Universitat Autònoma de Barcelona

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PhD Thesis in Political Science

THE THREAT OF REDISTRIBUTION UNDER DEMOCRACY: EXPLAINING INCOME REDISTRIBUTION BASED ON INTERSECTORAL RELATIONSHIPS OF THE ELITES. THE CASES OF HONDURAS AND EL SALVADOR

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Barcelona, June 2017

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Abstract

Despite the existence of a sizable body of literature claiming that democracy would tend towards income redistribution, even from a merely procedural perspective, there is evidence that points in the opposite direction: democratic regimes can maintain—even accentuate—inequality, more obviously so in poor or developing countries. This thesis wants to emphasize one important factor which strongly intervenes in the way income is allocated under democracy: the type of relationships the elites establish. This research aims to explore the extent to which elite's relations affect income redistribution under contexts of democracy and of high income concentration.

Three hypotheses guide the development of this thesis. Firstly, if the economic elites establish cohesive relationships with i) the political elites, on the one hand, and ii) the military, on the other hand, the less the likelihood of income redistribution. Moreover, iii) the more conflictive the relations between the landed elites and the bourgeoisie are, the lower the likelihood of redistribution. Taking countries during certain periods of time as units of analysis, this research will use comparative historical analysis (CHA) as its methodological approach. Using the most similar cases design, El Salvador and Honduras were selected as the cases to compare.

Three ways to approach the cases were also considered. Firstly, we use process tracing in order to look for causal explanations in history. Secondly, we break each case in three different periods of time, coinciding such periods with critical junctures of the cases, a very frequent use in process tracing. Thirdly, we codify the preferences of the actors towards wide redistributive programs which were either implemented or planned during those junctures. Our hypotheses were confirmed. However, while the two first hypotheses are displayed as *potential* sufficient conditions, the third one seems to be only condition of a case.

Key words: Redistributive Threats under Democracy, Income Redistribution, Intersectoral Elite Cohesion, Intersectoral Elite Conflict; Political Economy.

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Abbreviations

ABECAFÉ – Asociación de Beneficiadores de Café

AHPROCAFE – Asociación Hondureña de Productores de Café

ALBA- Alianza Bolivariana para los Pueblos de Nuestra América

ANACAFEH – Asociación Nacional de Cafetaleros de Honduras

ANACH – Asociación Nacional de Campesinos de Honduras

ANAMIMH – Asociación Nacional de Minería Metálica de Honduras

ANDI – Asociación Nacional de Industriales, Honduras

APROH – Asociación para el Progreso de Honduras

ARENA – Alianza Republicana Nacionalista

ASCAFÉ – Asociación Salvadoreña de Café

ASI – Asociación Nacional de Industriales, El Salvador

BANADESA – National Bank of Agriculture Development, Honduras

BANPAÍS – Banco del País, Honduras

BCH – Banco Central de Honduras

B.G.A. – Banco Grupo El Ahorro Hondureño

B-L.E. – The bourgeoisie and the landed elite relations

CACM – Central American Common Market

CCIC – Chamber of Commerce and Industry of Cortes

CD – Democratic Convergence, El Salvador

CHS – Comparative Historical Analysis

CJ – Critical Juncture

COCA – Confederación Obrera Centroamericana

COHEP – Consejo Hondureño de la Empresa Privada

CONADI – Corporación Nacional de Inversiones, Honduras

CTH – Confederación de Trabajadores de Honduras

EACI – Empresa Asociativa Campesina de Isletas, Honduras

E.E. – Economic Elites

EE-PE – Economic Elites- Political Elites Relationship

EE-M – Economic Elites – Military Relationship

FCES – Forum for Economic and Social Concertation, El Salvador

FENAGH – Federación Nacional de Agricultores y Ganaderos de Honduras

FICENSA – Banco Financiera Centroamericano

FISDL – Fondo de Inversión Social para el Desarrollo Local, El Salvador.

FMLN – Frente Farabundo Martí para la Liberación Nacional

FOB – Free-on-Board

FOSALUD – Fondo Solidario para la Salud, El Salvador

FODES – Fondo para el Desarrollo Económico y Social de los Municipios

FRTS – Federación Regional de Trabajadores Salvadoreños

FSH – Federación Sindical Hondureña

FUNDE – Fundación Nacional para el Desarrollo, El Salvador

GANA – Gran Alianza por la Unidad Nacional, El Salvador

IMF – International Monetary Fund

IHCAFÉ – Instituto Hondureño del Café

INA – Instituto Nacional Agrario, Honduras

INAZUCAR – Instituto Nacional del Azúcar, El Salvador

INCAFÉ – Instituto Nacional del Café, El Salvador

LDMSA – Ley de Modernización y Desarrollo del Sector Agrícola

LIBRE – Partido Liberal y Refundación

MR-M – The Meltzer and Richard Model

MSCD – The Most Similar Cases Design

OPEC – Organization of the Petroleum Exporting Countries

PA – Partido Azul

PAC – Partido Anti Corrupción

PLH – Partido Liberal de Honduras

PNH – Partido Nacional de Honduras

PCH – Partido Comunista de Honduras

PCS – Partido Comunista Salvadoreño

PCN – Partido de Conciliación Nacional

PDC – Partido Demócrata Cristiano, El Salvador

P.E. – Political Elites

PLS – Partido Laborista Salvadoreño

PND – Partido Nacional Democrático

PPP – Partido Pro Patria

PRN – National Reconstruction Plan, El Salvador

PRUD – Partido Revolucionario de Unificación Democrática

SINTRATERCO – Sindicato de Trabajadores de la Tela Railroad Company

SPSI – Universal Protection System, El Salvador

SRI – Socorro Rojo Internacional

TRC – Tela Railroad Company

UBEC – Union of Banana Exporting Countries

UFC – United Fruit Company

UPEB – Unión de Países Exportadores de Banano

UCD – Unión Cívica Democrática, Honduras

US – The United States of América

Preface

My interest in the topics covered by this thesis (democracy, income redistribution and elites) began in 2010. More precisely, when discussing Amartya Sen's theory in a research group in political philosophy at the PENSAR Institute (Javeriana University) in Bogotá, Colombia. One of the most discussed issues that day within the group was Sen's claims about the implications that democracy has on income redistribution. Sen defends the idea that democracies have been marked by the absence of widespread famine because of "a careful redistribution policy" (Sen 1999, 184). And, similarly, because under democracies "people tend to get what they demand" (Sen 1999, 156). I still remember the faces of many of my colleagues who believed Sen was naïve since many countries have been democracies for a long-time, and, at the same time, have coexisted with extreme income inequalities, such as Colombia, where we were situated. Having a previous background in philosophy and economics, I was very curious because I knew this idea was not at all new. Later that day I found myself becoming even more enthusiastic about the issue. Today, after seven years, my interest remains and, if anything, has only grown stronger. Why do so many democracies coexist with such huge income inequalities?

During a conversation with Raquel Gallego, my master's and doctoral supervisor, she asked me to think about the answer. Although I was not sure, I said that "there was something about the elites, how they behave and how they are related to other sectors". Raquel asked me to find a case where redistribution had occurred in democratic periods, and then to investigate its elites. To do this, she encouraged me to analyze various types of data about democracy and income distribution. After reviewing almost every single GINI from the year 2012, I found El Salvador to be an interesting case because of its Gini, which was significantly lower compared to those of its neighbors. This thesis, as I present it to you, began in that moment.

This PhD thesis would not have been possible without the help I received from many people, including friends and colleagues. I am very grateful with Colciencias and the government of Colombia which financed my master's and my doctoral studies over the course of five years. Raquel Gallego who encouraged me not to be afraid of exploring other cases different to that of Colombia and who gave me a good introduction to comparative historical analysis, as well as to the technique of process tracing. I own a great deal to Julián Cárdenas, who taught me creative ways to analyze elites' relations. Without all that I learned from him –not only in academic spaces, but also many interesting conversations we shared—, it would have been very difficult to formulate any of the conclusions I present in this thesis. The help I received from Francisco

Robles is invaluable, thank you Fran for all the conversations about Central America and for the massive bibliography you gave me on the day we met. I am very grateful to The Desigualdades Institute at the Freie Universität Berlin, which welcomed me as a visiting fellow in 2015-2016 and which always made me feel like one of its own PhD students. To all the member of the PhD Student Group at CIDOB, to which I belonged. It was amazing to have shared our preocupations as a group. To all the people who read part of this PhD thesis and helped me to progress, I did my best to incorporate all of your advice: Katjuscia Mattu, Joan Subirats, Ignacio Molina, Edgar Zavala, Markus Rauchecker, Eva Anduiza, Benedicte Bull. To David Moroney, Paige Nangle and Vicente Hernández for helping me to correct some elements of my written English. To my friends who were there for me and accompanied me along this process: David, thank you so much, Paige, Angelita, Katj, Palo, Nelsy, Lara, Tony, Miguel, León, Angélica, Roberto, Christoph, Duygu, Marcelo and Mauricio, all of you, thanks a lot. To my parents, Alfonso and María, and my sister, who have supported me so much. Thanks for all the effort you have made to help me. Last but not the least, to the people of Colombia, Honduras and El Salvador, from whose histories I have learnt so much.

Extended Abstract

Introduction

For a long time, democracy has been identified as a political regime which eases income redistribution, even when it is defined under a merely procedural perspective. The argument is the following:

i) In a country *x*, if most of the income is concentrated in the hands of a small sector of the population,
ii) and, if this country enables free and periodic elections,
iii) Then, redistribution will occur because the poor – most of the population – will pressure the government to allocate income until the average income coincides with that of the most people.

This assumption is largely present in political theory and has been formalized in several ways to prove the logical consistency of the argument. There is, however, evidence that points in the opposite direction: democratic regimes have maintained –even accentuated – income inequality, more obviously so in poor or developing countries. There are many answers as to why democracy coexists with massive inequality. Among them, that democracies may coexist with low levels of economic growth and education, and high levels of corruption and clientelism, among other, variables that may affect income inequality in various senses. Moreover, because elites can weaken institutions in order to make them more pliable to their own interests, even after they have embraced democracy. While we do not reject the latter idea, which has long had a place in political philosophy, we insist on the likelihood of an even more important one: *the kind of relationships the elites established*.

Research question and hypotheses

This research attempts to answer two questions. In the first place, under what conditions democracy guarantees income redistribution. Secondly, very related to the first one, the extent to which elite's relationships effect the likelihood of redistribution under democracy and in a context of high income concentration. Along with these two questions, three hypotheses guide the development of the thesis. They are the followings:

i) The more conflictive the relations between the landed elites and the bourgeoisie are, the lower the likelihood of redistribution under democracy.

ii) The more conflictive the relations between the economic and the political elites are, the lower the likelihood of redistribution under democracy.

iii) The more conflictive the relations between the economic elites and the military are, the lower the likelihood of redistribution under democracy.

Methodological approach

Taking countries during certain periods of time as units of analysis, this research will use the Comparative Historical Analysis (CHA) as its methodological approach, as well as qualitative and quantitative tools. In relation to the qualitative part, different strategies of the CHA are used throughout all the analysis. In sum, these strategies might be summed up in the followings:

i) A cross-country comparison between Honduras and El Salvador. These countries were selected using Mill's "Most Similar Cases Design". Hence, our research pretends to seek potential sufficient conditions rather than necessary ones.

ii) A process tracing technique, or what Collier and Collier calls "a causal process observation", was used to test our hypotheses. Following this technique, we did a within case analysis to trace causal explanations in history.

iii) We use the idea of critical junctures to limit the periods of analysis. As Benneth rightly (2015, 26) says, in process tracing, "a reasonable place [to start] may be a critical juncture at which an institution or practice was contingent or open to alternative paths". In total, six critical junctures were selected, three for each case.

iv) Moreover, the critical junctures coincided with attempts to implement wide redistributive programs by diverse political sectors. These programs, either if they were implemented or only planned, are assumed as the trigger of the critical junctures.

v) The preferences of the actors towards those programs were observed, as in the initial period as in the end of those critical junctures. According to an extent literature in process tracing, preferences of the actors are not always fixed and are largely dependent "on the situation and the social context (…), the socio-material structures in which they find themselves, and the material and organizational resources they can mobilize" (Bengtsson and Hannu 2017, 56).

vi) We define cohesion between two groups –the economic elites and the military, for example – when they share the same preferences towards the trigger of the critical juncture.

Conclusions

Our conclusions can be summarized as follows:

i) A conflictive relationship between the bourgeoisie and the landed elites increases the likelihood of redistribution as the former may support programs that benefit the lower classes, but, in the meanwhile, which harm the landowners (e.g. an agrarian reform). Also, because they intervene in the expansion of industry and services, and all those processes which are related to it. A conflictive B-LE relation, however, cannot be considered as a sufficient condition as, over time, increases in inequality may arise even in the presence of such a condition. Because of our approach, we cannot say this is a necessary condition; for that we would need further research.

ii) We have argued that redistribution is more likely present, under democratic contexts, when conflictive preferences towards redistribution vary between two sectors: the economic elites as a whole, on the one hand, and the political elites and the military, on the other hand. By the same logic, redistribution is unlikely when there is a cohesive relationship between the economic elites and these two forces.

Our conclusions are limited because of our approach: only two countries were selected in an attempt to control many important variables. Despite this, this research can give some insights about when redistribution occurs under democracy and in contexts of high income concentration.

CHAPTER I.

THEORETICAL FRAMEWORK: THEIR LIMITS AND PARADOXES

1.1. Introduction

For long time in political thinking, *democracy* has been linked, to a greater or lesser extent, with a sort of economic and social equality. Aristotle, who considered democracy as the rule of the poor, argued that "if justice is what the numerical majority decide, they will commit injustice by confiscating the property of the wealthy few" (Aristotle *Politics*, 1308a 25). Tocqueville (1840, p. 200) also claimed that "upon the whole, it may be asserted that a slow and gradual rise of wages is one of the general laws of democratic communities (…) and as wages are higher, social conditions become more equal"[1]. Nowadays, however, it has been distinguished between the substantial meaning of democracy —an effective control of the government in the hands of the citizens under the assumption of *Liberté*, *Égalité* and *Fraternité*— and its merely procedural sense, which mostly focuses on the electoral process (Huntington 2012, 9). Regarding the latter, it is conventionally recognized that the social and economic distribution issue is not part of its definition.

Although the meaning of procedural democracy is broadly accepted, there is a large body of literature that claims democracy might have substantive outcomes, even when understood in a minimalistic procedural sense (Przeworski 1991; Mainwairing 1992; Alexander 2002, 1145). Procedural democracy has been defined as an "institutional arrangement for arriving at political decisions in which individuals acquire the power to decide by means of competitive struggle for the people's vote" (Schumpeter 2013, Ch. XXII). In this sense, democracy is a political system in which most collective decision-makers are chosen through periodic elections, in which candidates freely compete for votes, and in which all the adult population is eligible to vote (Huntington 2012, 9). Using this definition, democracy might be analyzed in the same way as market phenomena, and its results as if they were competitive equilibriums. On this basis, income redistribution via tax rates, which is substantive result, could be the most prominent example (Downs 1957, 198). Within this approach, the Meltzer-Richard model, MR-M (1981), has become one of the most cited and discussed works on the distributive consequences of

[1] Other authors in Political Philosophy who also addressed this issue are Burke (2001 [1791]); Rousseau (2004 [1762]), Sen (2011).

procedural democracy. Roughly speaking, the central argument is the following: due to Downs's assumption that programs and policies —for both the government and political parties— are developed with median voters' preferences in mind, if these voters' income is below average, they will demand income redistribution, pressuring to reallocate taxes, subsidies and transfers until they have reached the average income (In the same line as Downs, and M- R.'s theory, see also Romer 1975, Roberts 1977, and Persson and Tabellini 1998. Including social insurance instead of taxation, see the extended model of Moene and Wallerstein 2001).

The MR-M has attracted special attention in scholars from different fields, not only because it is one of the first formal model of the consequences of democracy on income redistribution, but also because it contradicts classic works about modernization theory, in particular those which affirm that democracy emerges thanks to a large middle class (Lipset 1959, Ch. II). If this is the case, redistribution will be low as transitions would occur with a relative fair inequality. Hence, the median voter would not press for expropriation, taxation or very skewed transfers. Within this latter theory, the Meltzer-Richard model would be meaningless. Based on this discussion, a large body of works has emerged which explores the relationship between democracy and income distribution, not only considering whether democracy leads to redistribution, but also questioning about i) what causes what? (does democracy lead to redistribution or is it the opposite?), ii) is there a problem of endogeneity of variables? (do they affect each other?), and iii) under what circumstances does democracy lead to redistribution, taking into account that initial allocations do matter –that is, in the year zero of democracy—? Our work shall focus on the third question, although, throughout all this thesis, the other two will also be taken into consideration.

1.2. The current debate

Currently, there are mainly two schools of thought which explore the relationship between redistribution and democracy[2]. Both start from the fact that income distribution is the most important feature for understanding transitions to democracy. Moreover, both agree with the postulate that, given the instability of the political regime during transitions, democracies seek to consolidate with high economic performance, including in terms of equality. Both schools,

[2]We follow the classification made by Houle (2009). Other scholars (Albertus 2011; Albertus and Menaldo 2011) prefer to integrate both theories in only one school, which is called "the conflictive theory of democracy and redistribution".

nonetheless, differ remarkably in their understanding of the phenomenon. While the first school believes that democracy arises when inequality is low, the second one claims that transitions occur when inequality is high. Under their respective assumptions, the way they consider the effect of democracy on income redistribution is different: while the latter argues redistribution increases from the rich to the poor because of the constant tensions between them, the former affirms that tensions are low since transitions occur when countries are relatively equal, thus promoting vertical accountability. These differences will be clarified in more detail below.

1.2.1. The Linear Relationship: democracy as *supply* and the maintenance of a moderate level of inequality[3]

According to this school, more egalitarian societies are more likely to succeed in transitioning to democracy than those that are unequal. High levels of inequality entail authoritarianism because of the huge polarization between the rich and the poor, leading to repression against the poorest by the rich who would fear the redistribution demands of the poor (see Lipset 1959; Dahl 1971; Muller 1988; Boix 2003). In contrast, societies with a large middle class are assumed to experience less tension, thereby enabling democracy. This last assertion involves two closely linked premises. The first one goes back to Moore's argument that democracy emerges with a vigorous *bourgeoisie* in post-industrial societies (Moore 1974; see also Boix 2003, pp. 39, 40). The second is the assumption that redistribution occurs thanks to economic growth, as Kuznets (1955) had previously suggested (Lipset 1979, p. 26). A high level of economic development would then be the most important foundation for democratic transition (Lipset 1959). This feature implies several important consequences for the theory of redistribution. On the one hand, if there is a large middle class under economic expansion it is inferred that most people would have resources to protect. On the other hand, most of them would not be employed by the state, so they would be able to hold political leaders accountable. In a democratic realm where most voters are middle class, social distribution is maintained, or even improved, through taxes and transfers which are demanded by such a large class (Lipset 1959; Boix 2003, p. 189).

Demanding a mild redistribution would not be a problem in democracies with a considerable degree of equality. A persuasive model in this respect was developed recently by Boix (2003).

[3] We follow Ansell and Samuel (2010) to classify these streams as *the lineal* and *the quadratic interpretation*, respectively.

He goes back again to the transition periods. If repression is explained because the rich fear the economic demands of the poor, then, in a moderate distributive society, they themselves will supply democracy because redistributive taxes would be low in such a scenario. This is why democracy arises, because "it is rational for the authoritarian elite to *give* way to democracy" (Boix 2003, p. 13; emphasis added). This also explains why, after transitions, redistribution stays (although low) since "the underlying inequality of democracies is mild, their corresponding fiscal structure should not be excessively redistributive. (Therefore,) we will not find there the extent of quasi-expropriatory taxation that a strict Meltzer-Richard model (…) should lead us to expect" (Boix 2003, p. 174).

Boix, however, argues that redistribution only takes place in the context of an open and globalized economy, since the rich tolerate higher tax burdens on their income when there is the possibility of foreign investment (Adserà and Boix 2002; Boix 2010a, 2010b). When no such possibility exists, tensions among social classes increase, leading to violence and authoritarianism. In Boix's words, "in closed economies, which define *Ancien Régime* societies, their elites employ a heavy dose of regulation to sustain their economic advantage over the rest of society" (Boix 2012). Finally, Boix remarks that nations whose economies rely largely on fixed assets —commodities that cannot be produced easily abroad— tend to increase inequality and conflict. In these circumstances, concentration tend to prevail, as do coups, democratic breakdowns and violence. That would be the case of those countries that depend largely on oil exploitation, or even on coca or mining (Boix 2003, p. 238).

1.2.2. The quadratic relationship: democracy as *demand* and the increase of redistribution

A new understanding of the phenomenon has been modeled by Acemoglu and Robinson, who basically represent the second school of thought. They also put forward the argument that democracy cannot emerge without the *bourgeoisie* (Acemoglu and Robinson 2006a). They also claim that redistribution is highly dependent on economic growth (Acemoglu and Robinson 2000, 2001). Nevertheless, they state that the relation between equality income and democracy should be considered not following a linear relationship, but rather an inverted U-shaped curve, the same as Kuznets had previously suggested between growth and income distribution (Acemoglu and Robinson 2000; Acemoglu 2003). This idea has important implications for the

redistributive theory of democracy because, according to this view, transitions would be more likely to occur shortly after dictatorships have reached the maximum degree of inequality. As the authors put it, "the peak of the Kuznets curve [the highest possible inequality given a certain level of growth] coincides with the extension of the franchise" (Acemoglu and Robinson 2000, p. 1168; explanation added). An egalitarian or a moderate dictatorship, by contrast, do not democratize because there are no potential demands for redistribution. In the same manner, the losses would be very small in the case of expropriation. This idea has an important implication: the elites can maintain autocratic regimes without facing the threat of revolution. This premise explains why in such context there is no incentive for elites to offer democracy: if the masses do not demand democracy as there are no incentives for redistribution, there will be no threats; then elites will not supply it [Acemoglu and Robinson 2001; 2006a, Ch. 2; although very briefly, Przeworski et al. (2000, p. 122) come up with the same conclusions].

