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WOMEN IN STRUGGLE

Introduction ...

This issue of the NACLA REPORT has been put together to provide information about the role of women in the struggle for liberation in Latin America and to provide a theoretical framework within which to see women's liberation as part of the global anti-imperialist struggle.

Since the social and economic relationships which exist within each society are the reflection of the economic necessities of imperialism at a given time and place, the position of women will naturally be different within the imperial power than within the neo-colonies. Although the strategy for dealing with women's oppression will necessarily vary from country to country, it is clear that a change in the situation of women would not be possible without a change in the social structure which oppresses them. This change, however, entails more than an economic restructuring of society; it implies a radical change in the traditional conceptions of man and woman which is only possible under socialist society.

While it has been stated that women have traditionally played a conservative role in Latin American politics, there has not been sufficient research done in this area on why this may be true. Today, however, women, increasingly involved politically and increasingly conscious of their own oppression, are struggling on many different levels. Recognizing that there is a material base for the oppression of women, it is very important for us to study the concrete conditions which exist in Latin America and the effects of imperialism on women there. We have been unable to find much research in this area and would like to encourage our readers in both the United States and Latin America to help fill this gap. We would be very interested in seeing any material which you either write or come across.

We hope that this issue will help to combat what has been the almost total invisibility of women throughout recorded history and will act to reinforce women's belief in themselves, permitting them to sieze a revolutionary role in society.

The article entitled "Toward A Science of Women's Liberation" was written by Isabel Larguia and John Dumoulin, both of whom have lived in Cuba for several years. The article was originally published in Spanish in the Cuban publication, Casa de las Americas (March-June 1971), Vol. 10, No. 65-66. The article appears here in a slightly edited version.

The second article entitled "Women in Revolutionary Cuba" first appeared in English in the Prensa Latina Feature Service (ES-1847/1972), which is distributed from Havana, Cuba.

Cover: Police photograph of Jessie Macchi, a leader of the Tupamaros, the Uruguayan guerrilla organization. It illustrates one of the many forms of struggle in which Latin American women are engaged.

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Toward A Science of Women's Liberation

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. . The division of labor . . . is based on the natural division of labor in the family and the separation of society into individual families opposed to one another, is given simultaneously . . . the unequal distribution . . . of labor and its products, hence property . . . the first form of which lies in the family, where wife and children are the slaves of the husband. This latent slavery in the family, though still very crude, is the first property, but even at this early stage it corresponds perfectly to the definition of modern economists who call it the power of disposing of the labor power of others. Karl Marx and Frederick Engels, *The German Ideology,* (New York, International Publishers, 1947), p. 21.

It is generally believed that women are marginal to the process of production; that their incorporation into the process began with their participation in the commodity economy, in which they were destined to perform an auxiliary role; that their fundamental duties are in the home and in the family where they have a woman's role, unrelated to the economy.

Such ideas, widely held by both people in general and specialists, are based on profound ideological confusion. They denigrate women in various ways. They deny the economic value of the work women have generally performed, and they claim, at the same time, that women are born with physical and spiritual characteristics, the nature of which leads them to carry out a specific type of work. This ideological confusion prevents a complete understanding of the functioning of the economy. What is more important, it conceals one of the oldest and most enduring bases of class society.

Marx and Engels discovered how, in the process of formation of a class society, the family was crystallized into a means of control over the labor power of women, into a means of private accumulation. Their principal investigations responded to the urgent necessity to arm the working class with a scientific knowledge of the basis of their exploitation, thus demystifying bourgeois society and revealing the internal dynamics of the capitalist, commodity economy. They also analysed the division of labor and the evolution of private property, with its close links with the individual family, revealing how under capitalism it continues to be "the economic unit of society." They produced valuable studies on the oppression suffered by women, and the ideological superstructure which justified it.

The family, as we know it today, arose with the breakdown of primitive society. It is not by chance that the word "family" referred originally to the right of private property held by the *paterfamilias* over its members as well as over the material goods that made up his household. The "household" emerged as the first form of private enterprise, as the property of the head of the family, for production, exchange, and competition with other households, and for the accumulation of the surplus product.

The original meaning of the word "economy" is, "the art of managing household affairs." The property rights of the head of the family implied inheritance through the paternal line, the total ownership of women, as well as control and expropriation of female labor power.

Such had not always been the case. In primitive society, work and all other social activities were carried out collectively, and both property and kinship relations reinforced these collective bonds. It was only with the emergence of the patriarchal family that social life was divided into two clearly differentiated spheres: the public and the domestic. These two spheres underwent unequal development; whereas great historical transformations occurred in the former, the latter, which developed much more slowly, acted as a brake on the former.

With the development of commodity exchange and the division of society into classes, all economic, political and cultural changes centered around the public sphere, while in the household only the individual family unit, as we know it today, was strengthened. Women were relegated to the domestic sphere by the division of labor between the sexes; at the same time, throughout the ages a very powerful ideology developed which even today determines the image of women and their role in social life.

In order to discover the bases of this ideology and the enormous importance it has had in the development of class society, it is necessary to specify the privatized activities performed by women within the bosom of the family. Thus, the following pattern emerges:

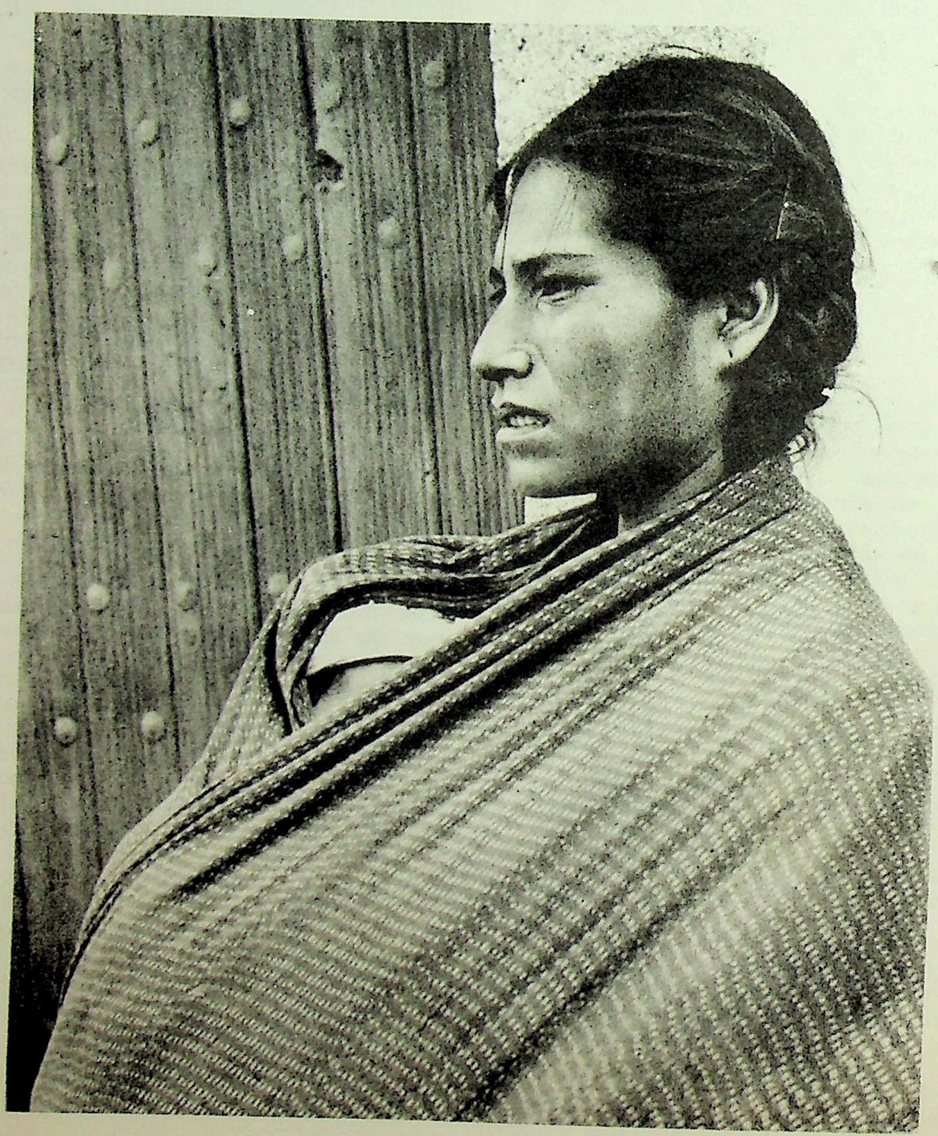
(a) strictly biological reproduction;

(b) education and care of the children, the sick and the elderly;

(c) reproduction of labor power consumed daily.

When these three features are combined, biological reproduction is systematically confused with *the private reproduction of labor power*, not only that which is used up by men and women in the process of social production, but also the early training of the new generation of workers.

Such confusion is the basis for pseudoscientific notions which modern society hails as justification for the division of labor between men and women. The biological factor could not have determined the changes which have occurred in the family since primitive society, inasmuch as it has remained identical throughout the entire existence of the species; nor does it explain the role of women in work and their resulting social position. Furthermore, biological reproduction affects men as much as women, with the exception of the nursing period and, in a few societies, the last months of pregnancy.



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Women do not perform domestic tasks because it is "natural" to do so. Ethnological studies of pre-class societies have destroyed the traditional 19th-century image according to which women have, from the onset of history, spontaneously dedicated themselves to weaving and cooking, while men worked in distant fields, waging epic battles against the indomitable forces of nature.

For example, the Routledges indicated in *With a Prehistoric People* that in the group studied, men were incapable of lifting loads of more than sixty pounds, while women were able to carry a hundred pounds or more. As the authors state, "When a man says 'This task is too heavy for me, it should be performed by a woman,' he is merely confirming a fact."

In *The History of the USSR* by Briusov and others, we read, "In the neolithic metropoli(ses) of Transbaikal, hunting weapons—bows and arrows—were found in both men's and women's graves, which is characteristic of a matriarchal order."

If we prefer to disregard ethnology and archaeological findings, the daily press offers ample information about the struggle of Vietnamese women. During the Tet offensive, for example, more than two million took up arms.

VISIBLE AND INVISIBLE LABOR [1]

The egalitarian position held by women in primitive society was determined by the value of their productive labor, performed collectively. Beginning with the breakdown of collective structures and their replacement by the patriarchal family, women's labor was progressively individualized and limited to the *making of use-values for direct and private consumption*. Excluded from the world of the surplus product, women became the *invisible* economic base of class society. The labor of men, on the other hand, crystallized, through the different modes of production, into *economically visible* objects, destined to create riches upon entering the exchange process. Under capitalism, through the sale of his labor power, man defines himself essentially as the *producer of commodities*, be it as the owner or operator of the means of production. His social position and his class are determined by his activity and by the position he occupies within the world of production of goods for exchange.

Women, expelled from the economic universe where surplus is produced, nevertheless fulfilled a fundamental economic function. The division of labor assigned to them the task of reproducing the greater part of the labor power which moves the economy, through the transformation of raw materials into use values for direct consumption. They thus provide food, clothing, household maintenance, as well as the education of the children.

Economists today understand that men must produce new material goods in order to reproduce the means of production and subsistence (machines, foodstuffs, clothing, etc.) which are continuously used up. This process of constant replacement of production is known as *reproduction*, and occurs within each business enterprise as well as within society as a whole. But what is not understood is that this simple economic reproduction takes place at two distinct levels which correspond to the abovementioned division of labor. One of these is the most primitive form of enterprise, *the household*. If it is true that male and female workers daily reproduce labor power by means of the creation of goods for exchange, and accordingly for their indirect consumption, it is also true that housewives *daily reproduce a great part of the labor power of the entire working class*. Only the existence of an age-old alienating ideology of sex prevents a clear perception of the economic importance of this form of direct and private reproduction of labor power.

To put it crudely, if the proletariat could not rely on this type of female labor power to provide it with food, clothing, etc., in a world where collective replacement is not provided for, the hours of surplus labor would be significantly reduced.

In evaluating a country's economy and its possibilities for development, it is not enough to compare the surplus value a worker produces with that part of the worker's labor which pays for his family's subsistence. The worker and his family do not subsist merely on what they buy with his wages; the housewife and other household members must also invest many hours in domestic work. In order to gain an understanding of the contribution of housewives, let us assume that they dedicate only one hour a day to the maintenance of each human being living today (an absolutely conservative estimate); we would arrive at a number well over *three billion hours of invisible labor performed*. Under present conditions, the proletariat can produce surplus value in the social economy thanks only to these hours of invisible labor. Therefore we can say that women's labor in the household is converted into surplus value by the wage-labor force.

We must think in terms of the total labor supply, the entire labor force that maintains and develops an economy. We can estimate the relative magnitude of the surplus generated when we compare it with the total work done for the market as well as for direct consumption. This second dimension is not usually taken into account, reflecting the fact that economists limit themselves to the categories of commodity production, i.e., those of capitalism.

Capitalists have no direct relationship to subsistence production, although they exploit it indirectly. The enormous quantity of subsistence labor—especially in the non-industrialized countries—added to the low standard of living, allows capitalists to pay the lowest wages and to extract enormous profits even when productivity is relatively low. The economists' omission reflects the discrimination against women and the confusion between biological reproduction and the private reproduction of labor power.

The division of labor created skilled male workers, concentrating in their hands the creation of the surplus product. By means of these skills, men were liberated from most of the reproduction of their own labor power, permitting them to devote all their energies to social production and public affairs. Thus men's work was crystallized into objects, into economic and socially *visible* commodities. Women's work in the bosom of the family did not directly produce a surplus product nor a visible commodity; women were isolated from the sphere of exchange where all values were connected with the accumulation of capital. Women's work remained hidden behind the facade of the monogamous family, and is *invisible* even today. It seemed to vanish into thin air, because unlike men's work it did not produce *visible* products. Thus, this type of work has not been considered to have value, even though it uses up many hours of arduous effort. *Consequently, those who expended the effort were excluded from the economy, from society and from history.*

The invisible product of the housewife is labor power. It is only under capitalism, with the creation of the working class, that labor power becomes a commodity. Capitalism links women more directly with the monetary economy, because they actually produce for the market—the labor market. But they are not the owners of the labor power which they produce: the power belongs to their husbands and sons, who sell it. Furthermore, the prevailing bourgeois approach does not recognize the nature of this new commodity and claims that the capitalist buys "labor" rather than labor power. In this way the housewives' efforts remain invisible as before. The conceptual confusion between biological reproduction and reproduction of labor power lends physiological overtones to social consciousness; the result is that *domestic work is considered a secondary sexual characteristic rather than an economic category.*

Thus the housewife does not sell her labor power or its products; rather, her invisible labor power is simply confiscated by means of the marriage contract, obliging her to look after the family, shop, process, and serve, in exchange for her keep and the attainment of a social status determined by that of her husband. . . . Since her specific labor is invisible, her contribution to the development of productive forces remains hidden. So flexible is the intrafamilial division of labor between the sexes, that the relationship can easily adapt itself to any form of class society, be it feudal, capitalist or otherwise.

Within this domestic context, housewives of the working-class sector ("ladies of leisure" are not included), have the special status of a subclass. Housewives, like slaves, do not participate in the exchange process as producers—either among themselves or with any other class—unless they become part of a collective working unit. They do not form part of the public parade of gentlemen, serfs, slaves, capitalists or other groups. They do not participate in public property relationships through which production surplus is created and expropriated. Their situation (which seems unique, though similar in some respects to patriarchal slavery and in others to subsistence peasantry), is that of contributing to this process as a satellite, through the direct reproduction of the labor power of the rest of the workers.

DIVISION OF LABOR: CONSOLIDATION OF OPPOSING SEX MODELS

> *Division of labor and private property are . . . identical expressions: in the one the same thing is affirmed with reference to activity as is affirmed in the other with reference to the product of the activity.*
> Marx and Engels, *The German Ideology,* p. 22.

"The ruling ideas are nothing more than the ideal expression of the dominant material relationships . . .; hence of the relationships which make the one class the ruling one, therefore the ideas of its dominance." *Ibid.*, p. 39.

Aristotle: "It is a general law that naturally dominant elements and naturally dominated elements exist. . . . The rule of the free man over the slave is one type of domination; that of man over woman is another. . . ."

Napoleon Bonaparte: "Nature intended women to be our slaves. . . . They are our property . . . they belong to us as a tree that bears fruit belongs to the farmer. . . . Women are nothing but machines to produce children."

Jean-Jacques Rousseau: "The entire education of women must be relative to men. To please them, to be useful to them, to make themselves loved and honored by them, to educate them as children, to care for them as adults, to counsel them and console them, and to make life sweet and agreeable to them—such are the duties of women at all times and should characterize them from their earliest childhood."

P. J. Moebius: "If women's capabilities were developed to the same extent as man's, their generative organs would suffer and we would have a repulsive and useless hybrid."

John XXIII: "God and nature gave women different tasks, which perfect and complement the work assigned to men."

Bourgeois science has produced numerous theories designed to prove the biological inferiority of women. Just as slavery, imperialism and fascism gave rise to innumerable pseudoscientific theories intended to demonstrate the inferiority of oppressed peoples and to justify genocide, an impressive number of theories designed to keep women "in their place" have been contrived by psychoanalysts, biologists, doctors, sociologists and anthropologists.

The radically opposing sex models that prevail are the product of the division of labor. Based on obvious biological differences, a vast cultural superstructure has been erected, postulating not only physical types, but also temperaments, character traits, preferences, tastes and talents, which are all assumed to be *biologically inherent* in each sex; they are considered to be secondary sex characteristics—immutable, inevitable and ahistorical.

In a comment on Adam Smith, Karl Marx wrote: "By nature a philosopher is not in talent and intelligence half so different from a street-porter as a mastiff is from a greyhound; the abyss between them exists because of the division of labor." And, "The difference in natural talents between different individuals is not so much the *cause* as the *effect* of the division of labor."

If for a moment we were able to free ourselves from all the prejudices and the distorted personal experiences which have formed our ideology of sex, we would recognize that the opposing models of today are not due to basic biological differences but to the thousands of years in which the division of labor has prevailed.

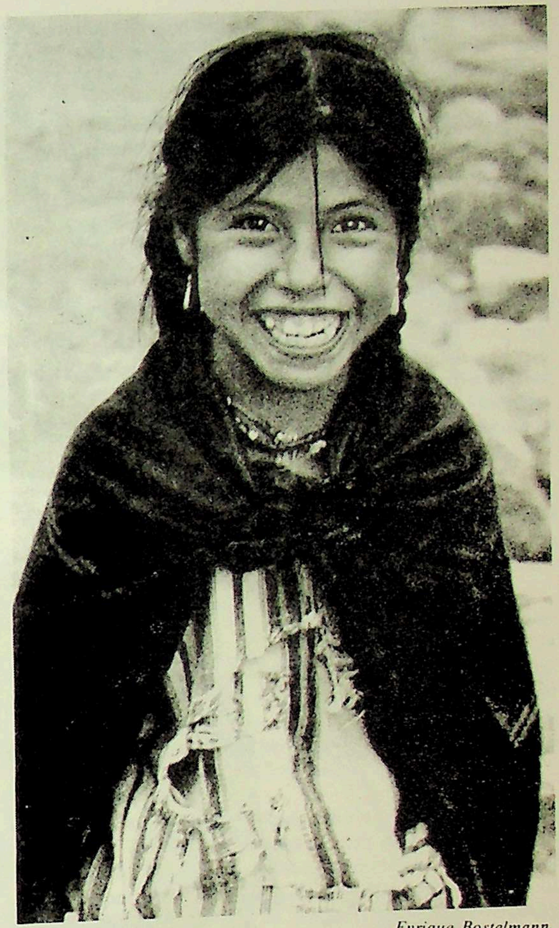
Throughout the history of class society, the fundamental task of women has been to stay in the home and maintain the family. In this long process juridical structures and cultural traits that reinforced the situation were developed and implanted. Morality, legislation and culture consolidated and buttressed the opposing sex models.

Women were made responsible for the perpetuation of the species; the co-participation of men was not taken into account. Simultaneously, there emerged the belief that women were incapable of performing "heavy," "dangerous" or "responsible" tasks.

Whereas in the classical female typology reproductive behavior is determining, in masculine typology, labor for the creation of exchange and for juridical and military defense of the goods produced is the primary factor.

The standards of behavior that crystallized throughout the ages predetermine absolutely the educational formation and social destiny of the new human being, according to sex classification. The education of the girl-child, especially in underdeveloped countries and exploited classes, inhibits her from engaging in rough play and games, to the detriment of her physical and personality development. All interest in mechanics, in work tools, is forbidden to her.

Restricted to the narrow limits of the home, the first and inevitable gift a girl-child receives is the traditional doll, toy pots and pans, chairs, brooms, sewing kits, combs and mirrors; why is she not given a gun or a carpentry set? Along with these early playthings, she receives a long decalogue of "don'ts," which tend to instill in her the fear of exploration of the outside world. She is molded into a decorative, pretty, "feminine," object, and from the beginning the conviction is fostered in her that she was born to please through her sex, rather than expressing herself through work. All her creative forces are channelled into the reproduction of the species and the private reproduction of labor power.



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As children, both males and females receive the tools which they will use as adults in the form of toys. Their regular use conditions the users to acceptance, physically and psychologically. Thus, the secret division of labor is assured and the base of class society remains unchanged—thanks to this early recruiting of invisible labor power.

Class culture—poetry, fiction, popular music, the mass media, customs and habits—carries forward the thorough and devastating work begun in childhood. Prisoners of this constraining anthropological pattern, women inevitably see their best creative energies diverted toward a hypertrophied culture of love and reproduction. By the time women reach adulthood, they are, objectively speaking, atrophied beings, who look upon themselves as a human byproduct. The system of values with which they have been provided, and to which they desperately cling in a world hostile to their full development, convinces them that their social advancement can come only from

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the exercise of their sexual traits. Meekness, passivity, abnegation, and pathological fear of independence are required of the classic woman. Our Western Christian society knows how to strangle with silken cords. It is not necessary to bind the feet of our young women; it is enough to create in them monstrous inhibitions, enough to provoke the death of audacity, energy and curiosity.

Thus are created the internalized bonds which make women conservative, insecure and afraid to launch an open struggle for their full liberation. Even when rejecting the traditional "feminine mystique" and the burden of class culture, even when joining the revolutionary struggle, they tend to seek the approval of a superior masculine authority. This corpus of "virtue," (with the social pseudonym of "femininity") alienates women from their human condition, and is conducive to private reproduction of labor power.

The expectations that the young man must satisfy are exactly converse. As the future *visible* worker, he must develop his physical strength to the maximum (a

development repressed in women), as well as his combative intelligence and courage, characteristics defined by that worn-out word, "masculinity." Sad examples of the contrast provoked by the division of labor are the public figures with which capitalism bombards men and women for their respective emulation and identification: the President and Marilyn Monroe.

The existence of a dual morality sanctions oppression of women in everyday relationships. This morality requires of men the demonstration of sexual aggressivity, which in some societies becomes obsessive; and from women, the corresponding masochistic provocation. The ideology born from the male-female polarity finds its familiar expression in false gallantry and wolf-whistles, and inculcates in women the conviction that they are nothing more than objects of masculine possession. The average woman does not realize that not only are her "beauty," her "poetic and ideal self," possessed; the ultimate aim is the confiscation of her invisible labor power through the marriage contract.

Romanticism became the most formidable smokescreen behind which exploited slave labor could be concealed. The chubby Cupid which fluttered around our grandmothers was in reality a most effective policeman in the service of private property.

THE INDUSTRIAL REVOLUTION: THE SELECTIVE INCORPORATION OF WOMEN INTO THE WORKING CLASS

With the full development of capitalism, the family unit began to undergo important changes, but the exploitation of women in the home remained unchanged. Only their incorporation into the proletariat began to modify substantially the situation of the mass of women. The formation of the working class created a group of free workers which had virtually no material possessions. Inheritance and paternity, pillars of the family in class society, lost their economic significance for a large part of the population. Small producers however, in developed and underdeveloped countries (where they continued to exist in large numbers), maintained patriarchical relationships.

Industrialization required a rise in the cultural level of the exploited classes. The bourgeoisie favored universal elementary education, which required state participation in the training of new generations of workers, training in which the family shared a role. The prospects for extending education were increased; however, the basic division of labor between the sexes was not modified.

Capitalism introduced some substantial changes in the legal status of married women, granting them, at least in principle, the rights of an individual. Engels writes:

> "By changing all things into commodities capitalism dissolved all inherited and traditional relationships, and in place of time-honored custom and historic right, it set up purchase and sale, "free" contract. . . . But a contract requires people who can dispose freely of their persons, actions and possessions, and meet each other on the footing of equal rights. To create these 'free' and "equal" people was one of the main tasks of capitalist production." (*Origin of the Family, Private Property and the State,* International Publishers, New York, 1942, p. 70.)

Finally, this principle was extended to the marriage contract:

> ". . . the love marriage was proclaimed as a human right, and indeed not only as a *droit de l'homme,* one of the rights of man, but also . . . as *droit de la femme,* one of the rights of woman." (Ibid., p. 72.)

Nevertheless, the exercise of this right—as with all other liberal rights—remained subordinate to the realities of the division of labor.

The Industrial Revolution required the massive incorporation of women into industrial production. A female proletariat was created—a new force in history, which assumed enormous importance in the development of society. Through mass elementary education, the opportunity of invading the outside world was conceded to young women (and young men).

Despite the relative modifications that this change produced in traditional sexual patterns, these modes continue to have a powerful influence on the range of occupations open to women. Even though the struggle of middle-class feminists, who possess the relative security conferred by their social and economic status, enabled them to force some openings in architecture, engineering, etc., women are still not accepted as welders, lathe operators, or masons.

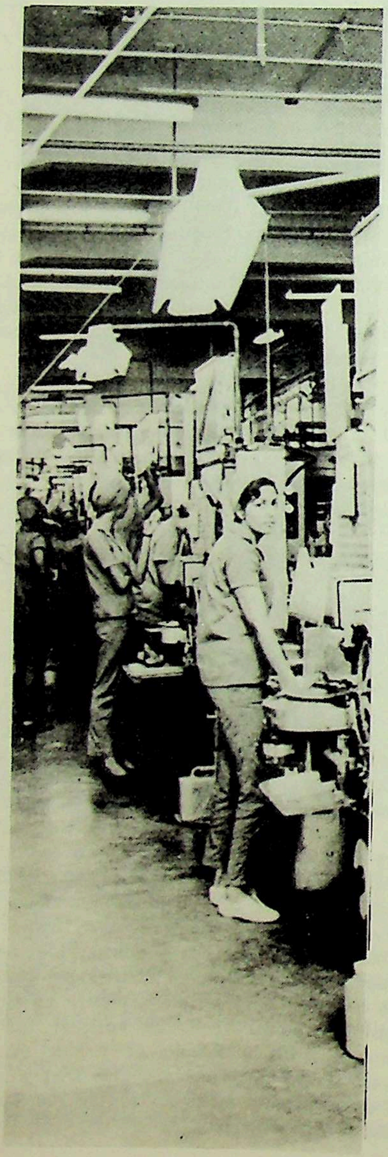
The division of labor between the sexes is merely the faithful reflection of the secret division of labor which frees men for public activities, while isolating the majority of women within the narrow confines of the private reproduction of labor power. It is not by chance that women have been accepted in the textile and clothing industries, in food-processing, and in the services—as teachers, nurses, secretaries, elevator and telephone operators and domestic workers: *These activities are merely the projection into the public sphere of the tasks performed by women in the household.* With the exception of wartime, in which necessity forces the incorporation of women into heavy industry, they tend to be systematically excluded from all technologically advanced branches of industry. In certain capitalist countries, the bourgeoisie in power tends to conceal this savage discrimination with a facade of health and safety regulations on the job. Thus, the idea that women can perform only *auxiliary tasks* is fixed in the social consciousness of the proletariat.

The ideal of beauty held by the ruling class—disseminated by the mass media—tends to reinforce in women the fear of healthy development of their physical strength. The division of labor within the proletariat helps to consolidate the old prejudices concerning the sexes in the work area. These prejudices pursue two aims:

(1) to justify the payment to women workers of lower wages than men (about 45 percent lower), for the same work and same level of skills.

(2)to assign to women "light" production tasks, in order to justify the female workers' obligation to continue reproducing labor power in the home after completing the factory work day.

Cigarette factory in Brazil



In *The Origin of the Family, Private Property and the State,* Frederick Engels expressed concern for the future of women, declaring that they would have to choose between being housewives or workers. He could not imagine, and in our judgement he was right, that women could undertake both tasks. But due to just one more irrationality of the capitalist system, women are burdened with both tasks, with the weight of superexploitation which wipes out for them the benefits of the shorter hours won by the working class.

The second shift was not denounced politically until very recently, in spite of the fact that it placed women in the same situation as those (nineteenth-century) English workers who worked twelve hours and more a day. Domestic work, invisible and apparently lacking in value, continues to be considered a secondary sex characteristic, and is given a biological quality; hence, it is considered the most natural thing in the world for women workers to bear the burden of the second shift.

Though women have advanced greatly by participating in *visible* labor, they have done so in exchange for a sacrifice which is conveniently overlooked by the ruling class. They work one shift in a factory, receiving a salary for this work; upon returning to their "home sweet home" a second workshift awaits them, nonsalaried, unskilled, stupefying drudgery, which banishes from their minds any illusions of equality with men and of their new much-touted social independence.

From the following table of the weekly working hours of French women in 1959, we may draw several conclusions:

Weekly Working Hours for Women

Women Workers				Housewives
No. of Children	Paid Work	Housework	Total	
0	50	27	77	54
1	45	39	84	71
2	37	47	84	76
3 or more	34	50	84	78

La femme dans la societe: Son images dans les differents milieux sociaux. Chombart, de Lauwe and others, Paris Editions Ouvrieres, 1964.

(1) For a mother, the second workshift is as long as her socialized workshift; if she has two children or more, it is longer.

(2) Since the second workshift increases with the number of children, working mothers are forced to limit

their socialized workshift, a third of which is thus sacrificed. It would seem that working women are unable to carry a workload of more than eighty-four hours per week (against forty-nine for men); however, the Chase Manhattan Bank estimates that North American working women expend about one hundred hours a week.

(3) With respect to the social utilization of labor power, full-time housewives spend far more hours solving problems that paid women workers face. The childless housewife requires *twice the amount of time* a woman worker does to attend to her household. Mothers spend some thirty hours per week more on housework when they have no outside occupation. What causes this? A very marked psychological factor intervenes—the tendency of the housewife to occupy herself obsessively with household duties and to overprotect her children, discharging on them all the energies repressed by the division of labor. This same tendency leads her to give up other activities (cultural, recreational and political). In the words of Betty Friedan, "Housewifery expands until it fills all available time." The working woman has wages at her disposal which permit her to socialize part of the second shift through the utilization of launderies, restaurants, daycare centers and other services.

The conservative political forces of France and other highly industrialized countries, while admitting that women work more than eighty-four hours per week, propose as a solution the reactionary measure of part-time work. Such a solution would *tend to defend the traditional division of labor* and impede the socialization of the second shift and the increase in social wages.

Given that the reproduction of labor power is still considered a secondary sex characteristic rather than a specifically economic function, men consider their participation as degrading. The worker who is a militant activist on the job does not realize that part of the surplus value which the owner appropriates is created by his own wife, with himself as intermediary (in this respect he is fulfilling the role of a foreman).

In the sex typologies of class society, the repressive function belongs to man. How does a woman experience this repression? A woman might well describe her situation as follows,

"If I protest my situation, the whole of society will put me 'in my place,' utilizing morality and culture which do not tolerate outbursts of 'feminine hysteria.' *Machismo* acts as a vigilant policeman, preventing me from losing control and stripping away any process of humanization and awareness on the part of men. The husband who understands his wife, who shares the cleaning, washing and ironing equally, is considered in certain social circles to be physically and mentally deficient. Arrogant, curt, disagreeable, playing the touch guy, threatening—such is the symbol of classic virility. It does not demand ritual sacrifices; worse yet, it is a vampire that sucks from us millions of hours of invisible, unskilled, unpaid labor.

Implacable border guard of the division of

Puerto Rico-- 1933

labor, it appears at each step the new woman takes on the road to her liberation. Emulating the *big stick* policy, it was present during the early years of my childhood, to inhibit me and hamper the full development of my physical strength. It appears in all sectors of work activity, to snatch work tools from my hands, to close to me the roads to political leadership, to impede my access to the army, and to all branches of high-level production. When it cannot impose itself by force, the symbol of virility assumes a gentle disguise. Feigning a protective, paternal concern, it claims that good working conditions and the integrity of the family will 'protect me.' When force is unsuccessful, it retreats (temporarily), adopting an air of wise, self-sufficient irony.

I know it well, I know its ideology and its reason for being. Like the eunuch who kept the keys of the harem, it is entrenched in the social consciousness, to guarantee a semi-slave labor force for the private reproduction of labor power. It is there to serve the ruling class, to confuse the people, to prevent women from realizing our creative potential, which, if turned to social labor on a mass scale would provoke an immense advance. It is there because if all my sisters understood to what extent they are deformed, to what extent they are exploited, the collapse of the foundations of class society would be hastened.

WOMAN, PRISONER OF CONSUMER SOCIETY

We should not underestimate the enormous ideological and economic importance that sex has today for the survival of class society. The values of liberalism, with its emphasis on individual rights, its total philosophy and culture of individual liberties, seem to be indispensable to the preservation of a stable capitalism. (Fascism has not proved to be a lasting solution.) But in a society dominated by monopolies, petit-bourgeois liberalism has completely ceased to correspond to economic and political reality. Sex is the only terrain where liberalism is still actively functioning. Furthermore, it can count on an immense ideological reserve—the complete and unconscious popular acceptance of opposing sexual models. The first decades of this century saw the development of a powerful culture of sex, whose most important ideologist is Sigmund Freud. Both the vanguard of the art world and, later, the mass media, incorporated into the social consciousness of the highly developed countries concepts such as "sexual-repression" and its counterpart "release from inhibition."

The theory that culture is the product of the sublimation of the sex instinct was given a scandalized but nonetheless warm welcome by the ideologues of the ruling class, who soon incorporated it into the bourgeois system of thought. That sex was the base of all culture and the therapeutic value of releasing inhibitions—concepts

formulated by psychoanalysts—was promptly accepted and commercialized by class culture and the mass media. Sexual puritanism, which originally characterized bourgeois morality, was replaced by a call for "an end of inhibitions," for a rejection of the established norms.

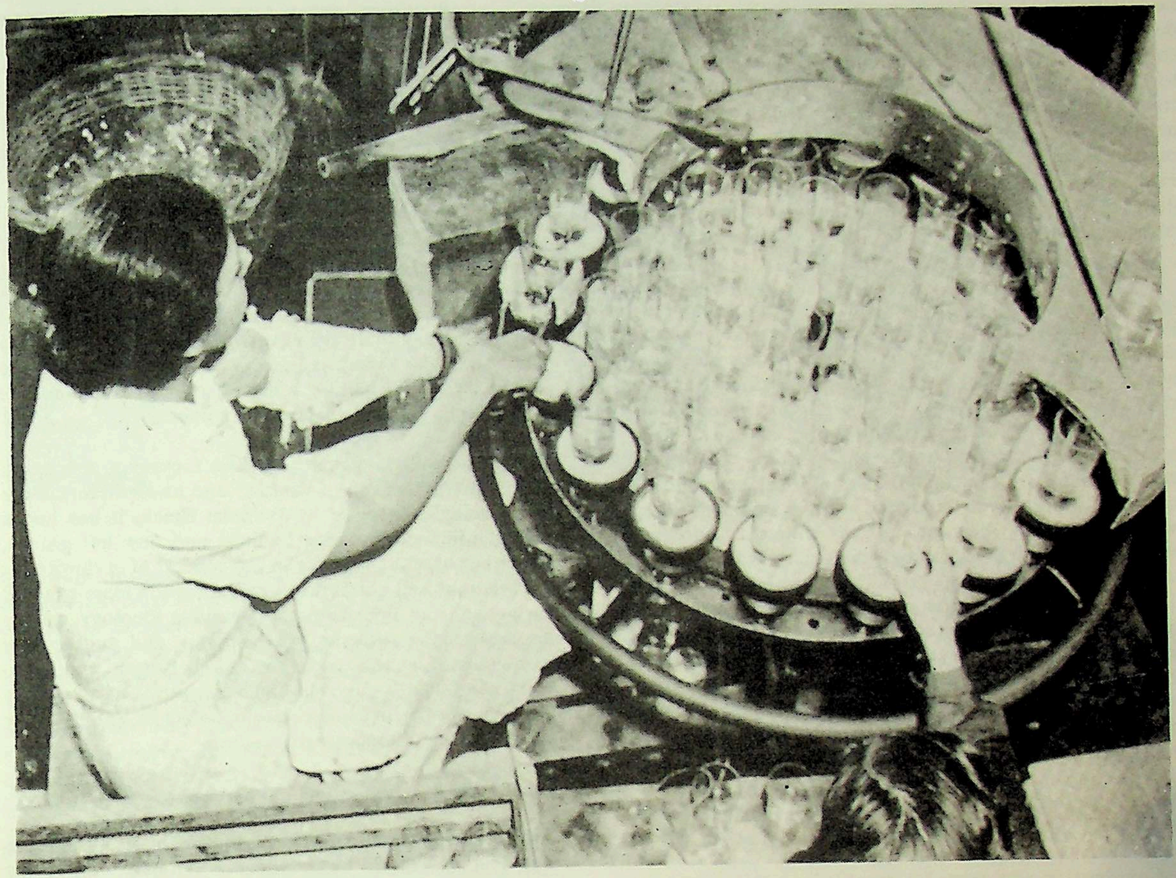
Sex—cleverly manipulated through advertising, films, television and the press—impregnated the social consciousness of the developed countries. It is the last refuge of the myths of private initiative and individual sovereignty which, paradoxically, stem from puritan wedlock. The new liberty of women fulfilled the ideological function of an escape valve for neocapitalism.

Economic necessity has strengthened this alienation. The principal problem of contemporary capitalist economy is no longer to create the necessary conditions for the *production* of commodities but for the *sale* of these same commodities, the circulation of which is constantly threatening to slow down, preventing the earning of profits. The neocapitalist solution is the so-called consumer society in which advertising becomes the motive force of continuing economic expansion; light industry, aimed at the consumer, becomes its most dynamic sector. Demand no longer "exists" but is "created." Demand has become the ultimate product of radio, television and mass publications which stimulate the continuous creation of new needs, guaranteeing a permanent condition of unsatisfied and inflated material wants.

The race for prestige is one of the characteristics of this society. Prestige is associated with the purchase and enjoyment of consumer goods, the establishment of social standards increasingly remote from the life of the exploited classes and the Third World. Competition between families and individuals is stimulated to the maximum, in order to guarantee the sales of neocapitalism.

While commodity relations pervade all areas of social life, men and women are increasingly subjected to the world of *things,* that is to say, of their own products. This new economic function of women in consumer society emphasizes their responsibilities as owners of their sex and as partners in family standing. Their function is, increasingly, that of purchasers; a great deal of advertising is focused on women, "dignifying" them in relation to men, stimulating them to buy goods which create a mystic sphere of masculine attraction and approval. Thus, women remain subordinate to men in a subtler, less barbarous way.

Romanticism emphasized the rights of woman over her sex (laying down a heavy smoke screen over the confiscation of her labor power within the framework of her voluntary surrender in marriage—no longer property but a continuing, legal object of exploitation). The rights of woman over herself were recognized by making her the owner of her sex. But like all property under capitalism, sex has the character of a commodity, and thus implies the unending search for buyers: women, in order to enter a marriage contract (i.e., *to sell themselves*), must become a permanent focus of sexual attraction. While the labor power of men is the commodity which they sell and with



Glass factory in Chile

which they compete, the socially recognized value of women is their sex—and the mystique with which it is concealed. Sex competition is to women what competion for work is to men. If men move upward socially, acquiring a certain standing in the class structure through their work, women accomplish the same feat by a subtle use of sex. Even women in the labor market use the old weapons of "enchantment," "beauty," "femininity," in order to advance economically and socially.

One of the products of sex competition (and one of its barometers), is a fluctuating, generally accepted fashion, which is nothing more than the normative expression of the sex market, analogous to the stock market. In addition, the increasingly rapid changes in fashion, standardization and mass production facilitated the expansion of light industry.

The basic canons of beauty which govern the sex market are very far from being expressions of a spontaneous popular culture. They have a marked class character and their function is to accelerate production in light industry and especially to *infiltrate the consciousness of the exploited classes with the aesthetic and moral values of the ruling class.* The ideal woman, as presented by the mass media, literature, and popular songs, unquestionably belongs to the ruling class: slender, with velvety complexion, delicate, lacking any kind of muscular development. The male-female polarity created by the original division of labor is exaggerated to ridiculous extremes. Too much physical development resulting from manual work and sports; muscular arms; the broad, strong hands of a woman worker; a forehead wrinkled by study; all are systematically excluded from class culture and, consequently, not recommended for the woman who is prepared from earliest childhood for sex competition.

Not only the need to prevent stagnation in the circulation of commodities, but fundamentally the need to create a "no man's land," where the ideals of individualism and free exchange can survive (ideals which are the foundation of the bourgeois world), leads to the creation of a distorted culture of sex which in turn becomes an obsessive feature of neocapitalist popular ideology. Advertising tends to exaggerate sexual characteristics and functions to an intolerable degree. In this frenzied race of sex and profit, women become attractive commodities—objects of consumption for a masculine population eager for new experience. When women try to liberate themselves it proves difficult to escape the ideological rules of the game. Upon becoming aware that they are *objects*—

i.e., that their human essence has been alienated by a dominant and uncontrollable power—they tend to project this condition on men. The "emancipated" woman begins to consider *them* as instruments of pleasure and play. A tragic war breaks out in which the sexes conquer one another, seeking escape from the tremendous pressures of monopoly-based society. Modern women find no rational explanation for their historical situation; not understanding that their oppression arises out of the division of labor, they adopt vindictive attitudes towards males.

The culture of class society has inculcated in women the notion that they can fulfill themselves within the narrow limits of sex; they still do not understand that the development of their true capabilities can come only from work. Therefore, they believe that the reasons for their oppression are to be found in biological reproduction, instead of social production. Thus, they will tend to rebel spontaneously against traditional patterns of sexual conduct; they will exchange the traditional husband for countless transitory encounters. Having been objects they will attempt to become sexual subjects, adopting authoritarian attitudes,living an imaginary independence which cannot lead to their fulfillment as human beings. Their enduring preoccupation with men continues; they revolve around men just as their grandmothers revolved around one man. Worried only about establishing their vindictive domination within the love relationship, they will postpone their integration into the struggle that will destroy the system which imprisons them. At last, exhausted by the ups and downs of this chronic warfare, they will surrender to the privatized home, where they will docilely proceed to reproduce the labor power of the ultimate conqueror.

Consumer society reaps fat benefits from this new stage in their lives, glorifying the role of the housewife through the mass media, and stimulating women to buy television sets, refrigerators, mixers and so on. In the last few years, advertising has led to the convergence of two ideals: the beautiful, fashionable woman (*Be lovely! . . . Keep your husband!*), and the good housewife, firmly anchored in the kitchen. This woman suffers from a contradiction which can only be resolved by the acquisition of household articles, because she must provide a high level of consumption in the household, without ever appearing to be a worker. The obligation to do housework while looking like Jacqueline Kennedy, the conflict between the slave and the lady, is resolved in favor of light industry. The working-class woman who cannot acquire consumer goods is no less a prisoner of the mass media than the middle-class woman. In consumer society there is no shelter, no refuge, that protects human beings from persistent ideological bombardment. . . .

Neocapitalism, which chains women to their condition as sex objects, offers them escape valves which channel their potential rebelliousness . . . and stamps them with well-defined ideological traits, which they will bring with them, even as they enter the struggle for the rights of women and for socialism. The left movements of the Western world have neglected to study these specific ideological traits. An analysis of them is, nevertheless, very necessary: the survival of these traits in socialism can severely block the development of proletarian consciousness.

These ideological traits manifest themselves as follows:

(1) *Sexual Liberalism*

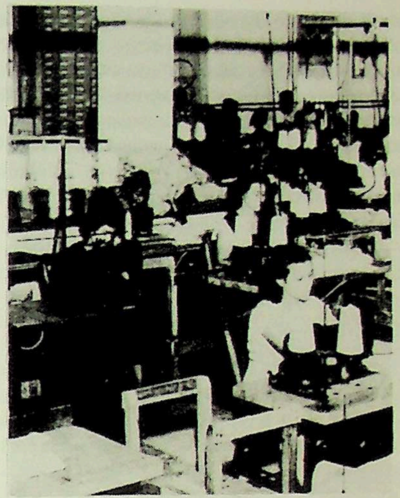
Sexual liberalism, the last stronghold of the traditional values of liberalism, is a contemporary ideological projection of the social division of labor between the public and domestic spheres. Accordingly, it maintains the right to existence of a *privatized morality* as opposed to a collective morality. It advocates the destruction of the family, without acknowledging its continuing status as the "basic economic unit of society," or that it cannot be abolished as long as class society exists.

In political life, sexual liberalism focuses primarily on "the sexual liberation of women" and underestimates the class struggle. Inspired by Wilhelm Reich, it has had a strong influence on some feminist and new left groups, which see human problems in the context of authoritarian sex relations and not in the class oppression from which it springs. Sexual liberation as a feminist ideology usually appears among students, professionals, and middle-class women, and is less common among urban and rural workers. When it survives under socialism it is both an expression of petit-bourgeois individualism and a "poor relation" of cultural neocolonialism.

(2) *Female Economism*

In consumer society, women are usually encouraged to buy rather than to produce. Women, especially housewives, are the purchasers of 75 percent of all consumer goods. This phenomenon requires the elaboration of a whole policy and ideology of selling, inseparable from the dominant values of the ruling class; it tends to emphasize the original division of labor and the sexual roles which emerged from the latter, roles which are based on an exaggerated valuation of beauty, the maternal function of the housewife, as well as rivalry between families to attain a higher social standing. The social existence of the housewife, *isolated in her small domestic sweatshop where she produces labor power,* determines her fundamentally individualist status. . . .

Competition among housewives has its concrete symbols. To achieve the social status recommended by the mass media, it is necessary to acquire certain consumer goods. Consumer-goods fetishism becomes a religion whose believers hasten the cycle of commodity circulation. The acceleration of these cycles depends on the creation of a specific social consciousness among women, which motivates them to consume goods totally unnecessary to the perpetuation of the species—from false eyelashes to face creams to electrical appliances (which do not solve the problem of the second workshift), to ideological and cultural goods such as women's magazines and films, which strengthen the bonds that enslave them to the formidable mythology of sex. When this ideology of *female economism* is not rejected by national and social liberation struggles, it can become an invisible enemy of proletarian consciousness. On the economic level, it constantly hampers socialist planning; this leads to an overemphasis on light industry, subjecting it to the collective whim, obliging it to produce silk stockings for summertime use, false eyelashes, cosmetics and creams worthy of the court of Louis XIV, fashions and literature; it leads to a general emulation of consumer society. It also encourges the perpetuation of individual households as the economic unit of society.



