopes for a brighter future.

They have endured too many generations of misrule to let their aspirations for democratic political development be dashed in this generation on the rocks of fear, division and violence. Not least, their own security -- and ours -- must no longer be threatened by hostile powers which seek expansion of influence through exploitation of misery.

-39-

The crisis, thus, poses an urgent challenge to the United States. But that challenge in turn presents us with an opportunity -- an opportunity to help the people of Central America translate their dreams of a better and a freer life into reality.

Chapter 4

TOWARD DEMOCRACY AND ECONOMIC PROSPERITY

The crisis in Central America has no single, simple cause, but the troubled performance of the region's economies has been a major factor. They were among the most dynamic in the world during the 1960's and early 1970's. But that growth was unevenly distributed and poverty continued to plague most of the region's people. As the Final Document of the Catholic Conference of Latin American Bishops at Puebla, Mexico recognized in 1979, there was a "growing gap between rich and poor," which the conference characterized as a "contradiction of Christian existence." This contributed to a growing political frustration in several countries, intensified by the fact that some sectors of these societies were enjoying economic success.

Then, in the late 1970's, production, export earnings, incomes, profits, and consumption all began to decline. The result was a sharp economic contraction in each country of the region. The effects have been particularly severe for those who were denied participation in the earlier era of rapid growth.

Yet our meetings with the leaders and people of Central America and our consideration of the facts put before us during the hearings have convinced us that the Central American economies can grow again, and that the fruits of that growth can be more equitably shared. This will require that:

- * Economic growth goes forward in tandem with social and political modernization.
- * Indigenous savings are encouraged and supplemented by substantial external aid.
- * The nations of the region pursue appropriate economic policies.
- * In particular, these policies recognize that success will ultimately depend on the re-invigoration of savings, growth, and employment.

The program the Commission envisions -- aimed at promoting democratization, economic growth, human development and security -- would break new ground. Most past U.S. development programs have been predominately economic. We argue here that the crisis in Central America cannot be considered in solely

economic or political or social or security terms. The requirements for the development of Central America are a seamless web. The actions we recommend represent an attempt to address this complex interrelationship in its totality, not just in its parts.

This chapter focuses on broad issues of economic performance, recovery and expansion. We propose specific programs to reinvigorate critical elements within the Central American economies in conjunction with social and political change and progress. We envision, in the short term, an emergency stabilization program and, in the medium and long term, a new multilateral regional organization to measure performance across the entire political, social, economic, and security spectrum, and to target external aid resources where they can provide the most significant impetus. In support of these efforts, we urge a five-year commitment by the United States to a substantially increased level of economic assistance.

We recognize that large-scale economic aid alone does not guarantee progress. The most successful growth efforts in the postwar period -- including Central America's own sustained expansion during the 1960's and 1970's -- were led by the private sector. In these cases governments provided appropriate incentives and eliminated roadblocks, rather than trying to make themselves the engines of growth. This must be done again in Central America.

Success will turn in part on the ability of the nations of Central America to take full advantage of the enterprise, courage, and initiative of individuals and of non-governmental institutions and groups: businesses, voluntary organizations, the churches and their lay organizations, trade unions, agriculture and peasant leaders and cooperatives. All these have roles to play.

We recognize that it is unlikely that the social inequities and distortions that have accumulated over the last five centuries will be corrected during the next five years. But the groundwork for recovery should be laid as soon as possible. To that end, bold initiatives are needed. The costs of not meeting the challenge in Central America would be too great, today and for generations to come.

CURRENT ECONOMIC CONDITIONS AND THEIR CAUSES.

Before presenting our policy recommendations, we turn first to an examination of current economic conditions and of the causes of the crisis. Adverse international economic and financial developments, natural disasters, ineffective economic policies within Central America, structural economic weaknesses, and high levels of violence have combined to