The situation is different in very uneven dictatorships (or in those with a medium level of inequality, as the authors (2006) subsequently recognized). There, the poor ask for democracy since they know the redistribution mechanisms it brings, leading to the use of repression by the elites in order to protect their property. The use of repression keeps growing until the costs of repression exceeds the redistributive costs democracy entails, a point at which elites accept the transition. According to these authors, that would be the case of countries such as Britain, France, Germany and Sweden, where "the peak of the Kuznets curve appears to have followed democratization" (Acemoglu and Robinson 2000, p. 1194). After transitions, redistribution improves, so the Meltzer-Richard model applies. This is found to be the case, for example, when analyzing the great redistributive reforms that occurred in Western Europe in the 19th and 20th centuries. According to the authors, there is evidence that it happened in Britain between 1867 and 1884; in France during and after the end of the second empire (until 1886), when the tax rates increased to 82%; in Germany in the Weimar states; and in Sweden during the 1920s (Acemoglu and Robinson 2000, p. 1192; 2001; 2006a, Ch. 6).

1.2.3. What do the other alternative explanations tell us?

Using statistical techniques, important works have reinforced or denied the relationship between income distribution and democracy. Some of them, in fact, have concluded there is no a significant impact of democracy on redistribution (Perotti 1995; 2011; Albertus 2011; Albertus and Menaldo 2011). As Przeworski states (2007, p. 85), "the coexistence of democracy with

unequal distribution is hard to fathom". Reasons that would explain why democracy would not lead to income distribution include:

1.2.3.1. Median voter's desires

The poor, even if they are average voters, would not want redistribution because of: a) a lack of understanding between productive and non-productive property; b) expectations of changes in their social conditions in the future; and c) fiscal illusion (taxes are palpable and public spending is amorphous) (for all three, see Przeworski, 2007, pp. 89-92, for b, see also Hirschman, 1973). Likewise, d) race and ethnic preferences (are there ethnic or racial minorities among the poor?); f) cultural values about family (issues about whether health, care and education concern the family or the state); and f) ideological views, including religious beliefs, about what determines income —whether they are rich or poor because of effort or luck— may be important features to understand why the poor would not want redistribution (Alesina and Angeletus, 2002, 2005; Alesina and Giuliano, 2009; for *d* and *f*, see also Dahl, 1971, p. 91-93; and Roemer, 1998). Finally, perceptions about a good performance in terms of the general economy, even with bad distribution, affect the median voter's preferences (Dahl, 1971, p. 97).

1.2.3.2. Dependence on capital

When countries have a structural dependence on capital, redistribution might not be possible through taxation, taking into account that it would reduce investment and production, endangering wealth, including poor's income. This is one of the premises of the MR-M itself [see Przeworski and Wallerstein (1988), and Przeworski (2009, p. 308). In the same token, but without the intervention of democracy, see also the second theorem of the General Equilibrium Theory. Walras (1954); Arrow (1983)].

1.2.3.3. Education

Since education becomes increasingly important for economic growth, the compensation given to the labor force in industrial societies depends, to a large extent, on workers' educational level (Kuznets 1973; Przeworski 2009, 310). Although the relationship between income distribution

and education has been broadly discussed, it is recognized that it follows a U-shaped curve. In other words, in the first stages of economic expansion, concentration increases because educated people obtain greater benefits through salaries than the non-educated. However, after having spread human capital throughout the whole population, income concentration reduces mostly because salaries decline as a result of the market forces. Under those premises, democracy could fail in reducing inequality because its levels of education are insufficient to counter the negative effects it brings in the first stages of growth.

1.2.3.4. Corruption

Corruption is one of the most discussed explanations for skewed income distributions in democratic countries. Corruption is, essentially, the use of different mechanisms to favor or secure personal interests avoiding the principle of transparency embodied in the legal system (Boix 2012, p. 648; 20). Among these mechanisms, which are frequently used to increase personal wealth or to have preferential treatments, we should consider the misuse of public resources, tax evasion, or peddling influence. Thus, significantly distorting the distribution of public money (Alesina and Angeletos 2005; Li et al. 2000). Corruption, furthermore, increases the public aversion to taxes, leading to the loss of their redistributive functions as they might be perceived as ways to enrich the rich rather than to redistribute.

Although democracy is expected to restrain corruption since opposition parties would use it as an issue of public punishment against the party in power or the incumbent, democracy is not necessarily effective in avoiding corruption. In fact, democracy could increase it, especially shortly after transitions because it enlarges bureaucracy and consequently increases the number of institutions related to governmental regulation. It, in turn, promotes the emergence of government officials more prone to accepting bribes in exchange for favors (Huntington 2006, p.61- 69).

1.2.3.5. Fears of dictatorship

It may be the case that median voters wish redistribution, but they do not pursue it because of fears of dictatorship. They could indeed pressure the party in power to adjust taxes to benefit from transfers. That, however, would only happen until a point has been reached in which elites

send a signal that they intend to undermine democratic processes, for instance through repression. As soon as this happens, the median voter would vote for a party that is able to solve the problem, reducing transfers and lowering taxes until the poorest, for its part, also threatens democracy (Benhabib and Przeworski, 2006). Nonetheless, the likelihood the poorest threaten democracy depends on past experiences of dictatorship, that is, on their experienced utility during autocratic regimes, which is the cause of their fears. The more fear of dictatorship they have, the less probability there will be of redistribution (Benhabib and Przeworski 2006). As Dahl has pointed out, "when demands for greater equality do arise, a regime may gain allegiance among the deprived groups by responding to some part of the demands (…) or by responses that do not reduce the objective inequalities but do reduce feelings of relative deprivation" (Dahl, 1971, p. 104).

1.2.3.6. The degree of inequality (The autocorrelation problem)

One of the most convincing explanations of why democracy is unable to redistribute income alludes to the autocorrelation problem of inequality. As we have already said, in very unequal societies, economic elites have much to lose in the face of a redistributive process. Hence, the incentives to use different mechanism, prone to be used in democratic contexts, increase (Antía 2014, 26, 27; Landa and Kapstein 2001; Rueschmeyer 2004). Other works have explored this issue with similar conclusions (Bueno de Mesquita et al. 1992, 2005; Albertus 2011; Albertus and Menaldo 2011). They emphasize the fact that in many times elites accept transitions when they can intervene in the creation of the institutional norms, which would allow them to be secured from redistributive attempts, both present and future. Under a competitive electoral process, elites surely can promise redistribution in order to seek political support. It, however, does not guarantee at all they will comply it. They, after all, can renege on their promises (Bueno de Mesquita 1992).

1.2.3.7. Clientelism and patronage

Some studies have associated clientelism to income concentration (Chubb 1982; Robinson and Verdier 2003). The argument, however, is very close to the autocorrelation problem of inequality, just mentioned. In a context of inequality, when people compete for labor –a good

that is reversible and easily excludable in societies with high levels of labor flexibility–, the likelihood that the poorest give their political support in exchange for lower wages goes up (Robinson and Verdier 2013). This would be a key factor not only to worsen the living conditions of the poorest, but also to exclude other less poor classes who are also dependent on public resources and who would reject the exchanges (Medina and Stokes, 2007; Robinson and Verdier, 2013). Although it may be also the case of an overvaluation of such classes in the event they were formed of core supporters, for instance offering them better salaries. In both cases, inequality is reinforced (Medina and Stokes 2007; Robinson and Verdier 2013. Under similar arguments, see also Chubb 1982; Martínez Vallejo 2015).

1.2.3.8. Colonial heritage

Income redistribution could be correlated to some degree to colonial heritage, whose legacy is difficult to correct by means of democracy (Lipset 1971; Lipset and Lakin 2004, p. 281-311; Acemoglu et al. 2005; Acemoglu and Robinson 2006a). Since its inception, political economy has viewed colonialism as a crucial factor in understanding the economic structure of nations. Adam Smith (b. V, Ch. I) was very critical of colonization processes. Smith argued that the role of the European settler was very harmful for the colonized societies as the settler did not behave as a governor who should think of the well-being of the population. Rather, he was a transit merchant who cared only about immediate profit, thus disrupting the efficacy of economic institutions in resources allocation.

Moreover, some works have pointed out that colonialism played a significant role in income inequality in those colonies where Europeans did not settle, where they were just a minority, or where there were powerful resources to extract, either from the indigenous population or from the natural environment. In those places, the settler did not have incentives to establish good institutions as they make more difficult the extraction of resources, thereby sowing the seeds of institutional failure that still seem to be present (Acemoglu et al, 2005, p. 49). Following Lipset and Lakin (2004), this was clear in the colonial geography of Spain and Portugal –in the case of Spain, not until the Bourbon Reforms—, where there were no institutionalized limitations to protect people from capricious rulers. This is a view that "reinforces the dominant position of the state elites because they can discredit specific interest groups or opposition forces for trying to deform the national interest so as to achieve their own private gain" (Lipset and Lakin, 2004, p. 284). For these authors, these trends have continued until the present day in many Spanish-

and Portuguese-speaking countries, albeit with modifications, some certainly stronger than others. Hence, largely explaining the current social divisions in Latin America, an extremely unequal region (Lipset and Lakin, 2004, p. 311).

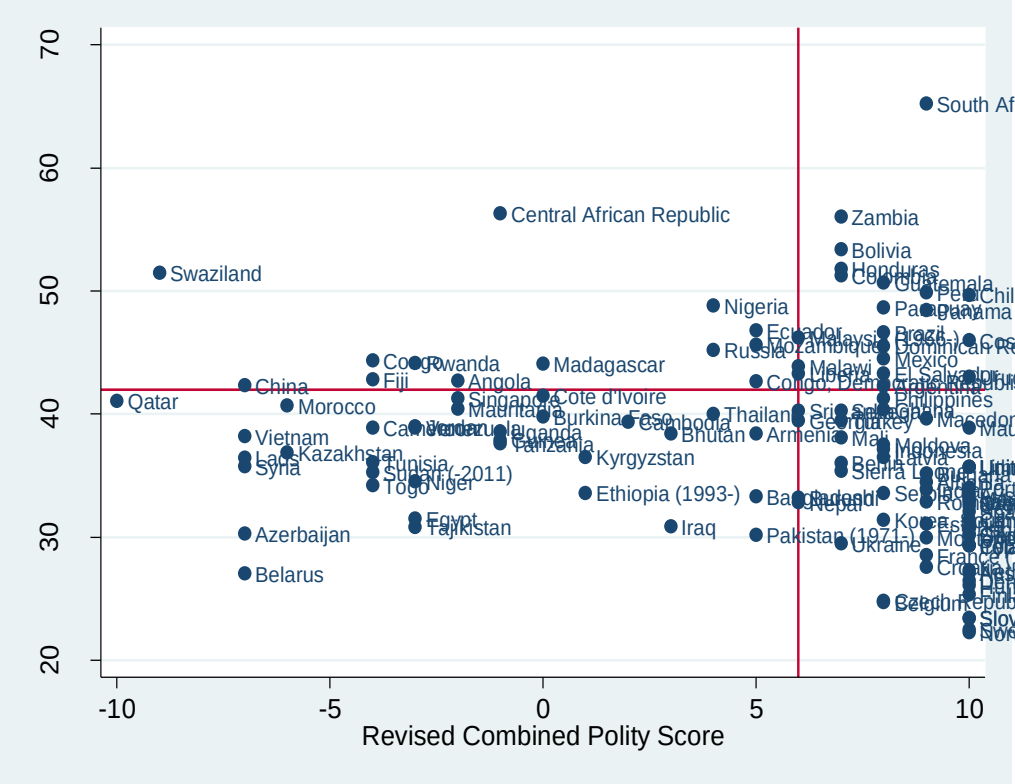
1.3. Empirical evidence

Taking the Gini index between 2006 and 2012 (World Bank 2013) to measure inequality, and the 2010-Polity IV index (Marshall and Robert 2013) to measure procedural democracy, it is possible to see that many of the democratic countries (all those with values greater than or equal to 6) show equality as well as inequality (see the figure 1.1; the list of the included countries is on the table 1.1). It also happens with authoritarian countries, albeit to a minor extent since most of them are below the line of inequality (43 of Gini). Just taking democratic countries into account, it seems that there is no specific link between the level of democracy and inequality reduction.

Table 1.1.
Countries included in the regression analysis

Afganistan	Canada	Fiji	Kazakhstan	Moldova	Romania	Thailand
Albania	Central African Republic	Finland	Jordan	Montenegro	Russia	Togo
Angola	Sri Lanka	France	Korea, South	Morocco	Rwanda	Tunisia
Azerbaijan	Chile	Georgia	Kyrgyzstan	Mozambique	Senegal	Turkey
Argentina	China	Germany	Laos	Nepal	Serbia	Uganda
Australia	Colombia	Ghana	Latvia	Netherlands	Seychelles	Ukraine
Austria	Congo	Greece	Liberia	New Zeland	Sierra Leone	Egypt
Bangladesh	Congo, D. R.	Guatemala	Lithuania	Niger	Singapore	United Kingdom
Armenia	Costa Rica	Guinea	Luxembourg	Nigeria	Slovakia	Tanzania
Belgium	Croatia	Honduras	Macedonia	Norway	Vietnam	United States
Bhutan	Cyprus	Hungary	Madagascar	Micronesia	Slovenia	Burkina Faso
Bolivia	Czech Republic	Iceland	Malawi	Pakistan	South Africa	Uruguay
Bosnia and Herzegovina	Benin	India	Malaysia	Panama	Spain	Venezuela
Brazil	Denmark	Indonesia	Mali	Paraguay	Sudan	Zambia
Bulgaria	Dominican Republic	Iraq	Malta	Peru	Swaziland	
Burundi	Ecuador	Ireland	Mauritania	Philippines	Sweden	
Belarus	El Salvador	Italy	Mauritius	Poland	Switzerland	
Cambodia	Ethiopia	Cote d'Ivore	Mexico	Portugal	Syrua	
Camerun	Estonia	Japan	Mongolia	Quatar	Tajikistan	

Figure 1.1
Inequality trend (av. 2006-2012) versus the 2010-Political Regime



Source: own. Based on Quality of Government (University of Gothenburg 2013) and the World Bank data set.

1.3.1. Running some simple models

We shall now investigate the relationship between income inequality and democracy under two scenarios: a linear relationship and a quadratic one, while controlling step by step other alternative explanations such as the effects of growth, education, corruption and colonial heritage, variables that are considered as relevant by the literature. Here, the dependent variable is the average of the Gini indexes between 2006 and 2009 (United Nations University 2013; World Bank 2013), while democracy is the Polity IV index (Marshall and Robert 2012). Other variables are growth as the GDP per capita in 2009 (World Bank 2013), corruption is the control of corruption measure in 2009 (Kaufman et al, 2009), and education is the average schooling years for 2010 (Barro and Lee 2010). The collected data set belongs to the Quality of Government Institute (University of Gothenburg 2013), although many missing Gini indexes were taken directly from the World Bank.

1.3.1.1. Results for democracy and income distribution

In the baseline regressions for inequality (columns 1 and 6, table 1.2), the OLS results suggest that a quadratic model is more precise than a linear one, although neither of them is highly predictive. While in the former democracy explains around 10% of the dependent variable's variances, in the latter it just explains 3% (see figures 1.2 and 1.3). In both cases, democracy is statistically significant. The models also suggest a negative relationship between democracy and inequality. It is worth noting that the point of inflection for the quadratic regression is reached under the autocratic area, very far away from the division line with democracy (when Polity takes the value of 0,5). This means that at that point the level of polity reduces inequality, so redistribution takes place before transitions. However, the models fail here because the probability of accepting the assumption of homoscedasticity is low: 2% and 4% for the linear and the quadratic relationship, respectively (see figure 1.2-1.4). Hence, there are alternative explanations to be included.

Figure 1.2
Model 1's fitted values

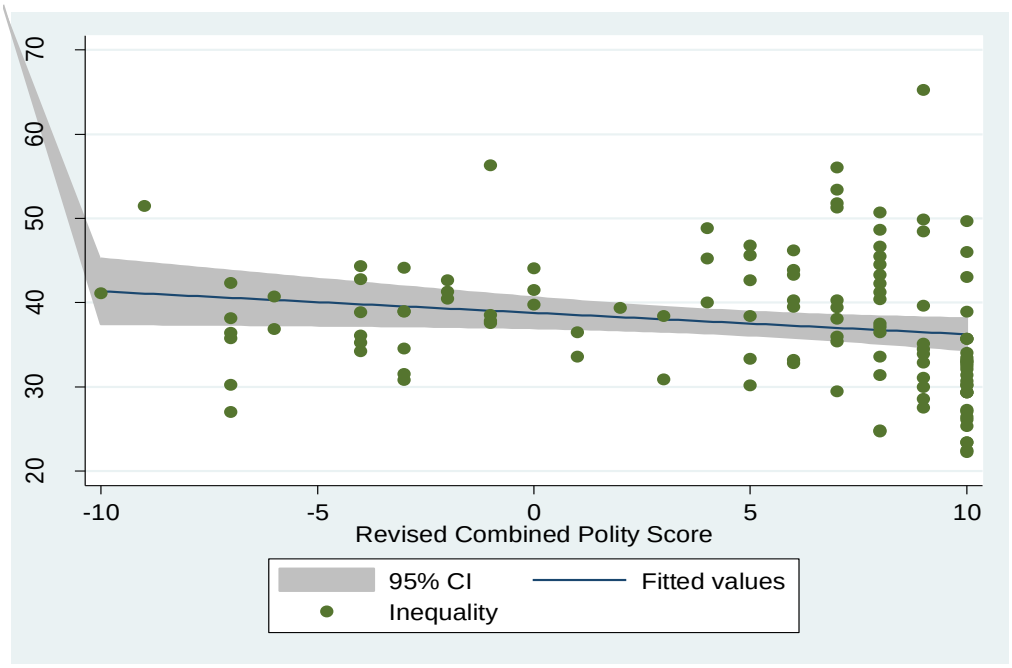


Table 1.2
OLS Models for Income Inequality

	Income inequality									
	OLS					OLS for polynomial regression				
	Model 1	**Model 2**	**Model 3**	**Model 4**	**Model 5**	**Model 6**	**Model 7**	**Model 8**	**Model 9**	**Model 10**
Democratization	0,25** (0.12)	- 0.06 (0.12)	-0.07 (0.13)	-0.07 (0.14)	-0.17 (0.13)	0.07 (0.16)	0.09(0.16)	0.13 (0.17)	0.13 (0.18)	-0.02(0.17)
Democratization^square						-0.08** (0.03)	-0.008 (0.03)	- 0.003 (0.03)	-0.008 (0.03)	-0.005 (0.03)
Economic Development		-0.0003*** (0.00)	-0.0002** (0.00)	-0.0002* (0.00)	-0.0002 (0.00)		-0.0007*** (0.00)	-0.0005** (0.00)	-0.0006** (0.00)	-0.0006** (0.00)
Economic Development^square							8.71e-09** (0.00)	7.52e-09* (0.00)	8.27e-09** (0.00)	7.32e-09* (0.00)
Years of education			- 0.34(0.33)	- 0.34 (0.33)	0.17(0.34)			4.08*** (1.15)	4.19*** (1.16)	2.62** (1.20)
Years of education ^ square								-0.28 *** (0.07)	-0.29*** (0.08)	-0.15* (0.08)
Corruption				-0.16 (1.40)	0.12 (1.16)				0.94 (1.40)	0.87 (1.23)
Colonial originis (Never colonized as reference)										
Dutch					3.55 (6.15)					1.74 (6.09)
Spanish					13.74*** (1.88)					12.27*** (1.97)
US					7.08 (6.04)					4.00 (6.05)
British					6.22*** (1.96)					4.70 (2.02)**
French					4.18 (2.70)					4.69* (2.67)
Portuguese					12.67 ** (4.65)					13.60** (4.60)
Belgian					5.40 (4.16)					5.97 (4.15)
Constant	38.79*** (0.92)	41.02*** (0.95)	43.36*** (2.08)	43.21*** (2.47)	34.78*** (3.61)	41.62*** (1.29)	42.12*** (1.25)	29.93*** (3.89)	30.61*** (4.03)	26.65*** (4.91)
Observations	121	121	109	109	109	121	121	109	109	109
R square	0.03	0.20	0.20	0.22	0.52	0.10	0.24	0.30	0.34	0.55
B-P /C-W test for heterocedasticity. Ho: Cons. Variance (Prob>Chi2)	0.02	0.41	0.86	0.82	0.47	0.04	0.97	0.15	0.18	0.78
V.I.F. mean (with centered values for quadratic regressions)	1	1.13	1.68	3.15	2.33	1.55	3.32	3.67	4.74	3.49
*p< 0.1 **p< 0.05 *** p<0.01										