Clothing and shoe factories in Puerto Rico

Thus, if for neocapitalism the creation of a "feminine" social consciousness is a condition for survival, under socialism its total extinction is an immediate necessity for the development of the proletarian economy and ideology.

ROADS TO LIBERATION

If women think their situation in society is an optimal one . . . if women think their revolutionary function in society has been fulfilled, they are making a mistake. It seems to us that women must make a great effort to attain the place that they should really hold in society.

Fidel Castro, Speech to Plenary Session of Federation of Cuban Women, December 1966.

In the family (the man) is the bourgeois, and the wife represents the proletariat. In the industrial world, the specific character of the economic oppression burdening the proletariat is visible in all its sharpness only when all special legal privileges of the capitalist class have been abolished and complete legal equality of both classes established. The democratic republic does not do away with the opposition of the two classes: on the contrary, it provides the field on which the fight can be found out. And in the same way, the peculiar character of the supremacy of the husband over the wife in the modern family, the necessity of creating real social equality between them and the way to do it, will only be seen in the full light of day when both possess legally complete equality of rights. Then it will be plain that the first condition for the liberation of the wife is to bring the whole female sex back into public industry: and that, in turn, demands the abolition of the monogamous family as the economic unit of society.

Frederick Engels, *The Origin of the Family, Private Property, and the State* (New York, International Publishers, 1942), pp. 65-66.

When a socialist revolution takes power, a sudden equalizing process takes place among members of its society, which is qualitatively different from the paltry gains made under capitalism: for the first time in history, women have complete legal equality; wage differentials are eliminated; prostitution and the double standard cease to exist; birth control is facilitated; a sustained effort is made to increase social services and to incorporate women into production. Taking the United States and the Soviet Union as examples, we see that in the United States women constitute 7 percent of all doctors, 1 percent of all engineers and 3 percent of all lawyers, while in the Soviet Union the figures are 79 percent, 32 percent and 37 percent respectively.

For the first time in history women are considered to be human beings. From this moment on, women—collectively and not in isolated groups—start the long march toward their total liberation. Engels foresaw that such circumstances would lead to a heightened awareness of the antagonism between the sexes which exists in class society. In the period of transition, a violent ideological struggle goes on among the masses of the underdeveloped countries, where male supremacy has been most brutal, and where—with some exceptions like Vietnam—mass integration of women has not taken place in the liberation movements, in armed struggle or in political leadership.

Sharp tensions arise within the family. The source of this conflict and the path toward its solution were pointed out by Engels in 1884:

> "We are now approaching a social revolution in which the economic foundations of monogamy as they have existed hitherto will disappear just as surely as those of its complement—prostitution.
>
> ". . . the position of men will be very much altered. But the position of women, of *all* women, also undergoes significant change. With the transfer of the means of production into common ownership, the single family ceases to be the economic unit of society. Private housekeeping is transformed into a social industry. The care and education of the children becomes a public affair." *(Origin of the Family,* p. 67.)

Today, socialist practice demonstrates that marriage based on equality becomes possible only after the seizure of power by the proletariat. It will continue to be a real social necessity as long as competitive individualism—the legacy of earlier social systems—does not disappear. Its effective attainment is one of the most beautiful ideals of socialist men and women who struggle together for communism.

In 1919 Lenin confirmed Engel's analysis, pointing out that the first conquests of socialism revealed the true nature of the economic exploitation of women:

> ". . . We really razed to the ground the infamous laws placing women in a position of inequality, restricting divorce and surrounding it with disgusting formalities, denying recognition to children born out of wedlock, enforcing a search for their fathers, etc., laws numerous survivals of which, to the shame of the bourgeoisie and of capitalism, are to be found in all civilized countries. We have a thousand times the right to be proud of what we have done in this field. But the more thoroughly we clear the ground of the lumber of the old, bourgeois laws and institutions, the clearer it is to us that we have only cleared the ground to build on, but are not yet building.
>
> "Notwithstanding all the laws emancipating woman, she continues to be a *domestic slave,* because *petty housework* crushes, strangles, stultifies and degrades her, chains her to the kitchen and nursery, and she wastes her labor on barbarously unproductive, petty, nerve-racking, stultifying and crushing drudgery. The *real emancipation of women,* real communism, will begin only where and when an all-out struggle begins (led by the proletariat wielding the state power) against this petty housekeeping, or rather when its *wholesale transformation* into large-scale socialist economy begins." *(Collected Works,* Vol. 29, pp. 248-249.)

Unfortunately, the revolutionary theory of women's role in the family has been little developed since Lenin. Scarce attention has been given to Engels' and Lenin's insistence on the role of the family in class society. This theoretical inertia has permitted the resurgence in left movements of, on the one hand, a romantic conception of the traditional family as a positive element in the construction of socialism and, on the other, its total negation, along with the theory of the abolition of the family. These conservative and utopian conclusions arise from a failure to analyze the following activities, which take place behind the facade of the monogamous family:

(a) biological reproduction;

(b) education and care of children, the sick, and the elderly;

(c) reproduction of labor power.

It is forgotten that the individual family will continue to be "the economic unit of society" as long as its economic functions are not collectivized. As the economic unit, *it is no more than a tiny, private, sweatshop for the production of labor power,* and clashes with the social economy created by the revolution—an economy no longer governed by private property and commodity relations. This contradiction within the relations of production, which is not only economic but also ideological, is a characteristic feature of the transition period.

It is neither the comradeship nor the positive psychological aspects of a couple's relations which are in contradiction with the construction of a classless society, but their private economic aspect, which is that of a small sweatshop where women's labor power is confiscated.

The roots of women's oppression can be found in:

(a) the original economic necessity of privately reproducing labor power;

(b) the division of labor between the sexes, which forces women to be responsible for invisible labor;

(c) the resulting development of a hidden ideology of sex which distorts our conception of male-female relations in a classless society. . . .

In the underdeveloped countries, limited economic resources make total socialization of domestic work impossible. But this should not prevent the creation of a morality in which men share housework, thus making it possible for their wives to hold outside jobs. Many partial solutions are possible, based on cooperation among neighbors, which do not require large expenditures by the state. But the application of these solutions requires a radical change in the everyday thinking of the people, which has been deeply permeated by individualism and male supremacy.

One of the most difficult problems facing the women's liberation movement today is the resistance, not only of men, but also of women themselves, to revolutionary change. Still bound to a culture evolved over centuries of discrimination, women unconsciously cling to "traditional feminine values," that is, to the hidden ideology of sex. Under these conditions, unless the Party intervenes vigorously, the first step toward raising women's consciousness will drift toward limited forms of liberation; the narrowness holds a danger of hardening and reverting toward a sectarian, reactionary ideology.

The overestimation of sexual freedom as the only objective of feminine rebellion arises from the growth of consumer society and brings with it strong individualistic tensions. In practice it distracts women from such fundamental problems as the struggle to collectivize the second shift, eliminate the division of labor between the sexes, and to achieve full integration of women in the structures of proletarian power and the army. It frequently appears among intellectuals and students who have a position of relatively high status and do not face domestic problems; it also appears with great force in cultural milieux where individualistic traits persist. Advocating a private morality, it is opposed to the necessary universality of social values, essential to the proletarian ethic. Paradoxically, the women who reveal this ideological characteristic strengthen the vestiges of the old double standard by perpetuating the classic role of the mistress, even as they demand women's rights.

Female economism emphasizes both the housewife's purchasing function and maternal overprotection. As the initial process in the struggle against colonial backwardness, as the revindication of the economic importance of domestic work, as an answer to the most brutal discrimination, it usually presents, like sexual liberalism, positive aspects. But we must remember that both ideological currents were propagated by neocolonialism in its effort to stimulate artificial need.

The resurgence of female economism under socialism tends to reinforce the traditional division of labor between the sexes and perpetuate the home as the economic unit of society; it offers strong analogies with private artisanry in its privatizing effect on social consciousness. Female economism continues to cling to traditional status symbols, and exerts heavy pressure on light industry to produce unnecessary merchandise. In periods of shortages, it feeds the black market and is a magnificent conduit for the infiltration of imperialist values, avidly absorbing as it does all the echoes of fashion and middle-class life-styles, conveyed by the mass media of consumer society. It sanctifies *the eternal feminine* as a concept which *lies outside social classes,* instead of identifying it as nothing more or less than the product of the division of labor and class interests. It thus creates a special area, a kind of sanctuary the desecration of which would inflict endless evils on humanity, and in which the seeds of private property and competitive individualism survive, grow and multiply.

When female economism reasserts itself, despite the advances of proletarian culture, women take advantage of increased purchasing power and the newly created services, not by transforming themselves in a revolutionary way, not by total dedication to work and political activity, but by the acquisition of a social status comparable to that of a housewife in consumer society. They tend to utilize services for their individual benefit and thereby reenter the consumer rat race. . . .

The consciousness required of women (especially women leaders) by the revolutionary process is similar to that propounded by the Guinean revolutionary leader, Amilcar Cabral, for the petit bourgeoisie—in Africa the petit bourgeoisie plays a leading role in the independence struggle—namely, that *it must commit suicide as a class, through struggle and through merging with the proletariat.* Small producers, including housewives, are marginal, secondary classes, which lack the necessary authority to govern the country. The revolutionary process requires their assimilation into the basic working classes, which are the only ones able to stand up to imperialism. Thus, the class suicide of the housewife, her transformation into a proletarian, requires the elimination of the social traits acquired under capitalism.

The incorporation of women into production does not signify their total liberation. To the extent that housewives either become completely proletarian or perpetuate in part the ideological values of class society, we shall witnesses the advent of a revolutionary current in the social consciousness of women. The latter trend constitutes the best breeding ground for economic and political revisionism. Socialism is a transition stage between capitalism and a classless society, which cannot be built until we resolve existing contradictions between the need for invisible labor and the need to incorporate the neglected half of humanity into productive work and political life.

The private reproduction of labor power under socialism continues to be a cruel and unavoidable necessity. Official recognition of the second shift is an important step, but the socialization of housework through the expansion of services and social benefits is not so much a question of government policy as of economic development. As long as invisible labor persists, as long as the ideology of sex is not fought fiercely, traditional prejudices will survive—as evidenced by opposing sex models, female economism, and biological theories designed to justify the division of labor between the sexes.

It is not easy to distinguish reformist ideas of women's liberation from revolutionary ones because, among other reasons, their systematic formulation is lacking—all the more reason to try. One thing seems clear nonetheless: reformist ideas tend to perpetuate invisible work; revolutionary ideas reflect the need to incorporate women fully and definitively into the construction of a classless society.

REFORMIST IDEAS

It is relatively easy to proclaim the legal equality of women; it is very difficult to put it into revolutionary practice in the underdeveloped countries, where it implies the incorporation of women into social production and political action. These semiliterate women, hampered by a heritage of age-old discrimination and abuse, were trained in a class culture to exclusively reproduce labor power in the home; they were made into sex objects, into serfs, whose destiny was marriage. . . .

The pressure of female economism limits the integration of women to work requiring minimal physical effort at work centers located near the home. Women themselves sanction the perpetuation, under socialism, of the division of labor between the sexes which had taken shape under capitalism as a projection of their menial, domestic duties.

Certain pseudoscientific theories have been advanced, preventing women from taking jobs traditionally reserved for men. The practical basis for this is found in the second shift. It is not easy for women who perform difficult and exhausting work to bear the hours of invisible labor which await them at home. Reformist ideas appear when ideological concessions are made to the division of labor between the sexes and the invisible workshift—which tend to be accepted as permanent necessities.

The proposal to reduce the working day for married women has been offered as a solution. The anti-economic nature of such a measure is self-evident. Its reactionary content is less evident. At the least it would lead to:

(1) an increment of individual wages at the expense of social benefits;

(2) the weakening of the egalitarian position attained by women in the revolution, conferring on them a different legal status from that of men—a status that would sanction "biological determinism," and condemn women to continue in the role of serfs who reproduce labor power; and

(3) the strengthening of petit-bourgeois individualism. If the individual family were the economic unit of class society, a return to it through the reinforcement of invisible labor would inevitably lead to a reinforcement of the social consciousness of private property that still exists vestigially.

Excluded from heavy or dangerous work, alienated from their creative potential by the division of labor, women who gradually return to forms of invisible labor will not be fully transformed; they are stopped short and frozen into transitional patterns containing features of both past and future. Their integration into the proletariat is not complete, even if they work, for example, as lathe operators. It is widely known that even within socialist society small private producers continuously generate the social patterns of class society. Hence, we may assume the corrupting power of the presence of these invisible female artisans, semi-proletarians, semi-serfs, whose social condition prevents their transformation into full-fledged proletarians.

As long as labor power continues to be produced in thousands of domestic sweatshops, the influence of private property will not be eradicated from social consciousness, and the attempt to build a classless society and a new man and woman will necessarily remain incomplete. In this context, the correctness of Lenin's statement is even more evident: *the proletariat cannot attain its full liberation until women are fully liberated.*

REVOLUTIONARY IDEAS

Revolutionary ideas come into their own when the Party concentrates its efforts on the reeducation of women (and men), with the understanding that the abolition of private property, the integration of women into socialized work, and the creation of social services provide the necessary but not sufficient conditions for their liberation. Women's fate is intrinsically linked to the class struggle, carried on by the Party against the vices and culture of private property. Revolutionary advances by the mass of women seem to be made more easily in those areas where the social transformation of capitalism has not been completed, particularly in the vast peasant regions of Asia where patriarchal slavery was so brutal that women were still bought and sold like cattle. "Equal rights," marriage for love, and the values of consumer society were nonexistent. The subtle individualism that characterizes developed countries had not reached them, and a few traces of the old collectivism remained; the Marxist leadership understood the impossibility of a reformist solution. If they were going to incorporate women into production and defense they had to attempt the complete destruction of the patriarchal ideological superstructure. Women constitute the group that suffers the highest degree of distortion in class society. Though women in underdeveloped countries have performed feats of limitless heroism and sacrifice in the struggle against imperialism, they must overcome a deeply instilled ideological cowardice if, through internal struggle, they are to transform their servile condition.

The struggle of the revolutionary parties against ideas of inferiority in women is most delicate, for when women spontaneously break with their traditional insecurity, they are then subject to ultra-leftist deviations, similar to those which plagued slave and peasant rebellions in centuries

past. Therefore, of fundamental importance is the assumption of leadership in the women's revolt, by revolutionary organizations, which must stimulate and channel, rather than stifle, or permit the movement to turn into female revanchism.

Revolutionary ideas reveal that the physical inferiority of women is not inevitable but is a historical product of the division of labor. A struggle to incorporate women into traditionally "male" jobs will reveal that, far from impairing their health, women will develop their body and mind. We must denounce domestic slavery and foster a social morality which provides for sharing of housework by men. These household tasks must be collectivized as far as possible. In practice, revolutionary ideas will destroy the inhibiting reflexes of exploited women. Keeping in mind that these are times of conditional peace, the mass of women must be prepared for participation in defense, and must be admitted to the armed forces. . . .

There is a tendency to impose rigid standards of sexual behavior, the validity of which is questionable on a long-term basis but which serves to eliminate the moral duality that used to stimulate in men what it brutally repressed in women. All the symbolism that contributed to the reification of women, as well as to class standards of beauty, must be destroyed, eliminating from the mass media the image of woman as commodity. Women must be evaluated in terms of their role as workers, political leaders, or fighters.

The large-scale incorporation of women into the people's war is one of the most important achievements of revolutionary ideology, and is also the most effective measure for the total proletarianization of women, with all that that signifies for the destruction of traditional female taboos.

The best example can be found in the territories held by the National Liberation Forces of Vietnam, where the division of labor between the sexes in production and in warfare appears to have been reduced to a minimum. The incorporation of women into the Vietnamese people's war would not have been possible without the continuous effort of the NLF, which carries on a resolute struggle against sex discrimination in Vietnam. . . .

The military is the armed force of the class in power, Exclusion from it on sexual grounds—with the corresponding implications for women's social con-

sciousness—is logical in an oppressive society which systematically excludes women from positions of authority, but it is out of place in revolutionary armed forces, which represent the entire people.

Cuba is an exceptional case, where officer-training schools and command posts are being opened to women, even though Cuba is not at war. This helps to destroy the vestiges of male supremacy inherited from Spain, plantation slavery, and United States neocolonialism. Thus it is an example of a frontal attack against sex discrimination during the early years of revolutionary transformation.

It would be too optimistic to expect the complete ideological proletarianization of women at this early stage of the transition period. It is a process which can be carried out only through a long and conscious struggle, and that is precisely why the lack of interest in a scientific theory of women's liberation—given its fundamental importance for the construction of a classless society—leaves the way open for a rebirth of reformism. If the condition of women continues to be ignored, it could lead, under adverse circumstances, to the stagnation of revolutionary ideology.

Isabel Larguia and John Dumoulin

1. This article was originally written and circulated in early 1969, under the title "For a Scientific Feminism," Since then Margaret Benston's "Political Economy of Women's Liberation" (*Monthly Review*, September 1969) appeared, and deserves a brief comment here. It represents the only serious attempt we know of to explore the economic implications of housewives's labor under capitalism. Although we are in agreement with the article in general, we nonetheless think that unless one goes beyond the concepts of classic political economy, especially in regard to labor power and surplus value as Marx defines the terms, it is impossible to reveal the role of the housewife in class society, with all its political implications.

LNS

Women In Revolutionary Cuba

A few days before he was killed, Frank Pais named Vilma Espin coordinator of the underground 26th of July movement in the province of Oriente, a post which she occupied until she joined the guerrilla forces of the Frank Pais Second Eastern Front led by Major Raul Castro.

Vilma Espin, born in Santiago de Cuba, belonged to a revolutionary organization founded and directed in that city by Frank; later that organization, along with others, merged into the 26th of July movement.

After she graduated as an industrial chemical engineer in 1954, Vilma took a post-graduate course at the Massachusetts Institute of Technology in Boston, until 1956. On her way back to Cuba she stopped in Mexico where she met Fidel Castro.

Back in Oriente province, she worked with the 26th of July movement and became one of its most important leaders after Frank.

With Frank she took part in the action of November 30, 1956, to support the landing of the Granma which belatedly arrived on December 2. Later she definitively joined the Second Eastern Front, where she was a combatant and a delegate of the National Leadership of the 26th of July until the end of the war, on January 1, 1959.

In that year Vilma began to organize a group

of women from different sectors and laid down the bases of the Cuban Women's Federation (FMC), an organization which she has been directing since August 23, 1959, its founding date.

Since then she has worked intensely for the development of the Cuban woman. In 1964 she was elected Vice President of the World Federation of Democratic Women.

In 1969 she was appointed director of industrial development in the Ministry of Food Industries and since June 1971 she has been president of the Institute of Child Care.

Vilma Espin became a member of the Central Committee of the Cuban Communist Party when it was founded in October 1965.

Thirteen years have gone by since she started working in the woman's sector. This experience makes her one of the most authoritative experts on the thinking, objectives and present situation of the Cuban woman, in all aspects.

PL: What role does feminism play in the struggle for the liberation of women? What is the FMC's position on feminist trends?

VE: One of the social themes which has been debated throughout history is without doubt that of the woman and her role in society. However, in recent years, during which the revolutionary movement has gained ground throughout the world, the liberation of women is one of the questions that is being discussed by sociologists, psychologists, politicians, economists, that is all those who in one way or another have something to do with the development of society. We should also say that it is a problem which first and foremost, interests woman herself.

In my opinion, the liberation of women cannot be separated from the liberation of society in general. There can be no liberation for a social group constituting half of humankind, as long as exploitation of man by man continues, as long as the means of production are owned by an exploiting minority.

A woman cannot have any political, economic or social rights in a capitalist society where she suffers from class oppression and discrimination because of sex and race.

I mention this in order to answer your question on the role of feminism. Historically, the feminist movement has put forth partial solutions, struggling for political rights -- as did the suffragettes -- but in my opinion, it has not attacked the roots of the problem, which is the capitalist society.

Of course, the feminist movement as such was progressive in its time, at the start of this century, because it helped to create consciousness in the woman, to take her out of the narrow confines of the home. Even now it can play an agitating role, channel dissatisfactions, but its fundamental weakness is that it strays from the real road which is the struggle for the liberation of the peoples and confuses many women desirous of struggling for a better life.

This feminist movement is quite strong in the United States and in western European countries. There are dozens of groups that have different aims, many of them positive. Of course, the woman is attracted to them in societies that grow increasingly corrupt, where the use of drugs and juvenile delinquency constitute veritable terror for mothers, where the woman is discriminated against as a worker, receiving a lower salary than men, with few possibilities of highly-qualified jobs or posts. Societies which in some cases are very economically and culturally developed but where truly backward laws exist discriminating against women.

We don't deny that sometimes through this way some women join the struggle, in the measure that they grow in consciousness, acquiring a political development. But unfortunately many feminist groups take away forces that could strengthen the genuinely revolutionary movement.

We even know of some capitalist countries where the ruling class stimulates those movements, they do not persecute them, they let them grow because to a certain extent these movements are playing into the hands of the so-called democracies. Let's not forget that women make up half of the electorate.

The problem of the liberation of women is a class problem and we can't speak of women's liberation as long as the oppressed classes do not free themselves from the exploitation of the oppressing classes. Women's struggle is intimately linked to the struggle of their peoples.

On the other hand, for the peoples who have succeeded in eliminating the exploitation of man by man, the women's problem is one of society in general, a society which must work to incorporate women into active life, into social production. In our country where since the triumph of the Revolution, a tenacious struggle is being waged to overcome underdevelopment, we are creating institutions, services, all the conditions to free women from domestic problems, although we still don't have all the resources we need to do this. We are also waging an intense ideological battle aimed both at women and at the rest of society to eliminate all vestiges of backwardness, the prejudices about women and the role they must play in society. Even in socialist countries with developed economies, where the woman already occupies an important place, there are still problems in the material and ideological aspects,

which are being analyzed by society in general, while serious efforts are being made to find the proper solutions.

PL: Do you think that giving women jobs alone will allow women to occupy their rightful place as active and thinking social beings?

VE: I mentioned the liberation of women as being a problem not only of women but of all society. Her incorporation into social work is essential for her incorporation into society. Women must play their rightful role in the world.

In Cuba the woman is aware that society needs her, that she is part of the productive forces fighting against underdevelopment to build the material base which will make it possible to create all the institutions, services and industries which will alleviate her domestic work load.

Moreover, work gives new perspectives to women, it broadens their horizons, it takes them out of the home and helps create a social consciousness, but, as is logical, just working itself will not solve all the problems. All society must be aware of this problem and be willing to solve it.

PL: What, in your opinion, have been some of the discriminatory practices against women that the Revolution has eliminated today? What are their roots? What is the way to eliminate them?

VE: In all new societies vestiges of previous practices subsist for a long time. It is very difficult to change man's mentality, that's why we still have some vestiges of discrimination and prejudice towards the woman. In woman herself these vestiges have their roots in the centuries of colonial and imperialist exploitation to which we were subjected and to the place which woman occupied in that society: woman in the home and man in the street. Of course, woman in the home means that she was reduced to her role of mother and housewife, for which she did not need a high level of education, according to that idea. Ideas which, on the other hand, served the interests of the exploiting classes, which used the woman as a cheap labor reserve whenever necessary.

Let us recall the two world wars when women were needed to work in factories to replace the male workers that went into the armies. Then all pre-established schemes were broken, the woman had to go out of the home and take a place in production.

We can say that the situation of the Cuban woman after the triumph of the Revolution is totally different and that during these thirteen years the political consciousness of men and women has grown and created a totally new situation, although, as I've said, there are still some prejudices. Perhaps the most deep-rooted are the ones referring to the fact of women working.

Not everyone understands the necessity for woman to work, to meet her social duties and raise her cultural and political level.

This is most frequent in the case of men, although there are women who do not understand the problem either.

Sometimes there are some expressions of discrimination in men who lead a certain branch of the economy, who do not consider the woman worker on a fully equal basis. Of course, this is a mental attitude and is not general, they're just manifestations of discrimination which sometimes are evident and other times are not.

However, the Revolution has systematically struggled against this, we can say, right from the start.

In February 1959 Fidel spoke of the exploitation and discrimination of women. The very fact that our organization was created with the aim of incorporating women into the revolutionary process, educating her culturally and politically, implies a struggle to eliminate these vestiges of the previous society.

Our Communist Party and the FMC and all the mass and political organizations have waged and are waging a systematic campaign, because evidently the elimination of even the most minimum discrimination requires a process of political and cultural education.

We have also taken other measures to incorporate women and to create the best conditions for them to change their status from housewife to full-fledged workers. The Party, the Cuban Workers' Federation, the Ministry of Labor and the FMC have made efforts to help women adapt to their new status of workers.

We should mention that this political work is also aimed at explaining the responsibilities that the human couple should assume in this stage of intense struggle for economic development. There is not only the social responsibility of sharing in the education of the children, but also the responsibility of facing all types of practical problems involved in incorporating women into social work.

This is something that the young people, especially the students, work on in common. Since we don't have all the resources we need to alleviate domestic tasks, the fact that the couple share them helps out.

The sharing of important social responsibilities such as the duty of working and of educating children, evidently tightens the bonds uniting the couple and gives a genuine and deep meaning to conjugal love.

PL: In 11 years of work, what have been the fundamental achievements of the FMC in the social order? What are the FMC's objectives in the future?

VE: The work of our organization is eminently social and political since we are trying to prepare ideologically a social group that constitutes half the population and incorporate it in full into the revolutionary process so that it will occupy the role it rightfully has in the new society, be it in state administration or in all the other tasks regarding political, cultural, social and economic work in our country.

A truly important achievement of the FMC is the incorporation of women into work. Moreover, the qualitative change has been extraordinary. Women have taken jobs which before they couldn't have. They do so in better conditions since in general their educational and technical level has been raised and they are protected by a more just labor legislation.

Women in work have no limitations at all, except for the problems we mentioned before regarding child care centers, services, etc., which still are not enough to cover the growing demand. Even so, woman, without being part of a work center, fulfills her social duty through voluntary work in agriculture, industry or services. She has made an extraordinary contribution in voluntary work during these years.

Another important achievement has been in education, in educating adult women at the triumph of the Revolution and the possibilities the woman has today to study any career she wants. In this sense, the FMC is making a gigantic effort, creating special adult courses, directing specific plans for the training of organizational cadres, opening technical courses according to the needs of production, studying material on social research and attention, etc.

During 1961, in addition to taking part in the literacy campaign, the FMC had the responsibility of creating massive educational courses. The first thousand attendants for the nursery schools were trained in that year, as well as 17,000 peasant girls who learned to sew and received a general primary education. Thousands of women who had been servants in the homes of the bourgeoisie who had left the country took courses preparing them for administrative work. Later different technical courses were organized by the FMC in coordination with organizations that needed skilled labor. We also worked hard to help out the primary and secondary schools.

In regard to social work, we have developed vast plans in coordination with different ministries, including health education and projects, especially concerning the health of the child, pregnant women and new mothers, children with behavior problems, community services, recreation facilities, etc.

We can say that the FMC has achieved its objectives, the woman is an integral part of the process of transformation going on in our society.

In regard to future tasks we are trying to develop the plans we have today to the maximum, plans which are headed by our secretariats of Production, Social Work, Foreign Relations, Education, Ideological Orientation, Nursery Schools and the organizational and financial work of our organisms, becuase it should be known that the mass of women in our organization, in addition to doing voluntary work on all fronts, pay all the expenses of the FMC with their dues.

The FMC's work plan for 1972 is ambitious but realistic, since it was first debated at the local level and later passed by our ninth National Plenary.

This year we will also be doing many different tasks supporting the nursery schools, as well in the research plan of the Child Care Institute.

PL: What role does the FMC assign to the Latin American women in their present-day struggle for the liberation of their countries?

VE: Latin America is now the scene of great transformations. The revolutionary movement is gaining ground. The triumph of the Popular Unity government in Chile, the interesting and deep-rooted process in Peru, the position taken by Panama in the struggle for sovereignty over the Canal, just to mention the most important processes, show us that the era of absolute U.S. domination in Latin America is beginning to decline. The struggle for the liberation of our sister peoples of Latin America is growing and in it we are feeling more and more the participation of women.

We are convinced that woman must, and will, play a very important role in the fight for full national independence. Moreover, in our great Latin American homeland there is a deep-seated historic tradition of women's struggles. In the battles for our first independence, together with the popular and internationalist armies of San Martin and Bolivar, women were present. Outstanding fighters such as Colonel Juana Azurduy de Padilla who fought in the area then called Upper Peru; Manuela Saenz, the companion of Bolivar; Remedios Escalada de San Martin; and our own Ana Betancourt who in 1869 demanded that woman's rights be included in the new constitution; Mariana Grajales, the mother of the Maceo brothers, the heroes of our independence; Captains of the Liberating Army, Adela Azcuy and Rosa Castellanos, the Bayamesa, and many others who not only helped the combatants but were also combatants themselves.

Thus, with these examples which we have inherited and the awakening of consciousness on the part of the Latin American woman, we know that women will make their enormous renovating and patriotic force felt in the struggles for the liberation of their peoples and for their second and definitive independence.

Our people, our women, are following the development of these struggles and have expressed their full solidarity with them.

Minerva Salado

Norma Morello, one of the women tortured by the repressive Argentinian government.

Testimony of an Argentinian Revolutionary

"...My moment had arrived, the hour in which my commitment or surrender would be proven. At such moments you think of the love you put into everything you do; of this word 'revolution' which one measures by little things and whose objective is the creation of the new human being, and you feel your struggle with greater force. They laid me down on something made of wood, pulling off my clothes piece by piece, tied my legs open, and arms down, covered my mouth and then they began. There were a lot of them. They laughed, said gross things and told me not to be a fool; that I was a useful idiot; that if I continued to refuse to speak, they would spoil me and I would never be able to be a mother. They asked me if I was enjoying the electrode. They spoke to me constantly. I thought of the life of so many brothers committed to liberation; the love and tenderness that mean what we do everyday and I felt stronger against these beasts. Pigs! They don't know how lucky I am to have the love I have: you have to envy me because I am the strong one although I am blindfolded, naked and tied. And even when my body hasn't any more resistance left. Back in the cell, alone, I cried; because of myself and because of my brothers, because of all those who had come before and for all those who will come after. I had never imagined such a level of inhumanity. I cried but I was very happy: I had held out. Alone and tied down, alone and naked. I am happy!"

anonymous statement

Letter From A Brazilian Woman

LETTER FROM ADAMARIS DE OLIVEIRA LUCENA TO ALBERTO DOMINGO OF THE MEXICAN MAGAZINE SIEMPRE

Dear Sir:

Last November 28th, the Brazilian government, a dictatorship since April of 1964, condemned three young revolutionaries to death: Ariston de Oliveira Lucena, Diogenes Sabrosa de Souza -- both members of Vanguardia Popular Revolucionaria -- and Gilberto Faria Lima. One of these young men is my son: Ariston. The other two are my comrades, as loved and respected by me as my own son.

I was imprisoned in Brazil in 1970 after a shoot-out at my home between several of the dictator's police and my husband, who died heroically. My three youngest children were also imprisoned. They were kept in an orphanage and one of them, nine years old, was mentally and physically tortured by the tyranny's lackeys. Our story may still be remembered by the Mexican people who temporarily took us in when we were liberated through the kidnapping of the Japanese consul in Sao Paulo in March, 1970.

I am a humble woman, daughter of the people, daughter of exploitation and misery, the exploitation and misery in which the immense majority of my people live. I barely know how to write. I only know that my duty is to struggle against that which I feel is arbitrary, unjust and discriminatory in my country. I only know that I must fight against North American imperialism which keeps the Brazilian dictatorship going economically and and ideologically. My revolutionary practice is a product of my hate, because I believe that in my country there have been and are people capable of directing our internal affairs more righteously and more justly, and that the intrusion of an aggressive power at every level of Brazilian life is inacceptable. That power is, in fact, the same one which aspires to dominate our entire continent.

My husband fought consciously against the dictatorship. As a worker he suffered exploitation in his own body. I am of peasant origin. I am from the North East, from that dry and arrid land where 60 percent of the people are unemployed or subemployed. I saw my own son die of hunger when he was only a year and a half old and I have seen hundreds of children die like that in my country. We are used to seeing death by starvation in our country. But, Mr. Domingo, we are not resigned to allowing this to continue. That is why we are fighting. That is why thousands of young people suffer torture today, the most barbarous tortures you can imagine. That is why thousands and thousands of Brazil's best young people are ready to die in the efforts to see our country freed from oppression, exploitation and imperialist intervention.

Ariston is an optimistic young man. He is 19 years old. He never knew the joys of adolescence because the revolution claimed all his efforts. I raised him with a great deal of difficulty, working as a maid, ironing and washing clothes all day long so he wouldn't meet his brother's fate. My husband earned a miserable salary. Ariston took up his father's gun, not out of vengeance but out of political conviction. While my son was working with Carlos Lamarca organizing a training camp from which to initiate armed struggle in the countryside, comrades of his -- in a revolutionary commando which bore the name of my assassinated husband -- kidnapped the Japanese consul so that through liberating him they could gain the release of my children, myself and other comrades, so we could come to Cuba.

We all left prison half dead. We were insulted, beaten and tortured. Now my son is condemned to death and I can neither shed tears which would shame him with my cowardice nor ask for clemency from the dictatorship. It would be like a betrayal of my son's courageous position. In any case I wouldn't ask for justice from those who neither know what it means nor practice it. All I can do, Mr. Domingo, is ACCUSE.

I ACCUSE the fascist dictatorship in Brazil, not of wanting to assassinate my son but of keeping my country in a situation in which millions of children have no access to public health, to education, to food. I ACCUSE it of maintaining a situation of exploitation which daily kills dozens of small children with undernourishment. I ACCUSE it of torturing, imprisoning and killing hundreds of young people who daily sacrifice their youth for a life of struggle preparing the road which will lead to our people's liberation. I ACCUSE it of handing our natural resources over to imperialism, to foreign capital whose exaggerated intervention in my country has forced the denationalization of our economy, since the government gives foreign capitalists such good terms that they are able to work with our internal resources by bringing a minimum of capital into the country. The twenty companies owing most money to the Bank of Brazil are foreign. I ACCUSE it of maintaining a repressive army that consumes three times more of our national budget than that which is assigned to education. I ACCUSE the dictatorship of closing public schools under the pretext of lack of funds with which to keep them up, while it finances private schools where the children of the ruling class are educated. Because education is classist in my country, and the people receive an education which is deformed in schools which are at the service of the interests of the ruling class and the foreign boss rather than the interests of the people. Children and youth -- those who are able to go to school -- are educated in order to assimilate them into the system. That's why the dictatorship doesn't want to enlarge the educational system, in order to prevent the children of the people from getting a real education. In my country, Mr. Domingo, we have a 60 percent illiteracy rate.

I ACCUSE the dictatorship of keeping hundreds of teachers and doctors in prison, while in the countryside and in the cities there aren't enough hospitals or classrooms. I ACCUSE it of maintaining the most ferocious kind of censorship through a total control of mass media; in that way it often misleads public opinion and, through the publication of false news items, tries to demoralize the revolutionaries. I ACCUSE it of keeping dozens of honest journalists in prison; many of these, far from being revolutionaries, have simply identified themselves with the people. I ACCUSE the Brazilian dictatorship of having removed even the most elemental individual rights, including the right of "habeas corpus," and of having restored the death penalty -- not in order to apply it to the torturers, to those who steal the sweat of the people, but to young revolutionaries who oppose Garrastazu Medici's terrorist, fascist and sell-out regime.

Mr. Domingo, I, a woman of the people, wife, mother and comrade of Brazilian revolutionaries, ACCUSE my country's government of playing the role of imperialism's gendarme in South America. I ACCUSE it, from my Latin American woman's heart, of having contributed morally and materially to the overthrow of the Bolivian nationalist government, in order to put a fascist dictatorship in its place. I ACCUSE it of mobilizing troops last November on the Uruguayan border in order to prevent the triumph of progressive forces in the elections there. I ACCUSE it, already, of facing the upsurge of people's revolution and progressive government's nationalism as a servant of imperialism's plans; as a nation to be depended upon for a latinamericanization of the war if the tide of revolution gets to the point where the imperialists have to try to detain it. The North American imperialists know that their direct intervention in Latin America is now and will be in the future almost impossible. That is why they need a gendarme, a government of a large and potentially rich country, that will do its dirty work, intervening in its place. That is why they keep making loans to Brazil, and the other economic powers collaborate. That is why a war industry is being developed. That is why they have bought my country's bourgeoisie. That is also why the "Trans-Amazon" highway is being built -- under the pretext of relocating the North Easterners who live in arrid lands, bringing them to the humid and swamp-filled lands of the Amazonian jungle; this is not only an attempt to colonize that region and reduce the social pressure in the North East, but it is also an attempt at populating a huge strip of land which would unite Brazil with other countries in South America. All this is directed towards a logistic placement of Brazil's sub-imperialist aggressive army. The so-called "golden highway" will serve one main function: that of a military throughway. It is also an economic project. Enormous mining resources will be exploited with North American capital. And so imperialism, bordering almost all the other South American countries, will be magnificently linked with Peru. Brazil is a kind of strategic tentacle in the southern part of our continent.

Mr. Domingo, my son may be shot by the dictatorship. It has its own "legality" and acts in accordance with it. I don't accept this legality imposed by a minority on a majority. We revolutionaries who are ready to fight always run the risk of dying. We may die in the first battle. My husband was assassinated. My son was in the armed struggle when he fell prisoner. We are fighting a war to the death against the dictatorship. A war which has cost and will cost many lives. This is the price we revolutionaries must pay for a better life for future generations. Because in Brazil, as in almost all of Latin America, the present is one of struggle. My younger children, as small as they are, are preparing for the struggle. I am ready to fight and I am outside Brazil only obligated by circumstances. But we know that if the dictatorship assassinates, imprisons and shoots our comrades, it is in an effort to demoralize us, to try to close off our path, kill our optimism and our faith in the revolution.

I don't speak as an intellectual. I say what I learned in the process of the struggle, in the practice itself, as a revolutionary; as an exploited person who knows that the path of revolution is the only one we have to rise out of our misery and our underdevelopment. My revolutionary position is built on a long class struggle in which my class has always been beneath the boot of the ruling-class bourgeoisie.

(continued on p. 31)

Document

MISS LATIN AMERICA

Colombia

November 1½ Hours, LIVE

The appeal of a beautiful woman is universal. In Latin America that understandable appeal is underscored by the fierce pride of a passionate people in the beauty of their women. Now, under the guidance of ABC International Television and the Worldvision Television Stations of the LATINO TV Network, Miss Latin America will emerge in 1970 to give these people for the first time a queen of their own, a glamorous international representative of Latin America.

The final competition for Miss Latin America for this year is scheduled to be held in Colombia in late October, most probably in Cartagena — a birthplace of Latin independence and a sparkling resort on the Caribbean coast, a truly magnificent setting for the coronation of the first Pageant queen. Future final competitions will be rotated among four or five Latin countries on a regular schedule to give the Pageant maximum exposure and interest.

The selection of Miss Latin America on the last night of the final competition will be telecast in prime time as a ninety-minute program live by satellite to all nations sending representatives to the Pageant who will be capable of receiving the transmission. Other represented countries will receive the final program by tape or film as rapidly as possible.

The final program will be produced by ABC International with the assistance of the Colombian affiliate of the LATINO TV Network. It is anticipated that the program will include promenades before the live audience and international judges by the contestants in national costumes, swimsuits and evening dress with live entertainment interspersed throughout. Spanish and Portuguese commentary will be provided for the telecast by internationally recognized personalities.

Attractive prizes will be given the winner of the final Pageant and several of the runners-up. It is intended for Miss Latin America to travel throughout Latin America and perhaps to other areas of the world as an ambassadress of goodwill and representative of the countries participating in the Pageant.

The Miss Latin America Pageant will be heavily promoted from the moment of inception, on the local and international level. Virtually every promotional technique on and off the air will be utilized to achieve maximum excitement, with each station cooperating fully. Promotional power will build to a crescendo as the final competition approaches and will continue throughout each year to give both the sponsors and Miss Latin America continuous publicity.

Book Review

Cuba

Revolutionary Change in Cuba. Carmelo Mesa-Lago, ed., Univ. of Pittsburgh Press, Pittsburgh, Pa. 1971. Pp. 544, $14.95.

Assassination can take many forms, but the end result is the same. This book represents one of the cleverest attempts to assassinate the Cuban Revolution. Written "to present a comprehensive, well documented, up to date and relatively objective study of the revolutionary changes that have taken place in Cuba from 1959 to 1970" (p. ix), it deals with polity, economy and society. In all, sixteen different authors discuss central themes including: economic and social planning, labor, international relations, education, the church and the arts. Copious footnotes, charts, tables and graphs accompany the lengthy text.

In the bourgeois liberal context within which it was compiled, the work presents an enormous amount of information in terms of hard data, hypotheses and suggestions. As such it forms a valuable contribution to capitalist writing about Cuba. For the reader unfamiliar with official statistics, for example, it offers a wealth of information.

The individual essays range from some openly sympathetic to the goals of the Revolution to others openly opposed. Despite the breadth of coverage in the volume, however, many vital topics do not receive adequate coverage. The Comites de Defensa de la Revolucion (CDRs) are mentioned in several instances but their structure, membership and function are never clearly explained. This point becomes important in that one prominent thesis of this work is that the Revolution is either essentially a one-man Castro government or that a small coterie at the top makes all decisions, so that the democratic process simply does not exist at any level. Actually, the CDRs are block (or rural equivalent) organizations which discuss and deal with preventative medicine and problems of health, political education, voluntary work, recycling and most of the day-to-day problems of people in a rapidly changing society. To inadequately discuss this mass institution which grouped 3.2 million persons in 1970 is a serious omission. Similarly, there is no mention of the fact that scarce consumer items (radios, refrigerators, bicycles, for example) are now apportioned by workers in a work place or local bodies in a democratic manner based upon need.

The changing status of women is not given the attention it deserves. One thrust of the Revolution in recent years has been the incorporation of women into the work force and the strengthening of women's organizations within revolutionary structures. Yet from reading this volume we learn that traditional values are changing but not enough about the very large and active Cuban Women's Federation.

The role of newly developing art forms has attracted much attention even outside of Cuba. Yet, poster art, for example, which not only decorates Cuba's highways but also serves as an educational tool, is shunted aside.

In some places the essays present only one side of a question. The discussion of Cuba's role in the hemisphere is one case. Cuba, it is claimed, remains isolated in the hemisphere. But what about Fidel's recent official visits to Ecuador, Peru and Chile? What of the fact that five Latin American countries have supported Cuba's re-entry into the OAS? What of Cuba's recent success in raising the question of Puerto Rico's colonial status before the UN Committee of 24?

Diabetic children learning to inject themselves.

Much is also made of Cuba's supposed failure to "export revolution." In fact, the book attempts to sustain the theory that Cuba is "exporting revolution." Rather Cuba provides an example for other revolutionary movements which have grown out of the concrete conditions of their own countries. It also gives these movements aid and support in their struggle for national liberation. Furthermore, if Cuba's example is not important nor forceful, why did Chilean television prominently feature Castro's support of Allende before the election with the approval of the Popular Unity forces.

A few methodological questions also arise. Professor Mesa-Lago notes, for example, an apparent rise in disease rates since the Revolution. He neglects to speculate on how much this is due to more accurate reporting especially in rural areas which health care has now reached for the first time. Weighted language is used throughout this work to create general impressions. "Failure, stalinization, pretentions, politics of purge, 'American imperialism', claimed, alleged," are typical of the innuendos employed by the vast majority of the contributors. Thus, the unwary will be led to accept with a sense of finality Dr. Mesa-Lago's conclusion that "the negative effects of the revolutionary economic process far outweigh the positive" (p. 505).

From a socialist perspective some further observations appear necessary. Bourgeois criteria are simply not a measure when examining the process of a nation's transition to socialism. The argument that labor unions do not fulfill the traditional function of labor unions under capitalism becomes in this case a non-argument. In a like manner, several authors underscore the role of the military and its supposedly increasing size and power. This is never placed in the context of the constant threat of United States intervention or of the CIA-State Department's support for counter-revolutionary elements. Further, there is no attempt to examine the role of the military as a revolutionary institution. It no longer functions as an instrument of oppression in the hands of the ruling class (as it does in the case of the United States and its dependencies) but represents another force to mobilize labor and extend revolutionary spirit among the masses. The very fact that Castro can and does walk freely among the people is one measure of his popularity and the lack of need for any internal controls.

The thesis of Cuban dependency upon the Soviet Union is also presented from a capitalist-imperialist angle. Cuba does lean heavily upon the Soviet Union for trade, financing, arms and technology. The crucial fact, however, is that the results are strikingly different from superficially similar relationships between capitalist super powers and underdeveloped nations. Instead of puppet governments, direct investments and the constant draining of natural resources and profits, Cuba has maintained an independence of internal decisions and foreign policy. In fact, Cuba has constantly increased its trade with nations outside the Socialist world, supported struggles for national liberation not always endorsed by the Soviet Union and maintained trade with the People's Republic of China.

In sum, this book provides useful information about the Cuban Revolution. However, for those interested in an analysis of the Revolution from a socialist perspective, it will prove disappointing.

Hobart Spalding

(continued from p. 28)

But in this moment of confrontation -- when Brazilian fascism assumes an attitude in line with its ideology not only internally but when it throws out its tentacles at the service of imperialism against our Latin American brothers and sisters -- I want to alert world revolutionaries and especially those in Latin America. I want to tell them that the Brazilian struggle will be a long one. Because we aren't only fighting for our people's freedom in Brazil, but for other people's right to independence. I want to alert them about this gendarme role that the Brazilian dictatorship has taken on.

I don't want solidarity for me or for my son facing the death penalty; I ask solidarity for our cause, for our revolution. I ask journalists, progressive intellectuals, revolutionary priests, students, workers and peasants that they denounce -- by all means open to them -- the role of imperialism's spearhead being played today by Brazil. I ask the oppressed Brazilian mothers that they be alert, that they support their sons and daughters in entering the ranks of revolution. I ask my people, and the peoples of Latin America, that they be alert and united against the Brazilian dictatorship and against imperialism.

Our struggle has just begun, many of our comrades, many of our sons and daughters, will fall assassinated or in combat. A lot of good young blood will be spilled for our independence, but this long uncompromising struggle will lead us to our emancipation, through the people taking power.