Figure 1.3
Model 6's fitted values

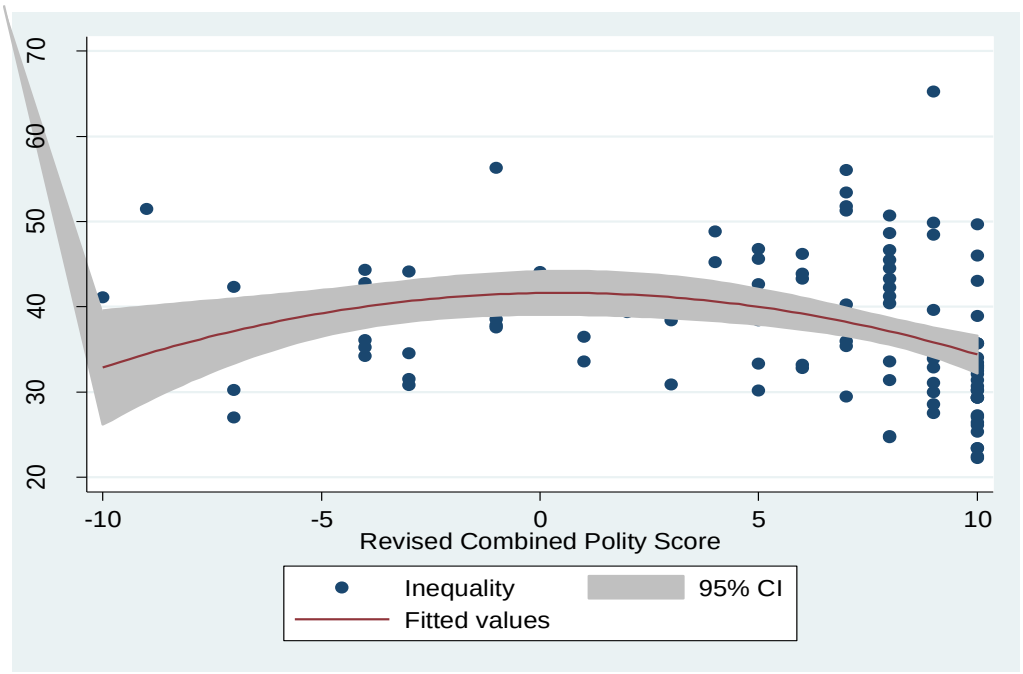
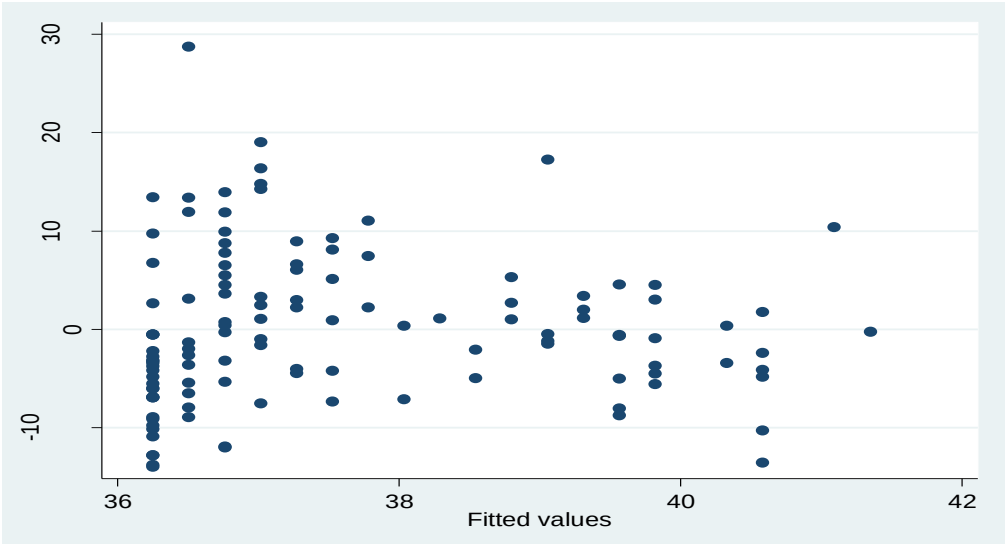


Figure 1.4
Residuals of fitted values (Model 6's)



1.3.1.2. What about the control variables?

Democracy becomes less relevant when including growth, education, corruption and colonial heritage. Growth is particularly important in explaining income distribution as well as the impact of democracy on inequality reduction. For all the models run here, growth is statistically significant, increasing the R2 to more than 20% when it is included. The effect of growth on inequality remains when controlling important variables such as corruption and colonial heritage. The results also suggest that growth shows an inverted-U relationship with income concentration (see how much the R2 increases in the quadratic regression without incurring any violation on the statistical assumptions for the OLS models). Growth also has important implications for the role of democracy on inequality, making it lose statistical significance and part of its effect on income. In other words, in spite of democracy forcing redistribution to some extent, part of its explanation is given by growth. A problem of multicollinearity between these two variables is only found when controlling corruption, as it is made clear by the VIF values found in table 1.3. Note, however, that this model belongs to a polynomial regression, in which the problem of multicollinearity, even with centered values, is difficult to correct. We assume there is a problem of multicollinearity when one of the VIF values is greater than 10. The models, however, could be maintained until the mean VIF reaches a value very much larger than 1, even close or greater than 10 (see Gujarati 2003, p. 362).

Corruption is not statistically significant in any of the models presented here, although it affects largely economic growth and education, both of which do have a direct impact, reducing their statistical significance levels. In fact, model 9 suffers from multicollinearity since corruption has a large correlation with the other variables (see figure 1.5; and table 1.3). Education, on the other hand, has a relative importance for the quadratic regression, but none on the linear one. The results indicate that, controlling growth and democracy, education increases income concentration until the countries have an average schooling of 7.55 years for model 8 and 7.23 when corruption is included (model 9). Neither education nor corruption affects the impact of democracy on income distribution in a significant way when controlled together with growth.

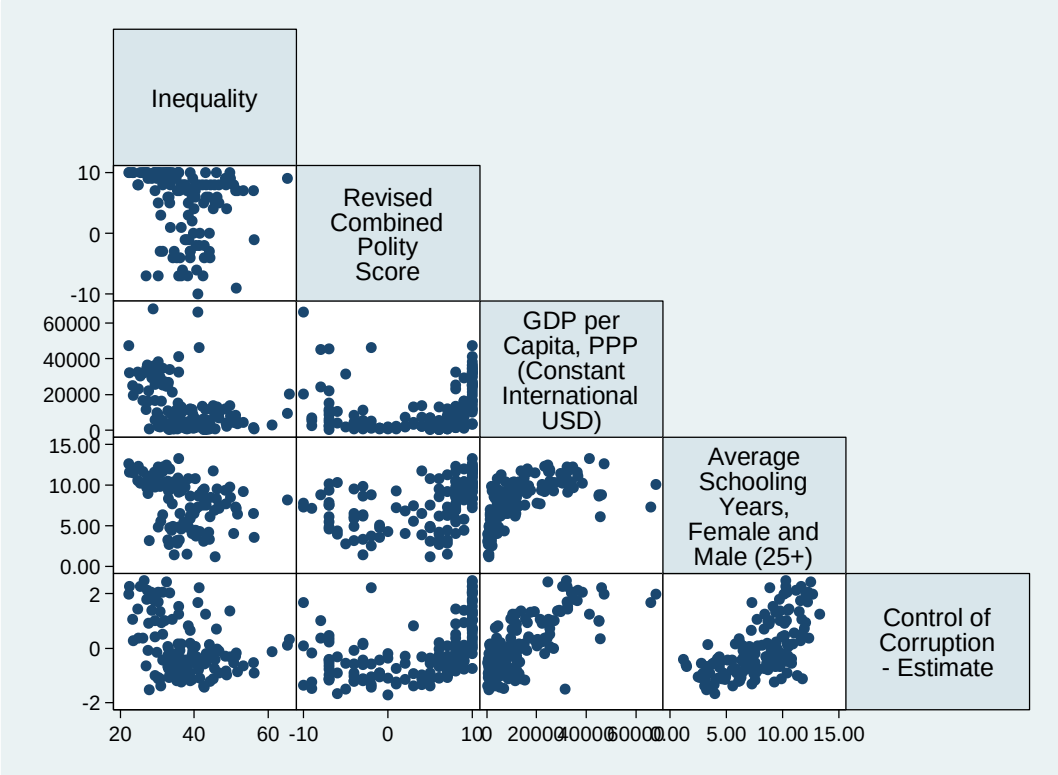
Colonial heritage is the most decisive variable in our explanation about income inequality, increasing the R-squared of the models to 52% and 55% for the linear and the quadratic interpretation, respectively. As in the other cases, the polynomial model is a better fit than the linear one, not only because it explains a greater amount of variance, but also because of the high probability of homogeneous variances. In the same way, the model's mean VIF (3.49) is

acceptable, so the multicollinearity between corruption and growth decreases (see tables 1.2 and 1.3). Using that model, having Spanish, Portuguese, British or French heritage, keeping controlled the other variables, increases inequality to a remarkable extent compared to countries that have never been colonized. The strongest impact, nonetheless, comes from the Spanish and the Portuguese heritage. This conclusion should be treated here carefully because it may be not a matter of the colonial past, but of an aspect of closeness: geography or policy diffusion. It is worth pointing out that most countries with a Spanish heritage are located very close to each other.

Table 1.3
VIP values for Model 2 to 5 and for model 7 to 10

For a lineal relationship			For a quadratic relationship (centered values)		
Variable	**VIF**	**1/VIF**	**Variable**	**VIF**	**1/VIF**
Model 2			**Model 7**		
Polity	1.13	0.887912	cEconomic growth	4.47	0.223825
Economic growth	1.13	0.887912	cPolity	3.28	0.304424
			cEconomic growth square	2.99	0.334067
			cPolity square	2.55	0.392525
Mean VIF		1.13	Mean VIF		3.32
Model 3			**Model 8**		
Polity	1.29	0.776263	cEconomic growth	7.72	0.129499
Economic growth	1.75	0.571964	cEconomic growth square	4.23	0.236237
Education	2.01	0.496715	cPolity	3.27	0.305502
			cEducation	3.04	0.329453
			cPolity square	2.59	0.385936
			cEducation square	1.18	0.846967
Mean VIF		1.68	Mean VIF		3.67
Model 4			**Model 9**		
Polity	1.43	0.699504	cEconomic growth	12.93	0.077339
Economic growth	4.71	0.212433	cEconomic growth square	4.56	0.219222
Education	2.01	0.496605	cPolity	3.55	0.281309
Corruption	4.47	0.223905	cEducation	3.1	0.322726
			cPolity square	2.72	0.367475
			cEducation square	1.19	0.838703
			Corruption	5.1	0.196177
Mean VIF		3.16	Mean VIF	4.74	
Model 5			**Model 10**		
Polity	1.91	0.524320	cEconomic growth	13.94	0.071730
Economic growth	4.79	0.208671	cEconomic growth square	5.10	0.195896
Education	3.32	0.300873	cPolity	4.18	0.239180
Corruption	4.65	0.214853	cEducation	4.26	0.234687
Dutch	1.07	0.932353	cPolity square	2.81	0.356114
Spanish	1.38	0.727168	cEducation square	1.63	0.613806
US	1.04	0.965278	Corruption	5.40	0.185099
British	1.94	0.515503	Dutch	1.09	0.916545
French	2.85	0.351381	Spanish	1.59	0.630324
Portuguese	1.22	0.822768	US	1.08	0.926652
Belgian	1.45	0.690457	British	2.14	0.467921
			French	2.87	0.348009
			Portuguese	1.23	0.810763
			Belgian	1.50	0.668677
Mean VIF		2.33	Mean VIF		3.49

Figure 1.5
Graphic relationships of the included variables



In addition, colonial heritage affects the role of democracy on inequality to a greater extent, lowering its effect to almost zero when the other variables are controlled. Despite this, we believe that colonial heritage is not itself a variable to be explored, but rather a historical pattern which would contain meaningful and explanatory elements for inequality reduction. As a matter of fact, note that many democratic countries, while having the same colonial heritage differ considerably in the way income is allocated, as in the case of Australia and South Africa, or Uruguay and Costa Rica. We will explore this issue later.

1.3.2. Responses to evidence

According to the above findings, both schools have had to encounter different problems, mainly because there seems to be no real link between democracy and income inequality reduction. Democracy does not necessarily coexist under a relative equality, nor does imply redistribution. Note that there are highly consolidated democracies that show serious gaps between rich and

poor —as several examples indicate: South Africa, Chile, Costa Rica and Panama, among others— with perfect or almost perfect scores of polity. As stated by Przeworski (2009, p. 305):

> [T]he demands for social and economic equality persists (...). In Chile, 59 percent of respondents expected that democracy attenuate social inequalities (…) while in Eastern Europe the proportion (…) ranged from 61 percent in Czechoslovakia to 88 percent in Bulgaria (…). Hence, the coexistence of democracy and inequality continues to be tense.

Why does this occur? Although there is no clear reason, both schools have given some explanations. Regarding the modernization theory, Boix claims that democracies with a high concentration of wealth are, in fact, in previous stages to authoritarianism, so they should be treated differently. In these countries, the elites would be tempted to block democracy because of its exceedingly high redistributive cost. Hence, these democracies might not survive for a long time and might experience breakdowns sooner rather than later (Boix 2003, p. 238). This deterministic point of view, nonetheless, has been put in question. Boix's works take only a dataset between 1950 and 1990, omitting the cases of many African and Latin American democracies whose transitions occurred during the 90's (see Geddes' criticisms 2007, p. 323).

In contrast, the second school has recognized that the inverted U-shaped curve can be not accurate (Acemoglu and Robinson 2006b, 2006c). Democracies might maintain income inequality because the elites organize themselves so as to weaken the current political and economic institutions, making them more prone to favor their interests. These extractive elites, as they have named them, might use their resources in order to protect their *de facto* political power, thereby blocking redistribution even while maintaining universal suffrage. Democratization indeed changes the *de jure* political power —which is given by the institutions such as elections or voting legislation— but does not necessarily impact on the *de facto* political power which is given as a result of wealth and violence. Using their *de facto* political power, elites manipulate the law, which in turn determines the extent of constraints on them, weakening institutions and affecting the manner in which income is allocated. It is a sort of circular relationship, where inequality leads the elites to weaken political institutions, but at the same time institutions may maintain inequality (Acemoglu and Robinson 2006b; 2012). This argument has been widely used in Politics, although with different variations. It is found, for instance, in the post-Marxist sociologists (Gramsci notebook VIII, 1991; Lenin 1961), the well-known theory of elitist democracy (Mosca 1939; Pareto 1987; Mills 1999), and also by authors in the modernization theory as Lipset and Lakin (2004), albeit explaining democratic instability. Elites coerce any attempt at redistribution by creating institutions highly prone to favor their interests. Following Mosca (1939, p. 70):

> As we have just seen, in populous societies that have attained a certain level of civilization, ruling classes do not justify their power exclusively by de facto possession of it, but try to find a moral and legal basis for it, representing it as the logical and necessary consequence of doctrines that are generally recognized and accepted.

Now, what makes elites exert their influence and power on the political system? Why do elites curb redistributive demands? How do they become what Acemoglu and Robinson name *extractive elites*? As Fukuyama states (2012), "since each of these broad terms (inclusive/extractive, absolutist/pluralistic) encompasses so many possible meanings, it is very hard to come up with a clear metric of either. It also makes it hard to falsify any of their historical claims". All these observations would deserve greater attention in our further analysis.

Conclusions

Although there is a vast literature which states that democracy leads to the redistribution of income, evidence shows that this relationship is not always present. There are many answers as to why this relationship fails. Among them, that democracies may coexist with low levels of economic growth and education, and high levels of corruption and clientelism, among others. Moreover, because some features of colonial past may persist, such as weak institutions. Finally, because the elites may use their power to pressure the creation of institutions pliable to their interests, what Acemoglu and Robinson call extractive elites.

CHAPTER II: RESEARCH QUESTIONS, HYPOTHESES AND METHODOLOGY

2.1. Introduction

This research reiterates the question of why so many democratic countries keep having considerable income concentrations, taking into account that democracy would lead the poor to force redistributive processes. Although we have seen that factors such as growth and education play an important role, "colonial heritage" was the main aspect that would explain income distribution. This variable, however, does not say much in and of itself. As pointed out earlier, some authors suggest that coloniality would have brought with it weak institutions, which would make conditions more favorable for the elites to preserve their social privilege. This would then be the cause of inequality. While we do not deny this idea, we emphasize that there might be a more important reason: the type of relationship among the different elites, the upper classes.

Since Marx and Lenin; Weber, Veblen and Parsons; Mosca and Pareto, together with the presence of a strategic place for the powerful as absolutely necessary for the stratification system, there must be i) "an important part played by discipline and authority", as well as *ii)* a tendency towards a differentiation of attitudes, values, ideologies and pattern, which arise with capitalism and establish the way in which men relate to each other (Parsons 1954, 326-331). This class differentiation, as it will come to be known, increases insofar as capitalism develops: the bourgeoisie being the clearest example. It makes organization and cooperation among the social classes difficult, leading to conflict even among the higher strata. As Lipset (1985, 254) points out, "endemic in all postagrarian societies is conflict between the more and less modern sectors based on the explosive tendencies of the modern sector to expand. (..) [Due to this,] the conflict is perhaps most felt at the level of the elites although it is acutely felt in the lower strata as well" (What is in paragraphs is mine).

In light of all this, this research attempts to explore *the extent to which the elites' relationships affect the likelihood of redistribution, under a context of democracy and of high income concentration*. This thesis dares to suggest thee hypotheses:

iv) The more conflictive the relations between the landed elites and the bourgeoisie are (B-LE, from now on), the higher the likelihood of redistribution under democracy.

v) The more conflictive the relations between the economic and the political elites are (EE-PE, from now on), the higher the likelihood of redistribution under democracy.

vi) The more conflictive the relations between the economic elites and the military (EE-M, from now on), the higher the likelihood of redistribution under democracy.

2.2. Hypotheses

Two features underlie the studies on democracy and redistribution. First, economic elites defend their wealth using repressive means, thereby ensuring income inequality. Second, the masses mobilize using violent means, forcing the redistribution phenomenon. Regarding the former, however, there are certain assumptions. First, as we saw, repression is maintained until its costs exceed its benefits (Acemoglu and Robinson 2001, 2006; Boix 2003). Secondly, there are instances in which the repressive costs become unsustainable, either because the degree of the masses mobility increases until reaching its peak (Acemoglu and Robinson 2001, 2006), or because inequality has been reduced to the point that repressive costs are more expensive than the demands of the masses (Boix 2003). Thirdly, it is claimed that democracy finally coincides when the cost of repression outweighs its benefits. So, by transitivity, redistributive consequences of democracy coexist without repression (Boix 2003).

It appears that this approach is insufficient. On the one hand, it assumes that repression culminates in the transition to democracy, concluding as well that elites at that point are unable to retain their incomes by a violent means. On the other hand, it supposes that costs are associated exclusively to the confrontation between the masses and the economic elites, neglecting to consider intra-elite conflicts, or even conflicts with other sectors of power. This research intends to demonstrate that economic elites may obtain most of the social income only if they establish cohesive relations, as between themselves –between the landed elite and the bourgeoisie, in particular– as between them, as a whole, and other sectors of power – the military and the political elites –. By cohesive relationships we basically consider a similar preferences pattern among the actors who are implied, making it relatively easy to avoid harm to one another, and to make alliances or form coalitions. Rather, when elites' preferences are opposite, cooperation may be rejected because the costs of conflictive goals become prohibitive.

2.2.1. Hypothesis 1: A cohesive/conflictive relationship between the Bourgeoisie and the Landed Elites

Inter-elite conflict and inter-elite cooperation are issues that have been studied diversely in the Social Sciences. Howbeit, it is assumed that as society economically develops, the likelihood of cooperation among the economic elites decreases while the likelihood of conflict arises (Marx 1936; Parsons 1969, 1954, 330-331). As is well-known, economic growth facilitates the birth of emerging groups and classes with different social values: the bourgeoisie, as mentioned before, is the clearest example. The bourgeoisie seeks to gain a position within society even under the risk of coming into conflict with older privileged groups (Lipset 1985). A complex social system, accordingly, is supposed to be inherently unstable.

Serious studies, nevertheless, have demonstrated that the bourgeoisie can get along very well with older strata, in particular with the landowners, in spite they are embedded in societies that undergo economic changes. The most cited examples are found in Germany and Japan during their transitions to capitalism, which were analyzed in detail by B. Moore (1974, chap. V and VIII), yet there is also evidence for other countries and regions including Italy (Gramsci 1991; Chubb 1982); some countries in South Asia (Scot 1972; Case 2012), as well as others in Latin American (Lipset 1971; Fox 2007, 63), where there was no rejection of traditional values on the part of the bourgeoisie. According to Barrington Moore, under capitalism, the most important consequence of coalitions between the bourgeoisie and the landed elite was the fact that they were able to repress the masses, creating "a violent rejection of humanitarian ideals, including any notion of potential human equality" (Moore 1974, 447). This would explain, therefore, the origins of fascism and dictatorship (Moore, 1974).

Contrary to Moore's argument, this research maintains that democratic societies also experience coalitions between landowners and the bourgeoisie, this being the cause not of dictatorship, but of highly uneven systems which might even persist under democracy. Rather, when the bourgeoisie establishes conflictive relations with the landed elite, thus avoiding any alliance between both sectors, redistribution occurs because the bourgeoisie fosters economic programs which are also beneficial for the lower classes, as the same Moore himself vaguely described in his classical *Origins of Democracy and Dictatorship*. Moore does not say anything about redistribution, as some scholars have insisted, but his arguments about inter-elite conflict might explain, to a large extent, the different patters democracy has over income inequality. According to Ansell and Samuels, who have a very close argument from mine, "instead of fear

redistribution, key actors' preferences (…) are a function of the political consequences of the commercialization of agriculture and the rise of industry (…). [Then], Moore highlights growing demands to rein in royal prerogative over taxes and spending among voters and nonvoters, and in both rural and urban areas" (Ansell and Samuels 2014, 207).

In the case of Acemoglu and Robinson's theory (2006, 311-313), there is indeed the assumption of intra-elite conflict between the bourgeoisie and the landed elites which increases the likelihood of redistribution. However, the authors link this conflictive relation to cases where there is the presence of war. According to Acemoglu and Robinson, as the war advances, the industrialists prefer to negotiate with the masses because of the economic losses they incur, making the industrialists enemies of the landowners. Although we do not reject this assumption, which is also a central point in this thesis –it is also found in other authors such as Marks (1992) and Gibbson (2001) –, we prefer to associate the intra-elite conflict also to some cooperation costs, which do not necessarily relate to war. In other words:

i) If the general assumption is accepted:

If Ct_e (Rp_e) = CA_m
If Ct_e < U(Rp_e)
Then Rp
Then ~ R
Where Ct_e = Elite's total costs; CA_m= Costs associated to the mass collective action; U (Rp_e)= Utility of repression; Rp_e= Elites Repress, R= Redistribution

ii) But (alternative hypothesis),

If Ct_e (Rp_e) = CA_m + Cc_e [U($R_{i...n}$)]
Then, by replacing *i*
Ct_e (Rp_e) = CA_m + Cc_e [U($R_{i...n}$)] < U(Rp_e)
Then Rp
Then ~ R
Where Cc_e =Costs of cooperation; U ($R_{i...n}$) = Each involved actor's utility regarding to redistribution

iii) Then, by clearing,

Cc_e [U($R_{i...n}$)] > U(Rp_e) – CA_m
Then ~Rp
Then R

iv) Now,
If $0 \leq CA_m \leq U(Rp_e)$,
If $Cc_e [U(R_{i\ldots n})] > U(Rp_e) - CA_m$
Then, ~Rp
Then R

Therefore, it demonstrates that elites can be in conflict, even if the costs associated to war is low. The fact of dividing the costs between costs of mass violence and cooperative costs is intentional. In the first place, putting both costs together would imply that conflictive Bourgeoisie-Landed Elite relations (B-LE) could not occur unless the cost of the war is very high, an idea that we put in question. Secondly, because we assume that cooperation costs are not necessarily of economic nature. Both ideas are explained in *iv,* where even assuming CAm a value of zero (in the absence of war) conflict can occur because there are some cooperative costs that are very expensive for the bourgeoisie to bear. At this point, we agree with Inglehart and Welzel (2005, 219) when they say, referring to the division of elites, "if the younger elite cohorts come to emphasize self-expression values, the emancipative nature of these values erodes their belief in the legitimacy of using force (...). Elites almost always want to stay in power but not necessarily at any price. Emancipative norms tend to lower the price that elites are willing to pay for staying in power, eliminating force against a civilian opposition as a legitimate option".

2.2.2. Hypothesis 2: A cohesive/conflictive relationship between the Economic Elites – as a whole – and the Political Elites.

Inter-elite conflict goes beyond to the relations that the landed elite and the bourgeoisie establish. History shows that other ruling elites such as the military, the church and political leaders have undergone conflict situations with other sectors of power (Mosca 1939). Political power plays a central role in our argument. We have already said that the redistributive theory of democracy assumes that political leaders are forced to implement redistribution policies, in most cases through taxation, because they behave according to the median voter's interests. The theory assumes a pluralistic power structure: several political elites who compete and try to identify voters' social preferences to get maximum possible votes. Some critics of the pluralist theory, however, have appeared over time. Democracy is embodied in an underlying economic

structure, in Marxist terms an economic *Unterbau*, which is there to serve the upper classes. Depending on the social structure, the elite varies, but in capitalist societies it largely coincides with the rich. Under capitalism, democracy is there to serve to the bourgeoisie's interests (Marx 2005, 8; see also Mosca 1939; for a wider explanation of the argument, see Sartori 1992, 30-31; Dahl 1989, 267).

Here we consider that both theories partly reflect reality, but none of them is absolutely right or wrong. When it is conceived under the minimalistic perspective, democracy may reflect indeed the preferences of the economic elite, especially if they do not have to face any political actor who oppose their interests. In this case, the preferences of the economic elite would prevail rather than that of the social collectivity. However, it can also be the case of a political actor in power that reveal autonomous preferences regarding the upper classes, making the fears of the latter increase and that electoral equilibriums displace. Therefore, the presence or absence of an autonomous political elite, and even one which shows opposite preferences from the economic elites, is a fundamental feature when it comes to understanding income inequality. In other words,

If $U_{E.E.}(R) = (\sim R \; \Phi \; R)$, and
If $\exists \; U_{E.P.}(R \; \Phi \sim R)$
Then R[4]

Moreover, this autonomy should be preserved regardless of the nature of the economic elite in question, and regardless of whether the latter concentrate most of their resources in land, services, or in industry. In other words, regardless of whether the economic elites are of landed or bourgeois nature. Other works have explored the issue, all them emphazing in the role of the left in redistribution (see Hewitt 1977; Piketty 1995; Huber and Stephens 2012).

[4] Where $U_{E.E.}(R)$ = Utility of the Economic Elites towards redistribution; $\exists \; U_{E.P.}(R)$= Existence of at least one member of the Political Elites in which the preference of R is true; Φ = a strict preference, with a preponderance of the first over the second; R = Redistribution.

2.2.3. A cohesive/conflictive relationship between the Economic Elites – as a whole – and the Military.

The military is a major player in modern societies. They have ruled in many cases through authoritarian ways, concentrating a disproportionate weight in the decision-making process. Moreover, despite military regimes have declined in favor of democracy, military power has not necessarily been reduced, continuously representing a big threat for political stability. In many regions of the world, military intervention is frequent, "to the extent that military support is often seen as fundamental to a regime's survival" (Haynes 2013, 19). In Latin America and Asia, for example, many countries have recently undergone democratic breakdowns and coups by the military, and in the US, an advantaged country, the military has historically used a sort of social responsibility as a justification for political intervention (Driver 2009, 175).

Military intervention in politics seems to be very unlikely, although most democratic governments agree to work so as to avoid it. As many scholars have already pointed out, military's retreat of politics should be treated as a matter of degree rather than of full completeness, (Feaver 2003; see also Rudolph 2017, 34). This role of the militaries in politics makes them to be a fundamental player to understand the failure of redistribution under democracy. The same democratic theory of redistribution gives them a central role as it presents them like a mobilizing agent in helping the rich to block redistributive processes, often by means of a coup (Boix 2003, 210; Acemoglu and Robinson 2006, 29; Ansell and Samuels 2014, 45). There is, however, a clear lack of understanding of why the military intervenes to protect the rich when the latter fear the redistributive consequences of democracy, and why this solidarity remains throughout the years. It has been suggested that it may be that the rich bribe the military, or that the military, once in power, use their political power to enrich, thus putting themselves in the same side as the economic elites (for both arguments, see Acemoglu and Robinson 2006, 16). In both cases, however, little research has been done (see in this respect, Brömmelhoster and Paes 2003, 2).

We believe that an autonomous military sector, even one whose preferences are opposite to those of economic elites, allows redistribution because the likelihood of a coup against political leaders who undertake wide redistributive programs reduces. On the contrary, when the military's preferences are close to those of the upper classes, redistribution fails either because

political actors are afraid to implement redistribution policies, or because, when they implement them, the likelihood of a coup increases. A possible left-wing side of the military have rarely been explored, as well as its effects on redistribution, despite the fact that many military members have shown left-wing leanings. Such was the case of Juan Velásco Alvarado in Perú in the seventies or Hugo Chávez in Venezuela, both with large support within the overall military sector (an exception is found in Albertus 2011; 2015).

2.3. Methodology: The Comparative Historical Analysis

This research uses a Comparative Historical Analysis approach (CHA), which has been in use for a long time in Politics. The works of Marc Bloch, Barrington Moore, Perry Anderson and Theda Skocpol are some examples. The goal of CHA is essentially the search for causal explanations throughout history. In other words, it considers that causal relationships can be found over time (Mahonney and Rueschemeyer 2003, 12-13). Therefore, rather than static points, it examines sequential processes in an historical context. Moreover, CHA seeks a contextual and systematic comparison between two or more cases that are similar or contrastable (Mahonney and Rueschemeyer 2003, 12). It should be noted, however, that CHA does not simply look for the juxtaposition of the cases as such. It seeks to contrast the selected cases for a better understanding of the relationship of variables (Sckopol 1995, 383). Moreover, although it is possible to use many cases for analysis, CHA tends to conduct research with a small number of cases (Mahonney and Rueschemeyer 2003, 13).

2.3.1. Units of analysis and observation

The units of analysis in this study are countries during certain periods of time, particularly throughout 20th century until today. This period is selected since most of the democratization experiences have occurred in that century. Also, this study will take into consideration, certain important events in history as units of observation, which might represent "redistributive threats". We shall explain this in more detail below when introducing the concept of critical juncture. These events will be selected as we analyze the chosen cases.

2.3.2. Research design for the selection cases

The research design of this study is based on one of the most used technique in CHA: the "Most Similar Cases Design" (MSCD), which is also called the method of difference because is based on the differences found in similar cases. Whereas other methods of selection cases in CHA are used to find necessary conditions –like the most different cases design or the joint method –, the MSCD emphasizes on finding or discarding *sufficient conditions*. This is important to have into account throughout all the reading of this research. We can conclude through the MSCD that the relationship between x and y establishes a condition of sufficiency when *x* and *y* are simultaneously absent or simultaneously present, while controlling the other alternative hypotheses that may explain the phenomenon (Skocpol 1995, 378). Notice that sufficient conditions are those that, when they are satisfied, *ceteris paribus*, they also satisfy the phenomena (If $X \rightarrow Y$). However, the verification can only occur when the phenomenon is refused when other variables are controlled. In other words, if, *ceteris paribus*, $\sim Y \rightarrow \sim X$.

Table 2.1
Method of Difference, or the Most Similar Cases Design

Type of variable	Case 1	Case 2	Case n
Alternative Explanation 1	a	a	a
Alternative Explanation 2	b	b	b
Alternative Explanation 3	c	c	c
Explanatory Variable	x	˜ x	˜ x
Dependent Variable	y	˜ y	˜ y

Source: Skcopol (1995, 379)

2.3.3. Selection cases

The first criterion for the selection of cases is to control the variable at stake: democracy. To do this, we use the Polity IV dataset. This index was taken because its main criterion is based on the procedural definition of democracy. In addition, because it has been widely used in the literature concerning the subject of redistribution (see Acemoglu and Robinson 2000, 2006; Boix 2003; Albertus 2011). Democracy has also been dichotomized between democracy and non-democracy (countries with scores higher or equal than 6 as democracies). This follows the selection criteria of Przeworski et al. (2000) in its minimalist approach. This facilitates both the recognition of cases and the operationalization of the variable. The second criterion is controlling "colonial heritage", in particular the Spanish colonial heritage that has a great impact

on income distribution, as previously seen. Taking such parameters, we have in total seventeen cases to consider, all them included in table 2.2. Notice that, even though some countries today are considered as non-democracies (Venezuela and Ecuador, for example), they are not discarded because they have had long democratic histories. Cuba, on the other hand, is not in the list because, according to Polity IV, it hasn't ever been a democracy.

Now, we focus on the Gini. Thus, Costa Rica, Ecuador and Nicaragua are eliminated as they lack Gini data during their transitions. So, we cannot trace back income distribution changes since then and up today. The remaining fourteen countries are listed according to their last democratic transition versus their post- democratic redistributive tendencies until 2010. Remember here that our first objective is to choose two very similar countries, but located in different groups (the MSCD). The cases make up two different groups. On the one hand countries with low degrees of redistribution since their transition, and on the other hand those with high degrees. From these countries, Argentina and Uruguay are discarded as their transitions appeared within a context of moderate inequality, so they are not within our interests. Recall that, from the modernization theory, countries whose transitions are caused in a context of relative distributional inequality would have less tension between elites and the masses, easing with it a mild redistribution.

Now, there are twelve cases left (see table 2.3). In addition, one must consider other important variables such as economic growth, level of education, and level of corruption, variables which were considered when running the models before. Here, the possible cases were ordered in accordance with the level of growth, the strongest variable (see table 2.3)[5]. Thus, Chile is eliminated because it is the only case from the set with a high income per capita, so there are no other countries to compare it. The next step is to introduce another variable at stake: i) clientelism, which is not considered in the model, but it is continuously mentioned as important. For clientelism, we use Kitschelt's dataset (2014). Finally, two other conditions are included: the size of population and geographic proximity (see table 2.4).

[5] Unless the datasets have own categorical variables, the control variables were divided into three sets of categories (low, medium/middle and high) according to the following formula: Cat*i* = (largest value among the first seventeen cases– smallest value of these cases) / 3. Cat1 (low) = smallest value + Cat*i; Cat* 2 (medium)= Cat1+ Cat *i*, Cat3 (high)=Cat 2 + Cat*i*

Table 2.2.
Selection Cases: Spanish-Speaking Countries, their last democratic periods, and the presence or absence of redistribution from the last democratic transition to 2010

Country	Periods of non-democracy since 1930	Periods of democracy since 1930	Last democratic transition year	Gini in the last democratic transition (+/- 10 years)	Inequality during transition	Gini Average (2006-2010)	Income Distribution changes
Spanish-Speaking Countries with Low Levels of Income Redistribution since Transitions							
1. Colombia	[1950-1956]	[1937-1949], [1958 +]	1958	52,3 (1962)	High	57,25	Low
2. Argentina	[-1973], [1978-1983]	[1974-1977], [1984+]	1984	42,2 (1986)	Moderate	46,88	Low
3. Bolivia	[-1981]	[1982+]	1982	51,5 (1986)	High	56,98	Low
4. Uruguay	[-1953], [1973-1985]	[1954-1972], [1986+]	1986	40,2	Moderate	46,43	Low
5. Honduras	[-1981], [1985-1988]	[1982-1984]	1989	59	High	58,40	Low
6. Guatemala	[-1997]	[1998+]	1998	54	High	55,90	Low
7. Dominican Republic	[-1961], [1965-1979], [1995-1996]	[1962-1964], [1980-1994], [1997+]	1997	48,6	High	50,70	Low
Spanish-Speaking Countries with High levels of Income Redistribution since Transitions							
1. Venezuela	[-1957], [2006+]	[1958-2006]	1958	54,6	High	42,10	High
2. El Salvador	[-1983]	[1984+]	1984	52,6 (1991)	High	47,07	High
3. Chile	[-1964], [1973-1989]	[1965-1972], [1990+]	1990	57,4	High	51,95	High
4. Panama	[-1990]	[1991+]	1991	56	High	53,00	High
5. Paraguay	[-1991]	[1992]	1992	58,4	High	52,37	High
6. Mexico	[-1999]	[2000+]	2000	53,25	High	47,87	High
7. Peru	[-1981], [1992-2001]	[1981-1991], [2002+]	2002	55,6	High	49,76	High
Countries without properly data							
1. Costa Rica	[-1944]	[1945+]	1945	No data	--	49,12	--
2. Ecuador	[-1979], [2009]	[1980-2008]	1980	No data	--	52,7	--
3. Nicaragua	[-1990]	[1991+]	1991	56,5 (1993)	High	No data	--

Source: Own elaboration based on WIID, United Nations University (2013) and Polity IV dataset, Marshall and Robert (2013).

Taking this criteria, Mexico and Dominican Republic lose interests because they find themselves regionally isolated. In this way, only two groups of cases are possible, and, within them, some cases are much stronger than others. Honduras and El Salvador, on the group A, and Colombia and Venezuela, on the group B (see Table 2.4. and 2.5.). Despite both comparisons are feasible, as just said, we prefer to begin with the smalls ones, and to leave the second group for further research.

Table 2.3
Selection cases: Level of growth (2013), education (2010), and corruption (2009)

Countries	Level of growth (GDP, 2013)	Education- Years of Schooling (Barro and Lee, 2010)	Control of corruption (Kaufman, 2009)
	Spanish-Speaking Countries with Low levels of Income Redistribution since Transitions		
1. Honduras	Lower middle income	Middle	Low
2. Bolivia	Lower middle income	High	Low
3. Guatemala	Lower middle income	Low	Low
4. Dominican Republic	Upper middle income	Middle	Low
5. Colombia	Upper middle income	Middle	Middle
Countries	*Spanish-Speaking Countries with High levels of Income Redistribution since Transitions*		
1. El Salvador	Lower middle income	Middle	Middle
2. Panama	Upper middle income	High	Middle
3. Paraguay	Lower middle income	Middle	Low
4. Mexico	Upper middle income	High	Middle
5. Peru	Upper middle income	High	Low
6. Venezuela	Upper middle income	Middle	Low
7. Chile	High income	High	High

Source: Own

Table 2.4.
Selection cases: Geographical Space, Size of Population, and level of clientelism

Countries	Geographical Space	Size of Population	Clientelism (Kitschelt 2014)
	Spanish-Speaking Countries with Low levels of Income Redistribution since Transitions		
Honduras	Central America	Small	High
Guatemala	Central America	Medium	High
Dominican Republic	Caribbean	Medium	High
Bolivia	South America	Medium	Middle
Colombia	South America	Large	High
Countries	Spanish-Speaking Countries with High levels of Income Redistribution since Transitions		
El Salvador	Central America	Small	High
Panama	Central America	Small	High
Paraguay	South America	Small	High
Peru	South America	Large	Low
Venezuela	South America	Large	High
Mexico	North America	Large	High

Source: Own.

Table 2.5.
Group A: Possible cases to be compared

Possible cases	Geographical Space	Size of Population	Clientelism
Cases with low levels of redistribution			
Honduras	Central America	Small	High
Guatemala	Central America	Medium	High
Cases with high levels of redistribution			
El Salvador	Central America	Small	High

Source: Own.

Table 2.6
Group B: Possible cases to be compared

Possible cases	Geographical Space	Size of Population	Clientelism
Cases with low levels of redistribution			
Bolivia	South America	Medium	Middle
Colombia	South America	Large	High
Cases with high levels of redistribution			
Peru	South America	Large	Low
Venezuela	South America	Large	High

Source: Own.

2.3.3.1. Honduras and El Salvador: two similar countries with different post-democratic redistribution tendencies

Honduras and El Salvador have many similarities in different areas: they share i) a close year of democratic transition and similar size of population; ii) similar current level of growth, iii) iv) as well as high levels of clientelism. They also share a similar culture (both with Spanish-colonial heritage) and a geography proximity (see map 2.1), both separated by a border of 375 km2. The most remarkable difference, however, is related to the corruption indicators. As can be seen in table 2.3, while El Salvador has a middle control over corruption, Honduras has a low control. This difference is also notorious in other indicators like "Firms expected to give gifts in meetings with tax officials" (see table 2.7). Furthermore, Salvadoran economy has a little advantage in Services, while Honduras in agriculture. These and other important indicators are presented in the table 2.7.

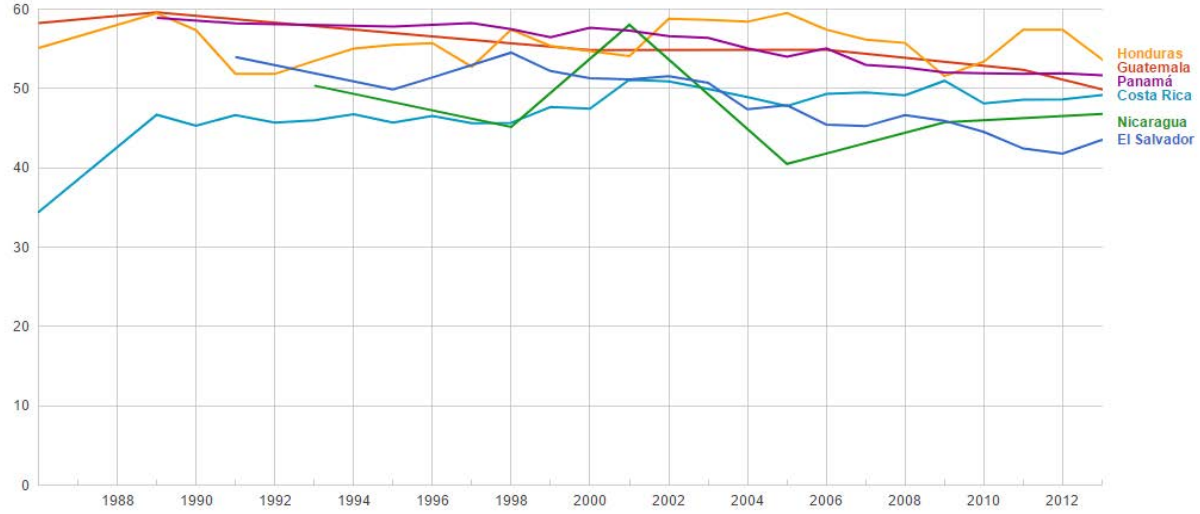
In regards with income inequality, El Salvador has a major advantage than Honduras. While the 10% of the richest people in El Salvador owns 32,3% of the national income, in Honduras this figure rises to 38,4%. In the same way, the 10% of the Salvadoran poorest owns 2,2% of income, while in Honduras it is barely 1,1%. On another side, poverty line in El Salvador is 31,8%, almost the half than in Honduras (62,8%). When comparing both countries with their neighbors, these trends persist. In 2013, El Salvador was the most equal country in Central America while Honduras persisted as the most unequal (see figure 2.1). Here, nonetheless, it is important to stress that both countries are very unequal regarding most of the world. This is why, precisely, the interest in those countries.