If my son is shot, he won't be the first martyr of our revolution. And if we have to give our own blood for our independence and freedom, we are ready with optimism and faith in our people's future.

A Brazilian mother greets you and appreciates the publication of this letter, a Brazilian mother who is just one of millions who have suffered misery, exploitation and the death of her children, but who is not about to ask clemency for her son. A Brazilian mother who will continue the struggle to VICTORY.

Adamaris de Oliveira Lucena

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DEVELOPMENT FOR WHOM ?

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CONTENTS:

Introduction

Much has been written recently about the so-called Brazilian "economic miracle" -- impressive GNP growth rates, conquest of inflation, rapid industrialization, and so on. What is rarely discussed by the business press and the mass media is the price paid for this "development" and who the beneficiaries are.

In order to achieve the impressive growth statistics, the military dictatorship which rules the country has had to institute severe and repressive controls over the Brazilian people, who are paying the price of economic changes which benefit the rich and the foreign investors. Foreign corporations, for example, are attracted to Brazil because there is a large pool of cheap and suppressed labor: the dictatorship has outlawed all strikes, has instituted strict wage controls and has ruled that all candidates to labor union posts must be approved by the military government. In addition, the government has instituted generous tax incentives, credit sources and infrastructure programs to meet the needs of foreign investors.

In addition, the investors meet little opposition from "nationalists". Criticism has been silenced regarding, for example, the fact that well over half of Brazil's industrial capacity is now in foreign hands, or that profit remittances by foreign interests are outrageous. They meet little opposition because the generals have abolished Congress, have systematically jailed, tortured and killed opposition spokesmen, have banned all demostrations, and have imposed strict censorship on all mass media.

The Brazilian elite, though sometimes upset by the "excesses" of the military rulers, has also benefitted greatly from current government policies, and has done little to oppose the generals. Those who stand in the way of or who cannot adapt to the generals' formula of progress are pushed to one side or eliminated -- be they poor nordestinos, Indians, or middle-class political leaders. Those who are benefitting from current policies were clearly identified last year by World Bank President Robert McNamara when he reported -- and these are conservative estimates -- that the share of the national income received by the richest 5 percent of the population rose from 29 percent in 1960 to 38 percent in 1970. At the same time the share received by the poorest 40 percent dropped from 10 percent in 1960 to 8 percent in 1970.[1]

In assessing the so-called "economic boom," the Wall Street Journal's chief correspondent for Latin America reported that, "while Brazil's real economic growth has averaged 9.8 percent in the last four years, the boom has had practically no impact at all on well over half the country's 95 million citizens. In fact, millions are actually poorer now than they were five years ago."[2]

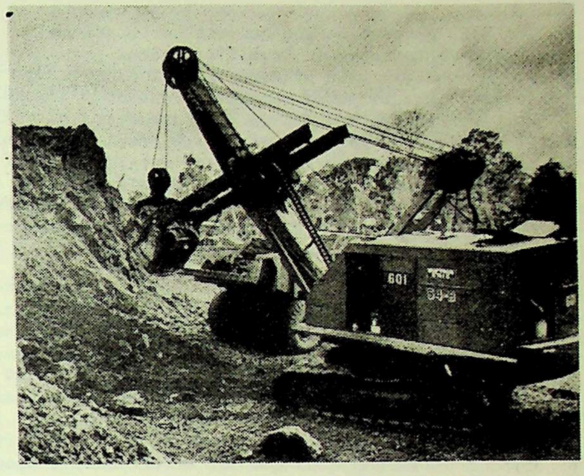
But all this seems to be what U.S. policy makers and big business interests want. In fact, they want it not only for Brazil but also for all Latin America. In toasting the Brazilian dictator at the White House two years ago, President Nixon proclaimed, "We know that as Brazil goes, so will go the rest of that Latin American continent."[3] The First National City Bank, which has the largest private banking branch network in Latin America, was even more open in its endorsement of the Brazilian formula as a model for the rest of Latin America. Its New York officer in charge of Latin American operations summed up his enthusiasm as follows: "We feel that the Brazilian experience is now so well established, and in the process of proving itself so successful, that it could serve as an economic model for other developing countries in the area."[4]

U.S. support is not only expressed in words. Behind the words stands over $2 billion worth of economic aid extended by the U.S. government to bolster the military government since the 1964 coup. This has been supplemented by hundreds of millions of dollars in credits from U.S.-dominated international lending institutions and U.S. private banks, in addition to other millions of dollars in military and police aid. This helps explain why those who are struggling for liberation and justice in Brazil identify U.S. imperialism as one of the main obstacles to progressive social change.

In this issue of the Report, we try to supplement current information on Brazil being disseminated in such publications as the Brazilian Information Bulletin[5] with three case studies of U.S. penetration of the Brazilian economy. The first is a look at how U.S. mining companies have gained control of the Brazilian mining sector since the 1964 coup and at their role in the opening of the Amazon. The second examines U.S. foreign aid to Brazil: how and why it is given, and who benefits. The third is a study of one U.S.-based company -- the Anderson Clayton agribusiness giant -- and how it has operated in Brazil.

1. The Miami Herald, August 27, 1972 2. The Wall Street Journal, April 14, 1972
3. The Washington Post, December 13, 1972 4. The Journal of Commerce, April 14, 1971
5. Available for $3 a year from American Friends of Brazil, Box 2279, Berkeley, CA 94702

Brazil: Let Them Eat Minerals!



Loading Manganese ore at Bethlehem's ICOMI mine

In contrast to its position prior to World War II as a major world exporter of raw materials, the United States presently depends on imports for almost half of its raw material needs.[1] The dependence is almost complete for minerals that are strategic to the sophisticated military and space industries, such as tin, nickel, asbestos, manganese and tungsten. This dramatic increase in dependence on imports means the economy is becoming much more vulnerable to external forces and to the rising tide of nationalism around the world which is threatening access to present supplies. Some of the most important areas for raw materials are also the areas of intense struggle for national liberation -- Southeast Asia, the Middle East, Africa and Latin America. But even the politically more "stable" Canada and Australia are demanding greater control over their resources.[2]

But to the giant U.S. mining corporations, this diminishing access to some areas means more than scarcity of resources. These corporations need to control supply, and thus prices and profits.[3] To compensate for the blows against U.S. control of raw materials in Latin America -- Mexican, Cuban, Chilean and Guyanese expropriations of U.S. enterprises[4] -- the United States has effectively installed a "friendly" military government in one of the world's last remaining unexploited areas of raw materials-- Brazil. The rich mineral deposits, especially those in the recently opened Amazon Basin, help make Brazil a miner's cornucopia: the country has the world's second largest iron ore deposits, the third largest bauxite reserves, the largest tin deposits, and abundant supplies of colombium, tantalum, nickel, cobalt, tungsten and other militarily strategic materials.

In contrast to the political uncertainties that plague U.S. investors in other countries, Brazil has gone out of its way to attract foreign investment. The Brazilian military dictatorship is more concerned about gaining foreign exchange by increasing mineral exports than with gaining control of the country's natural resources. U.S. investment in Brazil's raw materials industries totals over one billion dollars, the majority in the mining sector. The Brazilian government set a goal of doubling the value of the country's 1969 mineral output by the end of 1973.[5] Although minerals now account for only 10 percent of exports,[6] the regime claims that minerals will replace coffee as Brazil's major export within the next decade.[7]

A look at recent developments in mining in the Amazon reveals some of the major forces behind the push to "open" the region. What emerges is a picture of huge foreign corporations aligned with local Brazilian capitalists, all scrambling to stake out and control the riches of the area with no regard for the general economic development of the area or Brazil as a whole, and total disregard for the environment and local Indian population. They have used their political influence with the Brazilian government to gain lush concessions (which they may sit on for years, awaiting proper market conditions), tax incentives and financing, in addition to a massive public works program of building roads, ports and hydroelectric facilities which will benefit their interests.

In this article we attempt to reconstruct the story of the exploitation of Brazil's mineral riches, especially in the Amazon region, and touch upon some of the political and economic consequences of the drive to make that region "the mineral province of the '70's."[8]

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UP THE AMAZON: A BIRDSEYE VIEW

The U.S. government and private corporations first became interested in Brazil's mineral deposits around the time of World War I. They were looking primarily for manganese, one of the most important ores used in manufacturing military hardware. As one reporter observed, "Manganese is a vital hardening alloy metal without which warships, tanks and armor plates would yield to high powered shells like butter to a hot knife."[9] A 1919 U.S. Department of Interior confidential report, "Political and Commercial Control of the Mineral Resources of the World: Manganese," estimated manganese ore reserves in the Brazilian states of Minas Gerais, Bahia and Mato Grosso. Shortly thereafter, in the 1920's, U.S. Steel began developing manganese deposits in Minas Gerais and exporting most of the ore to the United States.[10]

Again, "in response to the war effort and postwar requirements"[11] the United States Geological Survey (USGS) undertook a massive series of studies of the mineral and water resources of the Amazon Basin during the 1940's and '50's. These USGS surveys were one of the earliest foreign assistance programs to Brazil. Meanwhile, Hanna Mining Company, U.S. Steel and Union Carbide were also surveying in Brazil.[12]

In the mid-50's, U.S. interests began pressuring the Brazilian government to allow the U.S. Air Force (USAF) to make a full aerial photographic mapping survey of Brazil.[13] Nationalists within Brazil successfully resisted these pressures, until the April 1964 military coup. In July, 1964, after a go-ahead from the new military regime of Marshal Castelo Branco, the USAF started flying low level photographic flights over areas of Brazil that were believed to contain rich mineral deposits. Under the original contract between the USAF and Brazil, the photographs were to be processed in the United States, but the negatives were to be returned to the Brazilian government. The original agreement also specified that these negatives were not to be made public; but it was soon obvious that they were being widely circulated among U.S. businessmen. In December, 1966, Rio's Jornal do Brasil published statements by an Army colonel, claiming that North Americans used the survey in getting mining concessions in Minas Gerais and that the government agencies involved in the scandal refused to talk.

As a result of this and similar charges, the Brazilian Congress launched an investigation into foreign concessions. During these hearings in 1968, General Albuquerque Lima, Minister of the Interior, representing nationalist sectors of the Army, gave extensive testimony exposing the sale of Brazil's land to foreigners, bribery of Brazilian officials, and extraction of contraband ores. But this inquiry, combined with mounting popular mobilizations and demonstrations around the issues of political freedom and social welfare, proved to be too much for the dictatorship.[14] On December 13, 1968, Marshal Costa e Silva promulgated Institutional Act No. 5 which dissolved Congress, thereby closing the investigation and precluding the possibility of any further such inquiries.

The USAF surveys were of little help in the tropical Amazon Basin because aerial photography could not penetrate the cloud cover which shields large portions of the area. Thus, in October 1970, the Brazilian Army Joint Chiefs of Staff, with support from the Ministries of the Navy, Health, Interior, Agriculture, and the Brazilian National Space Research Institute, launched Project RADAM (for Radar Amazon), one of the world's largest remote sensing projects. The announced objective of this $7 million project was to uncover new mineral resources and to help plan the transportation of ores from already known deposits.[15]

The Brazilian government contracted the Washington- and Berkeley- based Earth Satellite Corporation to provide the technical guidance and interpretation of photographs for project RADAM. The survey itself was carried out by Aero Service Corporation, an affiliate of Litton Industries, and most of the equipment was supplied by Westinghouse.[16] By using "side-looking" radar (SLAR) and such instruments as infrared scanners and "spectral" cameras, RADAM has provided a detailed cartographic description of both the soil and subsoil of over 4.5 million sq. kilometers in the Amazon and Northeast regions. Although the Brazilian government now has maps covering this entire area, the actual RADAM studies will not be made public for three or four years -- except, of course, to interested investors. As one Earth Satellite geologist stated, "EarthSat is probably the largest amount of aid the mining companies are getting."[17]

Presently, there are at least two other surveying programs with heavy U.S. participation in Brazil. In January, 1972, the Woods Hole Institute of Massachusetts obtained a surveying contract from Brazil to look for manganese, titanium, gold and other minerals.[18] The second one is being done by the Brazilian government-controlled CPRM (Mineral Resources Research Company) which has 60 surveying projects underway in Brazil. The executive decree establishing CPRM in August, 1969, charged it with encouraging and cooperating with the private investors in the basic geological research and exploration of new mineral deposits. Unlike Petrobras, the state owned oil company, the CPRM is prohibited

(Continued on page 7)

Who's Minding The Mines?

Bauxite

Bauxite is the ore used for making aluminum. Brazil's bauxite reserves, believed to be the third largest in the world, are located primarily in the state of Minas Gerais (65 million tons) and Para in the Amazon (250 to 980 million tons). The United States currently depends on foreign sources for at least 85 percent of its bauxite. Brazil imports 40 percent of its aluminum needs but plans to be self-sufficient by 1985. The refining of bauxite requires the largest amount of hydroelectric power of any major mineral, thus most refining and smelting operations must be located near major power sources. The major bauxite operations in Brazil include:

1) ALCAN ALUMINIUM, a Canadian spinoff of ALCOA, is Brazil's largest aluminum producer. It has bauxite mines, refineries and smelters in the state of Minas Gerais and a fabricating plant in Sao Paulo. It recently announced a $90 million Amazonian bauxite mining project on a 100,000 hectare concession near the Trombetas River in the state of Para. The Amazon venture, called MINERACAO RIO DO NORTE, lies adjacent to ALCOA's and Daniel Ludwig's Monte Dourado bauxite concessions; as one geologist put it, they are prospecting "different levels of the same subsoil." ALCAN announced the Amazonian bauxite project would be more than an adequate substitute for its recently nationalized bauxite mines in neighboring Guyana. ALCAN has been allowed to retain majority ownership of MINERACAO RIO DO NORTE as well as management control (its negotiations with Guyana had broken down over the issue of management control).[a]

2) CIA. MINEIRA DE ALUMINIO (ALCOMINAS) is a joint venture controlled by ALCOA (48 percent) and HANNA MINING COMPANY (20 percent) operating large bauxite mines in the state of Minas Gerais.

3) KAISER ALUMINUM was the first American aluminum company to explore the Amazon (in the 1950's). After giving up on a site just 30 kilometers from today's ALCAN concession they are currently surveying "all over the states of Para and Amazonas."

4) A subsidiary of Daniel K. Ludwig's NATIONAL BULK CARRIERS is opening a bauxite mine at his huge two million acre Monte Dourado complex in the territory of Amapa, 250 miles from Belem. This mine lies adjacent to the ALCAN and ALCOA mines mentioned above.

5) RIO TINTO ZINC has filed for 47 bauxite claims in Brazil.

Iron Ore

Brazil has 25 percent of the world's known iron ore reserves; it has the second largest known deposits. The two principal known iron deposits are in the famed "Iron Quadrangle" in Minas Gerais and in the Serra dos Carajas mountains in Para. The United States depends on foreign sources such as Brazil for over 30 percent of all its iron ore needs. Though iron ore is Brazil's principal mineral export, it still imports steel. Two-thirds of the country's iron ore production is exported; amost all the ore mined by foreign companies is for export. CIA. VALE DO RIO DOCE (CVRD), 86 percent government owned, is Brazil's major ore producer. The other major iron ore mining projects include:

1) MINERACOES BRASILEIRAS REUNIDAS (MBR) a $90 million joint venture by several major companies in Minas Gerais. It consolidates the HANNA MINING/ST. JOHN D'EL REY holding with those of Antunes' CIA. EMPRENDIMENTOS DE MINERACAO (CAEMI). MBR is 51 percent owned by EMPRENDIMENTOS BRASILEIROS DE MINERACAO (EBM) and 49 percent by HANNA-controlled ST. JOHN D'EL REY. EBM, in turn, is 61 percent owned by Antunes' CAEMI, 19 percent by Daniel Ludwig's UNIVERSE TANKSHIPS and 20 percent by a Japanese group comprising six steel works and five trading companies.[b] Through management contracts HANNA has control of these mines.

2) AMAZONAS MINERACAO is a new $500 million joint venture between CVRD (51 percent) and U.S. STEEL's Brazilian subsidiary CIA. MERIDIONAL DE MINERACAO which mines one of the richest iron ore deposits in the world. The ore is located in a 160,000 hectare Amazon concession in the state of Para. Extraction will require construction of a deep water port, a 400 kilometer railroad, an airstrip and housing for 2,500 miners.

Manganese

Brazil is the world's third largest producer of this militarily strategic mineral. The United States is dependent on foreign sources for over 95 percent of its manganese needs. Over 90 percent of Brazil's manganese is exported to the United States and the mineral ranks as Brazil's second most important mineral export (after iron ore). According to Foreign Commerce Weekly (January 2, 1959), "Manganese is a vital hardening alloy metal without which warships, tanks, and armor plates would yield to high powered shells like butter to a hot knife." Not surprisingly, the major miner and purchaser of Brazilian manganese is BETHLEHEM STEEL, the leading U.S. builder of naval vessels. Most of Brazil's manganese deposits are located in the Territory of Amapa, just north of the Amazon river. The major producer is INDUSTRIA E COMERCIO DE MINERIOS (ICOMI), a joint venture between Antunes' CAEMI (51 percent) and BETHLEHEM STEEL (49 percent). Although BETHLEHEM is minority shareholder it controls the mining through a management contract.

Niobium

Brazil has 60 percent of the world's known niobium reserves. The United States is 100 percent dependent on foreign sources for niobium. Niobium, formerly known as colombium, is a rare metal of the vanadium family used in alloys for jet engines, gas turbines and rockets. Most deposits are in Minas Gerais and are worked by CIA. BRASILEIRA DE METALURGIA E MINERACAO, a joint venture between INTERNATIONAL MINING CORPORATION (49 percent) and CIA. METROPOLITANA DE COMERCIO E PARTICIPACOES (51 percent). These deposits also contain two thirds of the known world supply of radioactive thorium used in the space industry as a high strength steel alloy.

Tin

Brazil is estimated to have the world's largest tin reserves -- 10 million tons compared to the rest of the world's 7.8 million tons. Most Brazilian reserves are located in the Amazon Territory of Rondonia. The United States currently depends on foreign sources for over 80 percent of its tin needs. A ROYAL DUTCH SHELL subsidiary (BILLITON) operates a $3 million 720,000 acre tin concession in Rondonia under the name of CIA. DE MINERACAO FERRO UNION S.A. (FERUSA).[c] The Transamazon Highway network and the government's planned new port at Porto Velho will greatly benefit FERUSA and the 11 other big companies exploring for tin in Rondonia. W.R. GRACE also mines tin in Rondonia in a joint venture with Brazilian interests called CIA. ESTANIFERA DO BRASIL (CESBRA). The Brazilian government has helped clear the way for large tin mining companies by outlawing garimpeiros, the individual prospectors.

and...

Timber

The Amazon Basin contains one-sixth of the world's timber and is thus a primary target of exploitation and control for major international forest products companies who already control over 60 percent of Brazil's timber industry.

1) BRUYNZEEL MADEIRAS S.A. (BRUMASA), a $20 million joint venture controlled by BRUYNZEEL (Dutch), the world's largest timber company, has the largest timber operations in the Amazon.

2) CIA. AMAZONAS MADEIRAS E LAMINADAS, a subsidiary of the world's second largest timber company, GEORGIA PACIFIC, has a 1.5 million hectare concession.

3) SUPERFINAS MADEIRAS LTD., a subsidiary of TOYOMENKA, the world's fourth largest timber group, has built a large $18 million plywood and laminated wood factory at the mouth of the Amazon.

4) MADEIRAS GERAIS DA AMAZONIA, owned by Robbin Hollis McGlohn, operates a 300,000 hectare lumber concession next to GEORGIA PACIFIC. Originally he owned the land currently held by GEORGIA PACIFIC and exploited it for rubber.

5) The most ambitious timber operation in the Amazon is part of a $300 million project undertaken by billionaire shipping tycoon DANIEL K. LUDWIG, reportedly one of the world's six wealthiest men. LUDWIG has acquired about 2.4 million acres of land near the mouth of the Amazon which he controls through JARI FLORESTAL E AGROPECUARIA. On a portion of this land he intends to plant the world's largest plantation forest (other sections will be used for the world's largest rice paddy, sugar cane, palm oil, cattle and a bauxite mine). The production from his forests of fast-growing gmelina arborea trees is destined for export to Europe and the United States.

Sources: a) Business Latin America, March 2, 1972, pp. 69-70; b) Skillings Mining Review, January 27, 1973, pp. 3-6; c) Los Angeles Times, October 12, 1970. The other sources for this chart included the Engineering and Mining Journal, articles in Peruvian Times, Business Latin America, BOLSA Review, Brazilian Trends (Editora Abril), Brazilian Bulletin (Brazilian Government Trade Bureau), corporate annual reports, and especially Guia Interinvest Guide (Rio de Janeiro).

from exploiting any of the new mineral resources it discovers. In addition, the CPRM established a fund from which mining companies can borrow money at low rates for investment in their various projects. A private company spokesman in Rio reflected foreign investor approval of CPRM when he told the Engineering and Mining Journal, "We thought it was all over for private mining ventures when CPRM was created, but CPRM has turned out to be a very positive factor for the industry."[19] Though the CPRM is government-controlled, private investors hold a large bloc of its stock.[20] Three of the six most important stock holders are companies with large U.S. participation.[21]

GAINING CONTROL OF THE MINERALS

Once the mineral deposits had been located, the next step for the U.S. mining companies was to gain control over them -- no small task given Brazil's nationalistic mining code of 1954, which classified subsoil rights as public domain.

Hanna Mining Company led the way, attempting to gain control over rich iron ore deposits in Minas Gerais: in 1956, Hanna purchased an old English gold mining company which had mining rights to the land where the iron ore was located long before the 1954 code was passed. Even though this Hanna mining venture incorporated local Brazilian mining magnate Augusto Antunes, it was successfully blocked by nationalists at many levels of government; it was on the verge of being finally quashed by the Supreme Court when the military coup of April 1964 saved the day for Hanna.[22] Within a few months of the coup, on December 24, 1964, Marshall Castelo Branco promulgated a presidential decree which reversed the previous Goulart administration's trend toward a government mineral monopoly, and endorsed private development of Brazil's iron ore reserves. And on June 15, 1966, a reconstituted Federal Court of Appeals handed down a decision favoring Hanna's right to exploit the ore deposit,[23] thus partially reversing the 1954 mineral code.

Another strategy for battering down the nationalistic Brazilian mining legislation was undertaken by U.S. Steel when faced with restrictions on how much land a mining concession could encompass.[24] In 1967, a Brazilian geologist working for U.S. Steel's local subsidiary,

Meridional de Mineracao, discovered what proved to be one of the world's richest iron ore deposits in the Serra dos Carajas mountains, in the state of Para. According to one account, this deposit contains enough ore to provide annual exports of $200 million for 200 years, for a total value of $40 billion.[25] The deposit covers an area of some 160,000 hectares (1 hectare equals 2.47 acres) but existing mining laws authorized a maximum of 5,000 hectares per concession to any one company. U.S. Steel attempted to circumvent this obstacle by taking out one concession in the name of its Brazilian subsidiary and thirty-one concessions in the name of directors and old employees of the company.[26] The Brazilian Ministry of Mines granted the first concession but held up the others for "further study."

Two years later, after U.S. Steel agreed to develop the iron ore deposits jointly with the largest Brazilian iron ore company, the state-owned Companhia Vale do Rio Doce (CVRD), the Brazilian government changed the law: from then on, a company could hold one concession of 50,000 hectares and could form another subsidiary to mine an additional 30,000 hectares. Thus, U.S. Steel was given mining rights for 80,000 hectares and an equal concession was granted to CVRD.

Though the joint venture, called Amazonia Mineracao, is 51 percent owned by CVRD, management control is in the hands of U.S. Steel and the U.S. company has first option to buy half the projected output of the mine. One Brazilian journal observed that as a result of the agreement forming Amazonia Mineracao in 1970, "about a dozen Americans today form part of the top management supervising the work of about six hundred Brazilians."[27]

As in the case of Hanna's joint venture with Antunes, U.S. Steel's alignment with CVRD protected it from charges of total foreign control over the rich iron ore deposits, while at the same time giving it virtual control over much of the mining operation.

SUBSIDIZING U.S. OPERATIONS

After locating and gaining control of the raw materials deposits in Brazil, the foreign mining investors had to arrange for the state to subsidize their operations as much as possible. This meant gaining generous tax holidays, export duty exemptions, investment guarantees and financing from state agencies and having the government finance the major infrastructure costs -- ports, roads, railroads, and hydroelectric power plants, which are essential to the exploitation of minerals. These benefits, in addition to the abolition of a law restricting profit remittances abroad, have all been obtained since the 1964 military coup.

Tax Incentives

The following examples illustrate some of the tax incentives granted:

1) Companies established in the Northeast or Amazon regions before the end of December 1974, are totally exempted from taxes if the state development agencies, SUDENE and SUDAM, rule that they contribute to the region's economic development. This tax exemption is valid for 10 years, but may be extended to 15 years if the industry is relatively unprofitable or if it uses particularly large quantities of local raw materials. This incentive plan is valid until 1978 in the Northeast and until 1982 in the Amazon region.[28]

2) Existing enterprises in these regions and new ventures not eligible for the 10 or 15 year tax holiday enjoy a 50 percent reduction in income taxes on any money they spend on projects which SUDAM and SUDENE consider important for regional development.

3) Import duties on machinery and equipment are waived for projects approved by the regional development agencies. Certain stages of the lead, zinc, and aluminum industries receive an income tax advantage in the form of an accelerated depreciation on their machinery and equipment.

4) Expenses incurred for surveying natural resources may also be deducted from income taxes.

"LITTLE BY LITTLE, BETHLEHEM IS HAULING BRAZILIAN LAND BACK TO THE UNITED STATES."

Financing

As described in the article on foreign aid elsewhere in this Report, most of the financing for large infrastructure investments has been obtained through loans made by the major bilateral (U.S. Export-Import Bank, U.S. Agency for International Development) and multilateral (World Bank, Inter-American Development Bank) lending agencies to the Brazilian government. Smaller loans financing regional infrastructure projects are available from the Amazon and Northeast regional banks, the Mineral Resources Research Co. (CPRM), SUDAM and SUDENE. Nationalists have criticized the priority these government lending institutions give the export-oriented (mainly foreign controlled) industries. They argue that the money in the regional lending agencies should be earmarked for projects that benefit the depressed areas more

directly -- such as food processing industries and other domestically consumed goods -- rather than for export industries.[29] These Brazilians have also criticized a 1971 law which diverts 50 percent of SUDAM and SUDENE funds in the regional banks to finance the National Integration Plan (see below) and colonization plan along the new Transamazon Highway -- projects which also help the foreign investors more than local residents.[30]

Another incentive given to U.S. investors in Brazil, the investment guarantee program, involves both the U.S. and Brazilian governments. The U.S. Overseas Private Investment Corporation (OPIC)[31] removes much of the risk of U.S. foreign investment by insuring certain foreign investments against losses caused by expropriation, war, and currency regulations that might restrict the remittance of profits to the United States. However, before underwriting these risks in a given country, the U.S. State Department negotiates an investment guarantee agreement with the foreign host government. This guarantee establishes various protective measures around private U.S. investment and has usually been rejected by nationalist governments which fear it would jeopardize their sovereignty. (Mexico, for example, refused to sign despite intense corporate and U.S. government pressure). The Goulart administration and the Brazilian Congress had resisted U.S. pressure to sign an investment guarantee agreement prior to the 1964 coup. One of the first U.S. demands on the new military government was that it sign such an agreement, which it did in February, 1965.[32]

As of June, 1971, over 55 U.S. companies in Brazil had taken out OPIC insurance totaling over $618 million. ALCOA, for example, insured its alumina operations for $27 million against convertibility problems (alumina is the second stage of manufacturing aluminum from bauxite); W.R. Grace insured its Amazonian tin venture for $1 million (convertibility); and Hanna Mining took out a policy for $9.6 million on its Alcominas aluminum operations.[33]

The National Integration Plan

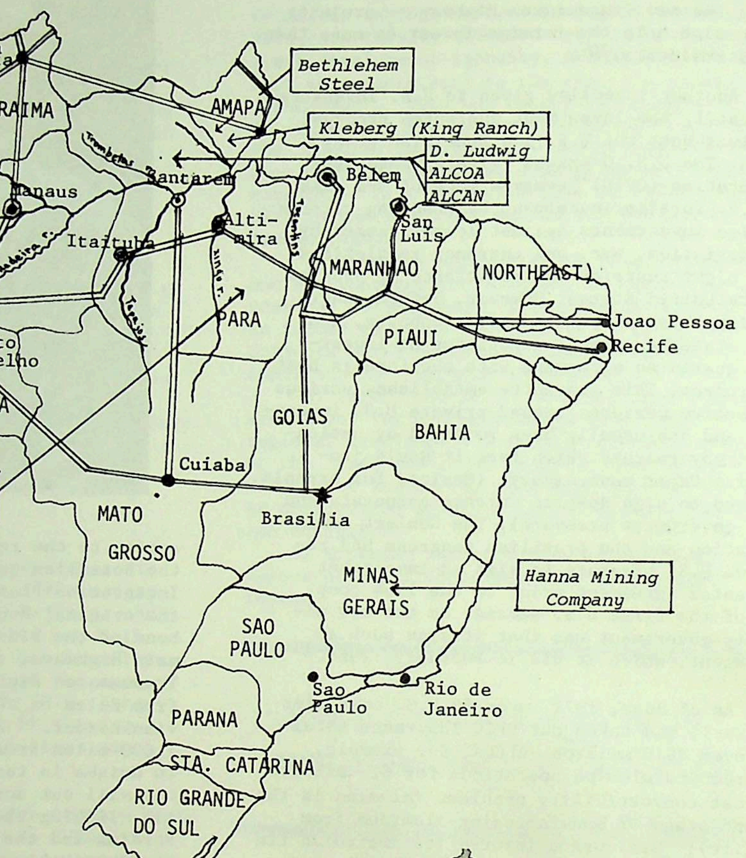
Foreign interests have devised numerous schemes for transportation and colonization in the Amazon. One of the most notorious was a 1964 "Great Lakes" plan devised by Herman Kahn's Hudson Institute. It called for dams which would flood large areas of the Amazon basin to facilitate access to the region's resources and provide hydroelectric power for extractive industries. It also envisioned an extensive highway network along which an agricultural colonization program could be created. The Hudson Institute plan, however, was dropped from public discussion after it caused a furor of nationalist opposition.[34]

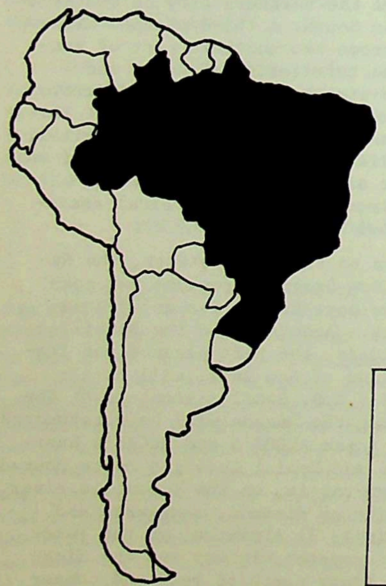
Nevertheless, the problem of gaining

access to the resources remained, and in 1970 the Brazilian government unveiled its National Integration Plan (PIN) which drew heavily on the original Hudson Institute plans. The backbone of the PIN is a 5,000 mile network of four main highways, the longest of which is the Transamazon Highway, stretching 3,000 miles from Belem on the Atlantic coast to the Peruvian border.[35] A complementary highway runs 1,000 miles from the northern city of Santarem to Cuiaba in the South. A third planned highway will cut across the northern part of Brazil, linking the territories of Amapa and Roraima and the states of Amazonas and Acre. The fourth highway will connect Belem, at the mouth of the Amazon, with the federal capital, Brasilia. The PIN calls for colonization of 50,000 families along these roads, and offers land at almost no cost, technical assistance and medical care.

In addition to the road network, the National Integration Program provides for construction of new port facilities and renovation of old ones. According to the Brazilian magazine, Realidade, the port planned for Itaqui, on the island of San Luis, will be the shipping port for U.S. Steel's iron ore.[36] The other ports along the Amazon will be constructed at 1) Santarem (near ALCOA's and ALCAN's bauxite concessions and Daniel Ludwig's Monte Dourado complex); 2) Imperatriz, on the Tocantins river in Maranhao (site of diamond, manganese and iron ore deposits); 3) Altamira, at the junction of the Transamazon Highway and the Xingu river in Para, (just north of lead and copper deposits); 4) Itaituba, 12 kilometers from the

Brazil in Perspective





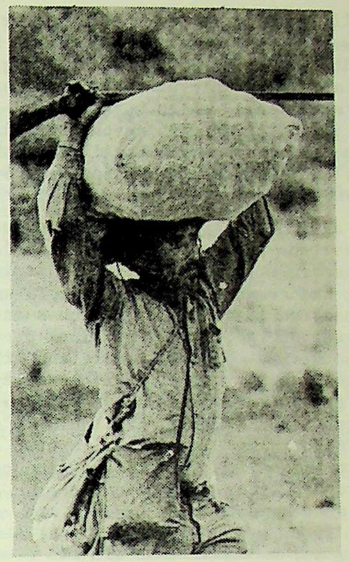
Transamazon and Cuiaba-Santarem Highway junction on the Tapajos river (just north of tin and gold deposits); and 5) Porto Velho, along the Madeira river in Rondonia (site of extensive tin exploitation).[37] In addition to these new port facilities, the two existing ports in Manaus and Belem will be renovated. Belem, at the mouth of the Amazon, is Brazil's most strategically located port for reaching both the United States and Western European markets.

There are hints that once the road and port network is completed, construction will begin on a vast railroad network linking roads, ports and mineral deposits. Heavy rains can turn the largely unpaved roads into quagmires and trains can transport heavy ore cargoes quicker and cheaper than can the largest trucks.[38] Most of the railroad projects currently underway are to be used by the iron ore exporters in both the Amazon region and the State of Minas Gerais. For example, the CVRD and U.S. Steel Serra dos Carajas project in Para is constructing a 400 mile railroad from the iron ore mine site to a new port at Itaqui, south of Belem.[39] The government has planned a 400 mile rail network from the Hanna-Antunes Aguas Claras iron ore mines in Minas Gerais to terminal and port facilities at Sepetiba Bay, 60 miles southwest of Rio de Janeiro. With this kind of attention being given to infrastructure needs it is easy to understand how mining will become the largest export sector in Brazil within the next decade.

The government gives several justifications for the PIN plans. One is that it will facilitate colonization of the Amazon to relieve political and economic tensions in the heavily populated and poverty-stricken Northeast by stimulating migration movements from the Northeast to the Amazon. The Northeast has 33 percent of the country's population living on 15 percent of the land, while the Amazon has only 8 percent of the population living on 59 percent of the land. In addition, the government claims it must populate and develop the Amazon for military security reasons -- to establish Brazilian control and to provide easy access to the hinterland in case of "foreign encroachment."[40]

Even though most of Brazil's neighbors -- which include all South American countries except Chile and Ecuador -- have agreed to connect their road networks with the PIN system, some fear that the roads will facilitate Brazilian economic and military invasions.[41] There is basis for this fear: as one Brazilian official threatened, "We are an imperialist power now, and we are letting the rest of Latin America know it!"[42]

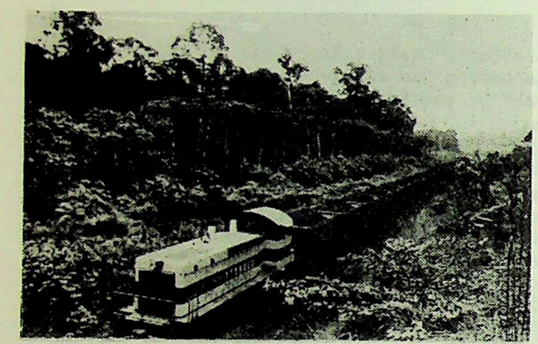
PIN critics focus on several aspects of the program. First and foremost, they feel the more than $1 billion which is scheduled for the roads and resettlement scheme could not only have been better spent on agrarian reform projects in the Northeast, but places a severe drain on the Brazilian economy. "The road will cost more than a developing nation



can afford," said a Brazilian official. "If this nation has survived the financial drain caused by the Brasilia project, nothing proves that it will be capable of surviving another gigantic financial bleeding."[43] Second, serious problems have developed in regard to the provision of technical, financial and medical facilities for the colonists. Many have already left the Amazon claiming the government has not come through with its promises for technical aid and medical care. Third, only 1.5 percent of the Amazon has fertile soil suitable for agriculture, and even this small area must be constantly fertilized to compensate for the minerals washed away by heavy annual rains. Previous attempts to cultivate the Amazon have yielded crops for two or three years, after which time the soil was exhausted of its mineral wealth. As one journalist forecast, if the government colonizes thousands of nordestinos along the Transamazon highway, the "poverty of the Northeast will become the misery of the Amazon."[44] Fourth, a criticism that has come from groups all over the world, the construction of the Transamazon Highway and the colonization program have caused either the death or forced relocation of thousands of Brazilian Indians. Even the Xingu Park National Reservation, set aside as a sanctuary for the Indians, was violated as the government secretly instructed road crews to change publicly announced plans and drive one of the major highways right through the reservation. As a Manchester Guardian correspondent prophesied, "Every road now being driven through the tropical forests of the States of Amazonas and Mato Grosso is a nail driven into the coffin of the Brazilian Indian."[45]

Finally, the PIN critics point out that the road, railroads and ports which have been planned will mainly provide for the export of Brazil's wealth, primarily to the United States. What the Brazilian government calls integrated growth is merely an international dispersal of Brazil's national wealth. "Little by little," wrote one jounalist describing the operations of a large U.S. investor in Brazil, "Bethlehem [Steel] is hauling Brazilian land back to the United States."[46]

Once again, the overriding reason for the PIN emerges: the need to open the Amazon's natural resources to exploitation, that is, to facilitate the transportation of people and machinery required to extract the riches and to ship them out of the region for final processing and manufacturing. This, much more than the colonization schemes and military security objectives, provides the economic justification for vast expenditures, particularly in the eyes of the World Bank and other foreign lenders who are supplying the primary financing for the project. (See article on foreign aid to Brazil elsewhere in this issue.)



A BITTER HARVEST

From the preceding discussion, it should be clear that foreign mining investors and their Brazilian partners have been among the main beneficiaries of the policy decisions made by the military dectatorship which has ruled the country since 1964. Where previously barred from mining, now they have not only found and gained control of rich deposits, but have also been granted lucrative tax, financing, and infrastructure benefits by the government.

For the U.S. mining corporations, the Brazilian operations mean new sources of raw materials and their ready availability at a good price, as well as high profits and tighter control over Latin America's total resources. Their close relationship to the Brazilian government also opens up the possibility of further investments in Brazil and more profits in the future. For the U.S. economy as a whole, the Brazilian mining boom means increased exports, especially in machinery and transportation equipment. Caterpiller, for example, has sold over 770 pieces of machinery worth over $47 million to the builders of the Transamazon Highway, and its Brazilian subsidiary now controls an estimated 70 percent of the country's earth-moving equipment market.[47]

But what does foreign control of its mineral resources mean for the Brazilian people? For the relatively few industrialists who have allied themselves with U.S. interests, it means additional wealth. Brazil will probably receive substantial foreign exchange earnings from mineral exports -- but most of this money will never be seen by the majority of Brazilians, since it will be fed back into the U.S. economy for expensive imported goods and for servicing the growing foreign debt.

But the people who have paid the highest price for Amazonian "development" are those who are closest to it -- the Indians, the miners, the colonists. The London publication Latin America reported recently on the widespread conditions of slave labor:

> If the position of the average Brazilian employee is bad, the worker in the Amazon region is far worse off...For nearly a year rumors have been circulating in the Brazilian press that 'slave labour' conditions exist on certain vast development projects in the Amazon area, notably on the one and a half million hectare forestry and farming estate of the United States multi-millionaire Daniel Keith Ludwig. ...Reports have it that the various companies use armed guards to dissuade workers either from protesting or trying to escape, and it is even suggested that torture is used to keep the workers in line...[48]

Already the familiar social tensions of "boom" towns are part of the Amazon reality -- widespread prostitution, armed conflicts between small landholders and large ranchers, and a tremendously inflated economy (prices are often three times as high as elsewhere in Brazil).[49] And, as already described above, the Indians are being driven from their homelands and forcibly removed to reservations where they are not safe from further incursions -- that is, if they are not killed outright.

This is how the Brazilians of the interior Amazon region have experienced the acclaimed "economic miracle." It takes no prophet to see that such conditions foment social discontent, and ultimately, broad-based political resistance.

-- Marsha Miliman

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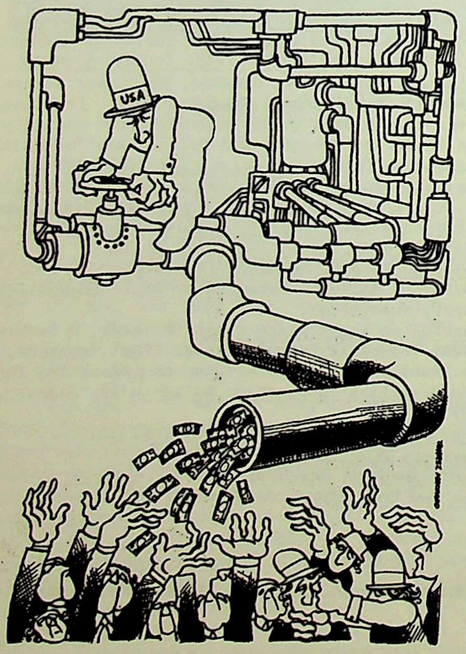
Foreign Aid To Brazil:

Priming the Pump and Waiting for the Trickle-Down

The massive flow of "development" aid into Brazil in recent years is not simply a phenomenon appropriate to its size. It is rather a measure of the unqualified support given the military regime by the United States and the U.S.-dominated international aid agencies. During 1972 alone, three of these agencies extended well over $1 billion in loans to the dictatorship, at the same time that the democratically-elected government of Chile found nearly all its aid channels shut down. And despite clear evidence that Brazil has one of the most repressive governments in the world, the U.S. government continues to regard Brazil as an exemplary candidate for foreign aid support.

Before looking in detail at the history and nature of foreign aid to Brazil in the last ten years, we should first understand the general purposes of this aid. Despite the rhetoric about development and human progress, most U.S. aid to Brazil has served three essential functions:



1) to service the various activities (exports, shipping, overseas investment) of U.S. corporations. This is not peculiar to the Brazilian case, but is the most consistent economic function of U.S. aid programs throughout the world.
2) to support fully the Brazilian military regime. After undermining the Goulart government and supporting the 1964 coup, the United States has not faltered in giving the generals the assistance they need to maintain themselves in power.
3) to strengthen Brazil's position as the gendarme of Latin America. Aid has been one of the several means employed by the United States in encouraging Brazil to be the strong-armed "sub-imperial power" in the southern hemisphere.

THE POLITICS OF AID

The history of aid to Brazil makes abundantly clear the political nature of the U.S. foreign aid apparatus. When the United States launched the Alliance for Progress in 1961, Brazil was immediately identified as the key nation in aid strategy. Indeed the Northeast of Brazil was singled out by the Kennedy administration as the most important target area of the Alliance--the Cuba that would not be lost.[1] As a result, the Agency for International Development (AID) established a mission in Recife (the only regional office in AID history) to supplement the Rio de Janeiro mission, and $131 million in U.S. funds was committed for the development of the Northeast.

The AID program was supposed to operate as a complement to the Brazilian development agency of the Northeast -- SUDENE. Under the leadership of the internationally-known Brazilian economist Celso Furtado, SUDENE had developed a comprehensive long-range plan for the Northeast, which sought the economic, political and social development of the region by circumventing the local oligarchies entrenched in the state governments. As Furtado saw it, AID was to channel its aid through SUDENE for projects encompassed by this development plan.

The United States, however, saw otherwise. Although nominally committed to working through the SUDENE plan, the U.S. mission was much more concerned about the growing peasant and urban populist movements in the Northeast region. In fact, the United States had never had any real "commitment" to the plan, and had only a rhetorical interest in long-range development. But the progressive movements of the Northeast had to be curtailed, and thus the Embassy focused on "impact" projects designed to combat "communist influence" in the area. The U.S. plan was to establish highly visible, short-term projects with cooperative state governments; that is, to bypass SUDENE and short-circuit its regional development strategy. These "cooperative" state governments (often rererred to as the "democratic" forces) were the same staunch defenders of the status quo who had presided over the poverty of the Northeast for years. In fact, their real claim to U.S. support was simply their fierce opposition to the Goulart administration and the popular forces that were mobilizing behind it.

The first, and probably the most blatantly political, of these select impact projects was a school construction program in the state of Pernambuco. Despite the objection of AID's own education officials that the problem with primary education was not facilities but curriculum and teacher training, the mission decided to build schoolrooms as dramatic evidence of the U.S. presence in the region. Callously claiming that the governor of Pernambuco, Cid Sampaio, represented the "democratic" forces of the Northeast, AID designed the program to help Sampaio's candidate win the 1962 gubernatorial elections. The hope was that this aid would head off the populist movement centered in Recife, whose leader, Miguel Arraes, was running for governor. AID was unsuccessful in this attempt, as Arraes was elected; but this first project set the tone for most of AID's efforts in the Northeast up until the 1964 coup.

The selective use of loans to governors was not limited to the Northeast. As the U.S. government grew increasingly dissatisfied with the left-nationalist trend of the Goulart administration, aid (and its withdrawal) became an important tool in undermining Goulart's position. On the one hand, the United States cut off all aid to the federal government, which was saddled with a large debt from previous administrations. (The U.S. Export-Import Bank, the International Monetary Fund and the World Bank had already stopped lending to Brazil). On the other hand, the United States negotiated aid agreements with various state governors who were politically opposed to the Goulart government, regardless of their ability to live up to the stated fiscal or political requirements of the Alliance.[2] The intent of this so-called "islands of sanity" policy was to isolate Goulart economically and politically, and demonstrate U.S. approval of any move to oust the federal government. Thus, when the military took power in April of 1964, U.S. aid officials were neither surprised nor disappointed.

From the Senator's Press Conference

The United States, said Sen. Church, has twice as many officials there in proportion to the host-country's population, as the British had in India "when they were providing the government for that entire country."

Administration of U.S. programs in Brazil required 588 official Americans, or "approximately one per 150,000 Brazilians," the testimony showed. The British had approximately one civil servant there per 300,000 Indians. The American figure, he added, did not include the more than 800 Brazilians working for U.S. agencies in Brazil or the more than 300 Peace Corps volunteers there.

Washington Post, July 25, 1971

The United States wasted no time in demonstrating its support for the new military regime in dollars and cents: within two months after the coup, U.S. AID signed and delivered a $50 million program loan (see below). Another $150 million AID loan was signed in December, 1964, and the Eximbank, IMF and the World Bank promptly resumed their lending activities in Brazil.

It should be noted that the U.S. government has generally justified the suspension of aid to Goulart on purely fiscal grounds. The argument runs that since the Goulart government lacked sufficient commitment to the austerity measures (such as budget-tightening and wage controls) necessary to stem inflation, aid had to be suspended. Similarly, since the new military government demonstrated a strong commitment to these measures, aid was quickly restored. The events of the period, as well as recent statements made by U.S. officials, have led most observers to conclude that U.S. aid policy was governed by political rather than fiscal considerations.[3] If there is any doubt about this, one need only examine a similar situation in 1968 when a $100 million loan to the military government was approved despite many doubts about the economic situation in the country. When asked about this loan, an AID economic officer replied that loan standards (i.e., the same type of fiscal requirements imposed in 1963) had to be "relaxed" because of "overriding United States political considerations."[4]

It is these same "overriding political considerations" that have prompted the United States to pump in over $2 billion in bilateral aid to the regime since the coup d'etat, in addition to some $1.5 billion from the international aid agencies. (The exact figures for each agency are given in Table I). Moreover, the IMF, which functions as the watchdog of

TABLE I: Foreign Aid to Brazil, 1962 - 1972 (Fiscal years, in millions of dollars)

AGENCY	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	TOTAL 1964-72
U.S. Agency for International Development	85.1	86.5	179.5	234.9	243.7	214.9	193.8	12.4	88.0	79.4	9.4	1,256.0
PL 480 (U.S. Food for Peace Program)	72.5	47.9	150.9	24.6	79.1	21.6	82.9	10.4	62.4	40.6	n.a.	472.5
U.S. Military Aid (all types)	49.6	17.5	41.2	11.2	28.9	32.1	36.6	0.8	0.9	12.2	n.a.	163.9
U.S. Eximbank ("long term loans")	--	--	--	6.0	16.9	30.0	50.8	27.9	65.6	74.0	n.a.	271.2
World Bank	--	--	--	79.5	49.0	100.6	61.9	74.9	205.0	160.4	437.0	983.8
International Finance Corporation	--	--	--	--	11.0	10.7	--	9.4	8.4	10.9	27.5	77.9
Inter-American Development Bank	25.6	18.6	25.8	80.4	87.3	125.7	76.9	99.8	160.6	119.9	n.a.	776.4

SOURCE: U.S. Agency for International Development, U.S. Overseas Loans and Grants, July 1, 1945 to June 30, 1971 (Washington, D.C.; 1972). Data for 1972, where available, comes from the annual reports of the agencies involved (n.a. means not available).
NOTE: The total from 1964-72 represents the total aid given to the military regime.

international finance, has extended eight consecutive standby agreements to the regime (the first in 1965, and the last, for $50 million, in March, 1972).[5] Not one of these agencies has found the repressive measures of the Brazilian government to be sufficient cause to even threaten a reduction or suspension of aid to Brazil.

THE LOWER PROFILE

Where, then, has all this money gone? Some of the U.S. bilateral funds have been used for extensive military and police programs in Brazil.[6] The focus of this article, however, are the less controversial, but equally important, economic aid programs that constitute the bulk of aid funds to Brazil.

About half of the AID funds have come in the form of program loans, totalling $550 million including the loan given immediately after the coup. These loans extend general support to the government by providing foreign exchange (i.e., dollars) with which to import U.S. commodities. They are not tied to any specific project or goal beyond bolstering the government and its foreign reserve position, though they are generally accompanied by stipulations concerning the recipient's fiscal policies. The rest of the AID money has gone to project loans, which provide capital for specific development projects -- in the case of Brazil, specifically infrastructure development. Some money has also gone for technical assistance grants and other specialized programs, but the amounts have been small, and their effects difficult to determine.

Before taking a more detailed look at how this money has been spent, we should note one recent trend in aid to Brazil. In the mid-60's, the U.S. bilateral program in Brazil was massive -- hundreds of aid officials occupied one of the largest buildings in Rio, and administered well over $200 million each year. By contrast, the current AID program is relatively small -- $79.3 million in fiscal 1971 (less than the AID program in Colombia), and only $9.4 million in fiscal 1972. The early transfusions, designed to put the regime on its feet financially and demonstrate U.S. support, have evidently served their purpose. The police have been trained, the army equipped, and the investment climate completely cleared up. Now a lower profile is more appropriate.

Yet while the AID effort has been toned down, funds from other agencies have increased rapidly. In 1972, for example, Brazil surpassed Japan as the biggest borrower from the U.S. Eximbank (over $2.6.billion) and became the largest World Bank debtor as well. World Bank loans to Brazil in fiscal 1972 totalled $437 million, accounting for more than 45 percent of the $956 million it lent to all of Latin America. In addition, Brazil has increased its borrowing from private banks. In February, 1972, Brazil floated a $30 million bond issue in Europe (its first international loan since 1931), and more recently obtained a $200 million loan from a consortium of Japanese banks.

This shift from U.S. bilateral to international sources of funding has made it more difficult for the U.S. Congress to review and criticize U.S. aid policies in Brazil. When Senator Church held hearings on "United States Policies and Programs in Brazil", he was repeatedly informed about the reduction of U.S. aid programs in Brazil, as if U.S. financial support of the regime was no longer important. The support is still there, but it is being channeled through agencies over which the Congress has little or no control.

BUY AMERICAN

A fundamental purpose of U.S. aid is to subsidize the export of U.S. products, and this

is done primarily through the "tying" of aid.[8] All of the dollars provided in the various program loans to Brazil, for example, had to be spent on U.S. goods, even if cheaper goods could be purchased elsewhere. Moreover,

> projects involving large direct imports from the United States, such as capital-intensive highway maintenance, which opened possibilities of diverting Brazilian imports from Western Europe toward the United States, tended to be favored over higher priority projects involving a high share of local costs.[9]

Helping U.S. exports, not Brazilian development, seems to be AID's primary consideration.

To cite a specific example of how this concern over import generation can pervert development priorities, consider the AID decision in 1967 to modernize Brazil's secondary education system. In this case,

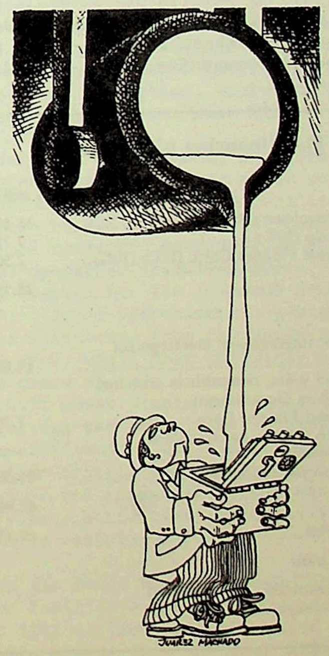
> The Brazilian government committed itself to provide matching contributions in local currency for a major project in secondary education and to implement important structural reforms in curriculum and methods of teaching. However, Brazil, which has the most developed industrial plant in Latin America, prohibits the importation of foreign-financed equipment if an equivalent Brazilian product exists. Since Brazil had the capacity to produce virtually all the secondary school equipment necessary, an AID loan to meet this development need would not result in direct dollar imports from the United States. (The) Treasury (Department), therefore pressed AID to concentrate on higher education, in the hope that funds for a university program might divert purchases of university laboratory equipment from Germany to the United States.[10]

Because of President Johnson's special interest in education loans, AID in this case stuck to its commitment to secondary education reform; but more often than not, it is the import criterion that prevails.

The subsidizing of U.S. business extends beyond exporters to the shipping industry as well. The Foreign Assistance Act stipulates that at least 50 percent of AID-financed goods must be shipped on U.S. vessels, which are the most expensive in the world. In the case of a 1964 AID loan to Brazil for fertilizer imports, U.S. shipping was found to be well over twice the cost of other shipping. Brazilian importers were of course reluctant to pay such exhorbitant prices, but the Brazilian government offered to pay the difference so the loan could be utilized. But there was also a shortage of American vessels at the time, which further complicated the argument as to just how the fertilizer had to be shipped. One planting season was lost entirely before agreement was reached. A similar loan of $20 million for fertilizer was negotiated in 1966, but since an estimated $4-5 million of that would have gone to subsidize shipment on U.S. vessels, the Brazilians decided the price was too high and the loan was canceled.[11]

The most striking illustration that aid is oriented more toward the needs of the donor than of the recipient was the squabble over Brazil's current steel expansion program.[12] Intended to double Brazilian output over a five year period, this massive effort involved Brazil's three largest steel mills and required $500 million in external financing. The Brazilian government favored World Bank financing, because its international competitive bidding would undoubtedly keep costs lower, and because the World Bank would provide more money for support facilities. U.S. suppliers (such as Westinghouse), knowing that they would lose in an open bidding, insisted that the Eximbank should supply the money and thus insure U.S. companies the contracts. The Eximbank claimed that it was the logical financier, since it had already invested $150 million in the steel industry, beginning with a loan in 1942 designed to induce Brazil's break with the Axis powers.

As the controversy mounted, Business Week reported that the "World Bank craves a slice of Ex-Im's pie," noting that "at stake is whether U.S. or foreign companies will sell about $120 million worth of equipment and engineering services for the expansion." The Christian Science Monitor declared that "President Nixon



will have to settle the dispute." It did not seem to matter what Brazil wanted, much less what it needed. The issue was finally resolved through a compromise involving the World Bank, the Inter-American Development Bank (IDB), Eximbank, and the export-funding agencies of the other supply countries, whereby everyone got a piece of the pie.

AIDING THE MULTINATIONALS

Support for U.S. companies is not limited to exporters and shippers -- the overseas subsidiaries of U.S. corporations are perhaps the biggest beneficiaries of the foreign aid system. Eximbank, which is specifically designed to stimulate U.S. exports, often make the credits available to U.S. subsidiaries in other countries. In fiscal 1972, for example, Goodyear do Brazil got a $4.25 million loan from Eximbank to expand its tire plant, in addition to an identical amount from First National City Bank guaranteed by Eximbank. The Brazilian subsidiaries of Ford, DuPont, Owens-Corning, Bethlehem Steel, Hanna Mining, and Union Carbide have similarly benefitted from Eximbank money over the past several years.[13]

The International Finance Corporation (IFC), part of the World Bank group, specializes in investing "development" funds in joint ventures involving multinational corporations. Table II lists all the U.S. companies that have received capital assistance from IFC for their operations in Brazil. Also listed are those U.S. banks for which IFC has made the job of overseas lending less difficult and risky.

In a sense, it is not surprising that these two agencies -- Eximbank and IFC -- are putting money in the big companies, since that is more or less their purpose. AID, however, has a declared commitment to the development of the countries in which it operates. Nonetheless, AID has managed to lend a helping hand directly to more than one U.S. corporation in Brazil over the years.

The biggest contribution came in 1967, when AID made a $15 million loan to Ultrafertil for the establishment of a fertilizer complex. In what Business International has described as a "classic" case of clever financing, Phillips Petroleum (60 percent owner of Ultrafertil) was able to put together a $70 million package that committed only $15.5 million of its own funds.[14] IFC has participated in this deal (see Table II). Thus with the help of AID and IFC, Phillips made a "big investment" in Brazil without really making such a big investment.

Phillips also had the good fortune to buy into another AID-supported project. As part of its program in the Northeast, AID invested $2 million in 1963 in a carbon black plant, though the loan was not actually disbursed until 1965. Phillips later bought 50 percent of the plant (adding it to its world-wide collection of carbon black companies), and thus reaped the benefits from the start-up risks that AID had taken.

Hanna Mining presents perhaps the best example of both the political and economic value of foreign aid to U.S. corporations. In the early 1960's, Hanna was losing money on its Brazilian operations, primarily because of a lack of rail and port facilities for its Aguas Claras iron mining operation in Minas Gerais. The increased investment required to solve these problems, however, was vehemently opposed by Brazilian nationalists of all stripes. One of Hanna's foremost opponents was the government-owned iron ore company Cia. Vale do Rio Doce (CVRD), which insisted that it should develop the deposit at Aguas Claras. The dispute became an important political issue, and by the time of the coup in 1964, it appeared certain that Hanna would lose the concession.

After the coup, however, the Castelo Branco government promulgated a new mining code which opened the way for Hanna (as well as other multinational corporations) to develop the deposit and the necessary support facilities. CVRD's opposition was stifled by a $28.8 million loan from IDB, which was signed around the same time that the new mining code was announced. As cautious an observer as Raymond Mikesell has admitted that "it is conceivable that President Castelo Branco's decree of 23 December 1964 was timed to obtain these credits..."[15] Fortune was a bit more flamboyant, comparing the coup that saved Hanna's investment to "a last minute rescue by the First Cavalry."[16] To reduce the likelihood of any future frictions with the Brazilian government, Hanna has also taken on a local partner, the mammouth Antunes mining group, and formed Mineracoes Brasileiras Reunidas (MBR) for this venture.

The Financing of Ultrafertil

Equity	$ million
Phillips Petroleum (60%)	15.50
Ultra Group (30%)	7.75
International Finance Corp. (IFC) (10%)	2.50
	25.75
Loans	
Agency for International Development (AID) (5.5%, 15 years, repayable in cruzeiros to Brazilian Government)	14.80
International Finance Corp (8%, 5 to 9 years, convertible at IFC's option)	7.70
Six US insurance companies	21.50
	44.00
Total	69.75
Standby Loans	
Three shareholders	4.90
Insurance companies	2.10

TABLE II: International Finance Corporation Committments in Brazil Involving U.S. Corporations

YEAR	AMOUNT (millions)	U.S. Company (Brazilian name)	Nature of Operation	Participating U.S. Banks	NOTES
1958	$ 1.2	Olin Mathieson Chemical Co. (Olinkraft S.A. Celulose e Papel)	Paper & pulp plant	None	IFC's investment was made right after Olin bought the company from a Brazilian group
1958	$ 2.5	Kaiser Industries* (Willys-Overland do Brasil S.A.)	Jeep manufacturing	American Overseas Finance Co. & Chase International Investment Corp.	The company has since been bought by the Ford Motor Co.
1959	$ 4.0	U.S. Plywood-Champion Papers, Inc. (Champion Celulose, S.A.)	Paper & pulp plant	Deltec International, Bankers International & Chemical Overseas Finance Co.	Brazil's national development bank (BNDE) also supplied funds
1966 1969	$ 6.1 $ 1.0	ADELA Investment Co.* (Papel e Celulose Catarinense, S.A.)	Kraft paper mill	Bank of America	The IDB and BNDE also provided funds
1967	$10.7	Phillips Petroleum (Ultrafertil, S.A.)	Fertilizer plant	First Pennsylvania Overseas Finance Corp. & 6 U.S. insurance companies	AID also supplied $14.8 million (see text)
1970	$ 8.4	National Distillers & Chemical Corp.* (Poliolefinas, S.A.)	Petrochemical plant	Bank of America & Manufacturers Hanover Trust Co.	U.S. Eximbank also participated in this deal
1971	$ 6.0	Halcon International* (Oxiteno, S.A.)	Petrochemical plant	None	
1971	$ 4.9	ADELA Investment Co.* (Industria de Celulose Borregaard, S.A.)	Pulp mill	None	BNDE has a substantial investment in this company
1972	$21.2	IT&T (CIMINAS)	Cement plant	None	

* Indicates minority interest
SOURCE: International Finance Corporation Annual Reports and press releases.
NOTE: ADELA, though registered in Luxemburg, is owned primarily by major U.S. corporations.

In addition to these political maneuverings, Hanna has managed to obtain direct capital assistance from the World Bank. In 1971, World Bank President Robert MacNamara announced a $96 million loan for the Aguas Claras operation-- $50 million to MBR to develop the deposit, and $46 million to Rede Ferroviaria Federal to develop rail facilities for transporting the ore from the mine to a terminal under construction at Sepetiba Bay. Hanna has also benefitted from a prior World Bank loan of $22 million for development of the Alcominas bauxite mine at Pocos de Caldas. The Alcominas aluminum operation is 50 percent owned by Alcoa and 23.5 per percent owned by Hanna, with another 20 percent of the original investment coming from the State Development Bank of Minas Gerais.

BUILDING WHAT'S NEEDED

Although these direct loans to U.S. corporations are an important indication of who really benefits from the aid system, the vast majority of aid funds to Brazil have been utilized in the construction of infrastructure, mainly power and transportation facilities. The electric power sector has been the largest recipient of aid credits in Brazil. AID project loans for power have been numerous and large, and the IDB has provided about $240 million since 1962, including the second largest in its history -- $70 million in 1972 for the Ilha Solteira hydroelectric plant. The World Bank has put in an additional $750 million, and the Eximbank has financed imports of U.S. equipment for power facilities, including $138 million for a nuclear plant near Rio.

Industrial development, of course, requires the existence of an adequate power supply, yet the location of aid-supported facilities corresponds more to the needs of U.S. corporations, than to the needs of the Brazilian people. The Alcominas operation discussed above, for example, depends for its enormous power needs on the Rio Grande hydroelectric system, which was built with loans from the World Bank. A detailed study would most certainly reveal numerous cases of U.S. corporations depending on aid-built power plants for their operations and distorting the priorities of Brazilian development.[17] And as U.S. investments continue to pour into Brazil, the geographic coincidence of aid-sponsored infrastructure projects and U.S. corporate activities is likely to become increasingly visible.

Much aid money has also gone into transportation facilities, primarily roads. IDB has lent $142 million, and the World Bank (since 1968 alone) $266 million; AID has also participated in road-building projects. The roads constructed with these international credits run the length and breadth of the country, tying together the various regions of Brazil, and connecting with the many countries that share her borders. In many cases these roads are vital to the profitable exploitation of the natural resources embedded in the more remote areas of Brazil -- exploitation which is being carried out primarily by foreign corporations. The Transamazon Highway, financed partially by the World Bank, runs remarkably close to a large iron ore deposit at Serro do Carajas. The concession to mine this deposit is held by a joint venture between U.S. Steel and CVRD. In fact, it is likely that the plans for this road were drawn up by U.S. technicians using information from the major potential investors in the area (see article on mining in this issue).

Another purpose of the national road system, however, is to strengthen the political and military posture of the current Brazilian regime. An important function of the National Integration Plan, of which the road building is a crucial part, is to focus national (and international) attention away from the brutal injustices of the regime's policies. The roads are also important militarily, providing the Army with ready access to all parts of the country, as well as most of the other countries of Latin America. In particular, the road links being built (with $47 million from IDB) between southern Brazil and Uruguay, lend even more reality to the threat of a Brazilian invasion should Uruguay move toward the left. In fact, Brazilian forces did mass on the Uruguay border during the elections in February, 1972, in which the leftist Frente Amplio was participating.[18]

There is one other important aid-financed project that U.S. corporations have found quite attractive. The industrial park at Aratu, Bahia, which is considered the showcase of SUDENE's post-coup activities in the Northeast, has received an $8 million IBD loan for the construction of a deep water port. The park's tenants include American Cyanamid, Celanese, Allis-Chalmers, Union Carbide, General Electric, Ford, and Lone Star Cement. These U.S. companies have undoubtedly taken advantage of the lucrative incentives given by the Brazilian government to investors in the Northeast, as well as the facilities in the park itself. Alcan and Dow Chemical, also members of the Aratu community, will find the IDB-sponsored port especially handy -- both need it to receive ore shipments for their smelters in the park.[19]

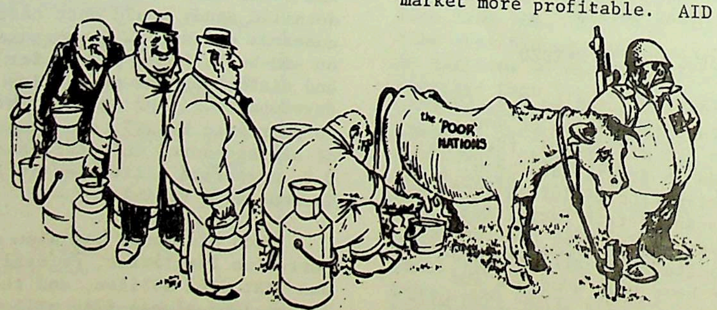
BRAZIL: THE CHOSEN ONE

Brazil is currently participating in several specialized aid programs that facilitate its newly-ordained role as the power in Latin America.

The capital goods export promotion program of IDB, designed to stimulate exports of capital goods (heavy machinery and industrial equipment) among Latin American nations, and thus foster economic integration, has extended nearly half its credits to Brazil. With a growing capital goods industry dominated by U.S. companies and developed at the expense of popular consumption industries, Brazil is one of the few Latin American nations capable of utilizing such a program. In fact, exports from its rapidly-expanding capital goods sector is absolutely necessary if Brazil is to continue the economic boom of the last few years.

Of the loans Brazil has received under this program, $18.5 million have been in revolving credits to the Banco do Brasil, and $7.4 million in three special credit lines. Although IDB says that no specific information is available as to which companies have utilized the revolving credits, it is easy to imagine that such exports as "jeeps, forklifts, power shovels, and highway construction equipment" were made and exported by such companies as Ford-Willys, Allis-Chalmers, and Caterpillar.[20]

AID has recently introduced a novel capital market development plan in Brazil, hailed as a "new foreign aid and development concept." The basic plan calls for the establishment of a fund to provide revolving credits to underwriters so they can maintain inventories of securities. That is, money will be available to brokers so they can buy and sell stocks and bonds with greater ease. This bolstering of the securities market is expected to divert capital flows from excessive consumption, speculation, and foreign bank accounts for use within the national economy, by making investments in the stock market more profitable. AID has contributed



Vadillo in Siempre!, Mexico City

$15 million for this program, and IFC just recently added another $5 million. The fund, coupled with a tax incentive program from the Brazilian government, has made playing market almost as popular a sport as soccer among Brazil's newly rich.[21]

The Brazilian banking system has similarly benefitted from a new Eximbank program called the Relending Facility. Under this program, Eximbank extends credits to participating foreign banks, which in turn relend them to local businessmen. The only proviso is that the money must be relent for imports of specified U.S. goods that have an "unduly low share" of the local market (i.e., goods which the United States would otherwise be unable to export). Brazil has gotten nearly half of the credits authorized since the program began in mid-1970.[22] Brazilian banks have also been prime participants in a similar Eximbank program, the Cooperative Financing Facility. The Banco do Brasil, for example, received a $100 million credit line in 1971, and the offer of an additional $100 million in guarantees.[23]

Brazil was also one of the first countries to be designated as eligible to supply goods under AID contracts when Nixon originally announced the "untying" of aid in 1969. Actually, most procurement under AID remains tied, but the less developed countries are now averaging about $3 million a month in AID-financed sales to other aid recipients. Although this still represents a very small part of total AID-procurement, Brazil (along with South Korea, Taiwan, Zambia and India) has managed to get a good chunk of this business.[24] Even if the trade resulting from this program never reaches high levels, Brazil will undoubtedly get the lion's share of this contracting, and extend further its already unequal trade relations with the other countries of Latin America.

THE WILLING AND OWING ALLY

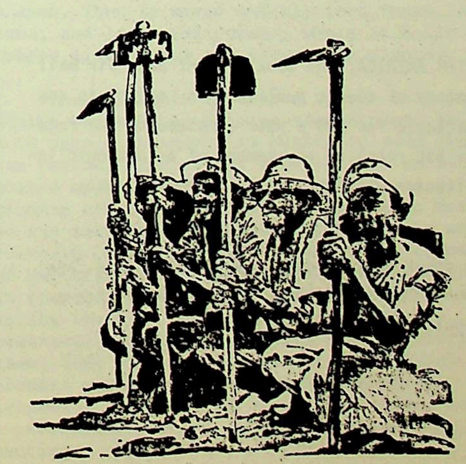
Given the amount of aid that Brazil has received from the United States and the international agencies, it might seem surprising that Brazil has established a little foreign aid program of its own. Brazil has recently extended credits of nearly $80 million to various Latin American nations, and prospects are for more in the future.[25] In light of the way in which aid serves to subsidize exports from the donor country, it is almost natural for Brazil to "aid" the more underdeveloped countries of the hemisphere. Most of the money lent to Bolivia (with $22.5 million, the largest recipient), for example, will be used to purchase Brazilian capital goods and machinery. This aid to Bolivia will help strengthen a relationship that began when the Brazilian generals helped General Banzer overthrow the government of left-leaning General Torres. Banzer's repressive government closely resembles the Brazilian regime, and provides a friendly buffer against the socialist government of Chile. In foreign aid, then, as in so many other areas, Brazil is assuming the role of the sub-imperial power in Latin America.

It must also be noted that in the process of receiving such tremendous amounts of aid, Brazil has accumulated a colossal foreign debt. Brazil's public external debt (borrowed or guaranteed by the government or one of its agencies) at the end of 1970 was nearly $4 billion, and is increasingly rapidly.[26] Combined with the private foreign debt, this total debt is so large that about 20 percent of Brazil's foreign exchange earnings are required just to service (i.e., make interest and principal payments) the existing debts.

This debt not only places a heavy burden on Brazil's current foreign exchange earnings, but more importantly, can serve in the future as a giant club in the hands of U.S. creditors, particularly if the present regime is replaced by a more progressive government. One need only look at Chile today for an example of how a government can be strapped by the debt of previous governments, and how foreign creditors can use this debt to pressure, and even subvert, a progressive government.

And what has the United States ultimately gotten out of all the aid it has poured into Brazil? Nothing less than a strong and compliant ally, ever ready to do its bidding. When Kennedy adviser A.A. Berle offered President Quadros $300 million in U.S. aid in 1960 for Brazil's support of the Bay of Pigs invasion, Quadros vehemently refused, and sent Berle back to the airport without even the usual escort.[27] Lyndon Johnson fared better in 1965, when Castelo Branco happily sent Brazilian troops to assist in the U.S. occupation of the Dominican Republic. So who says the Alliance for Progress has failed?

-- Israel Yost



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2. The "islands of sanity" policy is discussed (with frequent deletions) in hearings before the Senate Foreign Relations Committee, United States Policies and Programs in Brazil (Washington, 1971), especially p. 250. Hereafter cited as Hearings.
3. Despite scores of euphemisms and deletions, the Hearings give ample indication of the political intent of U.S. aid policies in Brazil. See also the books by Page, Roett, and Onis and Levinson, cited herein.
4. The New York Times, April 26, 1971.
5. A "standby" agreement allows the recipient country to draw a stipulated amount of foreign (i.e. hard) currency from the IMF as the money is needed to meet an emergency balance of payments situation. The recipient country is required, in making the agreement, to follow certain financial measures favored by the IMF.
6. For data and analysis of military and police aid to Brazil and the rest of Latin America, see the NACLA Handbook, The U.S. Military Apparatus. All figures on aid in this article, unless otherwise cited, come from the Annual Reports of the agencies involved.
7. The Journal of Commerce, February 14, 1972, and The Wall Street Journal, December 20, 1972.
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17. The argument about the relationship between infrastructure, private investment, and development is a very complicated one. Suffice it to say here that the Brazilian regime has catered its "development" process to the foreign corporations and their local partners, and shown very little interest in the economic, social and political development of the Brazilian people.
18. See The Miami Herald, May 22, 1972, and the Hearings, p. 154, where the response to a question about Brazilian activities on the Uruguay border is completely deleted.
19. The New York Times, February 18, 1968, Business Week, November 14, 1970, and Peruvian Times (Lima), April 21, 1972.
20. Business Latin America, January 6, 1972, reports that Hyster, IT&T, Eaton Yale and Towne, Mercedez-Benz, Elgin, Ford, AMF, and Massey-Ferguson are "international firms that have used the program with happy results." These companies utilized credits extended to Argentina, Mexico, Peru and Venezuela, as well as Brazil.
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23. The Wall Street Journal, November 23, 1971.
24. The Journal of Commerce, May 7, 1971 and May 10, 1972.
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Anderson Clayton Knows No Bounds

Anderson, Clayton and Company, though the world's largest trader of cotton and other agricultural commodities, is little known to anyone outside the pages of the financial press. Despite its anonymity, the decisions made by this Houston-based corporation have greatly affected cotton farming in both the United States and Latin America. More important, Anderson, Clayton (ACCO) presents an interesting case of how a multinational corporation's power to move back and forth across national borders is used with total disregard for the consequences of its activities.

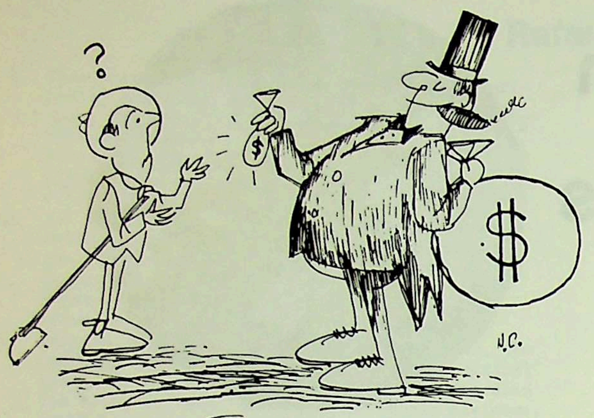
Although ACCO began as a small commodity trading house dealing primarily in cotton at the turn of the century, it has steadily grown into a large, multinational corporation. Currently ranked by Fortune as number 202 on its list of U.S. industrial coporations, ACCO has extensive holdings in the United States, and in Latin America (now limited to Brazil and Mexico). Although primarily involved in various aspects of agriculture, ACCO has also diversified into such areas as manufacturing and insurance. In fact, because of problems it has encountered in agribusiness, ACCO functions in the United States essentially as a holding company for its insurance operations. In Brazil, however, it has continued its concentration in agriculture, and is growing rapidly in such areas as animal feeds and consumer food products.

The brief history of ACCO's activities in Brazil and the United States presented below offers several basic insights into the operations of the large multinational corporation. First, ACCO was willing and able to move back and forth between the two countries as suited its drive for higher profits. The company gave little if any consideration to the effects this would have on the cotton industries involved or on the national economies as a whole. Second, because of its power and connections, ACCO has been able to mold government policies to its own needs, and when this proved impossible, to close up shop temporarily until more favorable policies prevailed. The political line of the company also changed to accomodate these needs, sometimes extolling the virtues of the free marketplace, other times pushing for government supports and controls. And third, like so many other large multinationals, ACCO has eagerly taken advantage of the many incentives provided by the current Brazilian regime, incentives which have made Brazil one of the world's foremost havens for foreign investment.

THE EARLY HISTORY

ACCO was founded in 1904 by William Clayton and the Anderson brothers, who took advantage of changes in the world banking and export situation caused by World War I to enlarge their operation. Prior to the war, the United States grew cotton, but all the buying and selling for the world market was done in Europe. As the world's banking center moved from London to New York after the war, more credit became available to finance cotton transactions from the United States. Clayton was able to obtain credit to build warehouses, in which he stocked cotton and then sold it to Europe at an immense profit when the market went up. With these earnings the company began a rapid process of expansion. First, ACCO developed as a selling agency that dealt directly with European textile manufacturers, thus bypassing the European trading houses. Then it moved quickly into Texas, Arizona, and later California, where it built cotton ginning and oil processing plants.

The company's expansion in the United States was matched by expansion abroad. In 1921 ACCO opened an agency in Mexico to sell Mexican cotton, which later evolved into an integrated operation including crop financing, ginning and oil milling.[1] The move into Mexico was sharply criticized at the time by some southern Congressmen, who accused the company of encouraging foreign cotton farmers to grow in competition with U.S. cotton.[2] (This was during the U.S. dustbowl agricultural depression). Beginning with its early history, then, ACCO pursued profits across national borders with no concern for the farming economies affected. As we will see, this is a persistent pattern in ACCO's 70-year corporate history.



ACCO IN BRAZIL, 1934-40

ACCO's arrival in Brazil in 1934, however, was not simply the result of normal business expansion. Rather, the company moved to Brazil (as well as to Peru, Argentina and Paraguay) to avoid going bankrupt during the Depression. ACCO was severely threatened because the European countries, in retaliation for the high tariffs imposed by the U.S. government, refused to buy U.S. cotton. Europe preferred to trade instead with other countries, such as those of South America, which had recently switched to cotton production (from coffee and sugar), and unlike the United States, were willing to import European manufactured goods. Given this situation, ACCO "found it easier and more profitable to sell, say, Brazilian cotton rather than American cotton to an Italian mill."[3] Brazil in particular had an enormous potential for supplying cotton to the world market, as it had vast land resources and a large supply of cheap labor.

When it moved to Brazil, ACCO had originally planned to avoid the riskier and more expensive ginning operations in the interior, and concentrate on exporting to Europe through the coastal cities. The company was thwarted, however, by the existence in Brazil of a one percent transaction tax, which was imposed every time the cotton changed hands - from farmer to ginner to exporter. In order to cut the handling costs, ACCO decided to integrate the ginning and exporting operations, which gave them a clear advantage over other exporting houses. At the same time, ACCO insured itself of large cotton supplies from the interior by providing financing for the small farmers. The net effect of ACCO's large-scale integrated operations in inland Brazil was to crowd out the small independent ginners, who were unable to compete with the larger, more modern outfits.[4] A rise in the transaction tax (from one to two, and then four percent) further reduced the number of independent ginners in southern Brazil. ACCO, along with SANBRA (owned by the Belgian-Argentinian group Bunge & Borne) and the Brazilian financial group of Matarazzo gained virtual control over the cotton industry in Brazil.

Thus the great cotton boom that took place during the so-called Golden Years of the Brazilian cotton industry (1935-1945) was primarily for the benefit of a few large companies. While the ginners, oil processors and exporters made huge profits, the farmers made almost nothing for their labors. One study has shown that the likely earnings of a cotton-farming family during this period were around $100 a year, barely enough to survive on, let alone pay for much needed improvements such as fertilizers and crop sprayers.[5] Most of the farmers' potential profits were wiped out by the usurious crop-financing arrangements negotiated with local middlemen, who were ultimately supported by ACCO and the other large operators. Interest rates for cotton farmers were reported to be around "120 percent per year, a rate that bankers do not tend to charge."[6] So, as in the current "boom" in Brazil, only a few benefitted from the profits of the rise in cotton production in the 1930's.

The cotton boom ended abruptly during World War II, when Brazil was cut off from the textile mills of Europe. Foreign export houses such as ACCO were reluctant to buy cotton which they would be unable to ship. In an attempt to prevent a crisis, the Brazilian government in 1942 declared a minimum support price for cotton, under which it bought the cotton if the ginners and exporters would not buy at the established price. Under the stimulus of this price support program, Brazilian farmers planted more cotton than ever, and the yield was almost 11 percent of world production.[7] Yet, despite the minimal price support, farmers' profits were severely limited by the wartime inflation.

The only one in Brazil to really profit from the war's effect on the cotton situation was the Brazilian government: it had bought cotton at relatively low rates; and after the war, prices nearly doubled. The government, which now held most of the available cotton in Brazil, began to sell directly to buyers in Europe. ACCO, which had earlier refused to buy cotton, was greatly upset by this turn of events, since its position as a middleman had been eliminated by the government's intervention in the cotton transacting business. In addition, all the major buying countries in Europe had established government agencies to handle the cotton trade directly, thus further eliminating the need for trading firms like ACCO. It is not surprising, then, that during this period, William Clayton was raving about the importance of free enterprise, and condemning state intervention as a form of socialism.

BACK TO THE STATES

Seeing its operations hampered by the Brazilian government, ACCO decided to try its luck once again in the United States. Clayton was even willing to sweep aside his ideological differences with Roosevelt's New Deal policies when he saw a chance to reenter the U.S. cotton transacting business. Clayton soon found, however, that there were still problems with exporting cotton from the United States. Because of the added cost of farm subsidies (instituted by the NEW DEAL to keep domestic prices up), the price of U.S. cotton was much higher than the going world price. So ACCO had to figure out a way to sell overpriced U.S. cotton in a market that could ill afford moderate, let alone high, prices for cotton.

But the odds were very much in Clayton's favor, since he was at the time Under Secretary of State for Economic Affairs, and close to certain key Roosevelt associates. The solution to the cotton exporting problem was the Marshall Plan, which Clayton proposed to Roosevelt.[8] Although the stated goal was to help the war-torn nations of western Europe, in reality it gave the United States an exclusive market in those countries for its goods. Cotton was considered particularly important, since it was felt that by supplying the European textile mills, jobs would be created, clothing manufactured, and immediate tangible support given the people during the lean post-war years. And in the process, ACCO would of course sell a lot of cotton.

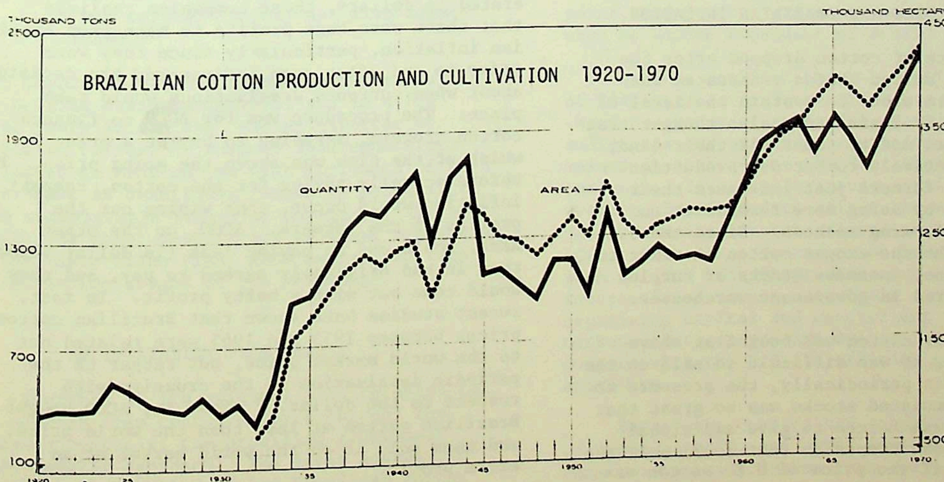
Specifically, the Marshall Plan provided the countries of Western Europe with credit for buying goods (including cotton) that they otherwise could not afford. Given his position, Clayton was able to guarantee that the cotton purchases were made from his company. As Fortune magazine noted in 1946: "As the world's largest supplier of cotton, Anderson and Clayton has an invitation to do business on a scale greater than ever before."[9] This episode is a classic example of how ACCO altered its political line to facilitate profit-making. After vehemently opposing government interference with free enterprise in the United States, ACCO turned right around and got the U.S. government to intervene in support of its own financial interests.[10]

With such favorable conditions having developed in the United States, ACCO simply slowed down most of its cotton operations in Brazil. Moreover, because of special provisions of the Marshall Plan, Brazil had a hard time selling cotton to Europe. The restricted loans and virtual control over European port facilities gave the United States full command of the market, and there was little that Brazil could do. These conditions, plus the inherent dependence on financing from the foreign export houses, led to a decline in Brazilian cotton farming (see graph) that lasted until 1960, when ACCO once again began to concentrate on Brazil.

THE KOREAN WAR
IN AGAIN, OUT AGAIN

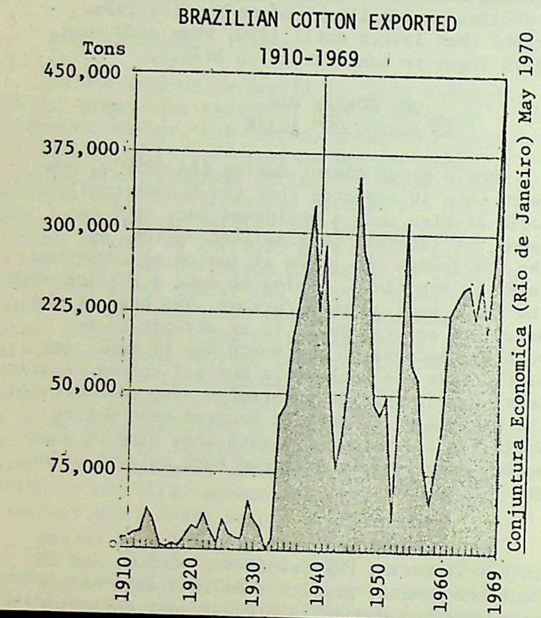
For a brief moment during the 1950's, however, when it appeared that the Korean conflict could develop into a prolonged war, ACCO renewed its interest in Brazilian cotton. As the war pushed the price of cotton up, everyone began to speculate, hoping to make a killing when the price went up even further. The head of the Brazilian central bank, in an attempt to repeat the success of the World War II deal, declared that his bank would buy all cotton regardless of quality. The government also reinstituted the minimum price support program used during World War II. Naturally, with this kind of guarantee, many farmers switched back to cotton for the 1951 season.

ACCO bought and sold quantities of cotton in Brazil during the Korean War period, and in fact the immense profits made in Brazil helped make 1951 the company's biggest year worldwide.[11]



Conjuntura Economica (Rio de Janeiro). May 1970

However, when it appeared that the war was going to end and the price of cotton would drop, ACCO quickly closed down most of its Brazilian operations. (Of course ACCO had better sources of information about this U.S. war than did others in the cotton world.) As ACCO and the other export houses stopped buying, the Brazilian government was forced to buy the entire 1952 crop, and even part of the 1953 crop that had been planted before the fall of the market. It took nearly three years for the government to unload all this cotton, even at very low prices. By "closing up shop", however, ACCO was able to avoid the immense losses that were suffered by the Brazilian government.



U.S. SUBSIDIES AND BRAZILIAN INFLATION

As the price of cotton dropped after the Korean War, the United States reinstated the farm subsidies in order to sustain the level of farm income. U.S. legislators also thought that by paying farmers not to plant all their land, they could effectively combat overproduction. In reality, the farmers just increased their output per acre by using more fertilizer and more intensive farming methods. Since the U.S. government bought the excess cotton in order to keep up the price, enormous stocks of surplus cotton accumulated in government warehouses.

Because U.S. cotton was bought at above the world price, it was difficult to sell on the world market. Yet periodically, the pressure to unload the accumulated stocks was so great that the government was forced to give additional subsidies to those companies that could sell the cotton. Thus, if the price of U.S. cotton was 35 cents per pound and the world price 25 cents, the government covered the difference so the export houses could sell at the world price. These export subsidies were a logical outcome of the crop subsidies, and gave the U.S. cotton industry a competitive edge over producers in other countries.[12]

ACCO took ample advantage of both the farm and the export subsidies. It invested in large-scale corporate farming, such as an immense 52,000 acre spread in the San Joaquin Valley in California, and later even received large sums of money not to plant. The company also traded large quantities of cotton under the export subsidy system, and although ACCO was still nominally involved in Brazil, its real operation at this time was in the United States.

The impact on Brazil of the U.S. subsidies, and of ACCO's exit, was severe. In fact, Brazilian cotton exports declined so greatly that the country almost went out of the exporting business during this period (see graph). Indeed, overall Brazilian production in these years was so low that local textile manufacturers were openly concerned that there might not be enough cotton to supply even domestic needs. In one year, 1958, this almost happened in the state of Sao Paulo: only 1,260,000 tons of cotton were produced, whereas their textile mills needed some 1,140,000 tons just to keep operating.[13] The loss of income from cotton exports was disastrous for the Brazilian government, which depended on agricultural exports as a source of foreign exchange with which to finance its industrialization projects. But in the face of decisions made in Washington and Houston, there was little that could be done.

Although the quantities of cotton exported from Brazil were quite low during the 1950's (except for the brief Korean War period), foreign export houses like ACCO found one reason to export at least some cotton from Brazil. Since they operated in dollars, these companies realized that there were huge profits to make from Brazilian inflation, particularly since they were privy to and often even influenced, the decisions about when currency devaluations would take place. The procedure was for ACCO to finance cotton growers, agreeing to buy at a price which at the time was above the going price. But before actually paying for the cotton, rampant inflation would occur, thus wiping out the profits of the farmers. ACCO, on the other hand, would end up paying less (in dollar value) than it had originally agreed to pay, and thus would come out with a hefty profit. In fact, recent studies have shown that Brazilian cotton prices between 1953 and 1965 were related not to the world market price, but rather to the periodic devaluation of the cruzeiro with respect to the dollar.[14] That is, ACCO bought Brazilian cotton at less than the world price, and then sold it on the world market at an extra profit.

In 1956, however, the Brazilian government, desperately needing dollars, tried to regulate the foreign companies that were making so much money from the devaluation deals. It instituted what was known as the Tosto Filho Plan, under which the government controlled the exchange of currencies involved in cotton transacting. That is, instead of allowing the export houses to keep the dollars they received for the sale of Brazilian cotton, the Brazilian government took the dollars (or other hard currencies) itself, paying the foreign export houses in cruzeiros.[15]

ACCO and the other foreign export houses were furious over this currency exchange control policy, as it essentially prohibited them from remitting their profits back to the home offices. Together with other U.S. export houses operating in Brazil, ACCO made its dissatisfaction known to the U.S. government. The U.S. in turn complained to the International Monetary Fund, which has always opposed currency exchange controls. Since at the time the International Monetary Fund was considering a $300 million loan to Brazil, it was able to exert considerable pressure on the Brazilian government.[16] Finally, in late 1958, after two years, the Tosto Filho Plan was eliminated.[17]

During the two years that the Tosto Filho Plan was in existence, ACCO accumulated a sizeable number of cruzeiros. Since the cruzeiros could really only be used internally, ACCO was forced to reinvest them in Brazil. ACCO executives now describe the period from 1956 to 1958 as one of natural growth:

> ...the firm diversified its operations, expanding considerably into processed foods. Beside this, the company built a new soap factory with a capacity for four times the existing old one. Additionally, in this period the firm moved into ginning cotton and extracting oils in the state of Parana, and installed new gins and a new oil factory in Londrina. A new soybean factory was also established.[18]

Most important, ACCO entered the coffee buying and selling business in 1958, and in a few short years it was the leading exporter of Brazilian coffee.[19] Company spokesmen simply neglected to mention the fact that much of this investment in Brazil was caused by being stuck with unremittable Brazilian currency. The net result was that, despite its vehement opposition to the Tosto Filho Plan, ACCO managed to turn the situation around to its advantage.

AN INVITATION FROM BRAZIL

Thwarted in its original plan to share in the profits from cotton exports through the exchange controls, the Brazilian government tried another approach. The first systematic attack on the problem of low Brazilian cotton

production and consequently low exports, was initiated by Janio Quadros, when he was governor of the State of Sao Paulo. Quadros set up the Commissao Estudal do Algodao (the State Commission for Cotton). This agency, which brought together exporters, government officials and agronomists, was largely responsible for the progress made in rationalizing Brazilian cotton production.

First, a new variety of cotton seed was discovered in 1957 which allowed Brazilian farmers to increase their yields and reduced the problem with diseases.[20] Second, for the first time, an attempt was made to provide institutionalized credit to cotton farmers. (Prior to this, the only credit available to farmers was provided informally by Brazilian middlemen, who loaned money from their own resources and from the large export houses at usurious rates.) In addition, there was even talk of financing the farmers' fertilizer purchases, and of supporting the farmers between cotton seasons. All these efforts were on a modest scale, but they were just a starting point, and Quadros was expected to expand them when he became President of Brazil in 1960.