Table 2.7.
Socioeconomic indicators of Honduras and El Salvador

	Honduras	El Salvador
Population (mill), 2015	8,075	6,13
Area (Km2)	112.090	21.041
Economy and Growth		
GDP (US billions), 2015	20,42	25,85
GDP per capita (US dollars), 2015	2528,9	4219
GNI (US millions), 2015	19039,70	24273,10
Poverty and Inequality		
Poverty headcount ratio at national poverty lines (% of population), 2014.	62,8	31,8
Income share held by highest 10%, 2014	38,4	32.3
Income share held by lowest 10%, 2014	1,1	2,2
Corruption		
Firms expected to give gifts in meetings with tax officials (% of firms), 2010.	2,8	0,3
Redistribution		
Tax Payments (number), 2015.	48	53
Tax Revenue (% of GDP), 2013.	15,06	15,4
Central government revenues (% of GDP), 2013.	8.94	10,55
Personal remittances, received (% of GDP), 2015	18	16,6
Education		
Adult literacy rate, population 15+ years, both sexes (%)	85	84
Military		
Military expenditure (% of GDP), 2015.	1,57	0,86
Military expenditure (% of central government expenditure)	6,7%	4,5%
Others		
Intentional homicides, 2013	74,6	64,2
Agriculture, value added (% of GDP), 2012	14,6%	11,9%
Industry, value added (% of GDP), 2012	28,1%	27,1%
Services, value added (% of GDP), 2012	57,3%	60,9%
Unemployment, total (% of total labor force) (modeled ILO estimate), 2016	6,3%	6,3%
Urban population (% of total)	55%	67%

Source: World Bank (2015)

Figure 2.1.
Time trend of the Gini coefficient in the Central American countries (1997-2013)



Source: World Bank (2017), taken from World Development Indicators - Google Public Data Explorer

Map 2.1
Honduras and El Salvador

Source: Google Maps

2.3.4. CHA's Research Techniques

For this research, both qualitative and quantitative techniques will be used. Regarding the qualitative part, it will use process tracing which focuses on the connection among the explanatory, the intervening, the control, and the outcome variables in the past in order to eliminate spurious phenomena (Mahoney 2003, 359-364; see also Collier 2011). Process Tracing, perhaps the most used technique of CHA, is explained in more detail below. Regarding quantitative techniques, this research will use different indexes and measures: for example, of electoral results, military expending, and of income redistribution. Within this, other relating indexes will be used, such as of capital and distribution, and of transfers and taxation. In the same way, it is highly prone to run regression models if the circumstances so permit. The data will be find mainly on the study of secondary sources, a common way of addressing the analysis in the CHA. As Skcopol (1995, p. 382) says "secondary sources are appropriate as the basis source of evidence for a given study". However, one "must pay careful attention to varying historic interpretations, both among contemporary historians and across scholarly generations of historians". For the most recent periods, we will also review local newspaper. Press, nonetheless, shall be used only when there is a clear lack of information of in-depth historical research. Regarding quantitative indicators, they will come primarily from the World Bank, as well as from the economic agencies of each country.

2.3.4.1. Process Tracing: Causal Sequences, Critical Junctures and Actors' Decision Making.

Process tracing has basically three characteristics. Firstly, it attempts to draw causal sequences which are observed in the studied cases. Therefore, it traces trajectories of change and persistence which may be seen in the past. In process tracing, drawing causal and temporal sequences is desirable. So, it gives careful attention to why the independent and dependent variables relate over time, as well as the role of intervening variables and of all the new factors which come across when studying the cases, even if they were not considered in the beginning of the research process (Mahoney 2000, 2010; Collier 2011).

Secondly, it uses *relevant moments in history for making causal explanations*: a set of events which are temporally limited and which are crucial for the understanding of the target relationship. As Sckopol (1995, 383, 384) reminds us, they help us to validate, step by step, the

overall argument. Now, what are the criteria to select those moments? According to Benneth (2015, 26), “a reasonable place [to start] may be a *critical juncture* at which an institution or practice was contingent or open to alternative paths” (emphasis added). Critical junctures are “major watersheds in political life that establish certain directions of change and foreclose others in a way that shapes politics for years to come” (Collier and Collier 1991, p. 27; cited from Bull 2015, 15). Hence, “the descriptive component of process tracing begins not with observing change or sequence, but rather with taking good snapshots at a series of specific moments” (Collier (2011, 825). In order to make a causal argument, one or several critical junctures may be chosen. Furthermore, they may be separated in time. Although this way of addressing problems has been criticized, most strongly by Marc Bloch (cited from Sckopol) who has advocated for more "unified theories", "the unities of time and place must be broken for the ministering purposes of drawing comparisons and hypothesis testing" (Sckopol, 1995, p. 383).

Thirdly, process tracing focuses on the decision making of the involved actors: actors’ reactions that follow or are behind those critical junctures, their preferences and motivations, temporal constraints and inducements. According to Gerret (2004, 348), while explaining why process tracing is a useful tool, “often, the connections between a putative cause and its effect are rendered visible once one has examined the motivations of the actors involved”. In process tracing, therefore, critical junctures are also important because they showcase the political dynamics that surround the actors, which in turn lead us to infer why actors take their decisions, the why of their goals, and the decisions and actions that were considered and those which were rejected (Cappocia and Kelemen 2007, 357; see also Katznelson 2003; Bengtsson and Ruonavaara 2017).

2.3.4.1. Selection of the Critical Junctures

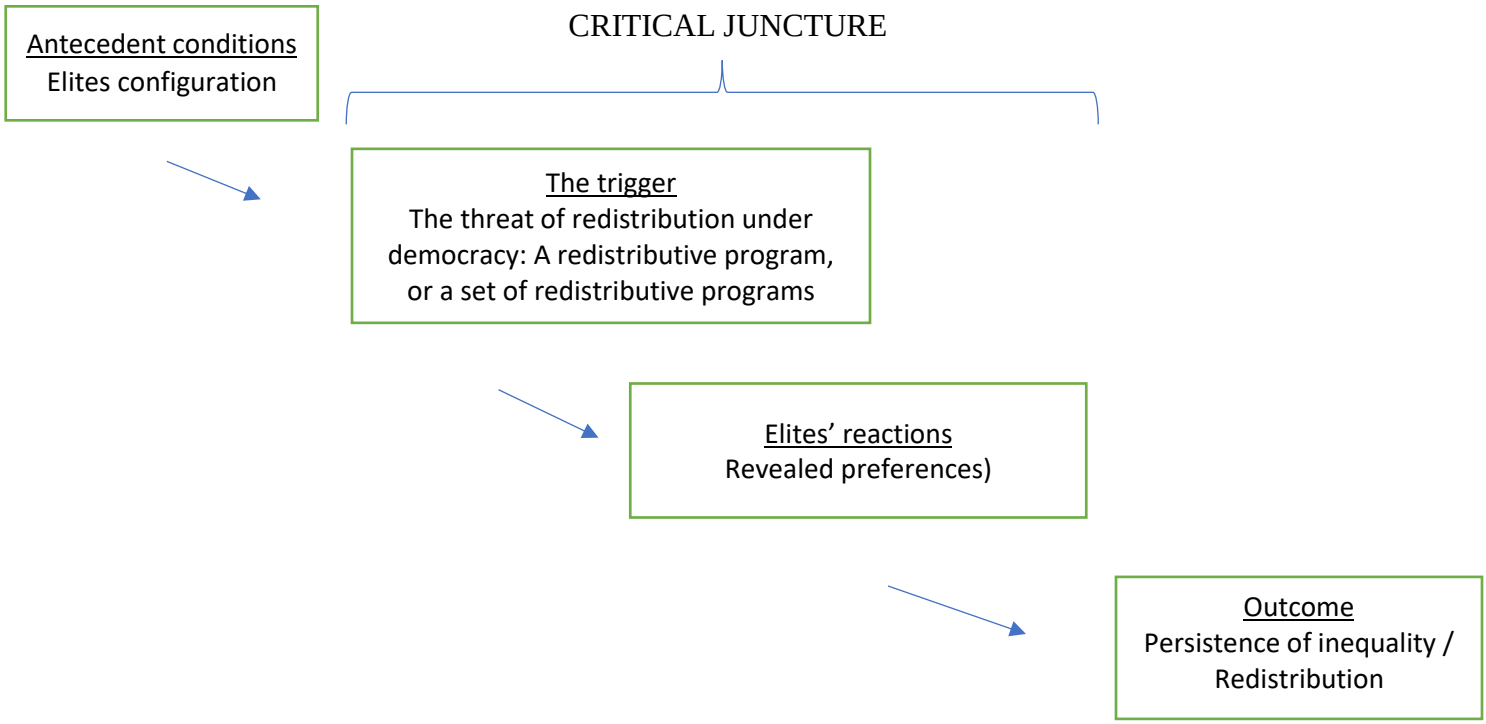
In order to select Honduran and Salvadoran critical junctures, we consider the following criteria:

i) They are a set of events which showcase that the status quo is less stable.
ii) These moments emerge under a democratic period, although they may end in dictatorship.
iii) Each critical juncture is temporally limited and concrete, but its duration varies between one and another. In other words, while some may be long-lasting, others may last only a few years.

iv) These moments are unleased either because a) a party (or a political leader) implements (or seeks to implement) a wide redistributive program (or a set of redistributive programs), or because b) an opposing party (or an opposing political leader) threatens to implement it in the future, above all in elections. These programs or plans, are, therefore, the trigger of the critical junctures.

Due to the above-mentioned characteristics, we call the critical junctures as "Redistributive Threats under Democracy". Along with the critical junctures (CJ from hereon), it is important to describe the conditions which preceded it: *the antecedent conditions*. In our case, we will emphasize in who the elites were and how they were configurated. Likewise, the preferences of the elites must be explicitly shown, during and after the unfolding critical juncture. Finally, our narrative should explain why these preferences are related to specific outcomes of redistribution. This is summed up in the Figure 2.2., which is the basis for the historical narrative we will construct.

Figure 2.2.
The basis for our historical narrative



2.3.4.1.1. The Critical Junctures of Honduras and El Salvador

Democratization experiences are pivotal for this research, even if they were short-lasting. They are, therefore, our starting points for the selection of periods we are going to analyze. In the case of Honduras, the first democratic experience occurred in the 1920s, involving different actors such as the United Fruit Company (UFC) – the most important foreign company at that time in the country –, the government of the United States that directly intervened several times, and two political parties: The Liberal and the National one. Democracy, however, broke down in 1937 by Tiburcio Carías, who governed until 1949 in alliance with the UFC. Two other critical junctures are placed in 1957 and 2007, respectively. The first one is of great importance because even though democracy broke down in 1963, the social tension persisted in dictatorship, as we shall see. The second one revolves around the government of Manuel Zelaya, who was overthrown by a military coup, although very soon replaced by another government through new elections.

In the case of El Salvador, the only democratic experience the country underwent until 1984 was in 1931, just before *La Matanza* (the slaughter), which was consequence of a military response to a social insurrection in 1932 with the tragic result of more than 30.000 people death. After then, El Salvador functioned as a dictatorship for five decades fundamentally favoring the coffee oligarchy. The two other critical junctures of El Salvador are both close in time. Firstly, the peace process signed in 1992 after twelve years of continuous struggles between the state, the coffee elites and insurgent movements: *the Frente Faracundo Marti para la Liberación Nacional* (FMLN) as the most outstanding one. Then, it is examined the path to government of the FMLN, now converted into a party. It is important to have into account that the FMNL finally seized power in 2009 under the head of Mauricio Funes. All this information is summarized in the table 2.8. In order to make the understanding clearer, the critical juncture will be distinguished according to the country they are placed and the order of time in which they occur. A graphic description is shown in the figure below.

Figure 2.3.
Honduran and Salvadoran critical junctures according to our historical narrative

Table 2.8
Honduras and El Salvador's critical junctures

Country	First Critical Juncture	Second Critical Juncture	Third Critical Juncture
Honduras	Redistribution threats in 1932-Elections. The rise of the Liberal and The Communist Party. (1929-1933)	Redistribution threats in Villeda's governments, and their surprising continuation in López Arellano's dictatorship (1957-1970)	Redistributive Threats under Zelaya's government (2007-2009)
El Salvador	Redistribution Threats in Araújo's government, and the rise of the communist Party (1930-1932)	The Peace Accords: the latent threat of the FMLN (1982-1992)	Redistributive threats of the Left: Funes' Administration (2009-2014)

2.4. Operationalization

So far, we have explained our approach as well as some of its techniques: the CHA, process tracing and critical junctures, etc. However, we still need to explain the operationalization process of the variables of our interest. Critical junctures, in fact, are a starting point as they delimit the space and time of observation. However, they alone do not tell us more if we do not have a guide of what we pretend to observe. The following numerals are dedicated to explaining the attributes of each variable of importance.

2.4.1. Redistribution

As the reader, perhaps, has already noticed, we assume redistribution like income distribution changes in favor to the poor. It, therefore, does not necessarily imply that the rich give up part

of their income to be transferred by the State. Even though one of the causes of redistribution can be expropriation or taxation, there are many ways to redistribute. This is the case, for example, when the State transfers income to the poor through external debt, or through profits based on exportation of natural resources. If we take this concept of redistribution, then GINI is the best way to express it, as a large part of the literature has already carried it out it in this way.

GINI data, however, is very limited because it has only been recorded for recent periods, with this being a common problem in all the historical studies about income inequality. In the cases of El Salvador and Honduras, indeed, there is a lack of Gini indicators in most of the 20th century. In this case, when it is required, we will use land inequality as a proxy of income distribution. Combining both GINI and land inequality, the latter in periods in which there is a lack of GINI, is a common way to address the issue of redistribution, in particular for the periods when the case is based in a context of high dependence on agriculture. See in this regard, McKenzie 2004; Alesina and Rodrik; Albertus 2015.

2.4.2. Democracy

Here, democracy is a political regime which implies the possibility of alternation of power through free and fair elections. There are some indicators for procedural democracy, as we've seen before, like Polity IV, the indicator we most used, as well as others such as Cheihub et al., the most minimalist one (2010). As with income inequality, there is a lack indicators of procedural democracy at certain times. Whenever it happens, we will base exclusively on the the historical references of the cases, when it is conventionally recognized in the local historiography the existence of free elections with the participation of at least two political parties.

2.4.3. Intersectoral relations of the elites

Although intersectoral relations of the elites have been widely worked in political sociology, its operationalization is still very new. One of the virtues of this work is its attempt to operationalize this concept, which for many might be confusing. To do this, the elites will be defined, just like how we codify cohesion and conflict is showcased.

2.4.3.1. Who are the elites?

Elites are considered according to the resources they can mobilize. In general, we assume three different elites: the economic and political elites, and the military. Moreover, because of the importance of the circulation of the economic elites, they are divided between two other categories: the bourgeoisie and the landed elite. All these groups are defined below.

i) Economic Elites: Important individuals and families "who enjoy selective property rights that grant them special privileges" (Albertus 2011, 5).

a. The Landed Elite: Those people who have the largest amount of land in a specific country. Likewise, those whose businesses are directly linked to agriculture.

b. The Bourgeoisie: Despite it has a very broad meaning in social sciences, here, bourgeoisie refers to those people who largely invest in activities associated to urban sectors, in particular industry and services.

ii) Political elites: They are the top representatives in government, either in the Legislative or in the Executive (Kumar, 1994, p. 12; Lasswell et al., 2010, p. 19). Accordingly, this research pays particular attention to political parties, presidents and congressmen.

iii) The military: The military is a unit of soldiers and officers whose function is the internal and external defense of a country. Here, we will pay attention to the staff officers: Generals, Commandanst, Majors.

2.4.3.2. A Cohesive / Conflictive Relationship

The elites will be classified according to their revealed preferences towards redistribution. The preferences may be of three types: i) In favor of; ii) Mix preferences, and iii) Against of. While "in favor" and "against" indicate a compact preference within the group regarding redistribution, mixed preferences would mean that the preferences are not clear, that is, that some members are in favor while others are against. With this in mind, we speak about a cohesive relationship between two groups if they share the same revealed preferences. If, on the contrary, they reveal opposite preferences, we will talk about a conflictive relationship. We will use also two other categories which are in between: mid level cohesion and mid level conflict. All these four categories are explained in the table below:

Table 2.9.
Characteristics of Elite Cohesive relationship / Elite Conflictive Relationship

If the preferences between two groups are:	**Then, we speak about:**
In favor – In favor	A cohesive relation
Against – Against	A cohesive relation
In favor – Mixed preferences	A mid level cohesive relation
Against – Mixed preferences	A mid level cohesive relation
Mixed preferences – Mixed preferences	A mid level conflictive relation
In favor – Against	A conflictive relation

If this is so, a conflictive relation between the economic and the political elite would be one in which the former is opposed to redistribution while the latter is in favor. Under the same logic, if both groups are in favor or against redistribution, then it would be a cohesive relationship.

2.5. A note about the concepts

This thesis uses largely words like the bourgeoise to denote “the industrial and service elite”. Sometimes it also uses the "business elite" or simply the businessmen to refer the same group. This also happens when referring to the landed elite as we sometimes use the “agrarian elite” and “the landowners”. For the non-elites group, everyone who does not fit into this category, we largely use “the masses”. Despite this vocabulary might suggest some theoretical approaches: e.g. the Marxist of the Elitist theory, this research does not pretend to fit in any of them, at least not intentionally. This is important to have into account, even if we come up to conclusions alike to any of those theories.

2.6. Conclusions

We aim at exploring the extent to which the elites' relationships affect the likelihood of redistribution, under a context of democracy and of high income concentration. Apart from raising this research question, in this chapter our hypotheses are mentioned, as well as our methodological approach. Three hypotheses will guide this work, all them related to the intersectoral relationships of the elites. Comparative Historical Analysis will be used as our main approach to test our hypotheses, as well as the Process Tracing technique, one of the most used tools in the CHA. On the other hand, Honduras and El Salvador are the cases to compare, both having been selected using the "Most Similar Cases" design. Finally, we will use the

preferences of the actors towards redistribution to measure whether the elites relate in a cohesive or a conflictive way. In the following chapters, the critical junctures are explained. In order to ease the comparison of the cases, all the chapters will have the same structure, namely:

i) An introduction of the period which covers the critical junctures
ii) A description of the elites, beginning with the economic ones and ending with the military.
iii) A brief explanation of the democratic periods that take place in the cases.
iv) An explanation of the critical junctures. It, in turn, follows this order: i) the trigger of the critical juncture; ii) elite's reactions towards this trigger; and iii) the outcomes in in terms of income/land inequality at the end of the critical juncture
v) A conclusion of the chapter where we explicitly show the results of the critical junctures.

CHAPTER III. HONDURAS: ELITE FORMATION, ELITE RELATIONS, DEMOCRACY AND WEALTH DISTRIBUTION (1900-1950)

3.1. Introduction

Once achieved its independence from Spain in 1821, Honduras rapidly incorporated to the Mexican Empire together with all the provinces of the General Captaincy of Guatemala. Honduras remained within Mexico roughly one year, until 1823 when it joined the Federal Republic of Central America (*República Federal de Centroamérica*) along with Costa Rica, Nicaragua, El Salvador and Guatemala. After the dissolution of the Federation, which only lasted fifteen years, Honduras declared itself a nation in 1838, just a year before assuming the separation of power between the Executive and the Legislative. Although the system was bicameral since the inception of the Republic, the country left only one in 1865–the Senate (*Congreso de Diputados*). A unicameral system has been maintained in Honduras until today. Elections were exceptional, so political seats were mainly occupied via *caudillismo* or by a violent means (Bendel 1993, 393). Honduras indeed suffered over 170 military conflicts between 1821 and 1876. On average, caudillos remained in power for a period of six months, and, at most, did not last longer than a year (Euraque 1991, 12). Marco Aurelio Soto's administration (1876-1883) paved the way for the expansion of suffrage, more exactly in the Constitution of 1880 during Soto's Liberal Reform. Voting was extended basically to every man older than 21 who met one or more of the following requirements: i) who had a minimum income to guarantee his subsistence, ii) who were married by the time of the elections or iii) who could read and write (Moncada 1986, 216).

Soto's Liberal Reform also provided for the direct election of the president to a four-year term and authorized the president to appoint secretaries of state and to control foreign affairs and the military (Leonard 2011, 50). Even under these changes, Soto continued in power by irregular means, particularly owning to the given political support by Guatemala, at that time in the hands of Justo Rufino Barrios. As Mahoney (2001, 168) points out, "the imposition of Soto in power by Guatemala stabilized liberal control over the presidency, but it did not end a decades-old pattern in which rival elites sought to win state power by mobilizing makeshift militias and carrying out armed revolts". Despite the extended franchise and the use of elections, popular participation was also minimal, press was censored and labor organizations were not tolerated (Bulmer-Thomas 1987, 18). With the electoral process controlled by the government and groups excluded from power, the rival elites had to resort to violent methods to secure their ambitions.

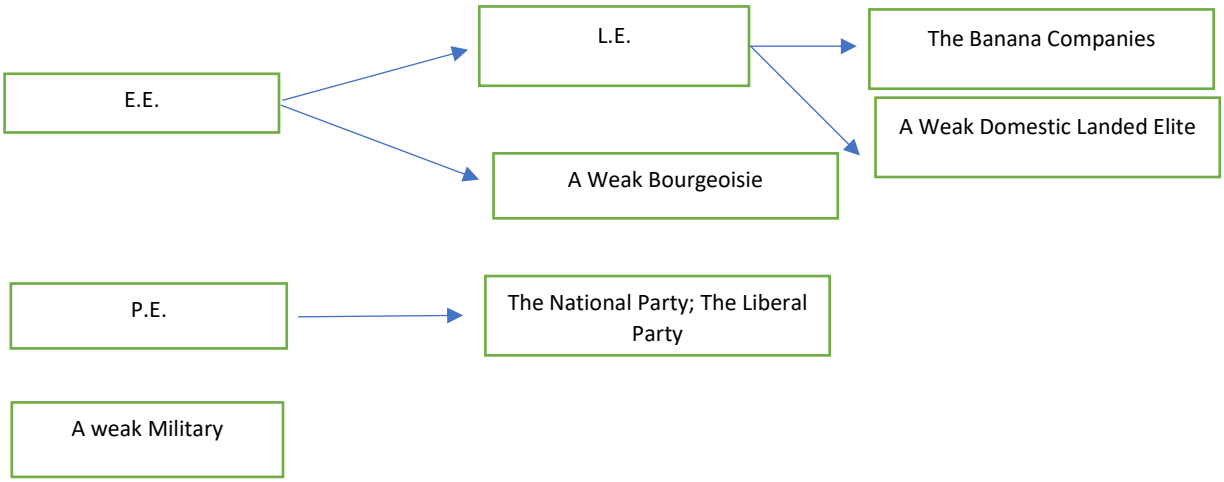
Revolutions were also frequent, often involving only a small number of people with the great mass of the population largely unconcerned and even unaffected (Bulmer-Thomas 1987, 17-18).