Quadros realized that the rationalization of Brazilian agriculture alone was not enough: the U.S. system of subsidies, commodity dumping, and quotas for exporting countries still remained an obstacle to the Brazilian cotton business. In order to insure continued production, Brazil had to offset the advantages that the United States offered companies like ACCO. Brazil was dependent on large corporations such as ACCO with their extensive ties to the international market, and their system of organizing capital and controlling the internal market. Yet, it was impossible for Brazil to compete with the U.S. in offering crop or export subsidies.

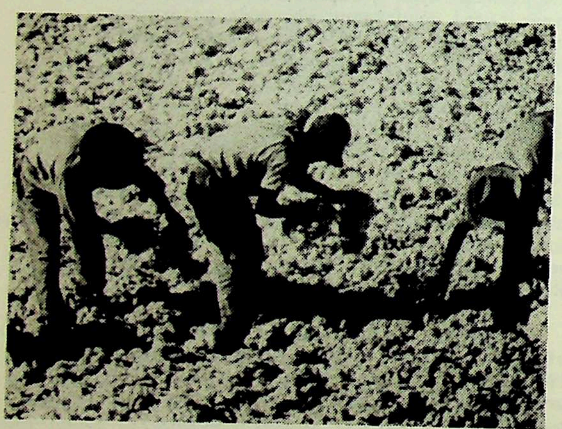
Therefore, Quadros had to devise a way of inducing ACCO, and other companies, to return to exporting cotton from Brazil. As André

Gunder Frank described the system:

> ...Sanbra and Anderson & Clayton, in 1961 received $54 billion cruzeiros in loans from the Bank of Brazil, or 47 percent of the Bank's entire agricultural and industrial loan portfolio...By re-loaning this money (at higher interest rates of course) to wholesalers and producers of cotton whom they thereby controlled...these firms use Brazilian capital to control much of the domestic export cotton market,..[21]

Under this plan, the Brazilian government would provide all the necessary capital for an institutional credit system, and then relinquish control to the two largest foreign export houses, ACCO and Sanbra.

This credit system, along with other inducements, was certainly sufficient for these companies. They used Brazilian government credit (which cost as little as 0.5 percent per month) to finance the middlemen. These middlemen, referred to by one ACCO executive as "a necessary devil," then lend this money to the cotton farmers at interest rates that are as high as 80 percent a year.[22] Because the middlemen are able to obtain cotton cheaply, ACCO has found it extremely profitable to return to large-scale exporting from Brazil. Since then, other inducements have been granted to the foreign



export houses: for example, the reduction, and finally, the elimination of the state tax on cotton, which in effect lowered the price of Brazilian cotton. With some of the lowest cotton prices in the world, Brazil has become a key supplier of the Japanese textile mills, which are located in Japan as well as Formosa and Hong Kong. In 1972 the exporters got another inducement to export from Brazil: reduction on taxes when increasing exports.

Meanwhile, the United States has lost its attraction as a cotton empire for Anderson Clayton. In 1965 the U.S. government decided it simply could not continue the expensive export subsidies it had been paying since the 1950's. Next, in 1970, under pressure from the textile manufacturers, the U.S. government drastically reduced the amount of money paid for crop subsidies. Without government protection, cotton grown in the United States was unable to compete on the world market. Companies like ACCO stopped receiving fat checks for not planting, and they no longer had major inducements to export U.S. cotton.[23] ACCO readily saw the virtues of Brazil, where cotton was cheaper and could be sold easily worldwide. In addition, ACCO found the special tax reduction being offered by Brazil quite attractive. It is no wonder then, that Brazilian cotton production has risen steadily since the early sixties, having already surpassed the previous peak of 1945.

By 1969, ACCO began to feel big losses from cotton transacting in the United States which severely affected the company's earnings.[24] Furthermore, ACCO was unsuccessful in breaking into the cottonseed subproduct market in the United States, as it had done so successfully in Brazil. "We tried to jump in on Crisco and Snowdrift with a me-too product," said ACCO's President ruefully, "and it didn't work."[25] In 1968, thus blocked in its original plan, ACCO decided to invest in other areas. It bought a moving company and started extensive buying and development of insurance companies.[26] From the original insurance company which it used to protect its own cotton warehousing and shipping operations, ACCO went into "a wider based insurance business for property casualty coverage, followed by entry into life insurance and other coverages." Today, although ACCO continues to be heavily involved in U.S. cotton (it is still the world's largest cotton handler), cotton only accounts for about 10 percent of the firm's earnings.[27]

Given the debacle of 1969, Forbes magazine asked ACCO President T. James Barlow, "Why not get out of cotton altogether?" Barlow's reply reveals much about ACCO's current operations: "The reasons we don't quit even though cotton makes little money, is that it's a support operation for our profitable foreign interests. We're pretty big in cotton in Mexico and Brazil."[28] Since the mid 1960's Latin America has accounted for almost half of ACCO's earnings. The same article in Forbes commented, "Indeed, Barlow has shown himself quite adept at squeezing profits out of these countries. In fiscal 1968 his Latin American operations netted the company $2.8 million." Total earnings in that year were only $3.8 million.[29] Thus, Latin America provided the margin to save the company during the years after U.S. cotton operations were no longer profitable and before ACCO could get its insurance holdings together.

ACCO's latest investment in Brazil involves extensive building of animal feed mills. In the period 1968-1972, ACCO opened up five new feed mills in Brazil, some of them costing up to $5 million.[30] Each of these investments required a sizeable amount of capital. In order to help finance the feed mills and other operations, ACCO decided to float 10 million dollars worth of stock on the Brazilian market in 1972.[31] Given the demise of the Brazilian stock market after the boom of 1971, many observers felt this offering would go without takers. They were wrong; ACCO has a reputation in Brazil as being a sure bet. It was very easy to sell the stock that amounted to 25 percent of ACCO-Brazil's assets (the rest is still held by the parent U.S. company). ACCO is well known as the largest private export company from Brazil and because it makes widely used household products. For ACCO, Brazil is clearly a stable base from which to reconstruct its agribusiness empire.

ACCO will undoubtedly stay in Brazil, but where else it will be tomorrow is hard to say. It will be in a country that allows the company to make a sizeable profit and offers special privileges. This is the legacy left by William Clayton: go where the money is to be made.

--Paul Silberstein

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Planting Seeds
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Commodity Merchandising
Cotton, peanuts and vegetable oilseed products
Insecticides

King Cotton in Government

As was the case with many of today's corporate giants, ACCO got its first big break with the help of the government. For ACCO that break came with World War I when William Clayton "temporarily withdrew" from his firm to join the Committee on Cotton Distribution under the War Administration Board. Clayton's company benefitted greatly from his government position and connections. By the end of the war, ACCO was the world's leading cotton handler.

However, when President Roosevelt instituted crop support programs in the early '30's, mainly to help poor Southern cotton farmers during the dust bowl and Depression days, Clayton blasted the evils of government interference in free enterprise. Between the wars he also opposed the U.S. crop subsidies and tariff restrictions.

By the time he returned to a government position in 1940, again under his fellow Democrat Roosevelt, he was a 60 year old multimillionaire known as "King Cotton Himself". Between 1940 and 1947 he served successively as vice president of the Export-Import Bank, administrator of the Surplus War Property Administration, Assistant Secretary of State, and Under Secretary of State for Economic Affairs. Once again he used the levers of state power to advance his and his class' position. Shortly after World War II broke out he helped create the Committee for Economic Development (CED), a big business research and lobby group, and became one of the chief architects of the Marshall Plan.

"The Marshall Plan", he told the New York Citizens Committee in 1947, "is not a relief program for Western Europe. Hence our interest rather than our humanitarian instincts should be mainly considered." Accordingly, his and ACCO's interests received a big boost from the Marshall Plan (see article).

Book Review

The Revolution That Never Was: Northeast Brazil, 1955-1964. Joseph A. Page, Grossman Publishers, New York, 1972. 273 pp, $12.50.

For those interested in learning more about events surrounding the 1964 military coup in Brazil, Joseph Page has provided a detailed historical account entitled The Revolution That Never Was: Northeast Brazil, 1955-1964. The book analyzes three main historical currents in the given time period: 1) the agitation for social, economic, and political change in the Northeast prior to the coup; 2) the mobilization of Brazilian and American ruling class interests to repress this agitation; and 3) the breakdown of bourgeois democracy in Brazil and the first wave of terror carried out by the military dictatorship.

Page chooses to describe the pre-coup situation in the Northeast in terms of personalities and political factions, with only a superficial analysis of the economic stagnation of the Northeast and of its historical development as a sub-imperial colony of the South, where national political power is concentrated. Subscribing to the idea that social unrest presented a purely political threat to the Southern Brazilian ruling class he fails to take account of the direct economic threat that revolution in the Northeast posed (and poses). The "barren" Northeast houses Brazil's largest deposits of petroleum, copper, and other valuable and strategic resources which, since 1964, have been increasingly controlled and exploited by the Southern "military-industrial complex" and its foreign overseers. In addition, any move toward a more equal distribution of land and income in the Northeast, whether by reform or revolution, would cut off the ready supply of cheap (i.e., starving) migrant Northeastern laborers. These are the same people who constructed the showcase capital, Brasilia, who work under conditions of virtual slavery in the remotest areas of Brazil, including the Transamazonic Highway project, and who year after year arrive in Sao Paulo in droves to hunt for low-paying jobs in the city's factories.

Rather than address himself to these and other aspects of the Northeast's role in the imperial and sub-imperial economic structure, Page zeros in on key figures in the pre-1964 Northeastern arena, notably Francisco Juliao, leader of the Peasant League movement, Celso Furtado, originator of the plan for SUDENE (the Superintendency for the Development of the Northeast), and Miguel Arraes, leftist-nationalist governor of Pernambuco, all now stripped of their political rights and in exile. His discussion of these men as individuals is fair, and above all, he asserts correctly that none of the three was prepared to lead the sort of armed struggle which the ruling class reaction left as the only option for structural change. His sympathetic presentation of individual Northeastern leftists may make their actions more real to foreign observers (who may not be able to justify Brazilian national liberation on a more abstract, economic basis), but it does not contribute greatly to an understanding of the revolt in the Northeast. Personal interviews, anecdotes, and eyewitness accounts of political meetings mask a more deep-seated cynicism toward the "revolution that never was." Page's study bogs down in the dissection of what he terms "factionalism, the congenital disease of the left." Fortunately, Juliao, Furtado, Arraes, and other well-known Brazilian patriots have written their own accounts of their country's struggle, which they view as one of their whole people and not of particular factions or personalities.

The most valuable section of the book is that dealing with North American intervention in the Northeast. Brazil's national sovereignty was attacked on three non-military fronts. The first was the manipulation of SUDENE by the USAID mission in Recife. Page's analysis is a useful case study in the power that U.S. foreign aid attempts to wield in influencing the internal policy decisions of receiving nations. But the author falls back into a rationalization of the Alliance for Progress by arguing that the Recife mission might have been more "effective" if its staff had been more sensitive to the cultural characteristics of the Northeast. His discussion of the CIA-CLUSA agent's attempts to co-opt the Peasant League is more to the point. Finally, he discusses briefly the "possibility" that U.S. business interests lent financial support to IBAD (Brazilian Institute for Democratic Action), a ruling class organization devoted to rigging elections in key cities of Brazil. (Since 1964, the dictatorship has absorbed and expanded IBAD's philosophy and activities.)

Once again Page's study is limited chronologically and spatially by its journalistic focus. One cannot realize the full impact of U.S. imperialism on Northeastern Brazil without some discussion of longer range North American contacts with and infiltration into Brazilian national institutions, notably the military apparatus known as the Escola Superior de Guerra (Superior War College), whose elite has ruled Brazil since 1964. The "Sorbonne," as the ESG is known, is a Cold War creation headed by pro-American generals who made their first contacts with their "loyal allies" during World War II. Page discusses the more immediate promises of U.S. diplomatic and military support made to the conspiring generals before the coup, but does not mention the long-term alliances between the U.S. and Brazilian military institutions.

In describing the first wave of terror following the coup, Page again views the Bra-- zilian left with a mixture of sympathy and cynicism. One must go beyond Page's book to see how events since 1964 have led to the identification of U.S. Imperialism as the first and foremost obstacle to the Brazilian Revolution and the common enemy of all Brazilians, and the necessary abandoning of "legal" tactics by the Brazilian left.

Despite the impressionistic approach of Page's book, we feel that it combines some useful insights into events preceding the seizure of power by the Brazilian military. For information on the polarization of the Brazilian struggle since 1964, we particularly recommend For the Liberation of Brazil, by Carlos Marighella, and A Grain of Mustard Seed: the Awakening of the Brazilian Revolution, by Marcos Moreira Alves.

-- Chris Peterson

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At the Latin American Studies Association convention in Madison, Wisconsin, this May, radical Latin Americanists will be gathering to take care of our own business. Specific events include:

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- Non-Intervention in Chile planning meeting

- meeting of new Women's Coalition of Latin Americanists

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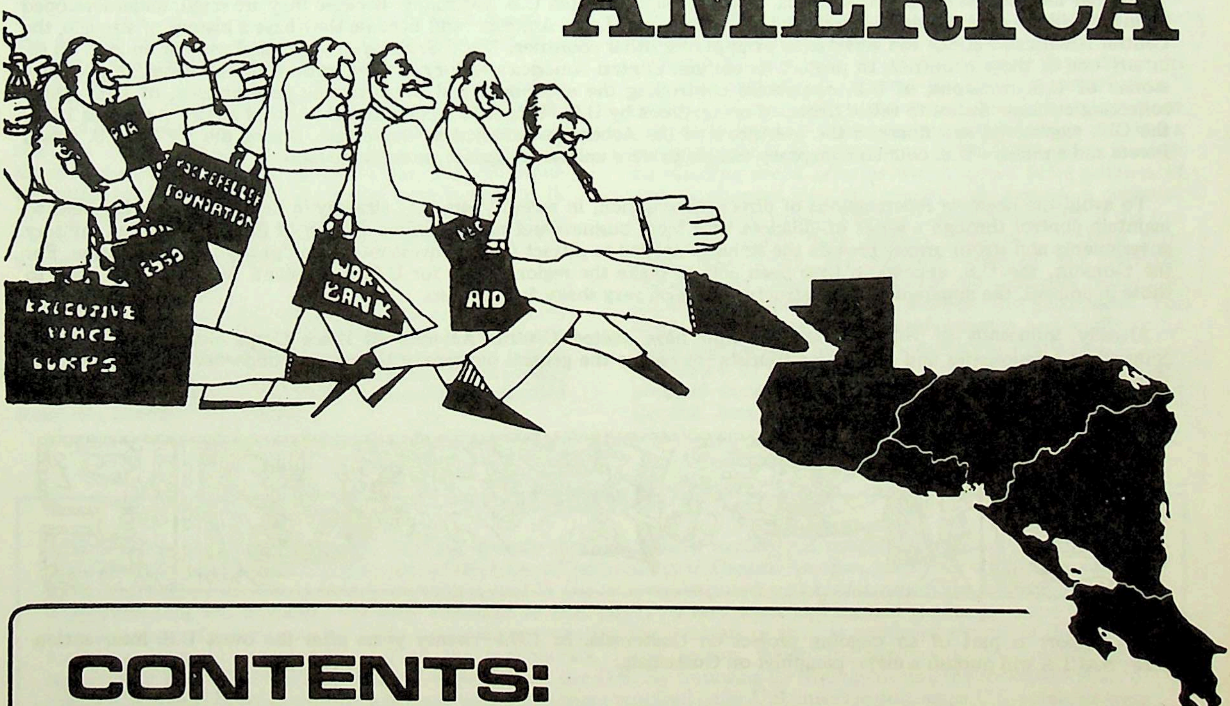
U.S. STRATEGIES FOR CENTRAL AMERICA



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Introduction

To eager U.S. investors and aid personnel, Central American integration and industrialization have increased the region's value as a "market at the U.S. doorstep." To the Central American people, however, these developments mean a continuation of more than four centuries of capitalist underdevelopment and foreign domination. Since the 16th century, foreign interests have extracted the region's natural wealth and left an impoverished people. Even today's capital cities, with their high-rise office buildings and luxury goods on sale for the one percent of the population that can afford them, cannot mask the striking underdevelopment and poverty. Economic integration, increased U.S. investment in industry, and "professionalization" and unification of the armies—the trappings of "modernization"—have not basically improved the lives of the 15 million inhabitants.

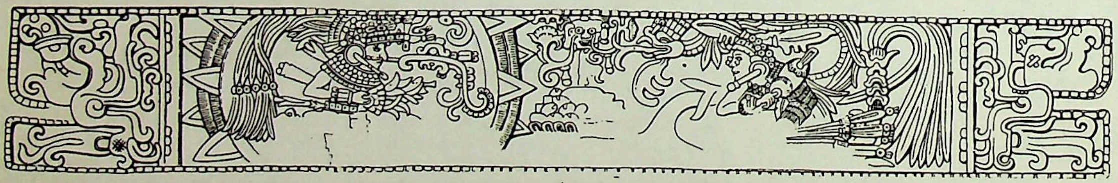
In almost all respects, the social and economic conditions in Central America are the worst in the hemisphere and are not improving. To mention only a few indicators: the average infant mortality rate for the five countries in 1969 was 60 deaths per 1000 live births—93.8 per 1000 for Guatemala—as compared with 22 per 1000 in the U.S. Malnutrition in children under age five reached 48 percent in Costa Rica and 75 percent in Guatemala in 1967. The literacy rate for the four countries (excluding Costa Rica, which is higher) was 45. 5 percent in the 1960s—as low as 37.9 percent in Guatemala. Agricultural unemployment stood at 44 percent in 1970. This situation is further aggravated by a population growth rate of 3.5 percent a year.

But the people of Central America have not remained passive victims of these conditions. The region is well known for its chronic unrest and resistance on many levels. Moreover, on a number of occasions, they have mobilized to control their lives and nations. Recent examples, to mention only a few, include: the widespread revolt led by Augusto Sandino in Nicaragua during the late 1920s and early 1930s; the peasant uprising in El Salvador in 1931; the progressive nationalist Guatemalan "Revolution" of 1944-1954 under the governments of Juan José Arévalo and Jacobo Arbenz; and more recently, the guerrilla movements—among the most significant in the hemisphere—in Guatemala and Nicaragua.

Popular movements in Central America, as in Vietnam, threaten U.S. hegemony. Because they are small, underdeveloped countries—like over a hundred others in Asia, Africa, and Latin America—and because they have a history of struggle, the Central American nations can serve as an example for other countries. The U.S. has intervened, and will continue to do so, in any one of these countries, to protect its empire. Central America's history is filled with 19th and early 20th century stories of U.S. invasions, of U.S. companies controlling the economies and overthrowing governments, of U.S. agents collecting customs duties to settle debts, of occupations by U.S. Marines to settle internal political affairs. As late as 1954, the CIA engineered and financed the overthrow of the Arbenz government in Guatemala. During the 1960s, U.S. Green Berets and a massive U.S. counterinsurgency campaign were unleashed against guerrilla movements in the region.

To avoid the negative repercussions of direct intervention, in recent years U.S. strategy in Central America has been to maintain control through a series of alliances with local business and military elites. In four of the five countries, military governments and strong armies provide the stability needed to attract foreign investors and to "pacify" the population. For the moment, the U.S. appears to have been able to make the region secure for U.S. investment. But, as is clear even to those in control, the apparently stable structure rests on very shaky foundations.

Already thousands of North Americans who have visited Central America—as Peace Corps Volunteers, students, journalists, missionaries and even some tourists—recognize the general outlines of the region's underdevelopment and U.S. domination.



This *Report* is part of an ongoing project on Guatemala. In 1974—twenty years after the overt U.S. intervention there—NACLA will publish a major pamphlet on Guatemala.

NACLA'S LATIN AMERICA & EMPIRE REPORT (Formerly NACLA NEWSLETTER) • Vol. VII, No. 5/May-June, 1973

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Masterminding the Mini-Market:

U.S. Aid to the Central American Common Market

To the average North American or Latin American taxpayer, the nature and workings of U.S. foreign aid programs remain a mystery, conducted behind closed doors. Although we pay for the show, we seldom see it. We must rely on information handed down from the public relations division of the official aid agencies, which projects a humanitarian image of aid as an example of the United States "helping" the "less developed nations." In our daily lives, both in the U.S. and in Latin America, we experience directly or indirectly the effects of U.S. aid; but we seldom if ever get to peep through the keyhole of the closed doors, to see the U.S. and "international" aid agencies at work. This article is an attempt to peep through that keyhole.

Specifically, this article* tells the story of how U.S. aid helped create—and destroy—the Central American Common Market (CACM). At the most obvious level, this is a story of U.S. aid as a means of manipulating people and governments in Central America to suit the particular needs and whims of U.S. corporate interests, and to keep the region safe for U.S. investors. It reveals the workings of the aid agencies, both directly through manipulation, and indirectly through their allies in Central America.

But this is also a story of contradictions, a demonstration that the mechanisms of capitalism sometimes do break down almost of their own accord, or as a result of conflicts among the dominant groups. It reveals how, in the very process of building an institution, U.S. aid simultaneously set in motion the forces that were to destroy it. In this particular case, the contradictions did not remain implicit, but were actually played out in the late 1960s, through the collapse of the CACM.

* This article is a summarized version of a much longer and more detailed study of U.S. aid to the CACM. This study is based largely on interviews conducted in Washington and Central America, mainly in 1970 and 1971, and on unclassified documents. Unfortunately, the clearest formulations of U.S. policy are contained in classified documents, to which I had no access.

The implications of this story go far beyond Central America, and apply to hundreds of institutions in underdeveloped countries, which have felt the heavy hand of the U.S. and "international" aid agencies exerting U.S. control in exchange for a few hundred million dollars.

THE BEGINNINGS OF THE CACM

Since the sixteenth century, capitalist underdevelopment and foreign domination have been more pronounced in Central America than in any other part of the hemisphere. Even after World War II, this situation had not changed. By the 1950s, the region remained economically dependent on a few agricultural exports, such as coffee and bananas, whose prices in the world market fluctuated greatly and constantly. Moreover, Central America had not followed the example of the larger Latin American countries, which took advantage of the Depression and World War II, and the consequent decline in U.S. trade and investment, to begin industrializing nationally. But the internal and external pressures to industrialize were mounting.

Internally, the only alternative to total dependence on unstable agricultural exports was "import substitution" (industrialization within the region, to produce the goods previously imported). But such industrialization required a larger market in the region—to be achieved either through far-reaching social reforms which would bring millions of new consumers into the market, or through a common market which would combine the small markets of the five countries. There were equally important external pressures: specifically, the post-war need of the industrial corporations based in the advanced capitalist nations to expand and open up new markets for investment. For these corporations too, Central America had to develop a larger market in order to be a worthwhile investment.

Related to these economic pressures was an important political consideration: the desire by U.S. interests and Central American elites to avoid "another Guatemala,"

Summary

This article shows how the U.S., working directly through its own massive aid program, and working through its alliance with the most privileged sectors of the business community in Central America, took over a movement begun by others, redirected it to suit U.S. objectives, and in the process, imposed on Central America a form of economic integration that was unviable. The only challenge to U.S. policy—a very weak and limited challenge—came from the U.N. Economic Commission for Latin America, representing the interests of the less privileged sectors of the Central American business community and of the technocrats, those sectors which for reasons of self interest were temporarily in conflict with the narrow objectives of the U.S. By imposing its strategy during the formative years of the CACM, the U.S. set in motion a process which no longer required daily U.S. intervention, since U.S. interests were being represented by the privileged groups in Central America. Because the U.S. considered absolute freedom for private investors to be more important than equal development among the Central American countries, its strategy contained the seeds of increasing crisis and eventual breakdown of the CACM during the second part of the decade—specifically in the withdrawal of Honduras from the CACM, and the collapse of the CACM as it had existed. The last-minute efforts to "save" the CACM in the early 1970s were wrecked by the coalition within Central America which the U.S. had been working with and strengthening for ten years.

i.e., another experience with a progressive, nationalist government, such as that of Jacobo Arbenz (1951-4), which dared to regulate the operations of U.S. corporations in Guatemala and to institute a serious agrarian reform. The Arbenz experience in Guatemala demonstrated that Central America could not necessarily be taken for granted by the Western capitalist powers. If Arbenz' reforms were unacceptable, some alternative would have to be found.

The first to recognize regional economic integration as a strategy for avoiding a general social and economic crisis in Central America—as an alternative to basic change which required no real challenge to capitalism or to existing power relations in the region—was the U.N. Economic Commission for Latin America (Comisión Económica para América Latina, CEPAL). Working in conjunction with certain groups in Central America during the 1950s, CEPAL presented economic integration as a necessary complement to import substitution, particularly for countries with tiny domestic consumer markets.

From the beginning, CEPAL viewed regional integration as a way of modernizing the Central American economies within the capitalist system. Consequently, CEPAL understood that such integration would have to be implemented by the elites already in power within each Central American country. The very emphasis on industrialization was evidence of this strategy, since it was the form of "development" which entailed the least possible challenge to vested interests, and which avoided or at least postponed the social upheaval that would necessarily accompany an agrarian reform.[1] Politically, the strategic decision not to require heavy sacrifices from existing private sector elites amounted to a tacit recognition that CEPAL's influence depended on cooperation from those elites. Thus, during the 1950s, CEPAL worked closely with Central American business leaders.

CEPAL's integration strategy was based on certain principles. First, it stressed "gradual" integration, rather than immediate or total trade liberalization among the Central American countries: integration had to be carried out in such a way as to minimize "disturbances" to the national economies (e.g., "disturbances" resulting from suddenly exposing national producers to new competitors, or losing government revenues from import duties). Second, and closely related, was the principle of "reciprocal industrialization," i.e., the effort to assure all of the Central American nations of an equal opportunity to industrialize. Reciprocity and the desire not to benefit some nations at the expense of others implied a third principle, namely that industrial investment should be based on some form of regional planning.

Assurances about "reciprocal benefits" or "balanced development" were necessary because of the historical imbalances within the region. By the 1950s, according to certain general economic indicators, Honduras and Nicaragua were relatively less developed than their neighbors and growing more slowly. Given the general tendency of capitalism toward uneven development, if abandoned to the "free play of market forces," these regional imbalances would be reinforced. Private (especially foreign) investors, for example, have always favored the areas of relatively greater development—in this case, El Salvador and Guatemala.[2] Thus, to be a corrective influence, according to CEPAL, integration must be based on regional planning and on mechanisms specifically designed to insure a "fair distribution" of the gains from integration among all member countries.

These principles were reflected in the two integration treaties signed in 1958. The Multilateral Treaty established free trade among the five countries for a limited number of products, and provided for the *gradual* expansion of that

GLOSSARY

AID: U.S. Agency for International Development

BCIE: Banco Centroamericano de Integración Económica (Central American Bank for Economic Integration)

BID: Banco Interamericano de Desarrollo (Inter-American Development Bank)

CACM: Central American Common Market

CEPAL: U.N. Comisión Económica para América Latina (Economic Commission for Latin America)

FECAICA: Federación de Camaras y Asociaciones Industriales Centroamericanas (Federation of Central American Chambers of Industry)

m.o.: modus operandi

RII: Régimen de Industrias de Integración (Integration Industries System)

ROCAP: U.S. AID Regional Office for Central America and Panama

SIECA: Secretaria Permanente del Tratado General de Integración Económica Centroamericana (Permanent Secretariat for Central American Economic Integration)

list over a period of ten years. The Treaty attempted to minimize the "disturbances" and dislocations in the national economies which could result from a more rapid liberalization of trade.

The companion to this Treaty was the Agreement on Integration Industries, often referred to as the "Régimen" ("System") of Integration Industries (RII). This general Agreement was based on the idea that, for certain major industries, the Central American market could sustain only one plant; in these cases, to avoid duplication and encourage efficiency, exclusive free trade privileges would be granted to one plant. In order to assure regional "balance," the location of that plant would be determined by an inter-governmental regulation.[3]

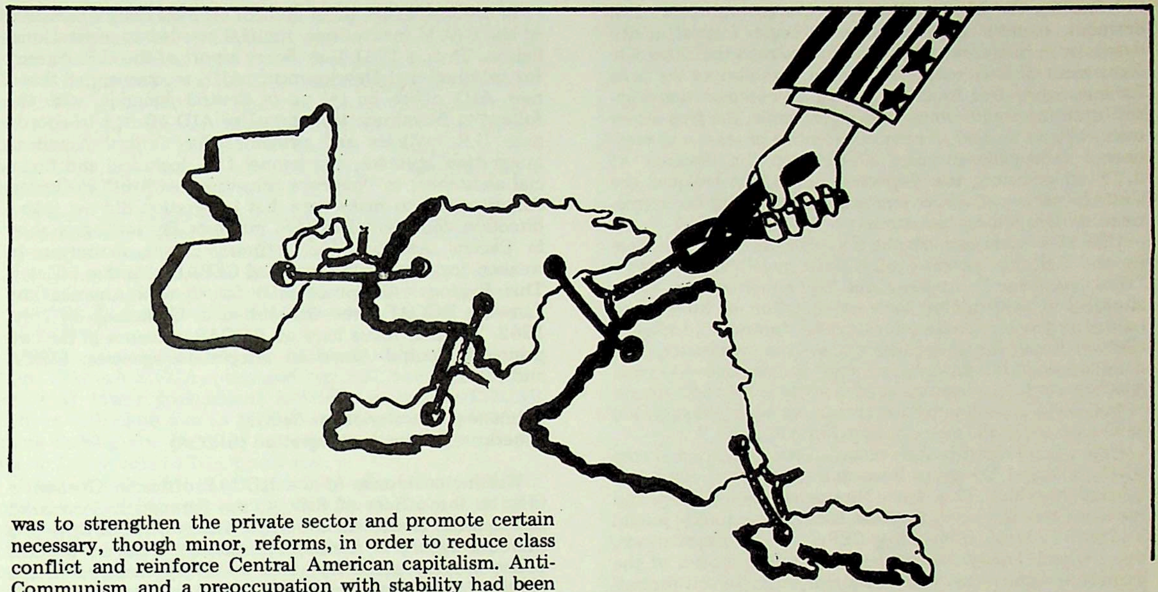
Shortly after the two Treaties were signed, CEPAL's role in Central American integration was reduced—primarily because of a sudden display of interest by another party, the government of the United States.

THE U.S. STEPS IN

Throughout the 1950s, the U.S. watched the movement for Central American integration from the sidelines. But the signing of the CEPAL-inspired Treaties in 1958 made clear that the Central Americans were moving ahead with their plans for economic integration and awakened U.S. interest. U.S. officials realized that if they allowed the movement to continue in the same direction, it could produce "undesirable" results; but that if the U.S. redirected it, Central American integration could be perfectly consistent with, and could be used to further, U.S. objectives and interests. What were those objectives?[4]

First, the U.S. was interested in opening up Central America for trade and investment by U.S. corporations. A Central American free trade area, placing no restrictions on investment and offering proper investment incentives, would create a larger market and new opportunities for U.S. corporations, whose interests the U.S. government was committed to protect.

A second U.S. objective was stabilization of the potentially explosive situation in Central America and defense against the "internal Communist threat." One approach



was to strengthen the private sector and promote certain necessary, though minor, reforms, in order to reduce class conflict and reinforce Central American capitalism. Anti-Communism and a preoccupation with stability had been crucial elements of U.S. policy during the 1950s, culminating in the U.S.-sponsored ouster of Arbenz in 1954. Throughout the 1950s and 1960s, plans for Central American integration were linked with unifying the defense establishments of the five countries (see "Integrating the Big Guns," in this *Report*). The U.S. was particularly interested in preventing a "security threat" in Central America, because of the region's strategic location as the gateway to the Panama Canal. After the Cuban Revolution in 1958-9, the U.S. became obsessed with preventing similar revolutions in other countries. Washington was especially concerned about certain social conditions (such as the serious "overpopulation" problem in El Salvador) which might make Central America more susceptible to Communist influence. Hence, the U.S. in the Alliance for Progress era came to support any movement—such as economic integration—which might strengthen the economies and defuse the social pressures in Central America.[5]

Finally, an important reason for its interest at this particular time was the U.S. desire to counter CEPAL's influence in Central America. CEPAL had always been *persona non grata* in official Washington circles. The U.S. had opposed even the creation of CEPAL in 1947; once CEPAL's existence was an accomplished fact, the U.S. remained basically hostile, attempted to squelch all CEPAL-inspired proposals in inter-American meetings, and regarded CEPAL as a rival and a nuisance because it raised embarrassing questions about U.S.-Latin American relations.[6]

Beyond the competition for power and influence lay a profound philosophical/political dispute between the U.S. and CEPAL. U.S. officials, who espoused free enterprise and free trade as absolute principles, regarded CEPAL's tenet that investment decisions should be based on planning as overly "statist," tending toward "socialism," hence dangerous. The U.S. opposed even the mildest forms of government planning until the "new look" of the Alliance for Progress brought a change of rhetoric in the early 1960s. Even then, the change did not go much beneath the rhetorical surface. U.S. policy also reflected an aversion to the economic nationalism and protectionism inherent within CEPAL's formula for import-substitution, insofar as these violated orthodox notions of free trade.

A New Direction for the CACM

Thus, by the late 1950s, the U.S. recognized that it would have to take an active role in Central American integration in order to prevent it from moving in "undesirable" directions (i.e., too much government planning, too many restrictions on U.S. investment). The first public signs of a more active interest came with the 1958 state visit to the U.S. of El Salvador's President José Maria Lemus. According to one account, Lemus came to Washington seeking U.S. assistance to push ahead with the integration program. The Salvadoran delegation received special attention from Thomas Mann, ex-Ambassador to El Salvador, and by 1959 Assistant Secretary of State for Inter-American Affairs. Hearing that the integration movement was at an impasse and needed support, Mann is said to have proposed a "real Common Market," immediately reducing trade barriers on almost all commodities. The meeting resulted in a joint Lemus-Eisenhower communiqué, calling for the "establishment of *an economically sound system* for the integration of the economies of the Central American Republics. . ."[7]

Shortly thereafter, in March, 1959, the Eisenhower Administration sent two State Department experts, Isaiah Frank and Harry Turkel, on a fact-finding mission to Central America, "to consider prospects for helping the movement to advance."[8] It soon became clear that their mandate went beyond fact-finding. In their private conversations with Central American Ministers, Frank and Turkel spelled out the principles underlying the U.S. position—all of which added up to a clear modification of the integration process laid out in the 1958 Treaties, and the adoption of a new approach. The U.S. wanted a specific commitment, through a treaty, to achieve a common market within a very short time (three years); this treaty would establish low external tariffs and complete freedom of movement of goods, capital, and people within the common market; and provision would be made for two funds to finance the integration projects. Clearly, the State Department knew what it wanted. In addition, Frank and Turkel had a concrete incentive for the Central Americans: an offer of $100 million in U.S. assistance funds.[9]

Lured by the $100 million bait, the governments of El Salvador, Honduras, and Guatemala began a series of discussions; in February, 1960, the three signed the Tripartite Agreement of Economic Association, establishing the basis for immediate free trade for almost all commodities originating in member nations, and, in principle, the free movement of capital and people. The entire process was engineered independently of CEPAL—even "in defiance of it."[10] In addition, the Tripartite Agreement violated the CEPAL-influenced 1958 Treaties, by excluding the Agreement on Integration Industries.

CEPAL's exclusion left the way clear for a decisive role by the U.S. The promise of U.S. financial support was a "vital condition" enabling the three nations to move ahead, and determining the new direction of integration (allowing greater freedom for "market forces").[11] Industrialists in Honduras later c' arged that "the accelerated pace of economic integration . . . was forced upon Central America by U.S. pressure," and that the first copy of the initial declaration among the three countries "was printed in English and had to be translated into Spanish."[12]

From the Tripartite Agreement, it was only a small step to the General Treaty of Economic Integration, signed in December, 1960. This time, Nicaragua was included, and the door was left open to Costa Rica (which finally joined in 1963). Although including CEPAL in the negotiations, the General Treaty followed closely the approach of the Tripartite Agreement, with one major exception: it formally reincorporated the Agreement on Integration Industries.

What did the U.S. hope to achieve through this power play, and how did it force an alteration of the Central American integration process? To summarize briefly: the CEPAL-inspired Treaties of 1958 implied gradual integration, minimizing the "disturbances" to the national economies caused by integration, and, above all, stressed balanced growth among the countries, through regional planning and coordination. The U.S.-inspired Treaties of 1960, on the other hand, eliminated the mechanisms for regional planning, and subordinated balanced growth to immediate and unrestricted free trade.

Thus, the Treaties of 1960 did not represent, as is generally claimed, an "acceleration" of the integration process; rather, they signified an abrupt shift in its direction. The price of U.S. support for Central American integration was acceptance of that shift in orientation, and exclusion of CEPAL as a primary actor. By promising $100 million, though without spending a cent (yet), the U.S. managed to step in, once the groundwork for Central American integration had been laid, and to impose its own conditions.

U.S. PENETRATION OF CENTRAL AMERICAN INTEGRATION INSTITUTIONS

Once having got its foot in the door of Central American integration, the U.S. sought to institutionalize its influence in two ways. First, especially during the formative years of the CACM, from 1960 to 1963, the U.S. exerted direct control over the CACM, by penetrating the principal CACM institutions, and by intervening decisively and strategically in the controversy over integration industries. Second, the U.S. employed a subtler long-range strategy, of encouraging dependent industrialization (which allowed maximum freedom for U.S. corporations) in Central America, and of building a coalition with the most privileged sectors of the local bourgeoisie, which would then act to promote U.S. interests. In short, the U.S. established certain power relations within Central America which would make overt U.S. intervention unnecessary.

In order to exert direct control over the daily operations of the CACM institutions, the U.S. needed an institutional liaison. Thus, a 1961 Task Force report of the U.S. Agency for International Development (AID) recommended that a new AID office be set up *in* Central America, with the following functions: to regionalize AID efforts; to coordinate U.S. policies and programs for Central American integration agencies; to channel U.S. technical and financial assistance; to "improve private investment" in Central America; and to make sure that integration did not take a direction detrimental to U.S. interests. By setting up shop in Central America, U.S. officials hoped, moreover, to weaken forever the influence of CEPAL's Mexico office.[13] This Regional Office of AID for Central America and Panama, ROCAP, was established in Guatemala in July, 1962. We shall focus here on ROCAP influence in the two principal Central American integration agencies: SIECA and BCIE.

Permanent Secretariat for Central American Economic Integration (SIECA)

Within ten blocks of the ROCAP office in Guatemala City lie the offices of SIECA, the Permanent Secretariat for Central American Economic Integration. SIECA is a principal agency of the CACM: although it has no ultimate policy-making authority (this authority remains in the hands of the five governments), SIECA enjoys considerable prestige by virtue of its concentration of technical expertise and information. SIECA is empowered to formulate proposals which serve as the basis for inter-governmental negotiations, to supervise implementation of the integration treaties, and to serve as troubleshooter in disputes and crises.

In the early years, when CEPAL was the intellectual leader of Central American integration, a number of SIECA officials (including the first two heads of SIECA) had been associated with or influenced by CEPAL. After the signing of the 1960 General Treaty, CEPAL's influence in SIECA, as throughout Central America, declined greatly, and was replaced by U.S. support. Initially there was considerable distrust between the U.S. and SIECA, with U.S. officials fearing too much CEPAL influence in SIECA, and SIECA officials complaining of

> the aggressiveness and rigidity with which U.S. representatives pushed objectives of free market competition, development of the private sector, and foreign investment, and opposed attempts at planning and extension of state controls.[14]

After 1962, these tensions were greatly eased, and the relationship between SIECA and ROCAP took on certain characteristics of an illicit love affair. As stated in interviews, both parties realized that their public image would be ruined if the relationship became too visible to outsiders, and recognized the importance of being discreet. And in fact, ROCAP, having learned the advantages of presenting a low profile in public, has seldom exerted direct and overt pressure on SIECA.

Its sophistication and subtlety notwithstanding, the U.S. has played a significant role in running SIECA. Despite announced SIECA policy that foreign budgetary assistance should not amount to more than the total paid by the five Central American governments, in fact the U.S. share (directly and through international lending agencies) has been substantial: at the beginning it was over 50 percent, and by 1970 it remained as high as 40-48 percent (according to different estimates).[15] Much of this money is used to contract experts to do studies in specific fields: all experts contracted with funds from ROCAP and the Inter-American Development Bank (Banco Interamericano de Desarrollo, BID) must be approved by those agencies. As one ROCAP official described it, ROCAP gives money for, say, four new positions, and ROCAP and SIECA decide jointly what work should be done by these experts, and by whom. This arrangement gives ROCAP considerable indirect influence. Moreover, ROCAP financial contributions and influence have shifted over the years from strictly "technical" to increasingly "political" areas—to "straight budget support . . . in areas of policy initiative."[16] According to a high ROCAP official interviewed in 1967,

> Formerly our assistance was confined to statistics and customs harmonization studies, and there was not much possibility for leverage in these areas. Now that they are in a financial bind, we are getting into other areas. Here ROCAP can, and we intend to, exercise more over-all strategic leverage—by earmarking funds for specific tasks and insisting on their setting priorities.[17]

SIECA is also useful to the U.S. as a source of information. Through SIECA-sponsored regional meetings of Ministers or lower government officials, as one ex-ROCAP officer with close ties to SIECA explained to me, ROCAP gains intelligence on who in each government is sympathetic and hostile to U.S. positions.

Thus, if ROCAP has not generally attempted to dictate policy to SIECA, it is mainly because this has not been necessary. Through these more subtle means, ROCAP has maneuvered SIECA into acceptable positions. At the outset, for example, there was great antagonism between SIECA and various private sector organizations in Central America; by the end of the 1960s, largely as a result of ROCAP prodding, informal and formal channels for SIECA consultation with the private sector were well developed and integral to CACM functioning. Moreover, SIECA has not challenged U.S. policy in any basic way. For example, in the only major policy dispute between the U.S. and some Central Americans, over the issue of integration industries (see below), SIECA has managed to avoid taking a strong political stand.

The relative absence of overt political friction is also the outgrowth of a style which almost precludes policy clashes—a style based partly on personal friendships between high SIECA and ROCAP officials. In many respects, then, the ROCAP-SIECA relationship has been less painful than most donor-recipient relationships in the foreign aid game.

Central American Bank for Economic Integration (BCIE)

If ROCAP's relation with SIECA resembles an illicit love affair, its relation with BCIE is more like a traditional marriage, with the economically and politically stronger partner (the U.S.) dominating. Far more than SIECA, BCIE owes its creation and continued existence to the U.S. Throughout the 1950s at CEPAL-sponsored meetings, there were discussions of a Fund to minimize dislocations and finance industrial expansion; these discussions were somewhat academic, however, since there was no clear indication as to where the funds would come from.

A new impetus for concrete discussions was the hint by the 1959 Frank-Turkel mission that the U.S. would contribute as much as $100 million to a Fund for integration. Concretely, with the signing of the General Treaty of 1960 and the establishment of the Central American Bank for Economic Integration (Banco Centroamericana de Integración Económica, BCIE), the U.S. State Department formally announced, in November, 1960, a U.S. offer of $10 million to the proposed Bank—although the final amount of the loan was only $5 million. CEPAL helped draft the BCIE Charter, but the basic concept was modified significantly from the earlier CEPAL-influenced notion of "bal-

ance": specifically, the BCIE Charter made no mention of a regionally planned list of priority industries or of the integration industries scheme.

In its formative stage, during 1961, the Bank relied heavily on foreign (U.S.) technical experts and advisers from AID and the newly-created BID, even in such sensitive areas as selection of personnel. The rationale was that in order to mobilize sizeable amounts of money from international financial agencies, BCIE had to look good to those agencies and conform to their standards. Some of the working meetings were held in Washington. Furthermore, throughout the Bank's formative years, in addition to U.S. AID loans, "AID-ROCAP funds even paid the Bank's administrative overhead."[18] It soon became clear that international financing was not to be a subordinate or "complementary" source for BCIE funds. Rather, once the Central American governments had contributed their $4 million apiece to its capitalization, the Bank was to be *primarily* a magnet for attracting international funds to Central America. And in fact the Bank has functioned this way: as one study summarizes the situation,

> As of April 1969, the Bank's overall resources amounted to $250 million, of which $215 million (or 86 percent) came from foreign sources—about three fourths from the United States and the Inter-American Development Bank [BID], where the United States has decisive influence, and the other fourth from suppliers' credits granted by some Western European countries and Mexico.[19]

Clearly, the study concludes, BCIE has been more successful in attracting foreign assistance than in mobilizing regional funds (see chart).

Establishing U.S. Hegemony in BCIE

Having become the main sponsor of BCIE, the U.S. began to mold it to suit U.S. purposes. The first and most blatant U.S. bid for control over BCIE's operations came during the negotiations for the first AID loan to BCIE. This loan was a $5 million credit line, to be used by BCIE for relending to private industrial investors in Central America. In mid-December, 1961, AID sent the draft loan agreement to the BCIE Governors (the Minister of Economy and Central Bank President or Manager of each country) with the request that they approve it within 15 days. The loan had already been approved by the BCIE Directors (one Director for each country, elected by the Board of Governors). After two more weeks, on January 22, 1962, the Governors voted, four in favor, four expressing "basic reservations" about the loan.

The main objections of the Governors centered on clause 6.09(c) of the draft loan agreement. This clause required prior approval by AID of further borrowing by BCIE and gave AID "the occasion to require subordination of later loans if [AID's] position appeared to be jeopardized."[20] The implication was that AID could suspend disbursements on the loan if it did not approve of a subsequent debt incurred by BCIE. While AID officials insisted that this clause was strictly a banking measure (to reassure U.S. Congress of loan repayment), most Central Americans regarded it also as a bid to establish political control over BCIE's future operations, or feared that such control would be the effect of the clause.[21]

BCIE officials spent the next several months attempting to renegotiate the loan to meet the Governors' objections, but without success. In May, 1962, recognizing AID's intransigence on the matter and BCIE's financial dependence on AID, BCIE Directors recommended that the Governors approve the loan on AID's terms. Nevertheless, in June, the Governors voted, 7 to 1, to reject the loan agreement, on the grounds that clause 6.09(c) was an infringement on their sovereignty. AID officials, who had expected 5 to 3 (or even 6 to 2) approval of the loan, were furious, and began an intensive campaign to lobby individual Governors, both through ROCAP and through the country Embassies. Finally, at their August meeting, the BCIE Governors approved the loan, with only a minor change in wording. In short, AID had its way.