The Liberal Reform had a series of some economic policies that included the establishment of a finance department, balancing the national budget, a reorganization of the tax system and the consolidation of the public debt (Leonard 2011, 49). Moreover, Soto considered investment of foreign capital of first importance since the domestic elites lacked enough resources to modernize the country. Foreign investment played a prominent role in reviving mining industry in the central part of the country, particularly in San Jacinto where, with a considerable injection of capital from the U.S., "Honduras and the New York Rosario Mining Company" was founded (Barahona 2005, 331). In order to incentive foreign investment, Soto promoted a land market oriented to coffee growing and the privatization of unclaimed state lands. This was, in fact, the most important liberal reform economic project, similar to other prevailing models in other Central American countries which intended to link their domestic economy to the world market through coffee. Contrary to expectations, coffee did not take hold in Honduras due to its long production time. It is important to stress that the first harvest of coffee is obtained around more than three years from the moment of sowing the crop. It clearly was a major disincentive for rural middle-sized and small entrepreneurs who found easily a very swift substitute in bananas (Barahona 2005, 33; Mahoney 2001, 171; Euraque 1996, 140; Arancibia 2001, 35).

3.2. Elite Formation

In this section, we will explain the formation of the elites in their three versions: economic, political and military elites. During the first half of the twentieth century, however, the only dominant elites are of political and economic nature. The latter, in turn, of landed and foreign character. The bourgeoisie, the local landowners and the military sector are weak elites, as we will explain later. Therefore, these three groups will not be considered when assessing whether there is a cohesive or conflictive relationship among the elites. A preliminary view of the elites we will explain is shown below (figure 3.1.).

Figure 3.1.
A preliminary view of the elites that will be described



3.2.1. The Economic Elites

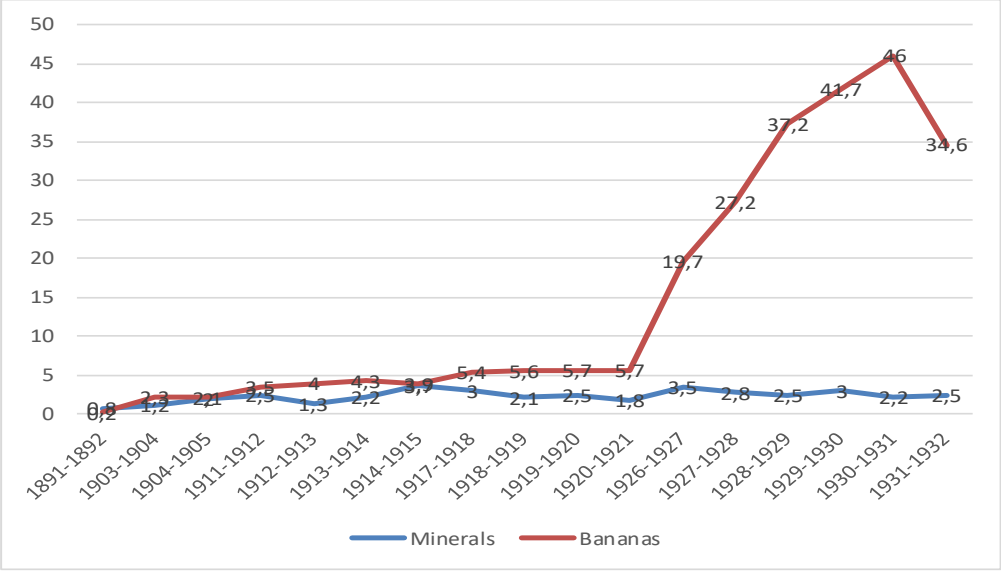
3.2.1.1. The Banana Companies

The unusual interest in banana growing resulted in the creation of the banana enclave on the north coast of the country, launched in a world-historical environment of pervasive foreign investment. In exchange for building roads and infrastructure, banana companies penetrated Honduras. The most important banana companies were i) The Boston Fruit Company, later called The United Fruit Company (UFCO); ii) The Vaccaro Brothers Fruit Company, later called the Standard Fruit and Steamship Company, founded by three American Sicilian brothers: Joseph, Luca and Felix Vaccaro; and iii) the Cuyamel Company whose owner was the Besarabian Jew, Samuel Zemurray. These three companies received a large part of the total privatized land in Honduras: 400.000 acres for the UFC; 498.000 for the Vaccaro Brothers; and 250.000 for the Cuyamel Fruit Company). These lands were distributed mainly in the north coast, but also in Olancho in the hinterland (Leonard 2011, 85; Fumero 2004, 11; Bucheli 2004, 48). Other companies such as Atlantic Fruit Company**,** Pizzati Brothers Company**,** and Cammors McConnel had also a considerable representation in Honduran Economy. As a whole, the largest six banana concession had been granted 416.500 hectares, an enormous part of the country (Ruhl 36, 1984). “However, since most of these lands developed by the banana companies were in areas where malaria and a lack of infrastructure had prevented prior cultivation, traditional

landholding patters were little affected. Land elsewhere in the country remained little affected" (Ruhl 37, 1984).

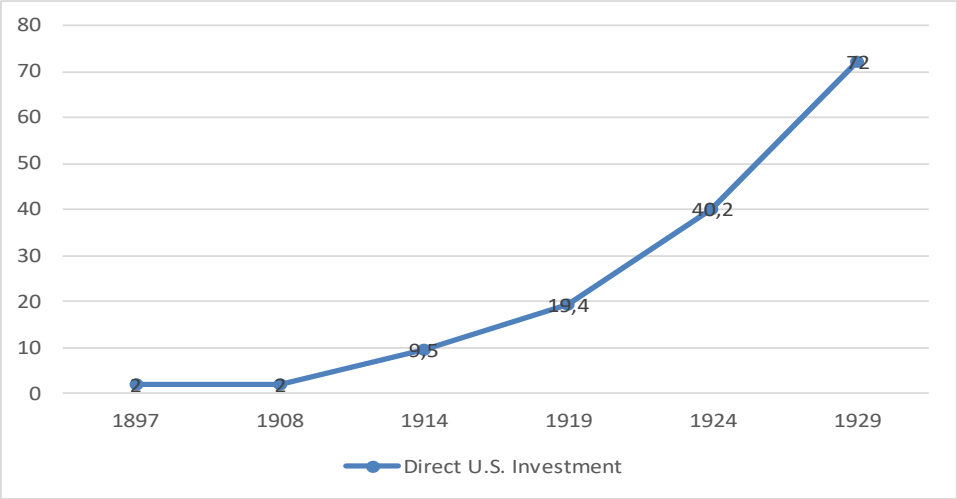
In a matter of years, Honduras became the second largest banana exporter in Central America from 1900 until 1916, and following this became number one globally. On the contrary, with the rise of the banana trade, minerals diminished steadily to as low as 6% of exports in 1928. This figure is totally opposite of that of 1887 when minerals represented roughly 50% of the Honduran exports (Cardoso 1985, 54). In figure 3.2, it is possible to see the notorious consolidation of the banana hegemony in the Honduran economy, with just a little decline in 1930 due to the 1929's depression. With respect to the American Depression, however, Honduras had the least negative effect in Central America, above all because foreign companies intervened directly in the production. Note that, before the Great Depression and onwards, the US companies had in their hands almost absolute control of exportations, if putting together banana and mineral production. From 1908, direct US investment precipitously rose from two million dollars to 18,4 million in 1919 (see figure 3.4). In order to secure its investment, the US had already invaded Honduras in 1903, 1907, 1912, 1919, and 1924 (Bucheli 2006, 10).

Figure 3.2
Export production of minerals and bananas (1891-1932); (Millions of Honduran pesos)



Source: (Laínez and Meza 1973, 30)

Figure 3.3
Direct Investment from the U.S. in Honduras (1897-1929)
(Millions of dollars)



Source: (Arancibia 2001, 40)

Foreign companies played a big role in the perpetuation of the political instability in Honduras as "they stood to gain from a continuation of weak government" (Bulmer 1987, 46). The absence of a nationally-owned elite, quite different to the rest of countries in Central America which were based on coffee, delayed the emergence of a liberal oligarchic state and the republic continued the nineteenth century tradition of revolt and revolution (Bulmer 1987, 46). Political unrest, fiscal poverty and massive external debt left Honduras at the mercy of foreign interests (Bulmer 1987, 46). During the 1920s, a Honduran congressman in 1929 reported that 72% of imported values by foreign banana companies enjoyed tax exemptions between 1920 and 1929 (Euraque 1995, 138).

1.1.1.1. A weak domestic landowning and no bourgeoisie

Until 1950, Honduran landowner remained very weak, the weakest rural oligarchy of Central America (Ruhl 1984, 37). Landowners were never very successful and were largely subjugated to the caprices of the banana companies. As White (1977) states (cited from Ruhl 1984, 37) "the rural elites lived close to their land, often not socially distinct from the neighborhood semi-subsistence farmers". In Honduras, there was no a coffee elite, as in other Central American countries such as Costa Rica and El Salvador where it dominated the public authorities and the most privileged positions. In the beginning of the twentieth century, the cultivation of coffee in

Honduras had little importance –being primarily controlled by Arab immigrants–. Honduran coffee accounted for just 1,2% of the total coffee exports in Central America in 1919 and 0,5% in 1930. In 1936, it reached only 2,5% of the total Honduran exports. Moreover, Honduran coffee growers enjoyed little of the wealth produced in this sector. Scholars have pointed out a set of factors that may have affected the development of Honduran coffee, including a weak central government, inadequate infrastructure, elite interests in silver mining, lack of capital, and the dispersion of suitable land (Euraque 1991, 17, 18). On the other hand, cattle landowners –arguably the most powerful landowners in Honduras– were technologically backward and too weak in both wealth and political power (Ruhl 1984, 37).

While there is evidence Soto's liberal reform did create incentives for the exportation of products such as snuff, timber, livestock, sugar and coffee (Euraque, 1991), higher incentives were given to foreign companies (Foster 2007, 181). Banana companies monopolized industry and the commercialization of bananas, to the extent that local landowners had no control over the processing and the exports of the product (Euraque 1993, 232). This feature leaded to a non-dependent political class on the domestic landed elite and the bourgeoisie, both of which were totally weak by then. As Edelberto Torres Rivas suggests (cited from Mahoney 2001, 179), Honduras did not constitute a landed oligarchy as Guatemala and El Salvador did, because the country was integrated into the world market with an export product controlled mainly by foreigners. Honduras then was a rural country without a rural elite. A report of the International Monetary Fund in 1951 was clear in pointing this out: "none of the great national wealth has been amassed through agriculture" (Central Bank of Honduras 1949, 54; see also Euraque 1991, 39).

Regarding the Honduran bourgeoisie, there was indeed a small sector that became wealthy at the turn of the 20th century. This enrichment has its roots during the rise of precious metal mining in the 1880s and the expansion of the banana companies. San Pedro de Sula is of particular importance in understanding this phenomenon. The revenue of San Pedro Sula, the second city of Honduras and the most important one in the north coast, increased more than any other city in the country due to its closeness with the area of the companies (Euraque 1996, 28). Many people of economic means left agriculture and moved to San Pedro Sula to become involved in commerce, often working with or in support of the companies. Therefore, a small group of people accumulated resources through mostly retail trade, as well as in real estate. In some cases, also in transportation, legal services and lobbying, activities directly associated with the bananas companies. Trade, nonetheless, was never enough to transform local agriculture so

as to create great capitals (Euraque 1993). Moreover, agroindustry remained under the control of the banana companies, which also regulated other aspects as diverse as production, transportation and internal shipping (Bulmer-Thomas 1987, 7). For this reason, Honduran bourgeoisie can be qualified as a weak elite, at least throughout the first half of the 20th century.

3.2.2. The political elites

Together with the banana companies, political elites were the dominant ones the country had for the studied period here and the only ones of domestic nature. Besides being divided into both liberal and conservative parties, they were fundamentally clientele elites who lacked any ideological identity. Both parties, the Liberal and the National one, were highly hierarchical, being led mainly by *caudillos* who wanted to have access to the government so as to obtain their own benefits through the control of politics and the appointment of their cronies and supporters (Taylor 2010, 84). Foreign companies, on their part, consolidated relations with local politicians to ensure favorable concessions. Moreover, Honduran politicians associated with the banana companies in exchange for financing "revolutions" in order to remove presidents or local rulers (Mahoney 2001, 251). As Leonard says, “each had the same self-interest in maintaining the socioeconomic order, their own security and well-being” (Leonard 2011, 104). Thus, *caudillismo* “was transformed into a new kind of clientelism dependent on company patronage” (Taylor 2010). The strong relationship between parties and companies began to be established in 1885 when Honduras tried to negotiate the construction of an inter-oceanic railway during Soto´s reform. It was immediately extended to other mining operations throughout the 1880s. By the turn of the century, these relationships were already consolidated and continued throughout the 1900s when foreign companies looked for the security of their rights to cultivate bananas in exchange of constructing railways (Leonard 2011, 107; Sieder 1995, 104). According to Arancibia (2001, 41) “since 1920, the banana companies handled all railways, including the national one that had been delivered under contract to the Agricultural Company of Sula, which was a subsidiary of the Cuyamel Fruit”. [6]

Although both parties had no major ideological differences, they represented the interests of the banana companies who were competing for land, tax breaks, and new concessions. While the Liberal Party represented the interests of the Cuyamel Company, the National Party would do

[6] This quote and the next ones from on, whose original reference is in Spanish, are own translations.

their part with the UFC (Krehm 1999, 190; Argueta 2008, 232). The interests of the companies became crucial in the country's politics. Alliances between local elites and the banana companies were notorious, leading to parties' ideas soon reflecting those of the companies (Taylor, 2010, 82). Companies used their vast resources to save their interests from the judicial system. In many occasions, prominent congressmen were bribed by the banana companies in exchange for favors, so there were few legislators who introduced projects to constrain banana companies' actions. When a mayor or a local leader tried to punish the companies, they gave up the idea mostly because of lack of resources, or fear of the company. An example that illustrates this constriction occurred in 1935, when the Mayor's office of Sampedrana found that between 1927 and 1932 the UFC had only paid half of the taxes. After discussing the incident, the authorities decided not to pursue the case because the local treasury did not have the resources to face the legal battle that would arise (Euraque 1993, 241).

Honduran political elites continued under rivalries and threats between each other, basically in order to seize power to favor the interests of the companies they represented. They, anyway, did not improve the socioeconomic conditions of the masses. The funds obtained from the banana companies was, in sum, the basis of the political competition, and there were no own programs for developing the country (Taylor 2010, 85; Leonard 2011, 103). By the 1920's both parties had reached enough presence in the whole country and had begun to create popular political affiliations. Howbeit, the companies had already become stronger than the parties, so Honduras government basically depended on their decisions (Ruhl 1984; Euraque 2000, 147; Taylor 2010, 84). "To the critics, Honduras had become an American colony by 1930" (Leonard 2011, 104).

3.2.3. A weak Military

Unlike other countries in Central America, including Costa Rica that has always been characterized by a low military presence, the military elite in Honduras was very weak by the half of the twentieth century (Holden 2004, 77; Bowman 2001, 543). Honduras did not institutionalize and professionalize armed forces, not until 1952 when the national military academy was founded during Juan Manuel Gálvez's administration (1949-1954). At that time, there was just a small force of men, who were no more than an infantry force without an organized supply and which was extraordinarily powerless as an institution (Mahoney 2000, 249; Holden 2004, 76-78). What seems to explain why the Honduran military was too weak in comparison with other countries in the region is that the country did not have forced labor rules

as in El Salvador and Guatemala. Similarly, the military elite never developed an alliance with the landed elite or any other economic group as a whole. In fact, the small military group played only an intermediate role between factions of local caudillos and the lower classes (Leonard 2011, 102). El Salvador and Guatemala, on the contrary, created schools with financial support from the coffee elite which allowed greater complicity between both groups.

The above mentioned does not mean that Honduras was free of militarist *caudillos* and civil wars, as we outlined in the beginning of this chapter, but the Honduran military was more a small personal force than institutional. When revolts arose, especially in elections, they often involved internal struggles among *caudillos* with the only purpose of seizing power (Ropp 1984). Therefore, the military was more concerned with protecting an individual power than that of the institution. Likewise, with government revenue so weak, national armies were small, poorly paid and based on conscript labor (Bulmer- Thomas 1987, 17). It is not possible, therefore, to call these armed troops military armies, but rather unorganized militias in which the fighters were men close to the *caudillo* or within his networks (Bowman 2001, 544). Thus "a determined opponent of the president did not find it difficult to raise the men and weapons to mount a serious challenge to the government in power" (Bulmer- Thomas 1987, 17).

3.3. Democratization

Besides the implementation of a new Constitution in 1894 which granted some new rights and progressive elements such as secret voting and minority representation, real opportunities to report fraud became possible when the political parties were created in the 1890s. The Liberal Party (*Partido Liberal de Honduras* PLH) was founded by Policarpo Bonilla in 1891 while the National Party (*Partido Nacional de Honduras* PNH) was organized by a disgruntled faction of the PLH in 1902 (Taylor 2010, 84). The first Honduran democratization dates to shortly after that period, more precisely in 1924. Such a democratic experience has some explanations. Firstly, it was primarily due to US pressure on the Central American countries to limit military power and to expand suffrage. The US was afraid of the continued riots that some countries in Central America were experiencing. It worried the US which had some interests in the region, including protecting the recently constructed Panama Canal (Wright 1960, 221). The US intervened in several times in Honduras, as well as in other countries in Latin America in order to encourage political stability through the constitutional process and to discourage political

change through revolution. Also, it looked to avoid European intervention at all costs, including that of Germany which had showed interest in the region (Wright 1960, 221).

Secondly, in 1923, the US encouraged the Central American nations to reorganize and sign The General Treaty of Peace and Amity, first created in 1907 (Pearcy 2006, 86; Leonard 2011, 98; Wright 1960, 217). It provided for the non-recognition of government that came to power by a coup or revolution, even if it had been thereafter legalized by free elections. It also excluded revolutionary leaders and their close relatives from serving as heads of state, as well as high-ranking civilians and military officials who had been in power six months before a coup. The Central American Tribunal was created too, which was made up by the five republics in Central America plus the United States. The tribunal established finally an electoral project in order to codify voting procedures and verify election results. From then on (1923), every threat to the political establishment that Central America experienced would be declared as illegal (Leonard 2011, 99).

Nonetheless, a year later, in 1924, a new long revolution burst forth. The US sent warships and marines to Tegucigalpa, the capital city of Honduras, in order to save American properties and lives. Presidential and congressional elections were held right away, leading to Miguel Paz Barahona winning the presidency with about 99 per cent of the vote (Euraque 1996, 75). However, alliances between local politicians and the banana companies were notorious, and parties' ideas soon reflected those of the companies (Taylor 2010, 82). As mentioned above, the liberals were supported by the Cuyamel Company while the UFC financed the conservatives (Krehm 1999, 190). As a result of the structural weakness of the national oligarchy, foreign interests become critical, not only in the economy but also in the politics of the country. They reflected their struggles and divisions between the two political parties (So as to have an image of how the elites were configurated at the time of the democratization experience, see Figure 3.4.).

Honduras remained a democracy for the next three presidential terms (see table 3.1). Like the 1924-election, the elections of 1928 and 1932 were relatively free, having the participation not only of the Liberal and the Conservative Party, but also of the Communist Party as we shall see. As Bulmer-Thomas (1987, 45) points out, "Honduras had succeeded almost for the first time in the twentieth century in securing a peaceful transition of power". In the 1930s, a dictator emerged, Tiburcio Carías, from the National Party. He held power for sixteen years by

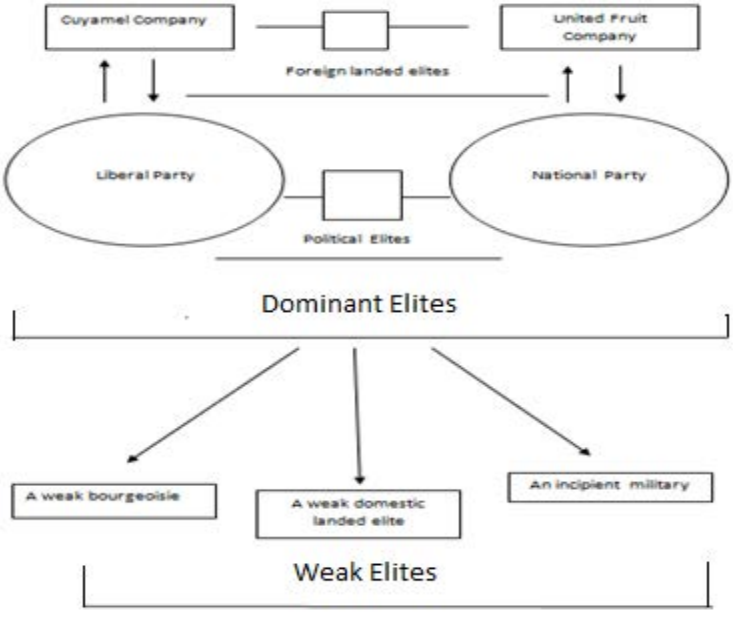
repeatedly prolonging his term of office. Surprisingly, Carías was one of the leaders of the democratic revolution whose slogan was "free elections" (Wright 1960, 222).

Table 3.1.
Presidents of Honduras (1920-1949)

President	Term in office	Mode of Acquiring Office	Mode of Leaving Office
Rafael López Gutiérrez	1920-1924	Non-competitive elections	Dies in Office
Francisco Bueso	1924	Provisional president	Resignation
Fausto Dávila	1924	Provisional president	Resignation
Vicente Tosta	1924-1925	Provisional president	Resignation
Miguel Paz Barahona	1925-1929	Competitive Elections	End of term
Vicente Mejía Colindres	1929-1933	Competitive Elections	End of term
Tiburcio Carías	1933-1949	Competitive Elections	Resignation

Source: own classification based on Mahoney (2002)

Figure 3.4
Honduran elites' configuration at the time of the first democratization experience



Source: own

3.4. Critical Juncture H1 (1929-1932)

3.4.1. The trigger: Threats of Redistribution in the 1932 elections

Banana companies deteriorated social and economic conditions of the farmers and workers, provoking the response of the working class, the creation of labor organizations and the emergence of strikes and uprisings. Labor organization increased in time, complaining about the role of the companies in the country. Several organizations were created, such as the Workers Federation of Honduras (*Federación Obrera de Honduras*, FOH) in 1921, and the Union Federation of Honduras (*Federación Sindical Hondureña*, FSH) in 1929. The latter institution played not only a valuable role in the union struggles, but also in the emergence of the Communist Party of Honduras (*Partido Comunista de Honduras* PCH). It should be taken into account that many of its members began their political activity within this institution. Such was the case of Manuel Calix Herrera and Juan Pablo Wainwright, two of the founders of the CPH. The Communist Party followed the principles of the Communist International. According to Ricardo Martinez, who took on the task of reshaping the party during the 30s, the party had "an iron discipline -cuasi military -, an anti- reformist character and a permanent agitation and propaganda among the masses" (Melgar 2007, 396).

The UFC did not look favorably the creation of these organizations, neither the role of the incumbent president, the liberal Vicente Mejía Colindres, whom they considered a lenient man with the emerging rebel movements (Argeta 2008, 69-71). Mejía Colindres was viewed, according to Walker Smith – the US ambassador of Honduras at the time – as "a socialist who enjoyed the support of certain elements of the younger generation within the party who were only a little less radical than the communists in the Soviet Union" (Euraque 2000, 142-43; cited from Taylor 2010, 92). Furthermore, the 1932-presidential elections were a threat for the company as two of the three candidates were pursing overall goals which were opposite to the bananas companies' interests: Ángel Zúñiga of the Liberal Party and Manuel Calix Herrera from the Communist Party. Both proposed better wages and general improvements in the social conditions for workers.

Regarding Zúñiga, he was a key ideologue of the Liberal Party, emphasizing the principles of equality and social justice and the necessity to link the collective benefits with the aims of the

individual (Ajenjo 2001, 196-197)[7]. On the other hand, the nomination of Manuel Calix Herrera from the Communist Party was an unprecedented event in Honduran History. Manuel Calix was the General Secretary of the party, but also represented the Workers and Peasants´ Bloc (*Bloque Obrero Campesino*), being the first presidential candidate to emerge outside the traditional political parties: The Liberal and the National Party. The bloc proposed a class alliance, which sought to bring together the workers, peasants, urban and rural poor, artisans, small manufacturers, merchants, intellectuals and students; impoverished small social groups who identified themselves as those who suffer most by the exploitation of companies' imperialism (Barahona 2005, 90-92). The UFC reacted strongly against both Zuniga and Calix Herrera's candidacy as they were considered dangerous for the company. The UFC fearful that its privileges in the area may dwindle.

3.4.2. Elite responses: The alliance between the UFC and Carías

The political division made it more difficult for the UFC and the Cuyamel companies to monopolize country's resources. The presence of the Cuyamel in the State of Cortés also meant an unusual economic power against the UFC desires to monopolize the market (Euraque 1993, 36). Both Cuyamel Company and United Fruit competed fiercely, including bringing along an armed land conflict that was disputed between Honduras and Guatemala between 1917 and 1929 (Dosal 1993, 141-159; Schlesinger and Kinzer 1982, 69-70; Foster 2003, 193). Nonetheless, companies' competition ended in 1929 when United Fruit bought Cuyamel and appointed Sam Zemurray, Cuyamel's previous owner, as the chairman of the board of the company. This increased the opposition of Mejía Colindres in the Legislative, which was in great measure controlled by the National Party, therefore the UFC (Bulmer-Thomas 1997, 64; Argeta 2008).

In the 1932-presidential elections, the UFC strongly supported the candidacy of Carías, from the National Party. The arrival of Carías in power would benefit the company because both intended to repress the strikes and labor organizations as well as he might grant the company's requests for land concessions and tax exemptions (Bulmer-Thomas 1987, 76; Taylor 2010, 92).

[7] In spite of this, Zúñiga was not very distant from his opponents' position, for example that of Carías, as he also sought a dictatorial government (Padilla 2001, 48). This view was reinforced mainly because Zúñiga was also supported by Jorge Ubico, at that time the dictator of neighboring Guatemala (Funes 2000, 132). At the same time, others criticized Zúñiga because of his slogan against female vote, making him appear another conservative politician (Villars 2001, 278; for the different nuances of this interpretation, see also Tábora 2000, 135-140).

The Franklin Roosevelt administration also got involved, supporting Carías because he was willing to provide assistance to the UFC in the war effort in Central America against American enemies. Carías received lots of financial support to increase their political influence and his clientele network in the country (Taylor 2010, 89). Even though Carías had already tried twice to seize power without good results, he quickly won the 1932-elections, defeating both Zúñiga and Cálix Herrera. Once in power, Carías turned back to the UFCO when he needed either to undertake advances or to use state coercion to maintain the status quo. Following Mahoney (1990, 249), "Carías took step to eliminate workers organizations. Here organized labor was viewed as a threat and was strictly controlled".

Political control was a core part of Carías' administration. The Communist Party was outlawed and the Liberal Party was restricted, threatening the party with death. Carías virtually exterminated and sent into exile all his opposition, including Ángel Zuniga from the PLH. Manuel Calix Herrera and Juan Pablo Wainwright from the PCH were sent to prison. Even though Wainwright escaped to Guatemala in 1930, he was executed by the Guatemalan dictator Jorge Ubico in January 1932, an allied of Carías. Likewise, Carías began to crack down on the press opposed either to his government or to the UFC. In June 1939, for example, Luis Suazo, the director of the weekly newspaper El Heraldo of San Pedro de Sula, was prosecuted by Carías for articles criticizing the labor of the UFC (Argueta 2008, 74). While Carías was president, the National Party consolidated its power which had at its disposal the entire Congress. Carías stepped down as president voluntarily in 1949, leaving Manuel Gálvez as his successor: his minister of war and a former United Fruit lawyer. Gálvez, nonetheless, was not elected by free elections.

3.4.3. Outcome: Wealth inequality, but mainly between locals and foreign companies.

According to Euraque (2000, 135, 36), the way Honduras factionalized its elites caused nation's main problems. The lack of a domestic agriculture-based elite, a weak military, and the way political elites allied with the banana companies led to a very unequal country without a local elite who did not pursue other interests than their immediate benefits. Moreover, the state put its resources and coercive power to serve the companies and in return it received loans that allowed it to purchase weapons, pay salaries to the incipient army and to enhance the bureaucracy (Argeta 2008, 140; Sagastume 1985, 25-30). After the onset of Carías' dictatorship,

the UFC began to have an influence never seen before. They controlled the plantations and the largest crops of the country, thus maintaining its monopoly and privileged position. It is estimated that the UFC, directly or indirectly, contributed with 85% of the exportation income throughout the 1930s (Euraque 1993, 232). Also, the government permitted the UFC to reduce wages as planned (Bucheli 2006, 13). Inequality, consequently, did not decrease. On the contrary, it was maintained as just a small part of the banana benefits were distributed along with UFC's network of local patronage. For example, while a third of crop exports in 1930 were in the hands of smallholders, at the end of the *cariato*, the proportion decreased to almost zero (Soluri 2005). The *cariato* was, in this sense, "an example of order without progress" and poverty continued being one of the main characteristics of Honduran society (Bulmer-Thomas, 2001). After the Mejia Colindres administration (1932), the Honduran GDP per capita was the second highest of Central America, just after Costa Rica. It was, however, soon overtaken by Guatemala and El Salvador in 1937. In 1942, Honduras was already the poorest country in all the Americas (Bulmer-Thomas, 2001).

It is important, however, to note that the Honduran domestic elites did not have enough power to concentrate resources, but rather their wealth was granted by foreign companies' due to their clientele networks. Therefore, inequality in Honduras did not grow as in other Central American countries. In Honduras, local elites did not retain the best distributional benefits, rather were reliant on foreign actors who enriched themselves abroad. Along with the fact that rural labor was highly disorganized, the low power of local elites also explains why the masses in Honduras did not confront them like in other countries in Central America during the first half of the 20th century. Confrontation was basically against the UFC, a foreign actor with too much power for them, thus the demands from below were not considered and were easily dismissed (Ruhl 1984; Taylor 2010, 86; Rueschemeyer et al., 230, 231). This was in striking contrast to other neighboring countries like El Salvador and Guatemala. There the coffee oligarchy resorted to the use of repression to protect their wealth from the exploited masses, who in turn were very organized in their internal structures (Karl 1995, 79).

3.5. Conclusions

Different preferences towards redistribution are showcased in the initial of the critical juncture. While the economic elites, under the head of the banana companies, are clearly against redistribution, the preferences of political elites are mixed: there are political actors who display in favor of redistribution while others are clearly opposed (see table 3.2)

Table 3.2
Central actors, all mentioned in the explanation of the critical Juncture H1

Type of Elite	Actors	Actors' preferences
Economic. (A landed elite of foreign nature)	The United Fruit Company Cuyamel Company	Against
Political Elites	The National Party: (Tiburcio Carías) The Liberal Party: (Vicente Mejía Colíndres; Ángel Zúñiga) The Communist Party: (Manuel Cálix Herrera; Juan Pablo Wainwright)	Mixed Preferences

Due to the arrival of Carías in power, the situation changes. Carías persecuted and annihilated opposition, prompting a perfect consistency between both the economic and political elites. In this case, cohesion between these two sectors increases because of the annihilation of opposing actors. Moreover, wealth inequality rises–as said, but it is mainly based on an unequal distribution of wealth between foreign companies and locals. So, it may be inferred that inequality did not increase in the same degree as other countries in the region where most profits were taken by local elites.

CHAPTER IV. EL SALVADOR: ELITE FORMATION, ELITE RELATIONSHIP, DEMOCRACY AND WEALTH INEQUALITY

4.1. Introduction

The Honduran and Salvadoran history have many things in common. Like Honduras, after the consolidation of its independence from Spain in 1821, El Salvador belonged to the Mexican Empire until 1824. Afterwards it also joined the Federal Republic of Central America until 1840, being the last country to accept the dissolution of the Federation. As in Honduras, the first constitution of El Salvador divided the power between the president and a bicameral congress. This division, however, remained until 1939 when a new constitution established a unicameral system. Finally, in both countries power was also seized during 20th century mainly by armed struggles between Liberals' caudillos and those of the conservatives, which irregularly alternated power (Krennerich 1993, 307). Unlike Honduras, however, El Salvador held clean elections only once until 1979, in 1931. Arturo Araujo was proclaimed as president in these elections, but his administration rapidly failed due to a military coup in 1932. Maximiliano Martínez seized power and was proclaimed as the president of the country until 1944. El Salvador functioned as a dictatorship for five decades after this coup.

This short democratic experience and its breakdown have some explanations. Firstly, the domestic elite managed to accumulate lots of resources since they controlled coffee production, the first product of exportation in El Salvador. This helped the state to strengthen the military which basically served the interest of the coffee elites, at least in the first decades of the century. Secondly, the masses in El Salvador were collectively organized and much stronger than other countries in Central America, so they recurrently used different forms of collective action so as to achieve their wishes (Lido-Fuentes et al. 2007, 43, 44). Thirdly, the masses found in democracy a way of redistributing wealth. In fact, the President Arturo Araujo, who came to power in 1931 thanks to competitive elections, was a recognized progressive leader with similar characteristics to other left-wing governors in the region. The mix of these three features increased elite's risk of losing wealth, leading to the use of means of repression by the elites to curb the continuing popular protest democracy had lead.

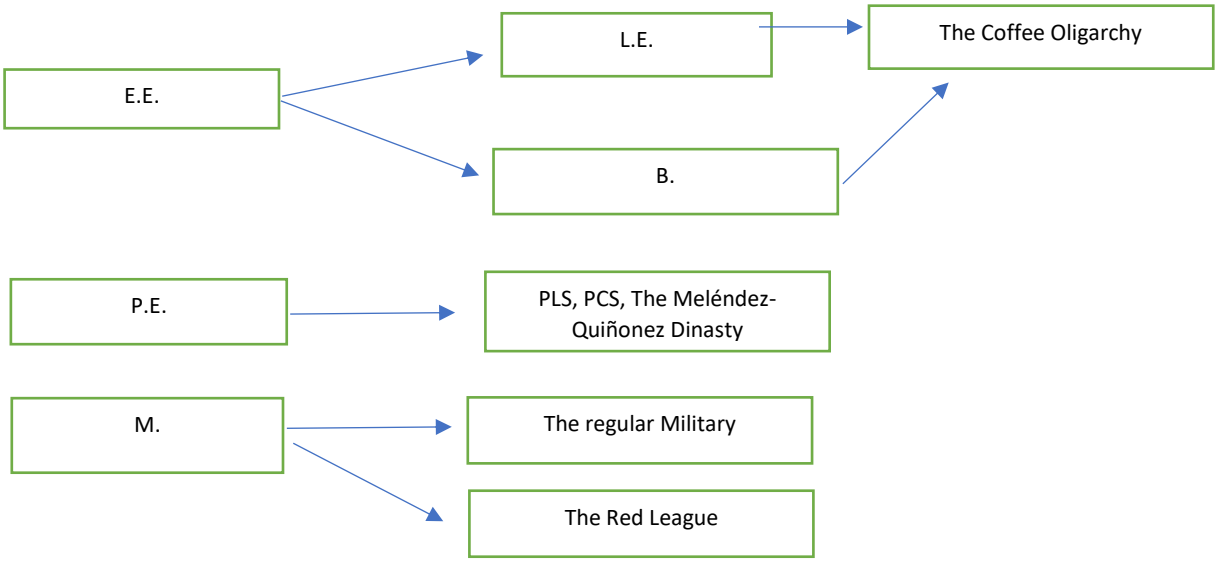
El Salvador dramatically changed its course during and after its Liberal Reform conducted during the administration of Rafael Zaldívar in the mid-1870s. The aim of this reform was to encourage the privatization of communal and indigenous lands, the *ejidos*, which had been

inherited since colonial times. Above all, Zaldívar intended to foster a more favorable market for the cultivation of coffee with export-oriented purposes (Mahoney 2001, 123-125). The cultivation of coffee which largely explains the economic and political history of El Salvador dates to this privatization process, which in turn was characterized by great inequality in which 73% of all the expropriated land went to the 5,78% of the new owners (Lindo-Fuentes 1990, 150; taken from Cardenal 2002, p. 15-17). Land concentration in this regard was not inherited from the colonial period, but it was a result of a privatization of lands that "increased the number of property owners and created a large, differentiated class of landowning peasants and farmers" (Mahoney 2001, 134).

4.2. Elite Formation

As in the former section of Honduras, the formation of the elites in the three versions: economic, political and military elites, will be explained. Contrary to Honduras, all them are dominant elites. The economic elites, in the same manner, are of agrarian and bourgeoisie nature, being a single class with both factions frequently refer to as the "Coffee Oligarchy". A preliminary view of the elites is shown in the figure 4.1.

Figure 4.1.
A prelimary view of the elites who will be described in the chapter

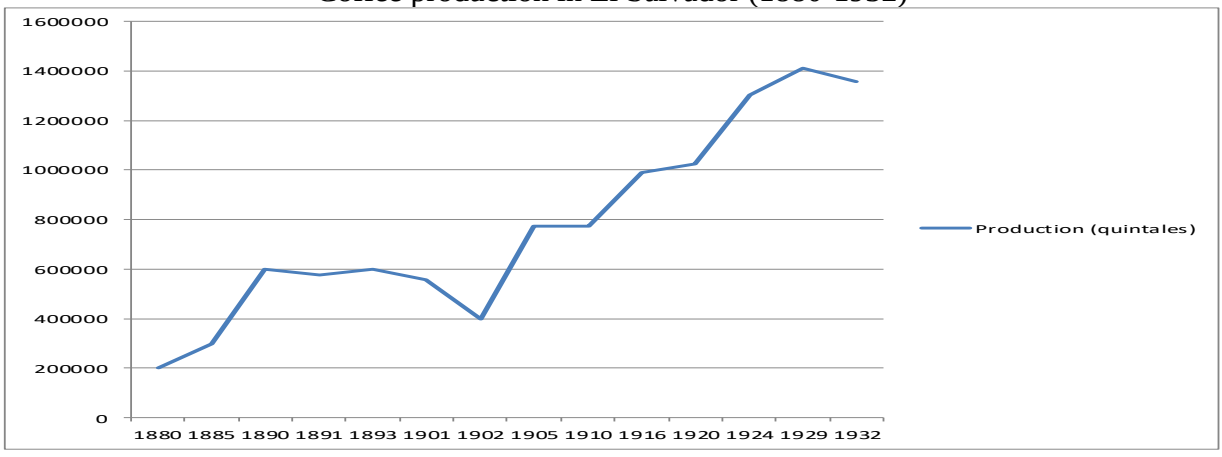


4.2.1. The Economic Elites

4.2.1.1. The coffee elite

The Liberal Reform helped the country achieve stable insertion on the international market since the end of the nineteenth century. The consolidation of radical liberalism also occurred in the context of a rapidly expanding coffee economy and steady demand for the product on the international market (Mahoney 2001, 132). Notice that coffee production grew from 200.000 quintals in 1880 to 1.357.321 in 1932 (see figure 4.2). In the same period, the used coffee land increased from 15.400 to 97.000 hectares (Lauria- Santiago 1999, 134). Coffee export volume also augmented. Until 1870, coffee was not a representative product in the Salvadoran economy and it hardly competed with indigo, the first product of exportation at that time. However, at the turn of the century it represented about 75 percent of all export revenue (Mahoney 2001, 133). In 1914, 81 percent of the exports stemmed directly from coffee (Baires 1991, 81; Williams 1994, 34) and in 1927 it had already reached 92,6 per cent (Bulmer 1987, 34; Quinteros 2002, 92).

Figure 4.2
Coffee production in El Salvador (1880-1932)



Source: Own elaboration based on Lauria-Santiago (1999, 134)

Coffee economy contributed to enrich the landed elite as the expansion of exports allowed the members of the upper classes a new route for enhancing their wealth and social prestige (Bulmer 1987, 44). Salvadoran coffee elite can be characterized as an agrarian bourgeoisie, a class that is marked by a fundamental dualism between its landed nature, but with an agro-industrial and commercial fraction (Paige 1997, 54; Mahoney 2001, 139). While in Honduras the bourgeoisie

was comparatively weak, El Salvador's coffee elite tended to be more technologically advanced and more efficient. Compared to the Honduran elites, both the agrarian and the industrial factions of the coffee elite in El Salvador were quite powerful. As Paige (1989, 101) says, by the beginning of the 20th century, the domestic elite of El Salvador was an agrarian bourgeoisie of coffee producers. It combined both landowning and industrial functions in a single class. According to Paige (1997, 55):

> The fundamental division of the elite into agrarian and agro-industrial fractions is reinforced by the fact, already noted, that the elite, particularly in El Salvador, controls other sectors of the economy, including but not limited to, other agro-export sectors. Coffee producers in El Salvador, for example, are also cotton and sugar producers. The latter two enterprises under contemporary Central American conditions are highly industrialized forms of agri-business. Urban manufacturing is also controlled by leading coffee families in El Salvador, as is much of banking, commerce, real estate, tourism, and finance.

Note that in 1937, El Salvador had already been recognized by the great care it took with the quality of its coffee, expanding the use of chemical fertilizers on coffee since the early of the 20th century. Apart from Costa Rica, El Salvador was the only country in Central America by that time which concerned itself with coffee improvement in this respect (Paige 1997, 74). El Salvador's coffee elite tended to be, indeed, more technologically advanced and more efficient than some of their counterparts in Central America, in particular with regard the Guatemalan coffee elite (Mahoney 2001, 138). Moreover, contrary to Guatemala and Costa Rica, El Salvador developed a diversified trading networks, "exporting coffee to the United States, France, Germany, Italy, the United Kingdom and other countries, with no country taking an export share greater than 30 per cent" (Williams 1994, 182). It led El Salvador not to depend on the interests of a specific country and to create a more autonomous domestic elite in terms of the international market (Williams 1994, 182).