AID also learned another valuable lesson from this incident. During the negotiations a clear difference had emerged between the Directors and the Governors of BCIE. The Directors, feeling their direct responsibility to the Bank, took a "pragmatic" view of the need to accept AID conditions in order to get the funds to start Bank operations. The Governors, on the other hand, being Ministers of Economy and heads of Central Banks in each country, were under political pressures of nationalistic sentiments in their countries; thus, as AID officials came to realize, the Governors could not be relied on to comply automatically with U.S. conditions which hinted at U.S. political control. Beyond the immediate problem of this particular loan, ROCAP felt that "effective control of [BCIE] must be placed in the hands of its Directors." From this general concern evolved the idea of amending the BCIE Charter, to provide that the Governors delegate the right to approve future loan agreements to the Directors. In the final negotiations, this change was made. In one swift move, then, AID not only pushed through the loan on AID's terms, but also achieved a permanent modification of BCIE's authority structure.*

On some occasions the U.S. has overtly manifested its implicit intention of making BCIE an instrument of U.S. policy in Central America. One such incident followed the October 1963 overthrow of the constitutionally elected Villeda Morales government in Honduras; in response to the coup, the Kennedy Administration cut off all U.S. aid funds to the new military government. The question arose as to whether this aid cut-off should include AID funds channeled through BCIE. Especially since BCIE is located in Honduras, BCIE officials feared that such a move would put BCIE in an "unbearable" position. Nevertheless, AID imposed its discipline on BCIE, preventing the disbursement to Hondurans of U.S. funds through BCIE until December, 1963, by which time the U.S. had recognized the new Honduran government.[23]

ROCAP has also kept close control over BCIE through a series of "precedent conditions," accompanying loan agreements, which BCIE must fulfill before receiving loan funds. These include the usual conditions (written into U.S. foreign assistance legislation, and legally binding on AID), such as "tying" of aid to goods and services purchased in the U.S., shipping these goods on U.S. flag vessels, U.S. approval of all sub-contracts, no trade with socialist countries.[24] In addition, the U.S. has imposed conditions specific to BCIE (e.g., requiring agency approval of how BCIE spends industrial relending credit lines from AID and BID—see below).

AID's penetration of SIECA and BCIE, as described above, was not accidental but deliberate, as revealed in an early AID Task Force Report:

> The U.S. must be concerned with [Central American integration]. We are committed to aid the movement. Moreover, if it is properly carried out, it can serve many interests of the U.S. in the area. Unfortunately, the U.S. has not yet articulated its own concept of integration . . . structure, timetable, institutions, and the like. This should be done, be made known to the Central Americans, and an American presence and aid should be used to foster the developments we favor, to block the others. . .[25]

To this end, then, the U.S. spent several hundred million dollars by 1970.

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* Simultaneously the U.S. was also maneuvering to consolidate its hegemony in BCIE by appointing a BCIE Executive Vice President (similar to the one in BID, who has veto power over BID operations whenever he chooses to exercise it). Initially the U.S. was thinking of a "recognized expert in banking from the U.S.;" not finding such a person, Washington settled for a Central American, but retained the right of the U.S. to approve the candidate.[22] In addition, the U.S. maintains its supervision of BCIE on a regular basis, with several ROCAP officials flying to Tegucigalpa for at least a couple of days each week.

Foreign Loans to BCIE through September, 1972[a]

Source of Loan	Year	Use	Tied	Repayment Period (yrs)	Annual Interest Rate	Amount of Loan ($ millions)
To BCIE Ordinary Fund						
AID-598-001	1962	Industrial & Agric. Devel.	Yes	15	4%	5
AID-596-002	1963	Feasibility Studies	Yes	40	2%	2.5
AID-596-004	1964	Industrial Projects	Yes	40	2%	10
AID-596-010	1970	Export & Tourism Industries	Yes	40	3%	30
BID-33/SF-CA	1963	Industry, Infrastructure	No[b]	20	4%	6
BID-50/SF-CA	1965	Industry, Infrastructure	No[b]	20	4%	8.2
BID-93/SF-CA	1966	Preinvestment Studies	No[b]	20	4%	3
BID-152/OC-CA	1967	Industry, Telecommunications	No[b]	18	6.25%	10
Banco de Mexico	1966	Industry	Yes	10	6%	5
Dollar Bonds, 1976	1966	Economic Development	No	10	5%	1
Consortium of Italian Banks	1967	Industrial Development	Yes	8	5.9%	0.225
Netherlands Investment Bank	1967	Industry	Yes	19	6.5%	1.3
Bank of America	1966	Industry	No	2 & 5	6.5%	1.35
Bank of America	1970	Industry, Tourism, Exports	No	7	1% over prime	5
Bank of America	1972	Industry, Tourism, Exports	No	7	1% over prime	2
Bk. of Amer. (Coop. Fcg.)	1971	Industry	Yes	7	1% over prime	2
Morgan Guaranty Trust Co.	1966	Industry	No	4.25	6.5%	1.43
Morgan Guaranty Trust Co.	1970	Industrial Projects	No	4	1% over prime	3
Union Bank of Switzerland	1967	Industrial Projects	Yes	9.5	7.25%	1.74
Consortium of Swiss Banks	1967	Industrial Projects	Yes	5,8 & 10	6.25-7.5%	4.6
Syndicate of Belgian Banks	1968	Industrial Projects	Yes	3,5 & 7	6.2%	5
Bk. of London & So. Amer.	1968	Ind. & Feasibility Studies	Yes	5 & 7	5.5 & 7%	7.2
U.S. Eximbank 2653-CA	1970	Industrial Projects	Yes	7	6%	1.5
U.S. Eximbank (Coop. Fcg.)	1971	Industrial Projects	Yes	7	6%	2
Export Bank of Japan	1969	Telecommunications	Yes	15	6.5%	6.4
Export Bank of Japan	1970	Industrial Projects	Yes	8	6.5%	5
Spain, Dollar Bonds	1966	Industry, Studies, Services	Yes	8	5.75, 6.25 & 6%	1.3
Tecniberia (Spain)	1970	Services, Goods & Ships	Yes	3-8	7 & 7.5%	3
Kreditanstalt Bank (Germ.)	1970	Cap. Goods, Pub.& Pr. Serv.	Yes	30	4 & 5.5%	3.3
Manufacturers Hanover Trust	1971	Ind., Ag., & Tourism Projs.	No	4	1.5% over prime	3
Manufacturers Hanover Trust	1972	Ind., Ag., & Tourism Projs.	No	4	1% over Eurdlr.	1
Wells Fargo Bank	1972	Econ. Development Projects	No	5	1.25% over Lon. interbank rate	5
Cent. Natl. Bank Chicago	1972	Econ. Development Projects	No	5	1% "	1
			Total Ordinary Fund			148[c]
To BCIE Integration Fund (Infrastructure)						
AID-596-L-006	1965	Infrastructure Projects	Yes	40	2.5%	35
AID-596-L-007	1968	Infrastructure Projects	Yes	40	2.5%	20
AID-596-L-008	1969	Infrastructure Projects	Yes	40	2.5%	30
BID-8/CD-CA	1967	Infrastructure Projects	Yes	50	1.25 + .75%	2.6
BID-132/SF-CA	1967	Infrastructure Projects	Yes	30	3.25 + .75%	11.5
BID-284/SF-CA	1971	Infrastructure Projects	Yes	30	3.25 + .75%	20
			Total Integration Fund			119[c]
To BCIE Housing Fund						
AID-596-L-003	1963	Housing Program	Yes	40	.75%	10
Fed. Home Ln. Bk. Boston	1970	Housing Program	No	24.5	8.125%	5
Fed. Home Loan Bk. N.Y.	1970	Housing	No	25	8.125%	5
			Total Housing Fund			20[c]
			Total All Funds			287[c]

a) This chart does not include technical assistance grants to BCIE or to other CACM agencies such as SIECA.
b) Tied to purchases from BID/IMF members.
c) Figure not exact due to rounding.

Source: U.S. Agency for International Development (AID)

THE BATTLE OF THE INTEGRATION INDUSTRIES

There is no clearer example of decisive U.S. intervention and the direct imposition of U.S. authority in shaping the CACM than the controversy, at times battle, over integration industries.* The integration industries scheme (RII) was a CEPAL-inspired mechanism to insure balanced industrialization in Central America. It provided that a plant in certain industries which required access to the entire regional market in order to operate "economically" would be designated an "integration industry" and would enjoy several economic benefits and protections for ten years—the primary benefit being that the products of the designated plant would enjoy free access to the entire market, while competing goods would remain subject to national tariffs. Clearly, a major objective of the scheme was to stimulate the establishment of large-scale, basic industries.

A second objective was to discourage duplication within certain industries. Within the context of industrial planning, the RII implied the recognition of "natural monopolies" in certain sectors, particularly for a market as small as the Central American. If the governments were to promote legal regional monopolies, however, they also had to wield a strong hand in regulating their operations, to protect consumers and the national economies from the potentially harmful effects of monopolies. Thus, the RII provided for strict regulation of supply, prices, quality, and other aspects of the integration industries.

A third objective was the promotion of balanced development within the region. Since each integration industry was to have a major impact on the economy of the host nation, the scheme could be used to prevent further concentration of industry in El Salvador and Guatemala. Specifically, the RII provided that each nation must receive one integration industry before any nation could receive a second one. A final, less overt, objective of the RII was to regulate the extent of foreign capital in these major industries, by stipulating a minimum percentage of local capital for each integration industry.

U.S. opposition to the integration industries scheme crystallized early: according to one high ex-CEPAL official, the Guatemalan government came to Tegucigalpa in June, 1958, under pressure from the U.S. not to sign the RII. The Tripartite Treaty of February, 1960, deliberately left out the RII and was incompatible with it. On paper, the General Treaty included the RII, despite U.S. pressure against it. But by granting immediate free trade to nearly *all* products originating in the region, the General Treaty effectively eliminated any special benefits to integration industries, hence any incentive for using the scheme. Thus, in the very process of incorporating the RII, the General Treaty "virtually nullified" its impact, in the words of a State Department analyst.[27]

Having managed to weaken but not totally destroy the RII through the 1960 Treaties, the U.S. continued its campaign by other means. In order to begin implementing the RII and to elaborate specific projects, the Central American governments called a meeting in Managua for

THANK YOU TIO SAM

We took their fish
and left them bones
took their copper
and left them stones
took their fruit
took their oil
took their lumber
stripped their soil
made them grow coffee
instead of corn
so their children starved
before they were born
we took their cattle, took their meat
left their people with nothing to eat
built roads and ports
to rob them faster
(Gringo aid
is a national disaster)
and now we all
wonder and brood
at Latin America's
ingratitude.

—Mary Mackey

December, 1961. At this meeting, CEPAL officials presented a series of projects, and each of the four delegations present selected one integration industry. U.S. officials were enraged by this meeting, referring to it privately as the "crime of Managua," and deploring the subservience of Central American officials (especially in SIECA) to CEPAL. This December, 1961 meeting prompted an overt power play by the U.S.: (as recounted by a high Central American official, who claims to have heard it directly from U.S. representative, Arthur Marget, and as confirmed by others) Marget drafted a communiqué, which the State Department issued to the Central American Embassies in Washington, threatening a weakening of overall U.S. aid to the region if the integration industries scheme was pursued any further.* A February, 1962 memo from the U.S. Task Force on Central American Integration stated,

> *We therefore welcome wholeheartedly the joint AID/State Instruction sent to the Central American Embassies on integrated industries* as a step indispensable in the interest of keeping the industrial development of Central America pointed in the right direction; and we recommend strongly that the influence of our government continue to be thrown in that direction in the handling of whatever further consequences may be found to follow from the Managua meeting.[28]

At the March, 1962 Extraordinary Meeting of the BCIE Governors, U.S. representative Marget restated the U.S. position that, in implementing the RII, the meeting in Managua represented a "step backward" from the 1960 Treaty, and that this "retroceso" was becoming an obstacle to U.S. private investment in Central America. Moreover, Marget

> saw a favorable tendency in the U.S. to support Central American integration, but there would also be an interruption on the part of the U.S. government until the Central American governments decided what policy to follow. The total effect of the meeting of Managua has been to delay support which the U.S. could give to integration.[29]

After making this open threat, Marget questioned the validity of Article 17 of the General Treaty (which formally incorporated the RII). The important thing, he concluded, was that they were all in agreement that no definite decisions had been made at the Managua meeting, and that discussions were only beginning. In fact, this was not true, since the Central Americans had actually approved several protocols at the meeting; Marget was attempting to force a reversal of these actions.

The effect of this threat was not immediately clear; and when the Central American Ministers of Economy met in January, 1963, to definitively approve and sign the first Protocol implementing the RII (granting the status to two plants), they did not know what to expect from the U.S. Although U.S. officials continued to voice a hard line, at this point it finally became evident that the U.S. would not go so far as to suspend all U.S. aid to Central American integration institutions over the RII issue. But the threat of suspending aid remained clear to Central Americans. Even in October, 1963,

> Central American economists feared that the unfavorable reaction reported in the U.S. Congress and press to their [integration] industries . . . indicated a curtailment of Alliance for Progress funds in the area. . . . The Salvadoran daily, *El Diario de Hoy*, editorialized that U.S. press opinion unfavorable to this economic policy might influence U.S. government agencies to withhold development funds. Apparently the old fear persisted that business interests dictate U.S. foreign policy.[30]

The first, and most crisis-ridden, stage of the integration industries battle more or less ended with the adoption of the Protocol in January, 1963. But even this Protocol implementing the RII contained provisions which further emasculated it.* Moreover, the U.S. also continued its campaign against the RII through financial leverage. U.S. strategy was to cut off all available sources of funding, and thus to undermine the integration industries, which were by definition such large undertakings as to require outside funding. First, the U.S. has consistently refused to allow U.S. AID funds channeled through BCIE to be used for sub-loans to integration industries. Second, the U.S. prevented other international lending agencies, especially BID, from lending directly or indirectly to integration industries. Third, the U.S. pressured BCIE not to finance integration industries, even out of non-U.S. funds.

Pennsalt—A Caustic Story

One of the most blatant instances of U.S. pressure occurred in relation to the first Nicaraguan integration industry, Pennsalt, a caustic soda plant, and a direct subsidiary of Pennsalt Chemical Corporation in the U.S. After Nicaragua secured integration industry status in the January, 1963 Protocol and Pennsalt was ready to proceed with the investment, the principal backers of the project sought additional funds. Finding that no AID funds were available to an integration industry, they attempted to get BID funds channeled through BCIE (as an industrial relending credit line).

According to several accounts, BID initially approved the loan, but subsequently reversed its position, after the U.S. Director of BID intervened directly to veto the loan. BID funds ($1 million) were finally used to finance the BCIE loan to Pennsalt—but only after an agreement had been reached which effectively annulled Pennsalt's integration industry status. Under this agreement, which resulted from direct U.S. pressure through BID, BCIE had to sign a secret memo (which was not included in the public loan agreement) promising not to use BID resources "to finance any industry which constitutes a monopoly." Furthermore, the government of Nicaragua agreed in writing not to oppose the establishment of a similar caustic soda plant in Central America, enjoying equal trade privileges.[32] In short, Nicaragua agreed to give up its integration industry and all the attendant benefits from the Protocol of 1963. Once having accomplished its purpose of undermining the RII, AID subsequently (in 1967) allowed $600,000 of its own funds, through BCIE, to be used to finance Pennsalt, both because this operation would directly benefit a U.S. company, and because the $600,000 would be used only to buy machinery, etc., from U.S. producers.

Simultaneously, the U.S. exerted direct pressure on BCIE. AID could prevent its credit lines to BCIE from going to integration industries, since all BCIE sub-loans using more than $500,000 of AID funds required direct AID approval. In the view of one expert, this provision "has allowed the U.S. to use the Bank as an instrument of its foreign policy."[33] Furthermore, "the possibility of U.S. retaliation through a cut in its financial aid to the Bank is apparently sufficient to preclude Bank officials from extending loans of less than $500,000 for 'integration industries.' "[34] Such retaliation was more than a remote threat: on one occasion in 1963 AID posed the possibility that the U.S. might make no further loans to BCIE (whether or not for integration industries) unless BCIE conformed to the U.S. position on integration industries.

In the Interest of U.S. Business

Why did the U.S. go to such lengths to thwart the integration industries scheme? The real reasons are difficult to detect, because they are hidden behind a facade of stated justifications and rationalizations.* The real concern focused on the effects of the scheme on *U.S. investors* in Central America. In the words of the State Department

> Many private investors . . . have hesitated to invest in Central America because they fear possible discrimination under the Regime. No investor can ever be sure that designation of an industry related to his . . . will not seriously affect his own business. . . . The effect [of these problems] on potential investment from abroad is . . . serious.[36]

Initially the U.S. was concerned that the RII would be used to exclude, or at least regulate, foreign (U.S.) investment. The 1958 Agreement did provide that a certain

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* Most written accounts and U.S. officials (in interviews) have distorted the story of this controversy in several ways.[26] First, they minimize the role of the U.S. by acknowledging it as one factor among many which resulted in the failure of the RII as a developmental mechanism. Second, they attribute to the U.S. the mild and seemingly reasonable position of "opposing" integration industries, of discouraging participation of U.S. firms, and of withholding U.S. funds from the program. This description obscures the full extent of U.S. opposition and the lengths to which U.S. officials went to thwart the RII.

* Marget, a former high functionary of the U.S. Federal Reserve Bank, was a key figure in BCIE's formative months, holding the double title of Regional Representative of AID (before ROCAP existed) and Financial Adviser of BCIE.

* Most important, as the price for implementing the RII (which El Salvador had always opposed), El Salvador proposed a "Special System" which was to serve as a substitute for the RII. It would provide special protection for certain industries, but without setting up legal monopolies and without subjecting the plants covered to "rigid" controls. The U.S. also regarded it as a "workable substitute" for the RII.[31] This was an early example of how the U.S. was to articulate its interests through its Central American allies.

* The explanation most commonly given by U.S. officials focuses on the monopolistic nature of the integration industries, and insists that U.S. funds could not be used to promote a scheme which violated U.S. anti-trust laws. Whatever the legalities of the U.S. position, however, it seems quite plausible that the U.S. really objected more to the consumer protection regulations of the RII than to the existence of a monopoly *per se*. Second, apologists for the U.S. position maintain that the RII was badly designed, full of ambiguity and hence susceptible to political favoritism.[35] Despite the grain of truth in these "technical" arguments, the principal motivations for U.S. policy were not technical, but ideological and political, and responsive to U.S. business interests in Central America.

proportion of the capital of each integration industry must be of Central American origin. In one of his famous outbursts, in a March, 1962 meeting, Arthur Marget implied that U.S. corporations were holding back their investment in Central America because of the RII—because the privileges given to integration industries "exclude the possibility of competition by other U.S. firms, and this naturally is not well received in the U.S."[37] The irony of this position is that, of the two existing integration industries, GINSA in Guatemala is now a subsidiary of Goodyear—in direct violation of the 1963 Protocol granting GINSA integration industry status; and the Pennsalt/Hercules complex in Nicaragua is owned by two U.S. firms.

Once it became clear that the RII would not necessarily be used to exclude U.S. corporations, a second problem arose: if a U.S. subsidiary was designated an integration industry, a competing U.S. firm would doubtless exert great pressure on the State Department not to permit such favors to one corporation. Such a situation actually did arise in the mid-1960s, in the dispute between GINSA in Guatemala (which at the time had technical assistance from and minority stock ownership by General Tire) and Firestone in Costa Rica, putting the U.S. in the awkward position of having to balance out the pressures from two U.S. corporations. A third concern about the RII was that private U.S. investors would never embrace a scheme so full of regulations on price, quality, supply, and especially on the proportion of local capital.[38] In fact, representatives of U.S. business expressed grave concerns about the RII,[39] which influenced and were reflected in the official U.S. position.

Aside from the concrete problems the RII posed for private U.S. investors, the U.S. government opposed the scheme on broader philosophical grounds: any mechanism which limited a corporation's right or opportunities to invest or its freedom of choice on location, or which restricted free trade, represented an undue and unnecessary interference with the "free play of market forces."

This is not to say that the RII could have resolved Central America's problems of underdevelopment. For one thing, the scheme was designed only to preserve a balance among the underdeveloped countries of the region, not to improve living conditions for the lower classes or to alter the relations of power within each country. Second, there *were* technical deficiencies of the scheme, which have been pointed out by "developmentalist" critics as well as by apologists for U.S. policy. But these problems were not due to the basic premise of industrial planning (as U.S. officials charged), but to imperfections in its application; and these problems were compounded by the fierce U.S. campaign against the RII. Third, there was no agreement about the scheme within Central America: particularly those sectors which opposed governmental or intergovernmental planning and which stood to gain from *un*balanced development (e.g., the government and the private sector of El Salvador) opposed the RII. But this was part of the alliance being built up by the U.S. with Central Americans whose interests coincided with U.S. interests in the region. Thus, the fact remains that U.S. policy created a context in which the RII could not be used toward its original objectives of planned industrialization and balanced development within the capitalist framework.

U.S. STRATEGY FOR DEPENDENT INDUSTRIALIZATION

By winning on the RII issue, the U.S. achieved a strategic victory over CEPAL and the CEPAL approach of planned industrialization. Equally important, by 1963, the U.S. had helped establish the dominance of those groups within Central America whose interests coincided with those of the U.S. on most issues—specifically, the business community and those governments (El Salvador and Guatemala) representing the most privileged business groups. In short, having strengthened the position of its allies, the U.S. could subsequently achieve its policy aims without resorting to the overt manipulation characteristic of the early years; henceforth the U.S. employed a subtler long-range strategy of allowing the process of dependent industrialization set in motion by 1963 to play itself out.

In its steadfast opposition to the integration industries scheme, the U.S. nonetheless insisted that it was committed to "balanced development," to be achieved through different mechanisms. But the measures advocated by the U.S. have proven grossly inadequate. Rather than avoiding intra-CACM imbalances, the U.S. strategy amounted to letting them grow, then correcting them through a special fund (which became the BCIE), through which the U.S. would channel its aid funds, and which would give preferential treatment to the less developed nations. To the U.S., then, balance was desirable—so long as it could be achieved without upsetting the free play of market forces and the freedom of firms to choose their investment location. In short, balanced development was a *secondary* objective. Most observers conclude that the U.S. approach has not worked out in practice.[40] Even more important, as we shall see, the realities of Central American integration have shown in practice the fallacies of the U.S. approach. But the U.S. position on "balance" was only one aspect of a larger strategy for industrialization, which we shall examine briefly.

Promotion: Attracting and Subsidizing Foreign Investment

Perhaps the most influential—and the highest paid—official of the BCIE as of 1970 was a North American, Val de Beausset.* What made him so valuable, in his position as Special Assistant to BCIE President Enrique Ortez, was his expertise in "promotion." In interviews, de Beausset demystified the concept of promotion" by giving me examples of his work. To summarize,

> We identify new projects (i.e., new market possibilities, waiting to be developed). We have worked out seven major industries which are needed in each country, and which are priorities for BCIE loans. If a (U.S.) company is wavering as to whether or not to invest in Central America, we try to convince the sponsors to invest here, by offering loans and other incentives. (We did this, for example, with International Nickel in Guatemala.) We work with local investors to get them into new fields, to find them a "technical partner" [a U.S. corporation that comes in to provide technical expertise—usually paving the way for a takeover by the U.S. firm]. When a group of Guatemalans came to us with a project for a tractor assembly plant, we financed a feasibility study and tried to interest several U.S. companies, such as John Deere and Ford. We find local partners for foreign investors and convince foreign investors of the political advantages of working with a local partner. We make recommendations about infrastructure improvements needed to develop a new market, and arrange BCIE loans [to the Central American governments] for the needed infrastructure.

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* As one ROCAP official explained it, "Val de Beausset gets half of his salary through BCIE, half directly through ROCAP. We have to do it that way—not because BCIE doesn't have the money, but because his full salary is $35,000 a year—more than Ortez [President of BCIE], and it would create a political scandal if de Beausset received that amount publicly from BCIE."

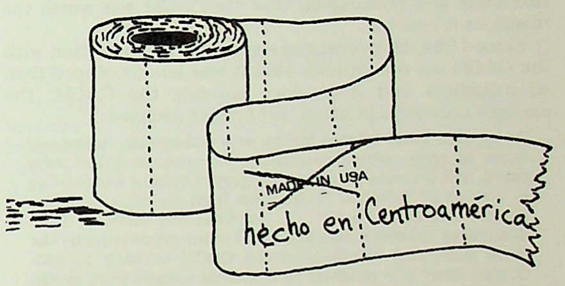
De Beausset was the "idea man" who could make it happen—who could find funds, make all the necessary connections in the U.S. and in Central America, and move the BCIE Board of Directors into action (in approving loans, etc.). The reason for his extraordinary influence throughout BCIE is simply that "promotion" has become synonymous with "development." This ideology is so prevalent that even the progressive functionaries I interviewed at the Bank seemed to be seduced by it. In many respects "promotion" is just a new name for the basic approach that the U.S. has been pushing in Central America since the late 1950s, and whose product is dependent industrialization. What, specifically, does this approach entail?

- First, and always foremost, the U.S. would tolerate no restrictions on the access of foreign (primarily U.S.) corporations to the Central American market. Foreign investors should have absolute freedom to invest in any country (with no regard for regional balance) and in any sector (permitting even takeovers of locally-owned enterprises in traditional sectors, as well as total dominance in the newer and more modern industries), to use local credit resources, to import any technology (without concern for the effect on employment), and so on.[41] This strategy has achieved dramatic results in terms of new investment: the inflow of foreign capital more than tripled between 1960 and 1968, and by 1968 the book value of U.S. investment alone amounted to nearly $.5 billion.[42] But the price has been high.

Because it is under strong U.S. influence, BCIE has followed a policy of "non-discrimination" against foreign capital in granting industrial loans. (As BCIE President Ortez put it to me, "We have no prejudices against foreign capital; we understand that big projects require foreign capital.") Even by conservative (World Bank) estimates, by 1970, 32 percent of BCIE industrial loans had gone to foreign-controlled firms, and an additional 34 percent to regionally controlled firms with foreign equity or technical assistance partners.[43] In response to public criticism, BCIE has curbed lending to *wholly*-owned subsidiaries of foreign corporations; but, with U.S. prodding and financing, the Bank has continued to spend a considerable portion of its institutional energy and resources on programs to stimulate foreign investment.

- In order to attract foreign investors to the area, the Central American governments developed a network of incentive laws, granting generous fiscal incentives in the form of exemptions from income taxes and from duties on machinery and raw materials imports. Although used by local investors as well, in practice these laws have been designed largely to appeal to foreign corporations. As noted even by a 1970 World Bank study mission, the indiscriminate application of the laws has led to a sharp loss of revenue (from import duties and taxes foregone) to the governments, and has rewarded the utilization of imported rather than regional raw materials. In addition, it has resulted in a "war" of fiscal incentives among the Central American countries, each trying to offer the best terms to foreign corporations. It has encouraged duplication of investment—the most extreme example being petroleum refineries (of which there are six in the region, each owned by a foreign oil company) and auto assembly plants, of which there are six in Costa Rica alone. These laws have been worded so as to permit an unending "chain" of incentives, since no one firm ever settles for fewer benefits than its competitors.
- A further result of permissiveness toward foreign investors and giveaway incentive programs has been to encourage "industrias de fantasma"—phantom industries, i.e., those which assemble, mix, or re-package imported components, and thus contribute little to the Central American economy. This tendency has been institutionalized and rewarded through subsequent policies and incentives. To cite some examples:

> —Driving out of Guatemala City on the Roosevelt Highway, one passes a string of shiny, modern "factories," mainly drug and chemical companies—Upjohn, Hoechst, Abbott, Miles Overseas, Eli Lilly, etc. Most of these plants employ fewer than 50 (of whom half are in executive or administrative positions), import everything but the water and air used in mixing, and enjoy full fiscal incentive benefits and unrestricted profit remittances.
>
> —Lea and Perrins imports Worcestershire sauce in bulk, bottles it in small bottles, and sells this as Worcestershire sauce "made in El Salvador"; one Central American company imports screws without indentations, puts the indentations in, and sells these as Central American; another firm imports jumbo rolls of toilet paper, cuts them into smaller rolls, and sells them as Central American; "Central American wine" is made from an imported wine concentrate, using only local water.[44] And so on, *ad infinitum.*



The situation with regard to assembly industries is symptomatic of a more general characteristic of BCIE industrial lending under U.S. auspices: the Bank's refusal or structural inability to develop a set of priorities for industrial lending. In practice, BCIE has left the initiative in the hands of the private sector, responding on a firm-by-firm basis to loan requests, and, as the 1970 World Bank mission pointed out, analyzing those loan requests from the standpoint of the firm, rather than in terms of the firm's contribution to the national or regional economy.

Through its financial leverage, the U.S. has been primarily responsible for the evolution of BCIE. Yet there is a fundamental contradiction in the U.S. conception of BCIE. On the one hand, the U.S. intended that the principal role in industry should be left to private initiative.[45] As a consequence, BCIE has not attempted to set guidelines for private investors, nor to regulate the degree of penetration by foreign capital. As one observer has pointed out,

> the close supervision by AID . . . has certainly contributed to the conservativeness of the Bank's lending policy and the timidity with which it has dealt with the issue of "regional" loans going to predominantly extra-regional capitalists.[46]

On the other hand, this posture has also had its negative aspects, even from the standpoint of the U.S. Specifically, BCIE has failed to perform the *promotional* functions of a development bank. An institution that leaves the initiative with the private sector could hardly be expected to promote risky ventures in new fields; yet AID, as well as the World Bank, has criticized BCIE for this failing. The end result of these cross-pressures, primarily from AID, is that BCIE is little more than a commercial bank with low interest rates, rather than a development bank.

From the above, it is clear that the U.S. has promoted in Central America a policy of non-regulation of private (mainly U.S.) corporations. The fruit of this policy was a syndrome of dependent industrialization, which did not alleviate the general unemployment, balance of payments, and fiscal problems of all the Central American countries, and which aggravated the intra-regional disparities and imbalances.[47] In the long run, this policy could not work, because it did not address the real problems of underdevelopment in the region. But the more immediate consequence was the collapse of the CACM in the late 1960s.

THE CACM IN (PERMANENT) CRISIS

Although it was only one manifestation of Central American underdevelopment, the issue of regional imbalance became the main impetus propelling the CACM toward its dissolution. Without assurances about equal distribution of the benefits of integration, it would be difficult to convince the relatively less developed nations, Honduras and Nicaragua, that the CACM was worth the sacrifices it entailed.

Since 1964, Honduras had expressed dissatisfaction with the CACM on the grounds that it was less developed than its neighbors and that, since entering the CACM, the nation's economic position had further declined:

> its regional trade balance had become unfavorable, its regional terms of trade were deteriorating, its consumer prices were rising, and the number of its unemployed artisans was growing as a result of industrial competition from the other Common Market members. Finally . . . Honduras was suffering from diminished fiscal revenues as a result of the exportation by the more developed members of the CACM of their pseudo-Central American products to Honduras exempt from tariffs; Honduras was in effect subsidizing the industrial development of the other Central American states. . . .[48]

In order to correct these imbalances, Honduras needed preferential treatment and special privileges. In a 1966 meeting of the CACM Economic Council, Honduras secured passage of a few measures granting preferential treatment.

Meanwhile, pressures were building up from other directions. By the mid-1960s, all of the Central American countries were feeling the effects of a generalized balance of payments crisis, rooted primarily in the worsening position of the region's exports to the world market. To make matters worse, the governments could no longer meet balance of payments problems by limiting nonessential imports, because an increasing percent of these items were being imported from the rest of Central America and were therefore not subject to these restrictions. These difficulties were compounded by the unregulated proliferation of assembly industries, which generated large, inflexible import requirements. As a result, the region's balance of payments deficit with the rest of the world more than doubled between 1963 and 1968.[49]

By early 1967, the balance of payments situation became critical, especially in Costa Rica and Nicaragua. The crisis stimulated regional discussions during 1967 and 1968, which resulted in the adoption of the San José Protocol. This Protocol would impose an economic stabilization tax, in the form of a 30 percent duty surcharge on all imports from third countries, and a recommended sales tax on luxury goods. The business communities voiced strong opposition to it, with the result that only Nicaragua ratified it immediately. Throughout 1968 and early 1969, the Nicaraguan government attempted to force its partners to ratify it, by imposing taxes on imports from the other countries; the others retaliated with measures against Nicaraguan products.[50] Finally, in the spring of 1969, both sides backed down, and the five Ministers of Economy agreed to begin discussions to reform the CACM and to prevent similar crises in the future. But the underlying problems were left unresolved.

Soccer and Underdevelopment

If any doubts remained as to the serious problems in the CACM, they were dispelled by the sequence of events beginning in June, 1969. The triggering event was a series of soccer games between Honduras and El Salvador, which led to riots in Honduras and the expulsion of 11,000 of the 300,000 Salvadorans living in Honduras. In the following weeks, diplomatic relations were broken off, both governments geared up their armed forces, and the tension level rose. Salvadoran troops invaded Honduras on July 14, and only withdrew by the end of July in the face of heavy pressure from the OAS, which was attempting to mediate the conflict. Aside from the 1-2,000 casualties and 100,000 refugees, the war caused a total disruption of CACM trade, particularly since Honduras closed its portion of the Pan American Highway to Salvadoran goods. Border incidents continued sporadically throughout 1970 and 1971; trade and diplomatic relations had not been totally normalized even by the end of 1972.

Underlying the war were the same factors that had caused earlier CACM crises. The ruling class in each country had attempted to use the integration movement as a way of dealing with basic problems without making the necessary social reforms. The clearest example was the Salvadoran "population problem." With a population growth rate of 3.8 percent a year, El Salvador has 3.3 million persons squeezed into 8,000 square miles. El Salvador's population density in 1969 was over 380 persons per square mile, as compared with 57 persons per square mile in Honduras. Rather than undertaking an agrarian reform to provide the people with land and jobs, the Salvadoran ruling class (particularly the 1 percent of the population that owns 40 percent of the nation's arable land) has insisted that El Salvador needs an escape valve, an outlet for the large mass of landless rural and urban unemployed, i.e., through migration to neighboring countries, especially Honduras.[51] And when this escape valve was closed off—that is, when Honduras refused to permit its land to be used as Salvadoran *lebensraum* and threatened to expel Salvadoran migrants—the Salvadoran ruling class resorted to war to preserve this outlet.

In response to similar social tensions, in order to relieve pressure for land, the Honduran ruling class, in turn, evicted the Salvadoran migrants. In a sense, then, the war was the result of class-based cross pressures—both from dominant business groups and from the landless, unemployed masses—within each country. It was an excuse for each ruling class to fortify itself militarily, to consolidate its power against political opposition, and to stave off profound class conflict.[52]

O.A.S.

The President of my country
nowadays is called Colonel Fidel Sanchez Hernandez.
But General Somoza, President of Nicaragua,
is also President of my country.
And General Stroessner, President of Paraguay,
is also a little bit President of my country, though less
than the President of Honduras, that is to say
General Lopez Arellano, and more than the
President of Haiti,
Monsieur Duvalier.
And the President of the United States is more
President of my country
than the President of my country,
who, as I said, nowadays,
is called Colonel Fidel Sanchez Hernandez.

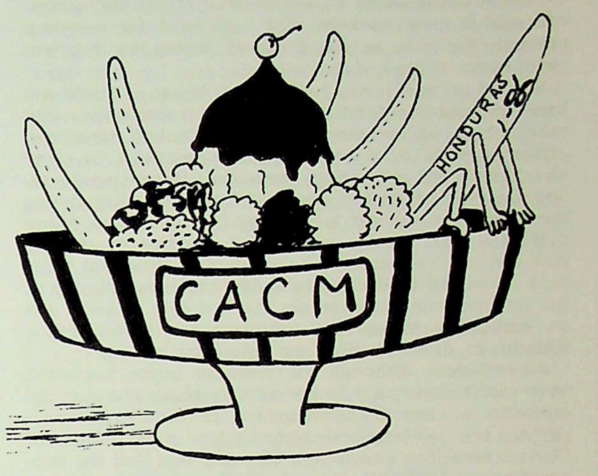
—Roque Dalton (El Salvador)

But in addition to the class conflicts, the war was also caused by imbalances within the CACM. As the Honduran Minister of Economy stated in 1969, integration had brought Honduras fewer benefits and greater sacrifices than the other partners. Certainly the facts substantiated this assertion.* The serious disparities revealed that Honduras had been adversely affected by the very policies—promoted by the U.S.—which benefited the private sector in El Salvador and Guatemala. In addition, Honduras was subsidizing industrial development in these countries, at great cost to all sectors in Honduras (i.e., higher prices and lower quality for Honduran consumers, negative trade balances, loss of government revenues, and industrial unemployment).[54] Worst of all, Honduras charged, the industries being subsidized were not really regional, insofar as a high proportion were assembly industries (usually U.S.-owned) using Guatemala, El Salvador, or Costa Rica as a base for putting together components imported duty-free from abroad.

Banana Republic Splits

In the aftermath of the war, Honduras used this opportunity to insist on a general restructuring of the CACM. At their December, 1969 meeting, the five Foreign Ministers established a commission to study the total reorganization of the CACM and a forum for the Ministers of Economy to discuss a *modus operandi*—a temporary basis for holding the CACM together until a more permanent restructuring could be agreed on. The modus operandi discussions began seriously, after a six-month delay, in July, 1970, and continued until December, 1970, amid increasing pressures and hopes for a successful outcome.

The negotiations broke down abruptly in December, 1970, just as they were apparently closest to reaching a successful conclusion: the government of El Salvador, under intense pressure from the Salvadoran private sector, refused to sign, claiming the agreements would give away too much to Honduras. In response, during the next couple of weeks, Honduras repeatedly threatened to pull out of the CACM, but few believed it could afford to do so. But on December 31, 1970, Honduras issued Decree 97. This decree abrogated all regional agreements on trade and taxation, by reimposing duties on merchandise imported from other Central American countries, with exceptions for "essential" or "basic" items. This measure, which Honduras justified as a way of correcting its severe economic problems caused by the CACM, amounted to a withdrawal from the CACM.



THE MODUS OPERANDI

Because the modus operandi (m.o.) negotiations touched on all the exposed nerves of the ten-year-old integration process in Central America, it is worth mentioning briefly a few of the main substantive issues and the dynamics of the negotiations. Among the most important issues were the following:[55]

1) *San José Protocol:* Final implementation of the Protocol (see above) had to be negotiated, specifically the stipulation of which industries would be exempt from the 30 percent import duty surcharge.

2) *Origin of Products:* In response to complaints by the less industrialized countries, especially Honduras, that they were being forced to subsidize industrialization in Guatemala and El Salvador and that this industrialization was not even legitimately "Central American," the five governments drew up an agreement to help determine the origin of goods "produced in Central America." In order to qualify as "Central American" and hence to enjoy full free trade privileges, a product would have to contribute a certain minimum "regional value incorporated" or comply with certain standards of "minimum processing" in Central America.

3) *Regional Industrial Policy:* In a quasi-revival of the integration industries scheme, this industrial policy would promote certain basic industries and would simultaneously further balanced development, by permitting only one plant in these industries and having the CACM Economic Council determine its location (giving preference to Honduras). The least acceptable aspect of this proposal to the region's industrialists was that it would curtail the freedom of private investors and allow the inter-governmental Economic Council to make decisions without consulting the private sector.

4) *Fund for Agricultural and Industrial Development:* As a final gesture toward correcting imbalances within the CACM, the governments resolved to create a new Fund, which would provide loans on easy terms, giving preference to enterprises in the relatively less developed countries. Contributions to the Fund would also be proportional, with the countries enjoying the greatest benefits from the CACM paying a larger share. The need for this Fund, with its objective of promoting balanced development, evidenced the failure of BCIE, whose Charter had stated the same objective ten years earlier, and which had, in fact, allocated a higher proportion of its funds to Honduras and Nicaragua.

What was the significance of the modus operandi? First, it revealed the problems inherent within Central American "development" during the 1960s—the problems of unequal benefits for some countries, of subsidies to private (mainly foreign) investors at high cost to consumers and state treasuries, of imported technology and raw materials, of

* In terms of both new industrial investment and trade creation, the overwhelming bulk of the gains had gone to El Salvador and Guatemala, and Honduras' disadvantage was getting worse. By 1968, Guatemala contributed 34.2 percent of regional value added in manufacturing and El Salvador 23.8 percent, as compared with Honduras' 7.7 percent. By 1968, Honduras and Nicaragua were accumulating substantial trade deficits with their CACM partners. In the first half of 1969, Honduras suffered a trade deficit of nearly $5 million with El Salvador alone, and its imports from El Salvador amounted to 168 percent of its exports there.[53]

industrialization based on the merging of five tiny upper- and middle-class markets. The very need for a serious restructuring such as was discussed during the m.o. was proof of the failures of the past.

Second, even if it had been signed, the m.o. would not have resolved the fundamental conflicts between a tiny ruling class and the great majority of Central Americans, whose interests had never been considered at all. On every issue, important concessions were made to privileged business interests which had benefited from integration during the 1960s and wanted to preserve the *status quo*. Moreover, the m.o. really represented a series of stopgap measures, of non-structural responses to structural problems. In regard to the serious budget problems plaguing all the governments, for example, the San José Protocol was an emergency measure, a substitute for, rather than a stimulus to, direct taxation and serious tax reform.[56]

Nevertheless, although the measures under discussion were vastly inadequate to the basic problems, the m.o. did represent a clear acknowledgment of those problems—perhaps the first large-scale honest appraisal of the costs of Central American integration. The very fact that the m.o. negotiations broke down in the end was a kind of backhanded tribute to those limited advances, an indication that someone's interests were being threatened. The negotiations broke down because a coalition of powerful interests that had benefited from Central American integration during the first ten years insisted on preserving those privileges and refused to allow even the mildest reforms.

The Hard Liners Carry The Day

Specifically, which interests were responsible for torpedoing the negotiations? First and most obvious, the breakdown of the m.o. resulted from the determination of the Salvadoran private sector and the government it controlled not to make any concessions to Honduras, such as would have been implied by the Fund. But even more important, the Salvadoran government and business community never accepted the overall objectives of achieving balanced development through restrictions on private investment (such as the restrictions implicit in the industrial policy) or of restructuring the CACM along the lines demanded by Honduras. Thus, El Salvador's decision not to sign the m.o. was not made at the last minute; in reality, according to observers with reliable inside information, El Salvador never had any intention of signing the m.o. agreements, and hoped to get Guatemala to go along with that position.[57]

If El Salvador openly took a hard line, Guatemala played a double game during the negotiations. All along, Guatemala posed as the champion of CACM unity; and indeed, as the main beneficiary of the soccer war and the subsequent disruption of trade between Honduras and El Salvador,[58] Guatemala did have good reason to hold the CACM together and especially to keep Honduras in the CACM. But despite the outward appearance of good will, there is substantial evidence that the Guatemalan government covertly shared the positions being voiced publicly by El Salvador. Although Guatemala never stated openly that it would not go along with the Fund or the industrial policy, throughout the negotiations Guatemala and El Salvador were in agreement on all the major issues, including the view that the m.o. was designed to normalize, not to restructure, the CACM.[59] Moreover, Guatemala actually supported El Salvador at crucial moments during the negotiations, particularly at the end. Even if there was no explicit agreement between the two countries about not signing the m.o., in practice, strong support from Guatemala enabled El Salvador not to sign; conversely, El Salvador's willingness to say "no" openly enabled the Guatemalan government to achieve its aims without looking like a spoiler.

Another force strongly backing the Salvadoran position was the business community in Central America (minus that of Honduras), particularly the organization of industrialists, FECAICA. Aside from feeling that the private sector should be consulted on *all* CACM decisions and regarding as illegitimate any decision made without its approval, FECAICA held positions similar to those voiced by El Salvador.[60] Industrialists, at least in Guatemala and El Salvador, pressured their governments not to sign the m.o.—even if this meant losing the Honduran market.

The Role of the U.S.

Finally, what was the role of the U.S.? During the m.o. negotiations, the U.S. maintained a low profile, stating only its willingness to respond to initiatives from the Central Americans. From the sketchy evidence available (*not* including clear policy statements, of which there were none), it seems that the U.S. hoped for a favorable outcome of the m.o. discussions, in order to preserve the CACM. Recognizing that U.S. interests would be adversely affected by a collapse of the CACM, the U.S.—unlike its allies in Central America—apparently was willing to accept certain limited reforms, to avoid such a collapse. Nevertheless, the U.S. did not use its influence to pressure El Salvador to sign the m.o. agreements.

During the soccer war too, the U.S. had projected a low-profile image. This did not mean, however, that the U.S. had no policy:

> It is understood—from very well informed Washington sources—that the U.S. was well aware of the coming armed clash. Since no Communist or Castroist threat was apparent on either side, the U.S. is reported to have decided on a hands-off attitude.[61]

The U.S. had good reason for wanting to preserve peace and stability in Central America and, after the war, to normalize the situation in each country and between the two. But despite the public stance of deploring the war, and washing its hands of all responsibility, the U.S. position was not so simple. For one thing, as was pointed out by Senator J. William Fulbright, U.S. military assistance had increased the influence of the military in both countries.[62] Second, despite protestations of neutrality, the U.S. supported El Salvador, both directly and indirectly. Hondurans and other observers doubt that El Salvador would have launched the war without a green light from Washington. Moreover, as an outgrowth of its concern since the early 1960s about the explosive potential of El Salvador's "population problem," some charge, the U.S. allowed the Salvadoran ruling class to wage this war, in order to preserve the escape valve of Salvadoran migration to Honduras.[63]

More important, ever since the earliest days of the CACM, the U.S. has aligned itself with a coalition of forces in Central America, in which the Salvadoran government and bourgeoisie were key. This coalition included: U.S. investors, most of the Central American private sector (minus that of Honduras), and the governments of El Salvador and Guatemala. These were the privileged sectors, which benefited the most and sacrificed the least for integration, and which refused to give up their privileges. In all the decisive debates in the early stages of the CACM (the Tripartite Treaty, integration industries, etc.) Washington voiced its positions indirectly through El Salvador, as well as directly. Throughout the first ten years of the

CACM, the U.S. supported and advocated independently the positions taken by this coalition of privileged groups.

Thus, despite the low U.S. profile during the events of 1969-70, we cannot accept the view that the U.S. had nothing to do with those events. To the extent that the breakdown of the m.o. and the withdrawal of Honduras from the CACM was a result of the failure to resolve the problems of unbalanced development, the U.S. had a clear responsibility for those outcomes. By late 1970, it hardly mattered that the U.S. wanted the m.o. to succeed, since the U.S. had set into motion and nourished those forces which finally destroyed the CACM. In this sense, the Central Americans are now reaping the harvest of U.S. policy and U.S. "aid" in the formative stage of the CACM.

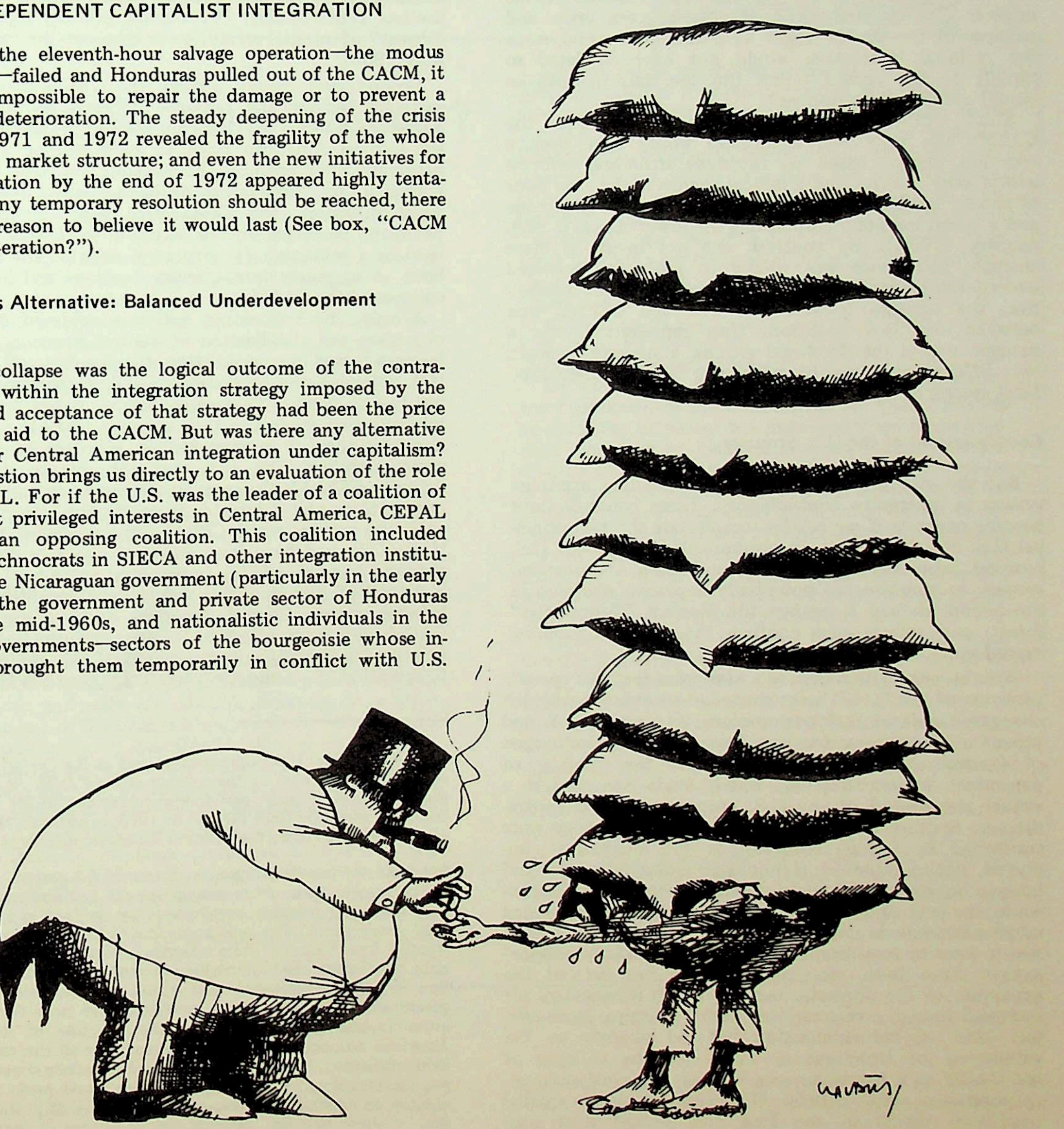
THE CONTRADICTIONS OF DEPENDENT CAPITALIST INTEGRATION

Once the eleventh-hour salvage operation—the modus operandi—failed and Honduras pulled out of the CACM, it proved impossible to repair the damage or to prevent a further deterioration. The steady deepening of the crisis during 1971 and 1972 revealed the fragility of the whole common market structure; and even the new initiatives for re-unification by the end of 1972 appeared highly tentative. If any temporary resolution should be reached, there is little reason to believe it would last (See box, "CACM Re-coup-eration?").

CEPAL's Alternative: Balanced Underdevelopment

This collapse was the logical outcome of the contradictions within the integration strategy imposed by the U.S.; and acceptance of that strategy had been the price for U.S. aid to the CACM. But was there any alternative route for Central American integration under capitalism? This question brings us directly to an evaluation of the role of CEPAL. For if the U.S. was the leader of a coalition of the most privileged interests in Central America, CEPAL headed an opposing coalition. This coalition included many technocrats in SIECA and other integration institutions, the Nicaraguan government (particularly in the early stages), the government and private sector of Honduras after the mid-1960s, and nationalistic individuals in the other governments—sectors of the bourgeoisie whose interests brought them temporarily in conflict with U.S. policy. But CEPAL's commitment to planning should not obscure certain realities about CEPAL and its strategy.

First, most CEPAL functionaries and CEPAL as an institution did not stick to their original principles as forcefully as would have been necessary to pose a serious alternative to the U.S. strategy. In the process of cooperating with the U.S. after 1960 and adjusting to U.S. hegemony, CEPAL officials "gave up their role as agents of change and became agents of the *status quo*."[64] By the end of the 1960s CEPAL had lost its potential function as an outside critic or "conscience" of the CACM, and never seriously challenged the strategy imposed by the U.S. and its allies.



Second, even if CEPAL had retained its original stand, and even if that strategy had prevailed, it too contained fundamental contradictions. If CEPAL had really wanted to follow through on its principles of planning and balance, it would have had to challenge the power of the capitalist class within Central America, since this class would never accept intergovernmental planning (e.g., through the integration industries scheme) unless its survival as a class was threatened. In addition, CEPAL would have had to make a total break with the U.S., and thus to reject U.S. investment and aid (both of which CEPAL accepted as necessary). It would have had to push for a redistribution of resources within each country. In short, CEPAL would have had to address not only the intra-regional disparities, but also the disparities stemming from the *class* structure of dependent capitalism. But CEPAL was not prepared to do this. Thus, we may speculate, if the original CEPAL strategy had prevailed, the crisis and collapse of the CACM might have been postponed, since the regional imbalances would not have escalated so rapidly to the critical point. But the class inequalities would not have been resolved.

Thus, CEPAL offered no serious alternative to the CACM. The only real alternative would have been a common market based on *thorough structural reforms within each country and a radical change in the class basis of power*, leading to a large-scale redistribution of income and a broad market incorporating the lower classes in each country. CEPAL, by contrast, did not insist on these changes, and hence was willing to settle for *balanced underdevelopment* in Central America. From this perspective, the struggle between the U.S. and CEPAL, and between the two coalitions they represented, was a struggle within the dominant groups, a struggle between two different strategies for preserving the dependent capitalist system in Central America.

Contradictions of the U.S. Strategy

But the attempt to preserve the dependent capitalist system is inherently contradictory. These contradictions become concrete if we briefly recapitulate the two principal U.S. objectives: first, to promote the interests of U.S. business, especially U.S. investors in Central America; and second, to stabilize the potentially explosive situation in the region, defend it against the internal "Communist" threat, and reduce class conflict, thereby strengthening capitalism.

With regard to the first, we have seen that the specific contours of the CACM were shaped in accordance with the changing needs of U.S. corporations; as a result, U.S. and other foreign corporations have been the main beneficiaries of Central American integration. But the strategy of dependent industrialization, which made the CACM a virtual playground of the U.S. corporations, was contradictory. Because they were dependent—because they were controlled by foreign corporations and adapted to imported, capital-intensive technology—industrialization and integration did not alleviate urban unemployment. Meanwhile, the lack of an agrarian reform has created increasing impoverishment in the countryside. Those social classes which were to have been incorporated within the national market have been marginalized. This has limited the expansion of the domestic market, which is necessary for increased foreign investment in Central America. Moreover, this kind of industrialization has led directly to the withdrawal of Honduras in 1970 and the collapse of the CACM as a free-trade area.* Thus, the multinational corporations, with official U.S. support, have created conditions which in the long run limited their own expansion in Central America.

With regard to the second U.S. objective, the contradictions are even clearer. Somehow, it seems, the U.S. hoped to stabilize the socio-economic system in Central America, but without making the necessary reforms. This brought two results. First, the class structure of Central America remained that of dependent capitalism. The only significant shift in class structure during the 1960s was the incorporation of new groups, mainly industrialists, into the ruling class,[66] solidifying the alliance with foreign capital. The function of the Central American state, and of the intergovernmental integration institutions, meanwhile, has been "reduced . . . to the creation of favorable conditions for private enterprises and the protection of a process of dependent industrialization."[67] As a result, socio-economic conditions within each country for the majority of the population have worsened.** This, in turn, has sharpened social tensions. No one who has visited Central America in the late 1960s or early 1970s could seriously argue that the "threat" of internal revolution or class conflict has declined since 1960!

Second, and closely related, the CACM structure has suffered because the response of each member to its deepening internal problems has been to project these onto the Central American stage, to avoid dealing with them nationally. For example, El Salvador has done this with regard to its "population problem," Honduras with its fiscal problems, and Costa Rica with its balance of payments problems. In this way too, the CACM has been used as a substitute for structural reform. The result has been to aggravate inter-country tensions and hasten the collapse of the CACM.

Finally, the U.S. could not have achieved its second objective, the stabilization of Central America, precisely because it was in contradiction with the first and narrower U.S. objective, the protection of U.S. corporations investing in the region. That same narrow definition of U.S. interests that made the U.S. perceive CEPAL as a threat also gave the U.S. a very shallow approach to preserving social stability. The U.S. was not able to distinguish between CEPAL's challenge to the narrow interests of U.S. corporations and a broader threat to the interests of the capitalist system, which CEPAL did *not* present. Similarly, if the U.S. had been less concerned about protecting the absolute freedom of U.S. investors, it could have accepted a degree of planning; this would have permitted greater balance within Central America, hence a more stable CACM, and more effective stop-gap reforms within each country. In short, the commitment of U.S. policy-makers to specific U.S. economic interests crippled the U.S. effort at regional pacification. This was the essential irrationality of the U.S. strategy for Central American integration.

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* It is clear that U.S. companies, as well as the Central American economies, were hurt by the collapse of the CACM. As a result of the disruption of trade, new foreign investment in the region has fallen off markedly since the end of 1970; in addition, several U.S. companies closed down their Central American operations.[65]

** While the population grew at a rate of 3.2 percent a year and higher in the cities, urban unemployment and underemployment have risen, and industrial employment has declined as a percent of total employment. The gaps in income distribution have widened steadily. The "benefits" from integration have all gone to the upper class, particularly the industrialists; meanwhile, the costs of integration (e.g., the regressive sales taxes, to compensate for the governments' increasing fiscal problems) have been borne by the lower income groups. Moreover, the structure of the Central American economies has barely changed. For all the emphasis on industrialization, the region has remained essentially dependent on a few traditional agricultural exports to the world market. And the reliance on imports has increased (despite the shift in the composition of those imports), creating serious balance of payments and fiscal problems.[68]

What does this story mean to the majority of Central Americans who have been paying the bill, but who have not benefited from the hundreds of millions of dollars of U.S. aid to the CACM? To the lives of these people, the ups and downs of the CACM have made little apparent difference. But in fact, the integration process *has* changed the conditions of their struggle for survival—and for liberation. Just as the ties binding Central America to the capitalist system have shifted from the national to the regional level, so too, the resistance is being regionalized. It is for this reason that U.S. aid, designed to make direct military intervention in Central America unnecessary, may well fail to do so.

—Susanne Jonas (Bodenheimer)

CACM Re-coup-eration?

Since Honduras' withdrawal at the end of 1970, the CACM crisis has deepened. First, the other four countries were divided as to how to relate to Honduras, with Guatemala and El Salvador taking a hard line, of proceeding without Honduras—even if this involved the temporary loss of trade with Honduras. Second, throughout 1971 and 1972, the CACM was further debilitated by new problems, specifically Costa Rica's attempts to protect its national market and balance of payments by imposing tariffs on Central American imports. At the same time, efforts to resolve these problems continued through an inter-governmental "Normalization Commission" in 1971 and a special SIECA Commission in 1972. But even though signing separate trade agreements with Guatemala, Costa Rica, and Nicaragua in the summer of 1971, Honduras remained firmly outside the CACM.

At the end of 1972 there were moves to change the situation. A December 4, 1972 coup in Honduras ousted the elected government of Ramon Cruz. Cruz had been resisting pressures from the Presidents of Guatemala, Nicaragua, and El Salvador (and indirectly from the U.S.) to normalize relations with El Salvador and with the CACM, insisting on a prior settlement of the border dispute with El Salvador and a restructuring of the CACM; thus, Cruz had been regarded as the major stumbling block to normalizing CACM and CONDECA operations. The leader of the coup and new President of Honduras, General Oswaldo López Arrellano, was much more cooperative and "flexible" on these questions. Even before the coup, López had been meeting with Presidents Arana and Somoza of Guatemala and Nicaragua; as a military man, López has been more amenable to dealing with the other military strongmen in Central America.

Clearly, there are strong pressures for and strong pressures against a re-integration of the CACM. On the one hand, "outside political pressure" (i.e., from the U.S.) and "the enthusiasm of foreign business interests (together with their Central American business associates) which have been the main beneficiaries to date" are attempting to put the CACM back together and to restore "stability" there.[1] The international aid agencies, including the World Bank, have been offering new loans as an incentive. In addition, the push for re-integration has been supported by the region's military leaders, who (especially since the Honduran coup) are seeking to form a central American military-ideological "community" (see "Integrating the Big Guns," below).

On the other hand, the basic problems leading to the dissolution of the CACM have not been resolved. In fact, the intra-regional imbalances are increasing: since the end of 1970, Guatemala's trade balance *vis-a-vis* its CACM partners has improved even more; correspondingly, Honduras' position has worsened. In addition, since Honduras' departure, Costa Rica's position has deteriorated to the point where President Figueres began threatening to formally withdraw from the CACM. And finally, it remains to be seen whether and how Nicaragua's position is affected by the December, 1972 Managua earthquake.

Thus, the strong pressures from the U.S., from Central American economic interests that have benefited from the CACM, and from regional military leaders, plus the recent change of government in Honduras, may produce a CACM settlement within the next few years. But in the long run, the internal contradictions of the CACM may well prove greater than the will of the United States.

[1] *Latin America*, Oct. 20, 1972 and Dec. 8, 1972. Other sources for this box include: other issues of *Latin America*; Guatemalan and Salvadoran newspapers; U.S. newspapers, as compiled by Information Services on Latin America (Box 4267, Berkeley, CA 94704), a monthly clipping service of eight major U.S. newspapers; and various issues of *Business Latin America* and SIECA, *Carta Informativa*.

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Integrating the Big Guns:

The Central American Defense Council

Little countries in Central America are setting a brisk pace for larger nations of the New World in combating Red Cuban subversion as well as in lowering trade barriers. Their Central American Common Market is being held up as a model to potential similar groupings on other continents.[1]

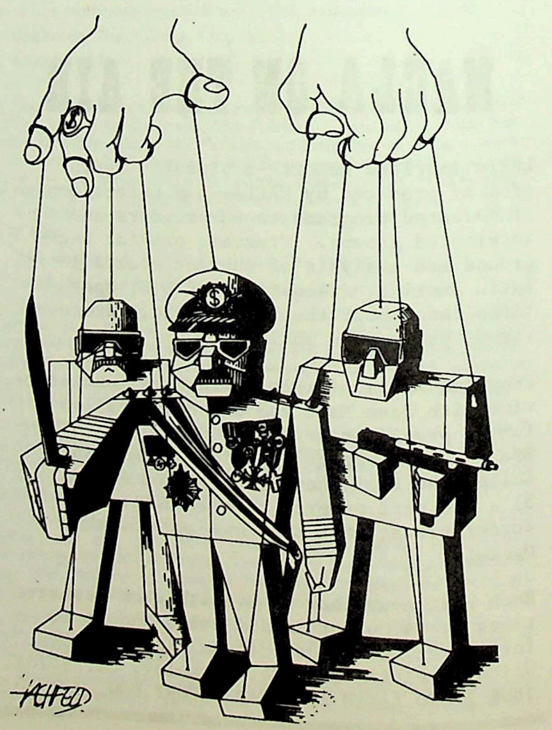
This article is a brief description of CONDECA, the Central American Defense Council, which was created in 1964 by the Ministers of Defense of Guatemala, Honduras, El Salvador, and Nicaragua. Its purpose is to coordinate and centralize military command of the region under U.S. military supervision. Although CONDECA originated independently from the economic integration process, it was the necessary military/political counterpart to it.

As the only institution of its kind in the hemisphere, CONDECA is important for several reasons. First, the formation of CONDECA is a classic example of the U.S. superimposing a military structure on an underdeveloped region. Second, CONDECA's structure allows for dominant U.S. military influence in the Central American area. (As such, CONDECA is a model for the U.S. proposal for an Inter-American Defense Force.)[2] Third, CONDECA illustrates the use of U.S. aid, in this case military aid, in strengthening local forces to protect U.S. interests and those of its Central American allies.

In recent years, the defense of Central America has been considered vital for the protection of U.S. investments in the area. In addition, according to General Robert Porter, who was Commanding General of the U.S. Southern Command until 1969, Central America is important strategically "because it permits access by relatively defensible routes to the raw materials of South America."[3] No less important is the area's proximity to the Panama Canal, which is a particularly sensitive point for the U.S.

Since the beginning of the century, the U.S. has not hesitated to intervene directly in Central America when its interests were threatened. Marines were sent to Nicaragua as late as the 1930s, and the CIA organized a coup in Guatemala in 1954. The upsurge of strong guerrilla movements in Guatemala and Nicaragua during the 1960s, after the Cuban revolution, threatened to jeopardize U.S. domination of the area. In order to prevent "another Cuba" on the Central American mainland,* and to avoid the negative political repercussions of a direct U.S. military presence, the U.S. sought to secure the area's defense in two basic ways: first, through sizeable military aid grants, training and advisers to each country in Central America, with an emphasis on counterinsurgency techniques and civic action programs; and second, through integration of military efforts designed to overcome local rivalries among the armed forces of the region, and to prevent the growing revolutionary movements in Guatemala and Nicaragua from spreading to other Central American countries.

During most of the 1960s, CONDECA was primarily a bureaucratic institution, and most counterinsurgency and civic action campaigns were carried out by each Central American country separately. Since then, however, largely as a result of U.S. training, a relatively homogeneous ideology has emerged among the military establishments of the five countries. U.S. training has had important political repercussions, because the armed forces now control the governments in Guatemala, El Salvador, Honduras and Nicaragua. During the past year, President Arana of Guatemala has attempted to change CONDECA into a real political force in the region.



* Moreover, Central America has been used as a staging ground for operations to overthrow the revolutionary Cuban government. The first such invasion was launched from Nicaragua, and Guatemala was used to train the force for the Bay of Pigs invasion in 1962. In addition, many of the joint maneuvers have been designed to coordinate isthmus-wide defense in the event of a Cuban invasion, and this threat has been used repeatedly in pushing for Central American military "unification."

Since a detailed analysis of CONDECA has been written by John Saxe Fernandez,[4] this article will focus on the direct U.S. involvement in the military integration process, and on recent developments related to CONDECA.

THE GENERALS GET TOGETHER

Prior to the formation of CONDECA, each of the Central American countries had its own separate military aid pact with the United States, under the Military Assistance Act of 1951. The first efforts to coordinate military activity were initiated by the Castillo Armas government in Guatemala in 1956, to meet the "danger" of an exile invasion. (Castillo Armas had led the CIA-sponsored and financed ouster of the Arbenz government in 1954.) However, political rivalries among the Central American governments prevented this early initiative from succeeding.*

When the headquarters of U.S. military operations and assistance were shifted to the Southern Command Base in Panama, the U.S. began to put increased pressure on the Central American military establishments to agree on some form of cooperation. At a September, 1961, meeting of the Supreme Commands of the five Central American and Panamanian armies in Guatemala City, these military leaders recommended the creation of a joint defense council. This new organization was to be the basis for a coordinated attack on "internal subversion," through the use of counterinsurgency techniques and civic action. In addition, CONDECA was to centralize intelligence operations against "subversives" in Central America. In order to begin implementing this recommendation and to overcome local resistance to cooperation, the U.S. sponsored a "crucial" series of joint military maneuvers, called Operation Brotherhood. The armies of Guatemala, Honduras, El Salvador and Nicaragua participated in this exercise.

In spite of U.S. pressure, CONDECA was slow to get off the ground. But in 1964, the Defense Ministers of Guatemala, Honduras, El Salvador and Nicaragua finally signed an agreement formally establishing a Central American Defense Council. Costa Rica did not sign the pact because it technically has not had an army since 1948, when the army was abolished by the Constitution. The door was left open for Costa Rica and Panama to participate as observers.

THE U.S. HAND IN CONDECA

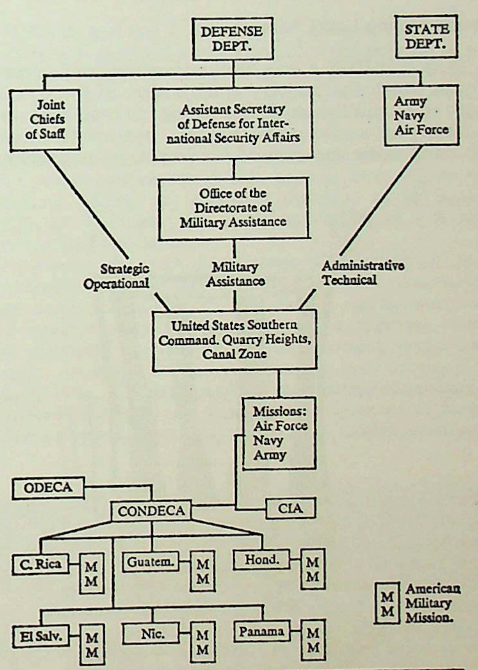
According to one study, "The external—i.e., U.S.—impact on integration in [the military] sector has been great, if not determinate."[5] The main reason for U.S. pressure towards military "unification" is that the structure of CONDECA facilitates U.S. military influence and minimizes the cost to the U.S. The staff of CONDECA is closely supervised by the CIA, which provides intelligence information, and by the Central American representatives of the U.S. Army, Navy and Air Force.[6] The accompanying chart shows the direct line of command from Washington.

CONDECA's structure and activities are designed to maximize contacts among the armed forces in Central America, in order to reduce political rivalries, to increase cooperation on all levels, and to reinforce a sense of common purpose. This is particularly important because the military has taken over political leadership in four of the five countries. CONDECA's staff is composed of high level representatives of the armies and security offices of Central America. (The charter of CONDECA was amended in 1966 to include security officers, so as to make it possible for Costa Rica to participate.) One of CONDECA's goals has been to standardize the internal organization of the six armies.

In addition, special emphasis has been placed on standardizing military training in Central America. Joint military maneuvers have been carried out twice a year, to instill a common sense of the "enemy" in rank and file military personnel, and to teach common counterinsurgency techniques.* Further standardization of officer training is achieved in the U.S. Army School of the Americas in Panama, and U.S. military missions provide close supervision for the armed forces in each country. A Central American military training school is being planned.

A further move towards "unification" has been an attempt to standardize military equipment through purchases of U.S. arms. Central American security forces also exchange intelligence information on "subversives" in the

CONDECA AND THE AMERICAN MILITARY ESTABLISHMENT:
An Organizational Model36



In this diagram CONDECA's organizational chart is integrated to the composition and organization of the Office of the Secretary of Defense. Civil Affairs School, Fort Gordon, Ga., 1964. (See Barber and Ronning, *op. cit.*, p. 102).

* Historically, the Central American countries had often served as bases for overthrowing each other's governments—recent examples being the 1954 ouster of Arbenz (which involved Honduras and El Salvador) and the battles during the 1950s between the Figueres government in Costa Rica and the Somoza government in Nicaragua.

* In addition, these military maneuvers have been designed to further incorporate Costa Rica into the military community.[7] Only after information was leaked to the press did the public find out that the Costa Rican Civil Guard had participated in Operation Nicaro, a series of war games held in Honduras in 1966.

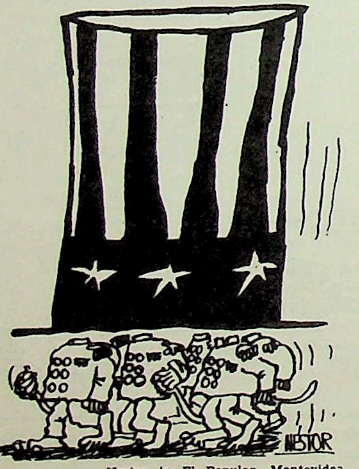
area, to add to a centralized intelligence file.

These efforts towards military "unification" have clear practical implications. It is generally understood that in the case of an internal threat of subversion, the national armed forces will be called in first. If this proves to be insufficient, neighboring armed forces can be counted on to provide reinforcements of materiel and personnel. Coordination of intelligence efforts is extremely important in preventing the possibility of a coordinated insurrection: in fact, CONDECA officials have adamantly opposed the proposal of open borders and free travel between countries, in order to limit the possibilities of an area-wide revolutionary organization.

After the first revolt against President Ydígoras Fuentes of Guatemala in 1960, the young army officers who had participated escaped from the Guatemalan Army by fleeing to neighboring Honduras. In addition, local security forces are well aware of past cooperation between the revolutionary movements in Nicaragua and Guatemala. By now, however, the armed forces of Central America have come to recognize the advantages of regional cooperation against these threats. In this sense, incorporating Costa Rica is of particular concern, as it has been and remains a sanctuary for political refugees from the rest of Central America. Only a coordinated effort would allow the military to contain revolutionary regionalism.

Strengthening Local Allies

Thus, CONDECA has been an institutional framework within which the military commanders of the area could begin to form alliances. U.S. training has been instrumental in fostering a sense of "military community," and in achieving some measure of ideological homogeneity. Regional cooperation itself has become part of the military ideology. In addition, the Central American military were among the main endorsers of civic action programs designed by the United States. Barber and Ronning have noted the special enthusiasm of the Central American military for "the ideas and arguments advanced by the U.S. spokesman for civic action."[8]



Nestor in El Popular, Montevideo
When the presidents come marching in . . .

In addition, several of the current military heads of state have received extensive U.S. military training and have adopted U.S. ideas about "development." In this sense, the U.S. has increased its political control of the area—without having to intervene directly—and has made sure that its local military allies will protect its interests and those of the dependent ruling classes in Central America.

Is Regionalism Enough?

Although military unification in Central America has received a great deal of emphasis and support, it has not been the only U.S. policy objective. While promoting CONDECA, the U.S. has retained maximum flexibility in the area by continuing its bilateral military assistance pacts with each country. Arms purchases and military aid grants are arranged separately. In addition, every country has a U.S. military mission advising its Armed Forces and maintaining close personal relationships with top military officers.

A recent setback for military cooperation was the 1969 war between El Salvador and Honduras (see "Masterminding the Mini-Market," above). This war demonstrated a reversion to the kinds of intra-regional hostilities which CONDECA was designed to overcome. Nevertheless, Washington increased its arms shipments to both countries after this conflict, and as a result both armies were strengthened.[9] However, the military alliances that CONDECA had fostered were severely weakened, and in fact after the war Honduras withdrew from CONDECA. Thus from the Pentagon's point of view, the war was a demonstration of the need to maintain bilateral assistance pacts, while at the same time strengthening regional organizations such as CONDECA in order to prevent Central American armed forces from fighting with each other.

A NEW "CENTRAL AMERICAN COMMUNITY"

During the past year there have been indications that Guatemala, under the leadership of President Arana, with U.S. backing, has been pushing to reconsolidate military alliances to intervene in Central American politics. At the beginning of 1972, Arana initiated a series of meetings aimed at forming a "true Central American Community." A joint military maneuver was held in Guatemala in January of 1973, and Arana has made several references to the need for a "Central American Army" to be used in case of emergency.[10]

The first concrete act of cooperation was aid from Guatemala and Nicaragua to the Salvadoran military in putting down a coup in March, 1972. This coup was led by a Christian Democrat, José Napoleon Duarte, a popular progressive who claimed to have won the February, 1972 election, but was being barred from taking power by an official fraud in the vote count. The coup was aimed at overthrowing the repressive government of General Fidel Sanchez, and preventing Colonel Arturo Armando Molina from taking power in June. The revolt successfully overthrew Sanchez, and instituted a popular civilian military triumvirate, which lasted for 48 hours.[11]

Action against this revolt was first planned by Colonel Carlos Guzman, head of the Salvadoran Military Mission to Washington. Local leadership was provided by the Salvadoran Minister of Defense and current President of CONDECA, General Fidel Torres. Combat planes from Guatemala and Nicaragua, under the personal supervision of Arana and Somoza, bombed the military bases that were in rebel hands.[12] Largely as a result of this intervention, the coup was reversed; after being returned to power, the rightist government instituted a brutal repression against all political opposition and specifically against the university.

Although the Guatemalan government has vigorously denied its participation in putting down the revolt, informed sources claim that Guatemala's intervention was the decisive factor.[13] The political repercussions of this intervention are difficult to determine. However, as the publication *Latin America* noted:

> If in fact Guatemala did take a hand, it will make Molina more than a little beholden to the northern neighbor when he takes office in July. It would also come at an opportune moment for Guatemala, which . . . is anxious to increase its influence in that area.[14]

In addition, as *Latin America* pointed out, this may be a lesson to all left-of-center Central Americans who might be interested in overthrowing an existing rightist government.

A number of Costa Rican politicians have expressed fears that this new "close working relationship" among the military governments of the neighboring Central American countries will mean further pressure on Costa Rica to form a "proper army" and to join CONDECA. In fact, although Costa Rica accepted exiles from the 1972 Salvadoran coup, the harassment of the exiles and the behavior of officials at the San José Airport, has been presented by some observers as evidence that CONDECA is "already operating in Costa Rica in a semi-clandestine manner."[15] (Guatemala refused asylum to Salvadoran exiles.)

There have been other indications of a clandestine "CONDECA connection" in Costa Rica. Almost simultaneously with the Salvadoran coup, in March, 1972, President José Figueres announced that an invasion to overthrow his government was being planned by a right-wing paramilitary group called Costa Rica Libre. Costa Rica's Foreign Minister Gonzalo Facio charged publicly that this group was operating in conjunction with its counterpart in Guatemala, Mano Blanca (White Hand), under the leadership of the President of the Guatemalan Congress, Mario Sandoval Alarcon. The Costa Rican representative to CONDECA, Colonel Renato Delcore, was arrested for his alleged complicity in the plot. This invasion never took place, and the Guatemalan government took great pains to assure Figueres that it had not been involved.

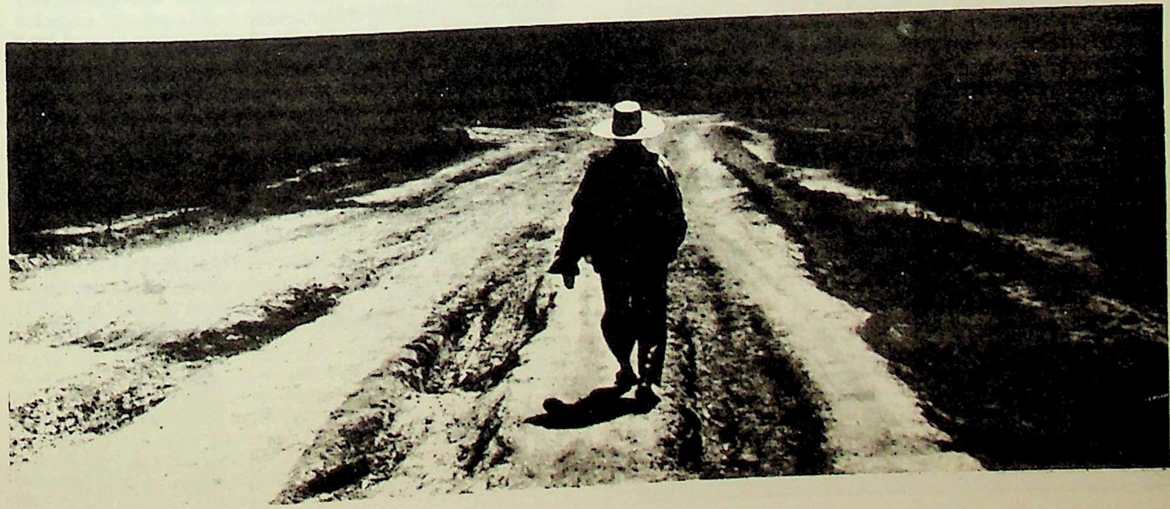
Regardless of the truth of the rumored invasion, the net result was a strengthening of the Costa Rican Civil Guard, which was prepared for the defense of Costa Rican territory. In addition, on February 28, Washington announced approval of a $2.8 million arms sale to Costa Rica which had previously been delayed. Clearly, one result of the militarization of Central America is the increasing militarization of Costa Rica, under U.S. supervision—as evidenced by growing U.S. aid to the nation's police forces. After all, as Figueres put it, "We cannot leave police tasks to be determined by a convent of nuns, can we?"[16]

If Costa Rica does attempt to preserve its democratic facade, it has good reason to be concerned. Throughout 1972, the leaders of Guatemala, El Salvador and Nicaragua met several times, to "achieve the total pacification of Central America"; by November, they agreed that "the three of us are in the same boat."[17] Particularly since the December, 1972 coup restored an overt military government to power in Honduras, the "Central American community" is looking more and more like a bloc of rightist military dictatorships. Coming at a time when the economic integration effort has broken down, this could signify a shift in the nature of regional cooperation. In any case, the military is becoming increasingly important as the focal point of U.S. influence over Central American unification.

CONCLUSION

CONDECA and the U.S. military policy it represents, have important political implications for the possibility of real political change in Central America. As Roque Dalton stated, the main strength of imperialism in Central America is its ability to use a local apparatus for protection of its interests.[18] This reduces the political tensions and the possibility of nationalist sentiments which would coalesce against direct U.S. intervention. Whenever the U.S. is forced to intervene directly, as in Santo Domingo or Vietnam, this is an indication that it has already lost half the battle.

Furthermore, although the existence of CONDECA, and the accompanying military alliances make a successful struggle more difficult, they have been a strong incentive toward revolutionary cooperation on a regional level. Central American revolutionaries are becoming aware that even under socialism, Central America can only survive if it is united. Thus, the centralization and institutionalization of counterrevolution may accelerate the process of forming a "true Central American community" under socialism.



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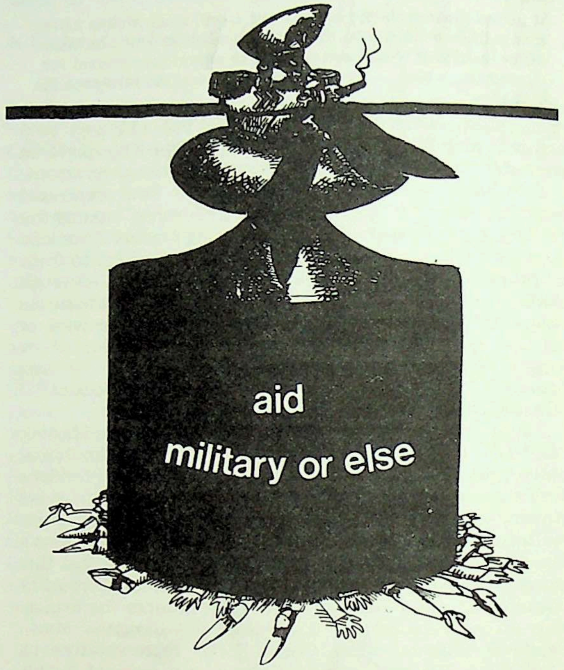

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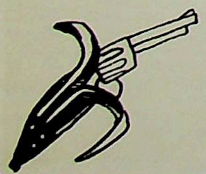

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The U.S. Investment Bubble in Central America

Capitalism is like a giant plastic balloon: when you punch in one side it pops out somewhere else. The contradictions of capitalism which originally generated the monopoly stage domestically and imperialism internationally, eventually reappear in an acute form within imperialism. The following is an analysis of U.S. investments in Guatemala and Central America which reveals those contradictions in a time of growing inter-imperialist rivalry, nationalist and socialist upsurge, and increasing resistance to the costs of maintaining the empire by the people of the mother country.

The 1960's marked a major shift in the flow of U.S. capital to Guatemala. Until that time Guatemala served the United States as a cheap source of agricultural products, principally bananas and coffee. U.S. investments were primarily in agriculture and in the infrastructure necessary to make agricultural extraction feasible. But, shaken by the Arbenz government's attempt to nationalize United Fruit Company land in 1953, the victory of the Cuban Revolution in 1959, and faced with the need to export surplus capital in this period, U.S. companies began to phase themselves out of agriculture and infrastructure and to invest in a massive way in the industrial sector of Guatemala.

THE BIG BANANA SPLITS

Two of the major U.S. companies in the country, Empresa Electrica and International Railroads of Central America, sold their holdings in the late 1960's to the Guatemalan government on terms very favorable to the companies. United Fruit, the other giant in Guatemala, having disposed of a large part of its holdings in the late 1950's and early 1960's, was forced by a U.S. anti-trust suit to sell its remaining holdings to Del Monte for $20 million in 1973.[1] Despite the sale to the Guatemalan government of these two subsidiaries which together had accounted for 36 percent of U.S. investment in Guatemala in the mid-1960's, overall U.S. holdings have increased.[2] According to the Central Bank of Guatemala, the book value of foreign investment was $137.6 million in 1959 and rose to $286.3 million by 1969.*[3] Of the total foreign investment in 1969, 86 percent was from the United States.[4] For all of Central America the book value of foreign investments rose from $388.2 million in 1959 to $888.0 million in 1969. This represents a rise of 128.8 percent during the decade, compared to an increase during the 1950's of only 37 percent.[6]

As dramatic as this increase in the amount of foreign investment has been its shift from the agricultural to the industrial sector. Table I breaks down foreign investment in Guatemala by sector from 1963 to 1970.

TABLE I

DIRECT FOREIGN INVESTMENT IN GUATEMALA BY SECTOR♠
(millions of dollars)

SECTOR	1963		1968		1970	
	Value	Percent	Value	Percent	Value	Percent
Agriculture	29.2	27.2	27.9	25.7	27.1	23.2
Mining	8.0	7.4	2.6	2.4	2.9	2.5
Manufacturing	11.2	10.4	33.9	31.3	42.6	36.3
Construction	2.6	2.4	1.8	1.7	1.8	1.5
Electricity, Gas & Water†	13.5	12.6	14.3	13.3	14.6	12.4
Commerce	15.0	13.9	20.8	19.1	19.9	16.9
Banking	*	*	6.1	5.6	6.1	5.2
Transportation & Communications	26.2	24.4	.3	.3	.4	.4
Services	.3	.3	.7	.6	1.7	1.5
Other	1.5	1.4			.1	.1
TOTAL	107.3	100.0	108.4	100.0	117.1	100.0

Source: Departamento de Cambios, Banco de Guatemala
♠These are equity figures. The figures presented in the text list book value investments and are therefore higher.
*The sale of Empresa Electrica to the Guatemalan government occurred in 1972 and therefore this company is included in these figures.
†Incuded with the figures for Commerce.

*Book value represents a corporation's stated value in its account books. It represents total investment minus a large depreciation write-off for tax purposes. Using the above estimate, the book value of U.S. investment in Guatemala is roughly $246 million. A study by the United States Agency for International Development (U.S. AID) reported a total book value for U.S. firms of $135 million.[5] The Central Bank and the U.S. AID figures represent the high and low estimates of U.S. investments. The larger figures were presented in the body of this article because they are the only estimates available which span the time period from 1959 to 1969.

The massive increase of U.S. investments in the industrial sector in Guatemala followed three principal forms: (1) acquisitions of local firms, (2) joint ventures with local businessmen and (3) production arrangements with competing firms.

1. Investment by Acquisition

Acquisition as a form of investment was virtually unknown prior to the 1960's. Of the 43 Fortune 500* companies which have production, service or extraction operations in Guatemala, 17, or 40 percent, began by acquiring local firms.♦ In addition, Gulf Oil, which only has distribution facilities, bought out the state-owned Mexican Company Pemex to begin its operations. If one looks only at those firms which began their operations between 1960 and 1970, 15 out of 34, or 44 percent, began by acquiring local firms.

A recent Harvard Business School study on the operations of 187 U.S. multinational corporations found a similar situation. Of 2,748 subsidiaries of U.S. corporations throughout the world, 1,594, or 42 percent, are companies which were acquired.[7]

Many U.S. firms initially enter the Guatemalan market by working with or helping a local firm, by means of a loan, technical assistance, or a licensing or manufacturing agreement. A U.S. company thereby gains experience, understanding of the local market and a high rate of return on a small, low-risk investment.

Assistance to the local firm is provided in such a way as to promote dependency. Direct ownership occurs later through the purchase of stock, to formalize the control already established.

Table II lists Guatemalan firms which have been acquired by U.S. multinational corporations.

From the table one can see that a total of 31 Guatemalan firms have been acquired by multinational corporations. The majority of the acquired firms were of moderate size in the context of Guatemala. The previous owners were primarily new, small capitalists who were willing to sell out on favorable terms.[8] In some cases pressure was applied by the Fortune 500 company in the form of a threat to establish a competitive operation elsewhere in the region, which would have driven the local firm out of the market.

This process has furthered the underdevelopment of the economy of Guatemala in the following ways:

a) The capital generated from the sale of these firms generally stays in the United States as stocks held in the parent (purchasing) company.[9]

b) All but three of these acquisitions are now joint ventures.† The process promotes a dependent, impotent bourgeoisie.[10]

c) Government tax revenues decrease. When a company is sold, the depreciation of assets for tax purposes starts all over again. Moreover, many Guatemalan firms, shortly after being acquired by U.S. multinationals, receive tax-exempt status as "New Industries." This classification allows them to pay no corporate tax for five years and to import all their machinery and raw materials duty-free.

d) These firms expand and promote efficiency by turning to capital-intensive forms of production. This shift has had the most drastic effect on the Guatemalan economy. As a recent study by U.S. AID pointed out, U.S. companies account for 11 percent of the total direct investment but employ only one percent of the labor force.[11] Figures from this study show that U.S. capital employs 58 people for every $100,000 of total assets, whereas the national average is 658 people.* The contradiction, however, is that if companies minimize employment via capital-intensive production they are faced with a slower growth rate of the internal market relative to the growth rate of production. All foreign investments and not only those firms which are acquired perpetuate these distortions.

It should be added that we are not arguing for the maintenance of an inefficient local bourgeoisie or lower rates of production. To replace the imperialists with local capitalists or in this case, to maintain local capitalists would merely be to promote a less efficient system of exploitation. The resolution to the contradictions of imperialism is socialism; any other solution is anachronistic.

2. Joint Ventures

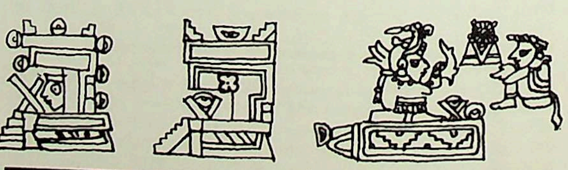
Prior to the time when U.S. firms began investing in the industrial sector there were virtually no joint ventures between U.S. and local capital. A 1971 study of 110 firms in which U.S. capital was invested in Guatemala, found the following percentages of firms to be in joint ventures:

TABLE III

U.S. FIRMS IN JOINT VENTURES IN GUATEMALA: 1971

SECTOR	Total number of U.S. firms in the sector	Percent of these firms in joint ventures
Manufacturing	57	49
Services	10	40
Commerce	26	21
Construction, Mining & Finance	13	17
Agriculture	4	0
TOTAL	110	

Source: Phil Church, "Foreign Investment: The Operation of U.S. Direct Investment in Guatemala," unclassified U.S. AID document, CERP D, Guatemala A-107, June 16, 1972, pp. 4-5.



*Fortune magazine annually compiles a list of the 500 largest U.S. corporations ranked by sales.

♦Of the total paid-in capital (equity) in U.S. firms in Guatemala, 30 percent is in companies which were acquired. Of those firms which began operations between 1960 and 1970, 42.7 percent of the equity is in acquired firms. The more important figure is the percent of equity at the time of the original investment, rather than the current percent. That data is unavailable.

†The three acquisitions which are not joint ventures are: Pemex, Arrow de Centroamerica and Kugarts, acquired by Gulf, Cluett-Peabody and Pillsbury respectively.

*It would be important to see the comparable figures for the industrial sector alone. The difference would be less extreme but would be in the same direction.

TABLE II GUATEMALAN FIRMS ACQUIRED BY U.S. MULTINATIONAL CORPORATIONS: 1960-1969[2a]

Fortune 500 Company	Guatemalan Company	Previous Owner	Year Founded	Year Acquired	Percent U.S. Ownership	Paid-in Capital	Assets: Book Value	Type of Production	Comments
Beatrice Foods	(1) Fabrica de Productos Alimenticios Rene S.A.	Mishaan Pinto, Rene Menendez	1964			300,000		prepared cereals, snacks	
Boise Cascade	(2) Industria Papelera Centroamericana S.A.	Arimany	1945	1964	88	4,250,000		bond & kraft paper	Guat. co. had $1.2 mil. debt to U.S. bank. The bank passed the debt & control to Boise.
	(3) Bolsas de Papel S.A.	Arimany	1960	1963	67	50,000	857,545	cement bags	
	(4) Empresa Comercial e Industrial Hispania S.A.	Sanchez Garcia	1931	1967	87	788,000	1,300,733	printing plant	
Cargill	(5) Aliansa	Zarco Alfasa	1964		92.5	800,000	2,073,118	animal feed	
Central Soya	(6) Alimentos Mariscal S.A.	Gutierrez, Blanco, Bosch Soto	1963	1968	80	500,000	1,373,089	animal feed	
Cluett, Peabody	(7) Arrow de Centroamerica Ltda.		1961		100	300,000		men's shirts	Owner had a licensing agreement with company. When he died local firm was sold to them.
Coca-Cola	(8) Industrias de Cafe S.A. (INCASA)	Rios Sanchez	1957		67	2,330,000	3,875,721	instant coffee, canned foods	51 per cent owned by Coca-Cola and 16 percent owned by International Mining Co.
	(9) Productos Alimenticios Sharp S.A.	Rios Sanchez		1961	67	250,000	733,061	sweets, canned foods	
Colgate Palmolive	(10) Industria Quimica S.A.	Rios Sanchez	1958	1963	88	200,000	1,569,851	toothpaste, soap & shampoo	Local firm bought with $25,000 from United States and $600,000 local loan.
ESB	(11) Duralux S.A.		1961	1965	39	700,000		batteries	
Foremost-McKesson	(12) Foremost Dairies de Guatemala S.A.	(see comment)	1960	1960	70	285,000	565,189	milk, ice cream	Formed from 4 firms: Pelsa, El Administrador, Lecheros Unidos & Erhbar. Plant was sold by INFOP, a Guat. industrialization agency.
General Mills	(13) Industria Harinera Guatemalteca S.A.	(see comment)	1958	1969	50	637,437	1,294,677	flour mill	Formed from 3 firms. Gen. Mills provided "know-how" & a loan. After the 10 yr. contract ended, bought ½ of the stock.
Glidden	(14) Galvanisadora Centroamericana S.A. (GALCASA)	Prem Rebuli	1964		61	600,000	2,634,664	galvanized sheet metal	
	(15) Industria Quimica Guatemalteca de Adhesivos y Derivados (INDUCOLL)	Recalde Larrinaga	1967			100,000		adhesives, synthetic rubber	
	(16) Pinturas Centroamericanas (PINCASA)	Prem Rebuli	1958		65	600,000	2,109,187	paints, varnishes	
Goodyear	(17) Gran Industria de Neumaticos Centroamericana S.A. (GINSA)	Plihal	1956	1968	77	3,312,070	8,924,972	tires	At the time of sale to Goodyear, GINSA was 67% Guat. & 9% Gen. Tire's. Now Goodyear wants to buy all of the remaining shares.
Gulf	(18) Petroleos Gulf de Guatemala S.A.	Mexican Government Oil Company (PEMEX)		1965	100	375,000	4,131,228	gasoline distribution	
Philip Morris	(19) Productos Clark de Centroamerica S.A.	Zaror	1962	1967	83	1,200,000	1,120,507	chewing gum, candy	
	(20) Tabacalera Centroamericana S.A.	Galvez	1931	1964	91	5,000,000		cigarettes	
Pillsbury	(21) Molinos Modernos S.A.	Gutierrez, Bosch Soto	1963	1966	50	400,000	1,786,501	flour mill	
	(22) Productos Alimenticios Imperial S.A.	Turnovsky	1941	1967	80	280,000	1,077,952	cake mixes, snacks	
	(23) Fabrica Kugart's Matneu, Garin y Cia. Ltda.	Matheu, Garin	1960	1969	100			prepared foods, snacks	
Pittsburg Des Moines Steel	(24) Transformadora de Aceros Tissot S.A (TIPIC)	Colombian	1960		79	425,000	2,119,995	structural & sheet steel	
Ralston Purina	(25) Autocafe Purina Ltda.	Melgar, Frener		1961	61	250,000		restaurants	
Riviana Foods	(26) Alimenticios Ducal S.A.	Similiano Garcia	1963		99	1,171,000		canned foods	Ducal and Kerns were first acquired by W.R. Grace which sold the companies to Riviana.
	Alimenticios Kerns S.A.	Similiano Garcia	1959	1970	78	1,678,400		canned foods	
Standard Brands	(27) Dely S.A.	Gonzales, Sigui & Sobenes	1959	1965	87	150,000	241,255	edible oil	
Tappan	(28) Industria Metalurgica Centroamerica S.A.	Shlomo Hagai	1961	1966	71	150,000		stoves	
3M	(29) Minas de Oriente S.A.	Roberto Sanchez		1969	90	100,000		silver mine	
U.S. Steel	(30) Industria de Tubos y Perfiles, S.A. (INTUPERSA)	Fundidora de Fierro y Acero de Monterrey S.A.	1961	1968	94	579,000	2,475,680	steel profiles and pipes	
Weyerhaeuser	(31) Cajas y Empaques de Guatemala S.A.	Dabdoub	1961	1964	50	1,500,000	3,316,110	corrugated boxes	

Table IV, using data from the Bank of Guatemala, shows the extent of national capital involved in ventures with foreign firms. In the manufacturing sector—the largest and most important area of U.S. investment—local capital accounts for 21 percent of the total capital in ventures in which foreign corporations are involved. In virtually all joint ventures the U.S. firm maintains majority ownership. The other shares are usually held by one, or not more than a half a dozen, Guatemalan businessmen. The effects of joint ventures on Guatemala are the following:

TABLE IV

GUATEMALAN CAPITAL INVOLVED IN OPERATIONS WITH FOREIGN FIRMS: 1970
(millions of dollars)

SECTOR	PAID-IN CAPITAL		
	Total	Foreign*	National
Agriculture	28.3	27.1	1.2
Mining	2.9	2.9	
Manufacturing	54.2	42.5	11.7
Construction	2.3	1.7	.6
Electricity, Gas & Water	17.1	14.5	2.6
Commerce	29.4	26.0	3.4
Transportation & Communications	.7	.4	.3
Services	2.9	1.7	1.2
Other	.1	.1	
TOTAL	138.0	117.1	20.9

Source: Departamento de Cambios, Banco de Guatemala
*These figures include data on joint ventures and firms which are 100 percent foreign owned.

a) They absorb local wealth and place an increasing share of the local economy under direct and indirect U.S. corporate control. The individuals who participate in joint ventures with U.S. corporations are wealthy businessmen who own other companies which then become affiliated with the U.S. corporations. For example, Standard Oil of California (Chevron) is considering a 51-49 joint venture for its asphalt refinery. Its partners will be either the Novella family, owners of the largest cement factory and one of Guatemala's wealthiest families, or some of the families behind local construction firms.

b) Joint ventures decrease the risk of nationalizations by superficially tying the interests of the rich Guatemalans to the interests of the colonizers.

c) Although a small portion of the surplus produced by the foreign-owned subsidiary stays in Guatemala in the form of shareholders' dividends, that surplus is appropriated by the local elite and therefore only accentuates the distortions in income distribution. In the 1960's when the joint venture policy began to blossom, the U.S. firms accepted this short-run reduction of profits to preserve their long-run interest. The tendency for the next few years will be that new U.S. investments or firms which are currently 100 percent U.S.-owned, will initiate nominal (up to 25 percent) joint ownership with Guatemalan capital.

3. Production Arrangements with Competing Firms

Many U.S. companies initially enter the Guatemalan market via a production contract with a local firm in the same industry. This arrangement allows the U.S. firm to exploit a region with minimal capital outlay or risk. Some of the surplus which is derived from the region, however, remains with the local producer. Because diverse opportunities for rapid corporate expansion were available internationally during the 1960's, investments could be undertaken which did not yield the maximum possible return. Each U.S. company, after operating under these manufacturers' agreements for several years, eventually acquired the local firm.

A parallel process has developed whereby U.S. companies, once they have established their own factories, sign production agreements with competing Guatemalan or U.S. firms. There have been two primary reasons for this:

a) The firms feel that the increased competition will expand the entire market and therefore help them in the long run. This has been the reasoning behind Coca-Cola's subsidiary (INCASA) producing ketchup for Del Monte even though INCASA produces its own ketchup. INCASA has also considered producing instant coffee for Standard Brands.

b) Companies can utilize excess capacity and increase their profit by producing for competitors. Squibb, for example, was considering the production of pharmaceuticals for a firm which did not have facilities in Central America. In the long run, however, this strategy is contradictory. Squibb originally invested in Guatemala to have an advantage over firms which do not produce within Central America. Competition at this stage is beneficial to some corporations, but in the future it will become destructive.

AREAS FOR INVESTMENT

In Guatemala and Central America the massive penetration of U.S. capital along the lines described above has led to varying degrees of monopolization in the industries dominated by U.S. concerns. The extent of monopolization can be determined by considering the number of firms in one industry, each firm's share of the market and the differentiation of product lines. An examination of the degree of monopolization will allow us to point out the major trends of imperialism in Central America and to make projections about future developments in this area.

In Guatemala, as in most capitalist countries, U.S. companies among the Fortune 500 account for the vast majority of U.S. investments. Over half (28) of the Fortune 500 firms in the country have their investments in three areas: (1) pharmaceuticals, (2) food processing and (3) the petroleum industry (refining, distribution and exploration).* The combined assets of U.S. firms in these three areas account for one third of all U.S. investment in Guatemala.†[12]

*In the near future the major U.S. investment in Guatemala will be in a nickel mine called Exploraciones y Explotaciones Mineras Izabal, S.A. (EXMIBAL). The U.S. investment in this project by International Nickel and Hanna Mining will equal more than half the current total of foreign investment in the country. Their investment will eventually reach $80 million in equity and $250 million in assets. The role that EXMIBAL will play in the Guatemalan economy and as part of the over-all U.S. imperial system will be discussed in a separate article.

†The distribution of the remaining U.S. investment can be gotten from Table I which breaks down all foreign investment by sector. By and large, this breakdown corresponds to the investment by sector of U.S. firms.

Pharmaceutical Industry

In a competitive industry no one firm controls enough of the market to determine the selling price. In Central America the drug industry is moderately competitive. Though some firms specialize in the production of certain items and emphasize marketing in different countries to decrease the level of competition, no one firm controls more than 5 percent of the over-all regional market.

There are 20 major pharmaceutical firms in Guatemala. Twelve of these are U.S. Fortune 500 companies and at least two are European.[13] In 1962, only 19 percent of Central America's $38 million in pharmaceutical sales was produced within the region. In 1971, roughly 50 percent of a $50 million market was nominally produced locally.*[14]

The pharmaceutical industry in Guatemala is a "conversion" industry. Only bottling and minor chemical additions (principally air and water) occur in the Guatemalan plants. The plants were primarily set up to increase the sales of each firm's other Latin American subsidiaries by serving as outlets behind the tariff wall of the Central American Common Market (CACM).[15] The plan has not worked as well as expected. Many foreign firms set up plants within the region because of the low investment required to establish a conversion operation. The resulting competition for limited markets has forced companies to maintain their level of production at 60 to 80 percent of capacity.

"If people buy medicines, they will eventually buy televisions."

Hector Brolo
Division Manager
American Cyanamid, Guatemala
April 26, 1971

*In Central America only 5 million of the 15.5 million people consume pharmaceutical products. When the drug companies first established their plants in Guatemala, there was rapid growth in the demand for antibiotics. That market has leveled off. The fastest growing market currently is for tranquilizers. The manager of Squibb attributed the growth in this market to frustrated rising expectations of lower and middle income groups.

Food Processing Industry

The food processing industry comprises both monopolistic and more competitive sectors. The former (and older) sector consists primarily of cigarettes* (Phillip Morris and British American Tobacco), chewing gum (Adams, now owned by Warner-Lambert) and margarine (United Fruit, Standard Brands and Unilever/de Sola).[16] These companies have had operations in Guatemala for many years and are essentially the only producers in their respective fields. The latter, more competitive sector is newer and encompasses most other processed food. Many of these products are non-nutritional, such as plastic food snacks, instant coffee, corn flakes and soda.

The competition for any product within the food processing industry is generally among two or three major U.S. corporations, a few major and several small local producers. Apparently the market for some products is new enough and expanding rapidly enough (at a rate of 10 to 15 percent a year) that competition is seen as a benefit to each of the firms involved. The competition in advertising and marketing increases the sales for the entire industry by expanding the over-all demand—convincing people to buy products they never before thought they needed.[17] But the market has failed to expand as rapidly as necessary to utilize the productive capacity of the competing firms. As a result, food processing has presented the greatest number of difficulties for U.S. capital. Three firms sold part or all of their operations at the end of the decade: Phillip Morris, gum; Grace, canned foods; Kraftco, cheese.

Food processing has attracted more foreign investment than any other sector in Guatemala. A manager of one U.S. company stated that 30 percent of the food processing industry is owned by Guatemalans; the rest, by foreigners.[18] The vast majority of these foreign companies are from the United States. Only Nestle's and Maggi (both Swiss) and British American Tobacco provide any comparable investment. Virtually all of the Fortune 500 companies which are involved in the local food processing industry began their operations by buying out Guatemalan producers.

Lurking in the wings of the food processing industry is the Latin American Agribusiness Development Corporation (LAAD).[19] This private corporation is a consortium of eleven U.S. firms and ADELA Investment Co.[20] With a $6 million loan from U.S. AID at 3 percent interest,

*Tobacco is considered part of the food processing industry in Central America.

MU$ICAL CHAIR$

One man played a key role in the implementation of LAAD's Central American takeover strategy: Thomas W. Mooney. Originally employed by the World Bank (firmly under U.S. dominance), he took a leave of absence to work for U.S. AID, a government agency which underdevelops countries. Hired to "develop" local investment banks throughout Central America, Mooney, personally directed the establishment of the one in Costa Rica, later used as the model for FIASA in Guatemala.

Mooney left AID in the late 1960's to work for ADELA, a giant multinational consortium (see references 19 and 20 at end of article). ADELA holds stock in LAAD and finances FIASA. In February 1971 Mooney moved again, this time to become LAAD's representative in Central America. He used his contacts to procure the $6 million AID loan, which the agribusiness combine now uses to take over local food processors. Mooney's contacts at FIASA and other investment banks throughout Central America will be a boon to LAAD in the next and most profitable phase of its strategy: the sale of shares in the companies over which U.S. tax dollars have helped to seize control.

LAAD has begun to take temporary control of small local producers, marketers, warehousers and shippers of food and other agricultural products. LAAD exerts its financial control in these companies by purchasing stock directly, by providing loans equal to ten times the equity of a company, and by purchasing convertible bonds (i.e., loans which can be exchanged for stocks).[21]

LAAD's strategy is to make specific companies more efficient in order to promote the expansion and integration of the entire sector under the domination of a few U.S.-owned and U.S.-controlled firms—a process which might be described as planned monopolization. After these companies have been built up and become dependent on U.S. capital, technology and markets, LAAD will then sell its stock in the firms to local businessmen through the Financiera Industrial Y Agropecuaria S.A. (FIASA), a private Guatemalan investment bank established by U.S. AID.

Oil Industry

In an industry which has become monopolized, companies which have competed with each other for years have eliminated competition by absorbing other firms, expanding production and increasing their control of the market. As a result, perhaps four or five firms control 80 to 90 percent of production.

The oil industry in Guatemala consists of three parts: (1) the old, monopolized area of distribution, (2) a newer, monopolized area of refining and (3) exploration.

The pattern of monopolization in oil distribution has remained essentially the same since its inception in the 1920's, though Texaco and Gulf are newer to the market. Four U.S. firms (Standard Oil of California, Exxon, Gulf and Texaco) and one British/Dutch firm (Royal Dutch Shell) distribute all the gasoline that is consumed in the country.

In the mid-1960's two small refineries were established, one by Texaco on the Pacific coast and one as a 60-40 joint venture of Standard Oil of California with Shell on the Atlantic coast.* The same monopoly structure for oil refining and distribution exists throughout all of Central America.

TABLE V

OIL REFINERIES IN CENTRAL AMERICA

COUNTRY	OWNER OF REFINERY
Guatemala	Texaco Chevron/Shell
El Savador	Exxon/Shell
Honduras	Texaco
Nicaragua*	Exxon
Costa Rica	Allied Chemical/ Costa Rican Government

Source: Trade Lists of American Firms and Subsidiaries for each of the Central American countries, prepared by the U.S. Department of Commerce, 1970.

*A 250,000 barrel per day refinery is under consideration for Nicaragua. If the project is carried out, it will include a trans-shipping terminal, the refinery on the Caribbean coast and a 250 mile pipeline from the Pacific coast to handle crude oil from Alaska, the Middle East, western South America, and Southeast Asia. The entire project will cost $1.5 billion![22]

Several international oil companies are currently exploring for oil in Guatemala. A Luxembourg-based company, Basic Resources International, S.A., has discovered oil in Guatemala and has recently completed its second well on a 936,000-acre petroleum concession in the Peten region. The company's subsidiary in Guatemala, Recursos del Norte Ltda., has recently gone into a joint venture with Shenandoah Oil Corp. and Saga Petroleum A/S of Norway to develop the concession.[23]

*These two refineries have a capacity of 14,000 and 12,000 barrels per day, respectively. An average refinery in the United States produces around 200,000 barrels per day. According to a company spokesman, Exxon would also establish a refinery if large quantities of oil were to be discovered in Guatemala.

TABLE Va

OIL EXPLORATION IN GUATEMALA

COMPANY	SIZE OF CONCESSION (acres)	LOCATION
Anschutz Overseas Corp.♦	982,000	Peten
Basic Resources International	936,122	Peten
Exxon	205,507	Alta Verapaz Pacific Continental Shelf
Mobil/Texaco	■	Pacific Continental Shelf
Monsanto	*	Alta Verapaz
Tennaco	376,000	Pacific Continental Shelf
Transworld Guatemala Corp.	999,000	Peten

Sources: El Grafico: February 7, 1972 and April 14, 1972; Bank of America, *Report from Bank of America's Man-on-the-Spot in Guatemala*: April, 1969 and May 1972; Robert Irquhart, "Guatemala Acts to Boost Investment," *Journal of Commerce*, July 10, 1970.

♦Concession request submitted in 1971. ■Concession request submitted in 1972. *Monsanto, through its subsidiary Asufres de Guatemala, is in a joint venture with Basic Resources International and operates on 1/3 of that company's concession.

The monopolistic nature of the oil industry in Guatemala and the limited size of the market make it difficult for the companies to expand and to find new ways to improve their investments.* For example, Gulf, a newcomer to the market, was unable to break the control held by the old monopolies and is divesting itself of operations because they are only marginally profitable. It has already sold its Costa Rican operations and wants to sell its operations in Panama.

To rationalize and preserve their collective interests the companies cooperate with each other and enter joint ventures in order to eliminate destructive competition whenever possible. This practice exists not only in Central America but worldwide. For example, the Texaco refinery provides refined Texaco gasoline to all the oil companies in Guatemala. When Gulf buys the refined oil from Texaco, no money is exchanged. In some other country where Texaco has no refinery, Gulf returns the favor.♦ The cooperation exists not only in the distribution of oil but in exploration (Basic Resources, Shenandoah, Saga) and refining (Chevron, Shell).

A second means employed by the oil companies to deal with the problems created by monopolization and the limited size of the market is to diversify. Exxon owned a fertilizer plant, Fertica, but found it to be unprofitable and sold it to a Mexican company in 1970. Standard Oil of California is negotiating to establish an asphalt plant as a joint venture with local businessmen. Gulf was seriously considering drive-in grocery stores on the premises of its gas stations.

HOTELS FROM BOARDWALK TO PARK PLACE

Central American industries have reached varying degrees of monopolization. The drug industry and one area of food processing are in the competitive stage which precedes monopoly. There are however, areas of production which are already monopolized: oil distribution and refining, paper, steel tubing, tires and chemicals,

*When EXMIBAL begins its operations it will dramatically help the oil industry by consuming between 13,000 and 27,000 barrels of heavy duty oil per day.[24] Chevron-Shell hopes to convert its refinery to a heavy duty oil producer exclusively for EXMIBAL.

♦Similarly, Exxon buys its oil from "competitors" in Guatemala and not from its own refineries in Nicaragua or El Salvador.

and a part of food processing. For these industries within the neo-colony the competition generally preceding the monopoly stage in advanced capitalist countries has not occurred. In Guatemala and other neo-colonial areas, many major firms established themselves from the outset as full-blown monopolies. This was possible for four primary reasons which vary in importance depending on the specific industry:

1) There was only minimal competition from other U.S. firms. Many U.S. corporations which might have provided competition had sufficient, non-competitive investment opportunities in other regions. Thus they did not have to compete in Central America.

TABLE VI

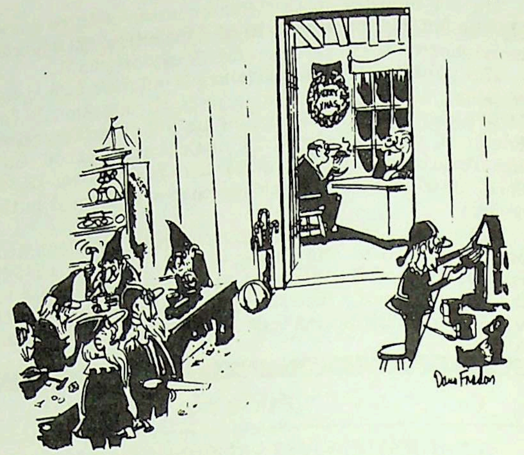
MARKET SHARE FOR SELECTED FOREIGN FIRMS IN GUATEMALA AND CENTRAL AMERICA

PRODUCT	FOREIGN FIRM	FIRM'S PERCENT OF GUATEMALAN MARKET	FIRM'S PERCENT OF CENTRAL AMERICAN MARKET
Animal Feed	Cargill	36	
	Central Soya	30	
	Ralston Purina	15	
	Molino Central	9	
	Other	10	
Cake Mixes	General Mills		60
	Pillsbury		40
Cigarettes	British American Tobacco & Phillip Morris		99
Dress Shirts	Cluett, Peabody	68	28
Gasoline	Texaco	30	
	Shell, Exxon & Chevron	58	
	Gulf	12	
Margarine	United Fruit		41
	Unilever		30
	Standard Brands		24
	Others		5
Milk (pasteurized)	Foremost-McKesson	40	
Paper (kraft)	Boise Cascade		18
(bond)	Boise Cascade		88
Steel Tubing	U.S. Steel		90
Toothpaste	Colgate	90	

Source: This table is based on interviews with the managers of some of these firms in Guatemala. The information they presented came from their own corporation's market survey. The percentages should therefore be read with caution.

In those industrial fields where several potentially competitive U.S. firms did establish themselves in Central America, the variety of investment opportunities available for growth enabled them to keep competition to a minimum. The creation of CACM in 1960 made this growth possible. The high external tariff meant that goods formerly imported into the region could no longer be sold profitably. The ready demand for these products could now be filled by U.S. firms in the region. With little pressure from external competition, they could keep their local competition to a minimum by: manufacturing different goods in the same field; producing items of varying quality and aiming their sales at distinct income groups; and concentrating the marketing of their goods in diverse geographic areas.

2) Investment competition from other imperialist powers remained minimal. Table VII presents the percentage of foreign investment from the United States in each Central American country in 1969.*



"Looks like there's some truth to the rumor we're being taken over by Boise Cascade."

3) The existing and potential local producers were weak in comparison to the U.S. firms. CACM created a regional market which necessitated financing, management, technology, production and distribution on a scale that made it impossible for them to compete.

4) When U.S. corporations (e.g., U.S. Steel, Boise Cascade♦ and Goodyear) acquired local companies they often took over faltering monopolies. These monopolies existed because the limited size of the local market could not support more than one large firm. When a U.S. company took control of a firm it could exploit the entire Central American region more efficiently and thereby make the operation profitable.

"These countries have been falling apart for the last three centuries so one loses a sense of urgency."

Sr. Doriol
Assistant Manager
Boise Cascade (Industria Papelera)
Guatemala June 1, 1971

*When Boise Cascade originally acquired Industria Papelera, the company had a monopoly in the production of kraft paper. A syndicate of investors from Europe, India and Guatemala has signed an agreement to form another paper mill, Papelera del Istmo. The two phase project will have a $40 million investment to cut hardwood and to make kraft paper. The arrangements for the first phase are nearly complete. Boise Cascade will sell hardwood to the syndicate. For additional information see: Bank of America, *Report from Bank of America's Man-on-the-Spot in Guatemala*, November 1969.

♦The Banco de Guatemala, the country's central bank, considers all investments from Panama and Venezuela as coming from the United States. Many U.S. multinational firms have established nominal headquarters in those countries for tax purposes.

TABLE VII

U.S. PERCENT OF DIRECT FOREIGN INVESTMENT IN CENTRAL AMERICA: 1969

COUNTRY	PERCENT OF DIRECT FOREIGN INVESTMENT FROM UNITED STATES
Guatemala	86
El Salvador	60
Honduras	95
Nicaragua	80
Costa Rica	75

Source: Gert Rosenthal, "The Role of Private Foreign Investment in the Development of the Central American Common Market" (Guatemala: draft, 1971), Ch. III, p.8, based on figures from the central banks of each of the five countries.

THE CONTRADICTIONS COME HOME TO ROOST

These four factors not only explain why U.S. firms were able to establish full-blown monopolies in Cental America but also help to explain why investment conditions in the region throughout the 1960's were generally favorable for them. The analysis of emerging changes in the first two conditions—absence of competition from (1) other U.S. firms and (2) other imperialist powers—will permit us to project future developments in the region.

1. Competition Among U.S. Firms

There are signs of growing antagonistic competition among U.S. corporations in Guatemala and Central America. The tire manufacturing industry is one good example. The GINSA tire plant in Guatemala, once the only such manufacturer in Central America, ran into competition from Firestone when the latter invested in Costa Rica in the mid-1960's. Shortly thereafter, GINSA sold out to Goodyear. Now Goodyear has 80 percent of the Guatemalan market and Firestone has 65 percent of the Costa Rican market. The competition between these two firms occurs within the larger Central American region, not in the country where each is based.

TABLE VIII

TIRE MARKET IN CENTRAL AMERICAN COUNTRIES: 1970
(percent of sales)

	Manufactured in Region		Imported	
	GOODYEAR	FIRESTONE	JAPANESE	OTHER
Guatemala	80	18	1	1
El Salvador	65	25	5	5
Honduras	36	12	33	19
Nicaragua	39	28	25	8
Costa Rica	29	65	3	3

Source: Figures are based on a market survey by Goodyear Tire and Rubber Co. Goodyear estimates the total regional sales as 450,000, a discrepancy from the Firestone market estimate of 400,000 tires.

The Minnesota Mining and Manufacturing Corporation (3M) is trying to break into the copier business in Guatemala, currently monopolized by Xerox.

Financial institutions which could not enter Guatemala directly because of the Bank of America's strength as the only U.S. bank in Guatemala, have been able to slip in through the back door by setting up insurance companies. But now, the foreign insurance companies have reached a saturation point. The Guatemalan Association of Life Insurance Agents has made a formal petition to the Superintendent of Banks requesting that no further licenses be issued to foreign insurance companies to operate in the country.[25]

Cluett-Peabody's ARROW shirt factory in Guatemala City

THE RISE AND FALL OF THE BIG BANANA

What has happened to the United Fruit Company (UFC) is a slight variation of the contradictions inherent in monopoly capitalism: the need to expand and the decreasing areas in which to do so. Because of the problems of nationalizations, U.S. anti-trust suits and banana market limitations, the company had difficulty expanding in Latin America. UFC therefore decided to expand within the United States in the food processing industry—an area in which the company had experience. But the field had already become monopolized except for a few sectors. Lettuce production and ice cream and soda chains were the principal areas that United Fruit was able to break into and in turn help monopolize (UFC acquired Inter-Harvest Lettuce, A&W Root Beer and Baskin Robbins ice cream in the mid-1960's). But its expansion was not rapid or widespread enough.

The monopoly structure of the processed food industry as a whole made it extremely difficult for UFC to diversify and expand rapidly enough in the United States. By 1969 the company had $80 million in idle cash which it could not productively invest. Through a clever financial deal (backed with Morgan money) Eli Black, Chairman of AMK, took control of the company, hoping to utilize the $80 million in further expansion. But the same problems of expansion continued to exist. Again, UFC was unable to invest its cash and currently has $75 million in the bank. The value of the shares of the company as a result has fallen from $89 in 1969 to $8 in April 1973! The company of course attributes these problems, as they always have, to hurricanes.

Many U.S. companies in Guatemala have already had difficulties and have been forced to close down (Dart, tupperware; Clark, gum), consolidate production (Ducal with Kerns),* or sell part of their operation to a local producer (Kraftco and Revlon). Each firm has given a different reason for its problems. Revlon claimed the loss of Honduras from CACM had drastically hurt its sales. Ducal (in processed foods) gave the same reason but also said its sales were cut back in Nicaragua because of increased domestic taxes. Kraft perhaps came closest to describing the real situation: the market is not sufficiently large and cannot expand fast enough, given that Guatemala's per capita income is $266 per year and will fall to $246 by 1980.[26]

During the 1960's, U.S. companies invested an average of $25 million per year in Guatemala. CACM provided a large market primarily for import-substitution industries, the main attraction for U.S. firms setting up plants in the region. The demand previously filled by imports was quickly met, however, and the saturation of this market, followed by the collapse and subsequent feeble restructuring of CACM, has forced U.S. companies to curtail further expansion. By 1970 new U.S. investments had shrunk to $2 million annually.[27] Though this dramatic drop primarily represents a cyclical decrease after a period of overinvestment, the cycle is indicative of the large process—the loss of areas in which to expand—which is increasing competition among U.S. firms.

But if, as is likely, CACM begins to function smoothly again, what will happen as capitalist industrial growth proceeds? As we mentioned earlier, most U.S. investment in Guatemala is capital-intensive, thus minimizing employment. U.S. firms consequently face a slower growth rate of the internal market relative to production. Aggravating this contradiction of capitalist production is a contradiction of imperialism: the surplus produced in the neo-colony is appropriated by the mother country, compounding the colony's inability to purchase what is produced. These two contradictions reinforce each other and generate underconsumption. Under these circumstances, increased capital investment simply heightens the contradictions.

*Ducal and Kerns have had a rough time of it. Originally the two firms were locally owned, ran into difficulties and were bought out by Grace which was no more successful and sold out to Riviana. In 1971 the market could not support the two canned food firms and Ducal was absorbed by Kerns.

Diversification

These problems of underconsumption coupled with the need of capitalist corporations to expand constantly, make it necessary for firms to diversify and find new markets. These processes will bring previously monopolistic U.S. firms into competition, and will intensify the competition in non-monopolized areas.

In an attempt to overcome these contradictions U.S. firms have begun to diversify in two ways: (a) by expanding into new industries, and (b) by branching out into new product lines in the same industry.

a) Producing goods in other than the firm's original industry has led to competition. when Phillip Morris tried to branch out from the tobacco industry by producing chewing gum, it was attempting to penetrate Warner-Lambert's previous monopoly. It couldn't compete, however, and eventually sold its gum operation.

American Cyanamid, currently producing Formica in Nicaragua, was planning to establish a pharmaceutical firm if CACM were to become more stable.

Gulf Oil Co., traditionally in petroleum extraction, tried to compete in the distribution market in Central America. Finding this unprofitable, it has sold out in Costa Rica, and wants to do the same in Guatemala and Panama.

b) Diversification into new product lines within an industry will bring a firm into a competitive situation which it had previously avoided by specializing in a few specific items. Standard Brands is planning to produce cake mixes once its competitors, General Mills and Pillsbury, have developed a market. These two firms currently have 60 and 40 percent of the Central American market respectively.

Search for New Markets

As investment opportunities get tighter in Central America, U.S. firms will expand by producing for extra-regional markets which will relieve some of the pressure. Several corporations already export goods to the Caribbean and the rest of Latin America. Three pharmaceutical companies, for instance, sell products to Panama, the Dominican Republic and Ecuador. Colt Industries is planning to export motors to the Caribbean. At the same time that U.S. firms are exporting out of Central America however, subsidiaries based in other areas of Latin America will begin to find that they too must expand. It is plausible to expect, though we have not studied this in depth, that these firms from outside the region will begin to make incursions into Central America through trade and investment. Again, companies which once had monopolies will face competition.

Thousands of squatters live in La Limonada in Guatemala City.

2. Competition From the Other Imperialist Powers

Though the United States has remained the dominant foreign investor in Guatemala, its position has slipped slightly. In 1965, 92 percent of all foreign investment was from the United States. By 1969 this figure had fallen to 86 percent.[28] In the industrial sector, the U.S. share of foreign investment rose from 74 to 80 percent in the same period.

Although European investments doubled over the same four years, they are still insignificant, representing only 3.8 percent of all foreign investment.[29] The growth in European investment and the percentage decline of U.S. investments are important trends to study in the future.

All told, the competition in Guatemalan investment from Western Europe and Japan is weak and restricted to very specific projects. These countries, however, present a significant challenge in trade. The proportion of Guatemalan imports from the United States has dropped from 67 percent in 1951 to 42 percent in 1965 and 34 percent in 1970.*[30]

One of the reasons the United States began to invest massively in the Guatemalan industrial sector was to regain the advantage which it previously held in trade but was losing to Western Europe and Japan. The next phase of competition among the imperialist powers in Central America will be in investment.

The countries of Western Europe and Japan which were devastated by World War II have been rebuilt and are in a new phase of imperialist expansion. The major European capitalist nations are beginning to solidify their common interests in opposition to the United States. Japan, although dependent militarily on the United States, has shown growing independence in its foreign economic policy.

*Part of this loss is imaginary because many new imports actually come from U.S. multinationals based in other Central American countries, Europe and Japan.

It would be incorrect to overstate the decline of U.S. hegemony. As Gabriel Kolko correctly points out, the United States is still the only military power that can stop "healthy Third World revolutionary forces."[31] But the New Left has held a myopic view of imperialism, persistently equating it with U.S. imperialism and viewing U.S. dominance in the 1945-1972 period as one of its permanent characteristics. Twenty-seven years, however, was only a brief historical period.

Three other major processes serve to intensify the contradictions among U.S. firms on the one hand and among imperialist powers on the other. The cost of maintaining the U.S. empire is growing; nationalism in neo-colonial countries is at a new height; socialism has set sharp limits to the free development of capitalism.

INCREASING PRESSURES

3. The Cost of Empire is Growing

It has become an increasing strain on the United States to provide financial assistance and military and political protection for its corporations throughout the world. The growth of national liberation struggles in neo-colonial countries increasingly strains the resources of U.S.

Guatemala, 22 de julio de 1972—GRAFICO—13 imperialism. Domestic resistance to bearing the cost of the empire further limits the strategic options of imperialism. The U.S. defeat in the Great South Asian War marks the termination of this country's clear hegemony in the imperialist camp.

"The era of American supremacy in international finance that began in World War II is finished. The monetary and trading system that provided the basis for the postwar era has collapsed. There is no point in kidding ourselves about it, that it is just shaky, that we will reconstruct it. It's gone."

John B. Connally
April 29, 1973

Throughout the entire period from 1960 to 1971, the United States has suffered from a negative balance of payments caused by its imperialist military and economic policies. If balance-of-payment figures are broken down by private and governmental sectors, they show how government expenditures—our taxes—have gone to prop up the sagging private sector.

TABLE IX

U.S. BASIC BALANCE OF PAYMENTS: 1960-71*
(billions of dollars)

YEAR	BY SECTOR		TOTAL
	Private	Government	
1960	+2.5	-3.7	-1.2
1961	+3.3	-4.0	- .7
1962	+2.1	-3.8	-1.7
1963	+1.6	-3.2	-1.6
1964	+2.9	-3.0	- .1
1965	+1.3	-3.3	-2.0
1966	+2.2	-4.2	-2.0
1967	+1.4	-4.6	-3.2
1968	+3.1	-4.8	-1.7
1969	+1.5	-4.4	-2.9
1970	+1.9	-5.3	-3.4
1971	-3.5	-6.2*	-9.7

Source: International Economic Policy Association. *The United States Balance of Payments: From Crisis to Controversy*. Washington, D.C.: IEPA, 1972. pp. 100-101.
*The foregoing figures, presented by the International Economic Policy Association, include government-financed exports as receipts under the government sector account. If these sales are instead listed under the private sector heading, as they should be, the negative balance for the government is further increased. Using this system, in 1971, for example, the government deficit is $9.5 billion and the private deficit is $0.2 billion. The cost to the people of maintaining the empire for the benefit of the private sector becomes even clearer.

This constant outflow of U.S. dollars and domestic inflation have diminished the value of the dollar to one third that of five years ago: from $35 per ounce of gold in 1968 to nearly $100 per ounce in 1973. The dollar is no longer the basis of the world monetary system.

4. Nationalism is at a New Height

In an increasing number of countries the "free flow" of U.S. capital is being restricted by bourgeois nationalist military and civilian regimes. Expropriation and restrictions on foreign ownership further diminish new areas for expansion. The nationalization of International Petroleum Corporation (owned by Exxon) in Peru, the cancelling of some petroleum concessions in Ecuador and Panama's insistent demands for control of the Canal Zone are indicative of this trend.

5. Socialism Sets a Trend

Slightly more than fifty years ago there was no socialist country in the world. Today one-third of the world's population is socialist. This revolutionalry change has set new limits on the free expansion of capitalism. It has liberated from exploitative relationships the resources and productive forces which are now mobilized to advance the struggles in nations still under capitalist domination. A definite historical trend has been set. The Kissingers of the world are as aware of this trend as we are. The vise is slowly closing and the worms are being squeezed. Shortly, they will begin to eat each other to create more room.

These five processes—(1) the growing competition among U.S. companies, (2) the growing competition among other imperialist powers and the United States, (3) the increasing cost of maintaining the U.S. empire, (4) the rise of nationalism and (5) the growth of socialism—have contributed to the decline of U.S. hegemony. A new period is beginning of intense imperialist rivalry.

David Tobis

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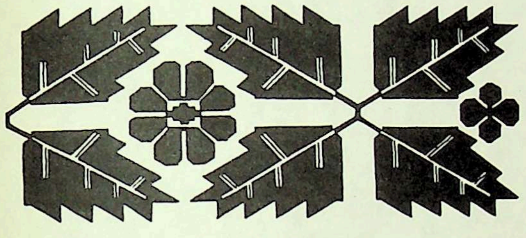
Note: Much of the information for this study was gathered in Guatemala between February and July 1971. During that time the author interviewed the managers of the Fortune 500 corporations which have facilities in that country.

1. *Guatemala Report*, No. 1, October 1972, p. 3.

2. Banco de Guatemala, Departamento de Estudios Economicos y Relaciones Publicas, *Balanza de Pagos Internacionales de Guatemala en 1965*, pp. 20, 21.

2a. Information for this chart came from six sources: (1) interviews conducted in 1971 with managers of these corporations; (2) corporate balance sheets which are printed in El Guatemalteco, the official paper of the Guatemalan government; (3) World Trade Directory Reports compiled by the Commercial Attache of the U.S. Embassy in Guatemala; (4) information from the Bank of Guatemala; (5) formal annoucements of corporate activity which are printed as "Avisos" in El Grafico; (6) Recopilaciones de Leyes de la Republica de Guatemala, on file in the National Archives.



3. Gert Rosenthal, "The Role of Private Foreign Investment in the Development of the Central American Common Market," unpublished thesis (Guatemala, 1971), Ch. III.

4. Banco de Guatemala, Sector Externo, *Estadisticas*, 1966, p. 36.

5. Phil Church, "Foreign Investment: The Operation of U.S. Direct Investment in Guatemala," unclassified U.S. AID document, CERP D, Guatemala A-107, June 16, 1972, p. 1.

6. Rosenthal, *op cit.*, Ch. III, pp. 4, 5, 10.

7. John N. Stopford and Louis T. Wells, Jr., *Managing the Multinational Enterprise* (New York: Basic Books, Inc.), p. 129.

8. Interview with Gert Rosenthal, an official of the Secretaria Permanente del Tratado General de Integracion Economica Centroamericana (SIECA), Guatemala, June 15, 1971.

9. *Ibid*.

10. See David Tobis, "United Fruit Is Not Chiquita," *NACLA Newsletter* (Vol. V, No. 6) October 1971, p. 10, for more information on the creation of a dependent domestic bourgeoisie in Central America.

11. Church, *op. cit.*, pp. 4, 5.

12. *Ibid*. attachment B.

13. Camara de Industria de Guatemala, *Directorio Industrial 1971-72* (Guatemala, April 1971), pp. 101, 103. Two U.S. pharmaceutical firms which operate in Guatemala–Pfizer and Johnson & Johnson–are not listed in the Directory.

14. Instituto Centroamericano de Investigacion y Tecnologia Industrial (ICAITI), "La industria farmaceutica centroamericana," *Monografias Industriales Centroamericanas*, No. 1, 1966, p. 3; an interview with George Bilbao, Manager of Squibb in Guatemala, April 28, 1971.

15. See Suzanne Jonas (Bodenheimer), "Masterminding the Mini-Market; U.S. Aid to the Central American Common Market," in this issue of the Report, p. 3.

16. Tobis, *op. cit.*, p. 8.

17. Interviews with the managers of Coca-Cola (Rios, April 20, 1971) and Standard Brands (Gonzales, May 27, 1971) in Guatemala.

18. Interview with Agusto Larreta, Manager of Kraftco in Guatemala, March 18, 1971.

19. Fred Goff, "Bank of America Has a Man on the Spot in Latin American Agribusiness," *NACLA Newsletter* (Vol. IV, No. 5) September 1970, p. 1.

20. Hector Melo and Israel Yost, "Funding the Empire: Part II, The Multinational Strategy," *NACLA Newsletter* (Vol. IV, No. 3) May-June 1970, pp. 11-15.

21. Department of State, Agency for International Development, *Memorandum for the Development Loan Committee, Subject: ROCAP/Latin American Agribusiness Development Corporation (LAAD)*, AID-DLC/P-972, unclassified.

22. *Petroleum Intelligence Weekly* (Vol. XI, No. 51) December 18, 1972, p. 4.

23. *Wall Street Journal*, March 27, 1973.

24. Interviews with Enrique Billareal, Assistant Manager of Standard Oil of California in Guatemala, June 1, 1971; and Antonio Urrutia of Exxon in Guatemala, May 11, 1971.

25. Bank of America, *Report from Bank of America's Man-on-the-Spot in Guatemala*, June 1969, p. 1.

26. Interview with Agusto Larreta, Manager of Kraftco in Guatemala, March 18, 1971. The decrease in per capita income for 1970 is probably overstated.

27. Interview with Phil Church, U.S. AID official, June 14, 1971.

28. Banco de Guatemala, Sector Externo, *Estadisticas*, 1966, p. 36; Banco de Guatemala, Departamento de Cambios, *Inversiones extranjeras directas en Guatemala por pais de origen*, 1970.

29. *Ibid*.

30. Direccion General de Estadisticas, *Anuario de Comercio Exterior*, (Guatemala 1951, 1965) and Informador Estadistico, No. 50 (Guatemala April 12, 1971).

31. Gabriel Kolko, "Vietnam and the Future of U.S. Foreign Policy," *Liberation*, Vol. 17, No. 9, May 1973, p. 14.

They see a renegade, a revolutionary
strong in mind and strong in love
They find women comrades refusing
seduction and subjagation
interrogation
They find a union of workers
and single out a few
who inspire more
and with U.S. patent props
and with U.S. imported guides
        to public safety
        to counter-insurgency
electrodes, water, cigarettes
slashing and beating
raping and watching
waiting
Then when the power of Their silence
(because They've said it all in Their work)
frustrates besieged insanity
        cannibal fantasy
        circling vulture glares
arouses the putrid order
to fly them above the Pacific
to drop Them scarred, living and dead
                limp and rigid
sisters and brothers with their sex tortured away
to be made final fare for the sharks.

Sharks serving sharks.

Ribbons of their blood kiss the shore
and streaks of sadness take flight with the sun.

Zoe Best

In the summer of 1972 eight labor leaders of the Partido Guatemalteco de Trabajo, the Guatemalan Communist Party, disappeared. It was later revealed by a policeman that the government was responsible for their disappearance and arrest. The eight leaders were tortured and then thrown from a plane into shark-infested waters.

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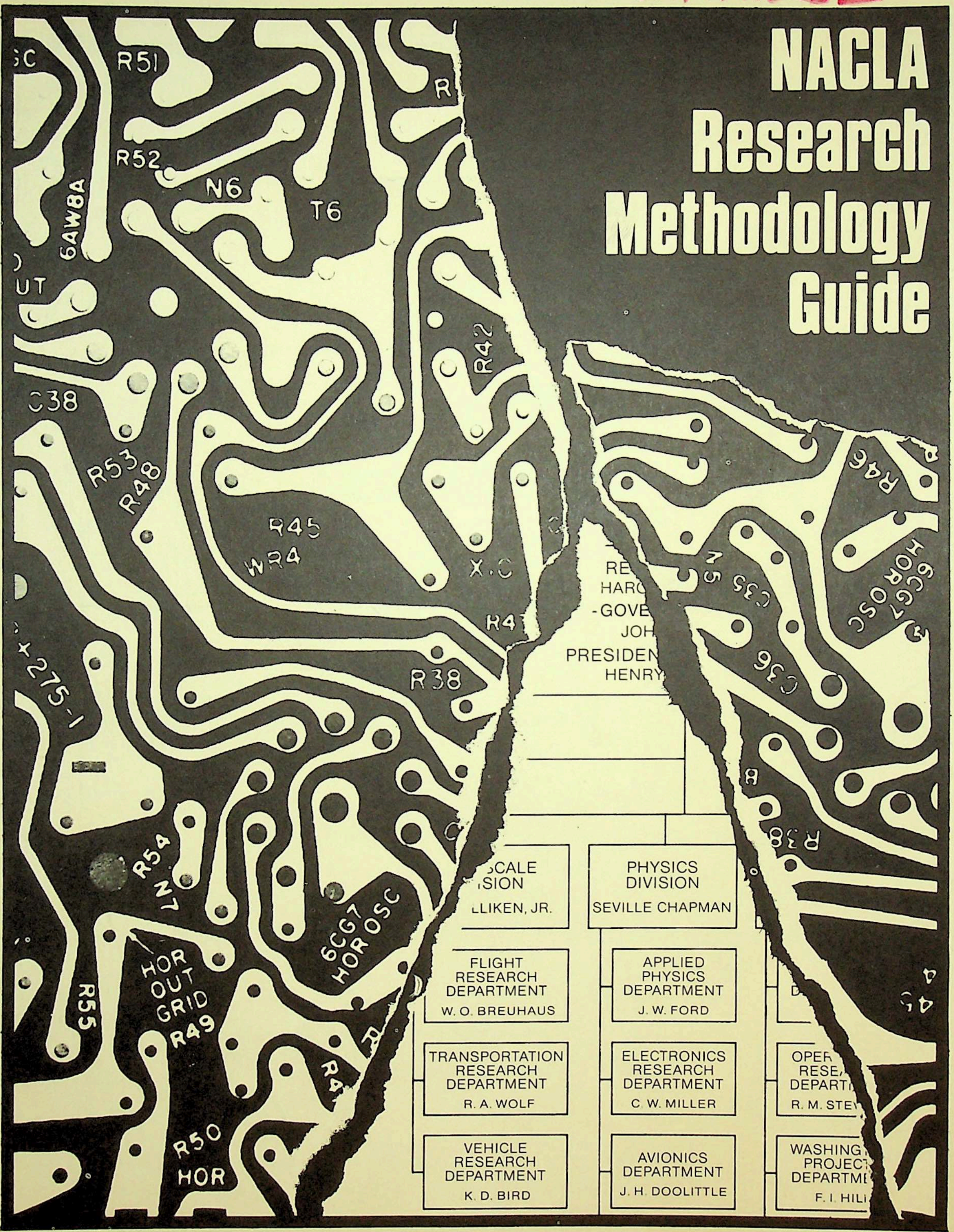

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