Coffee made El Salvador an example of a real oligarchy of wealth and power, with no more than a few families controlling coffee production. By 1940, the largest 192 holding-lands accounted for 37% of the land used in coffee. Also, fourteen families controlled more than 150 of all the export trademarks (Paige 1987, 178). It is important to note that many of these families came to El Salvador from abroad, and contributed with capital, international connections and expertise. Among these families are the Belismelis' and the De Sola's, both of Spanish descent, the Borghi's and the Daglio's of Italian heritage, and the Hill's who came from England. "Most of those who remained at the top of the social pyramid in the 1970s reveals a scattering of names –Regalado, Salaverría, Alfaro, Palomo and Quiñonez (…) Llach, Schonenberg, Drews, Sol, de Sola, Deinenger, Cohen, Cristiani, Belismelis, Battle, Harrison, Dalton, Daglio, Liebes,

Borgonovo, Kriete, Duke, and Homberger – who arrived during the coffee boom" (Williams 1994, 182-83). In principle, these immigrants were mostly coffee exporters (55% of them were listed as exporters in 1921), but they expanded quickly. In the early 1970s, they also appear as "large growers, coffee exporters, *beneficio* owners, and large landowners" (Williams 1994, 183).

4.2.2. The Political Elites

During the creation of the 1885-Constitution, an ideological and violent division formed, made up among caudillos who gathered into two different sectors which have been compared to a liberal and conservative party (Melgar 2004). However, until the early 1910s, political parties did not exist, there were just some clubs which bore the name of the candidate they supported and which disbanded at the end of each election. Thus, the clubs which entered the scene did not constitute partisan organization, rather a man supported by others which were in turn supported by many (Hernández Turcio 1978, 60-62).

Since the 1910s, El Salvador started to create permanent institutions, among them some political parties. One of the most ancient political parties in the country was the Communist Party (*Partido Comunista Salvadoreño* PCS), which was founded by Agustín Farabundo Martí during the period of political liberalization in the late 1920s. The party was very strong, especially in the southern part of the country and participated in assembly and local elections in January 1932 (Montgomery 1992, 288-289). The Salvadoran Labor Party (*Partido Laborista Salvadoreño* PLS) was also organized in the late 1920s, gaining popularity in a large part of the population. The party promoted successfully the candidacy of Arturo Araujo in 1931, which resulted in the first president of El Salvador in the first free and clean elections. The party, however, was repressed after Araujo's overthrown in December 1931 and it would disappear afterwards (Montgmery 1992, 301). Two important parties, although very personalist ones, were the Democratic National Party (*Partido Nacional Democrático* - PND) and the Blue Party (*Partido Azul*, PA), both of which had been led by different *caudillos*. The PND was founded by Alfonso Quiñonez Méndez, who took it as the main vehicle to reach the presidency for him and his family over more than thirteen years. The PA was a *caudillo* party represented by Miguel Tomás Molina, the main opposite leader of Quiñonez Méndez. Although the PA was quite successful among the masses, it failed to come to power due to fraudulent elections in favor of the dynasty Meléndez Quiñonez (Hernández Turcios 1997).

4.2.2.1. The Meléndez-Quiñonez Dinasty

After the repressive governments of Pedro José Escalón (1903-1907), Fernando Figueroa (1907-1911) and Manuel Enrique Araújo, the latter of whom was killed in office, new presidential elections were held. Contrary to what occurred throughout almost the entire 19th century, two parties went to the contest in 1911: The PND under the head of Jorge Meléndez; and the PA, also called Patriotic-Democratic Party (*Partido Patriótico Democrático*), headed by Tomás García Palomo, a prestigious liberal politician. The victory was for Meléndez, as expected, although historians do not hesitate to say these elections were manipulated and controlled by violent means (Hernández Turcios 1997). The prosperity and power of the coffee planters reached their culmination during the years 1913-1929, an economic and political period referred to as the Melendez-Quinonez dynasty because of the two related families that held the presidency during these years. Those families ranked among the largest coffee growers and strengthened its grip on the country via manipulated elections which kept the presidency in the family throughout the 1920s.

In order to broaden the basis for government support, the Meléndez-Quiñonez Dinasty expanded the political arena by incorporating middle-sector and working-class groups into the state. During its administration, manual workers –with the exception of the peasants– and even some intellectuals received government support to organize. For example, the *mutuales* or mutual aid societies were associations mainly based on members' cooperation that intended to provide social protection and aids through government assistance as well as from mandatory contributions from its members. Such associations were a type of control and recruitment mechanism with the purpose of getting political support and justifying the authoritative government the Meléndez-Quiñonez Dinasty had implanted (Quinteros 2002, 122).

The Meléndez-Quiñonez governed until 1931 when Arturo Araújo was elected. Despite its apparent stability, the dynasty had to confront several problems. In the first place, its main opponent, Tomas García Palomo, managed to obtain great popular support, so the Meléndez-Quiñonez family remained in power through electoral fraud. In the second place, different associations threatened the regime with uprisings and political unrests. Among them, the Regional Federation of Salvadoran Workers (*Federación Regional de Trabajadores Salvadoreños*, FRTS), and the Labor Confederation of Central America (*Confederación Obrera Centro Americana*, COCA) were the most outstanding. Moreover, the Salvadoran workers found the solidarity of the Liberal Revolution in Nicaragua, led by Augusto Cesar Sandino

against the US troops (Quinteros 2002, 125). For its part, the family faced its threats splitting the military up with grants and resources exchanges (Gould et al 2002, 35). Furthermore, the family created the Red League in the rural areas (*Liga Roja*), a paramilitary organization made up by peasants who supported the family in exchange for favors. Due to its important role in the short-lived democratic transition of the 1930s, it is important to focus on the *Liga Roja* in more detail later.

4.2.3. The military

4.2.3.1. The regular military

Unlike Honduras, El Salvador strengthened the military before beginning the 20th century (Mahoney 2001, 126). Rafael Zaldívar managed to create a national army to counteract any revolt against the liberal reform: the armed forces were used to enhance the capacity of the state to privatize communal lands by means of repression. This policy continued during the coffee expansion, particularly during the Meléndez-Quiñonez Dynasty, which reinforced the establishment of a more permanent military. In this sense, several institutions were created: The Military Polytechnic School in 1900; the National Guard in 1912, and the Military School, which is still functioning, in 1932 (Bradfort 1984, 305). Basically, military's duties consisted of retaining control of the governmental institutions as well as protecting the country against its neighbors in case of conflict. During the Melendez-Quiñónez presidencies, the army also served the regime repressing opposition, in particular in electoral periods (Williams and Walter 1997, 15).

The military sector was divided between two groups during the 20s. Firstly, the regular army that was composed of soldiers who paid a year of service and who received basic skills in reading, writing and arithmetic. The army, meanwhile, was divided into: i) eleven regiments of infantry, ii) one regiment of artillery located in San Salvador, the capital city, and iii)a very small air force. The army played therefore a key role in the use of force in urban areas, contributing to helping the National Guard which for the most part functioned in the largest cities. Secondly, a rural reserve composed of former soldiers, who had to be available in case of emergency until they would turn 50 years of age. They were also called upon to serve the *patrullas cantonales* (cantonal patrols), called the *escuelas militares* (military schools). These *patrullas* were part of a control system implemented by the army to co-opt the peasantry using

its owns members. As Williams and Walter (1997, 16) say, “this cooptation not only strengthened the national state’s presence but also contributed to the weakening of communal ties as peasants confronted peasants in the struggle over land, debt and assorted privileges”. By 1892, the military reserves reached approximately 60.000 men, most of whom, nonetheless, were not active. By 1920, the available evidence suggests that paramilitary forces had a broader representation. According to Williams and Walter (1997), who base their information on a census taken in the *departamento* of Ahuachapán in 1925, one of every six adult males was involved in some form of military control (Williams and Walter 1997, 17). These figures show how well organized the military sector was in El Salvador. They may, however, exaggerate the image for the entire country, considering that coffee areas had higher concentrations of military control, as in the case of Ahuachapán.

The whole military at that time was, then, an important institution that could easily threaten the most important political actors in the country like mayors of important cities, ministers of state and even the president of the Republic. Considering that El Salvador did not have external threats that required a general mobilization, except for a few small confrontations with Guatemala, it is feasible to argue the paramilitary structure served as an instrument of social control almost exclusively for the coffee elite, who retained the power in the hands of the Meléndez Quiñonez Dinasty (Williams and Walter 1997, 18).

4.2.3.2. The Red League

Besides the army and the National Guard, Alfonso Quiñonez Molina created the *Liga Roja* in 1917, divided among numerous cells which distributed in various regions and towns of the overall country. The League was called “the Forefront of the Workers” because it was based on the participation of the low classes but was government-finance. Hence, it served as a mediator between the working and rural class and country's oligarchy, becoming an effective instrument of social control. This was clear during a public rally in 1922 commanded by a group of women who supported Miguel Tomas Molina, the fiercest opponents of the dynasty (Quintero 2002, 121). The rally ended in a massacre headed by the *Ligas*, called as the massacre of the *Molinistas* Women.

Although the government occasionally introduced its strength against the *Ligas* due to the high levels of violence the country experienced (Williams and Walter 1997, 123), the administration

of the Meléndez-Quiñonez dynasty was very lenient. It happened basically for two reasons. On one hand, because it helped the government to intimidate the opposition and gain victory in the polls. On the other hand, because the government got rid of any responsibility for the acts of the League as they were committed by members of civil society, mainly peasants or indigenous people. As Emilio Quinteros says (2002, 120), "the people", and not the apparatus of the repressive state would appear as the main protagonists in the attacks against the opposition" (own translation). Meanwhile, popular groups found in the *Ligas* a means of communication between them and the government, as well as a way to confront internal opposition groups. The indigenous, for example, found in the *Ligas* a way to counteract the huge power of country's mestizos and whites (called as the *ladinos*) in relation to their better social conditions and privileges (William and Walter 1997, 15).

4.3. Democratization: The First, but Short-lived Democratic Experience

Elections in El Salvador were laid down by the constitution of 1886 and bolstered in the constitutions of 1939, 1950, 1962 and 1983. There were also electoral laws in 1886, 1939, 1952, 1961, 1985 and 1988 (Krennerich 2005, 274). Universal male suffrage was introduced in 1883 and active female suffrage in 1939 for married women over 25 years of age or for those who were single but older than 30. Since 1950 all Salvadorans over 18 can participate in elections. Even though El Salvador enjoyed during the 20th century a long tradition of elections, only some of them are considered free and fair. For example, between 1903 and 1931, all governments were formally elected through elections, including the above-mentioned Meléndez-Quiñonez Dynasty. In total, there were eight governors in that period of time who rotated themselves in peaceful ways (Bradfrod 1984, 175). These elections, however, were uncompetitive, and the rulers came from a few families linked directly or indirectly to the coffee oligarchy (Krennerich 2005; Martín Hernández 2014, 17; Wlliamss and Walter 1997, 14). As Gould et al. (2009, 36) say:

> The regime became practiced at the art of producing desired electoral outcomes (...). It must be admitted presidential continuance depends often enough on electoral fraud. There is no ballot; the bulk of the population is practically without letters in the crudest sense. They come to a table where there are armed officials. They give their names and vote, sometimes under stress

The first competitive election in the history of El Salvador took place in 1931, and for a long time the only one. This was carried out by a personal friend of the Meléndez- Quiñónez Dynasty, Don Pío Romero Bosque, as a result of social mobilization as well as Don Pío's strong desire to break the authoritarian scheme that had prevailed to date (Bradfort 1984, 182; Menjíbar 1986 42). Don Pio's personality was considered weak by the family, as weak as his health condition. It seems this made the dinasty think that Don Pío would be easily manipulated to allow the family to lead the country. Don Pio, however, showed little docility when he came to power, even to the point of openly opposing the dynasty (Hernandez Turcios 1977). Recall that various associations of peasants and workers were created during the years in which the family governed, as was stated in the paragraph devoted to the dynasty. Among these associations were the FRTS which came to have roughly 75.000 members, and the COCA, both created in 1924 (Menjivar 1986, 45). Other groups which also pressured the government were the "United Workers", directed by Alberto Masferrer – who I shall speak later–, and "The Red Star", an organ of the University of El Salvador. It is remarkable to note that while the former was close to the reformist line, the latter had a more Marxist approach (Menjivar 1986, 47).

The fall of coffee prices in 1929 largely explains why the protests of these groups increased, as well as the overall popular voice. It had several immediate effects, including, between 1929 and 1931: i) fall of the national income by approximately 33%; ii) the pressures of the coffee elite to suspend coffee export taxes, reducing tax revenues by 11,8%; iii) the decrease of employment by 40% among the rural population and 15% among the urban one; iv) the decrease of wages: for example, state bureaucracy wages fell by 30%; v) the decline of prices of domestically traded products, mostly because of the reduced purchasing power of the general population. Such was the case of corn, which reduced its price from 7,3 *colones* in 1929 to 2,98 in 1932; rice from 12,42 to 6,84; and beans from 11.9 to 5.29 (Marroquín 1977; cited from Menjivar 1986, 55-56). Given the increasing struggle of artisans and laborers, Don Pío took a set of actions like: i) lifting of the state of siege; ii) tax exemption of income derived from corn, rice and beans; iii) the prohibition of machinery imports; iv) emission laws to protect commercial employees; v) the enactment of the law of eight hours of work; and v) the transfer of revenue from coffee exports to the Association of Coffee Producers (Menjivar, 1986 42). The guard and the national police also intensified the repression of leftist groups and trade union movements. In Santa Ana, for example, the police harshly repressed popular demonstrations in November and December 1930, with the result of the death of various organizers, including a well-known leader, Pedro Alonzo, and seven of his followers (Anderson 2001, 126).

Perhaps to quell the protests, though also because of its progressive character (Anderson 2001, 79), Don Pío made one of the most important decisions in Salvadoran history: to allow free and fair elections (Anderson 2001, 126). These elections were held in January 1931, despite the absence of a consolidated party system. In total, six candidates participated, each one with his own political party. These candidates were: Enrique Córdova from the National Revolutionary Party; Alberto Gómez Zárate from the Zaratista Party; Miguel Tomas Molina from the Constitutional Party; General Claramount Lucero from the Progressive Party; General Maximiliano Hernandez from the Republican National Party; and Arturo Araújo from the PLS (Menjivar 1986, 59). Turnout was very high, reaching 86% of the adult male population. Araujo won the most votes- of any other candidate, 46.6% of votes (about 116,000 of 228,000), being ratified as president of Government by the National Assembly but in a difficult election without unanimity (Castellanos 2002, 65, 66; Maurer 2013, 205; Anderson 2001, 133; Gould and Lauria-Santiago 2008, 61).

Table 4.1
Presidents of El Salvador (1914-19)

President	Term in Office	Mode of Acquiring Office	Mode of Leaving Office	Coffee Investment
Alfonso Quiñonez Molina	1914-1915	Non-competive elections	End of term	P,B,X
Carlos Meléndez	1915-1918	Non-competive elections	End of term	P,B
Alfonso Quiñonez Molina	1918-1919	Non-competive elections	End of term	P,B,X
Jorge Meléndez	1919-1923	Non-competive elections	End of term	
Alfonso Quiñonez Molina	1923-1927	Non-competive elections	End of term	P,B,X
Pio Romero Bosque	1927-1931	Non-competive elections	End of term	
Arturo Araujo	1931	Free Elections	Military coup	
Maximiliano Martínez	1931-1948	Military coup	Resignation	

Key= P= coffee planter; B= beneficio owner; X= coffee exporter
Source: Mahoney (2002, 151)

Table 4.1, taken from Mahoney (2002, 15), shows the list of presidents, their links with the coffee elite, the way they reached office and how they ended the mandate. There, it is possible to see a clear break in Araujo's period, the only one elected under free and fair elections. His term in office, however, ended in a very brief period of time due to a military coup which I shall examine in more detail later.

4.4. Critical Juncture ES1 (1930-1932)

4.4.1. The trigger: Threats of Redistribution under Democracy.

4.4.1.1. Arturo Araujo's Presidency

Historians have not hesitated to say that Arturo Araujo's presidency was a complete failure due to the breach of promises he made during his campaign. This would cause widespread dissatisfaction, which became evident in different protests that occurred during his short time in office. From his campaign, Araujo tried to put into practice Salvadoran philosopher Alberto Masferrer's social theory, whose core is based on "the sure and constant satisfaction of our basic needs" (Bradfort 1984, 181). In fact, Masferrer himself participated in the design of Araújo's plan of government, which contemplated "hygienic, honest, and fairly remunerated work; medical care, potable water, and decent sanitation; a varied, adequate, and nutritious diet; decent housing; sufficient clothing; expedient and honest justice; education; and rest and recreation" (Anderson 2001, 131; Bradford 1984, 181). Although many considered Alberto Másferrer as a radical Marxist, his philosophy was more likely to resemble English and American liberal thinking, more like that of Henry George than that of Marx. Másferrer advocated for free trade and enterprise, so his thoughts differed from those of the Salvadoran Marxist of the moment such as Farabundo Martí, the great revolutionary leader. Also, contrary to Marxism, he neither believed in class struggle, nor war as a means so as to achieve certain ends. As Anderson (Anderson 2001, 131) says, he thought, optimistically, that the rich would be convinced of the importance of redistribution. His proposals, however, were largely controversial for the rich, as well as for other important sectors linked to them like the military. In the first place, Másferrer insisted that the state should limit military spending. Instead, it should use it to invest in improving the social conditions of the peasants. Also, he thought that a better distribution of land was needed, so he expected that Araújo's government would establish agrarian reform. The speech was a threat for the rich, but it was accepted extensively by the masses who took from it that Araujo and Másferrer himself were going to get them out of the crisis and of the poverty to which they were subjected (Anderson 2001, 132).

As expected, Araujo was unable to execute his plan. Under global depression, he could not reconcile a vast array of interests in a country with extreme inequalities of power. On the one hand, the military and the coffee elite. On the other hand, thousands of poor peasants and urban

workers. The reaction of many Salvadorans was swift and the country soon collapsed in social unrest. Strikes, popular claims, and strong and violent clashes between the population and the National Guard resulted (Anderson 2001, 143,144; Gould and Lauría-Santiago 2008, 91). The radical left of the country, headed by Farabundo Martí, increasingly exerted pressure on the government. Perhaps because of such a pressure, Araujo gave rise to the legalization of the Salvadoran Communist Party (Puente Ortega 2006, 32). Araujo faced also the agro-sector demands. The coffee oligarchy was absolutely unsympathetic to Araújo's proposal for land reform, even though he had tried to calm them down with the appointment of Maximiliano Hernandez as minister of war, a well-known ally of the coffee oligarchy. He also tried to convince them to buy their lands without resorting to expropriation. Araujo was aware that El Salvador was more akin to a feudal society than to a modern one as the remarkable concentration of land formed strong relationships of servitude, in many cases without monetary remuneration. As Bradfort (1984, 181) states, ""Araujo planned to have the government buy the land from the rich and redistribute it to the poor", thus creating a new economic model based on wages and self-employment.

The military responded to the crisis with a coup on December the 2nd. The coup was celebrated by all social sectors, including labor associations and the Communist Party. The government was overthrown by a Military Directory which left the presidency in the hands of Maxiliano Martínez. Araújo went into exile with his most loyal friends –Alberto Másferrer and Luis Felipe Rencino–, firstly to Guatemala under the auspices of the Guatemalan dictator Jorge Ubico, and then to Honduras after Ubico requested that they abandon the country (Anderson 2001, 153).

4.4.1.2. The Rise of the communist Party

Martinez approved the holding of new elections in January 1932, in which even the Communist Party was allowed to participate. Apparently, Martinez accepted this broad ballot so as to seek international support. Recall from the previous chapter that the United States sought to implement several agreements that facilitate the entry of democracy in Central America, a region where it exerted considerable influence (for the case of El Salvador, see Grieb 1971). These elections, however, were fraudulent, leading to thousands of peasants rebelling against the results, particularly in coffee-growing regions. The military, in turn, counteracted the uprising with repression, which caused one of the largest massacres in Salvadoran history resulting in the tragic death of roughly 30.000 peasants, many of whom were Pipil Indians. The

interpretation of *La Matanza* —the Slaughter, as historians have referred to this period— has divided Salvadoran historians. Notwithstanding this, we are inclined to argue that it has its roots in democracy and the threats it implied, which would fit with the Marxist explanation of the event by some historians (see e.g. Dalton 1965, Anderson 2001). The two most accepted positions on *La Matanza* revolve around two explanations. In one hand, as said, the discontentment of the masses with the election results. On the other hand, there is a racial perspective explanation, which suggests that it was a genocide as those who were murdered and persecuted were, above all, indigenous people. This hypothesis is supported by the fact that both white and *mestizos* participated actively against indigenous during the slaughter (Wilson 1970; Zamosc 1986). This hypothesis is widely accepted and it is not my task to deny it here. Nevertheless, there are other factors that deserve special attention.

First, indigenous were also poor peasants, who helped the local landowners mainly as servants. Although Indigenous maintained an uneasy relationship to the ladino community (*mestizos*), all peasants, regardless of their ethnicity, faced the challenges of poverty, illiteracy and difficult access to resources, especially land. Following the same feelings of injustice as those of the indigenous, many ladinos were encouraged to join the 1931 protests. That is notably the case of Eusebio Chávez and his son Leopoldo in Izalco, and the Cuenca brothers in Tacuba (Anderson 2002, 167). It is possible, therefore, to argue the uprising was also encouraged by a conception of class, not only ethnic identity. In fact, as Gould and Lauría-Santiago (2008, 125) say, "In the eastern part of Ahuachapan there was virtually no indigenous presence. Oral testimony from Juatúa and Nahuizalco suggest that people from Turín and Atiquizaya were phenotypically mulatto".

Secondly, places where there was a direct confrontation between indigenous, on one side, and mestizos and whites, on the other, most of the excluded population was indigenous, basically of *Pepil* origin –towns like Nahuizalco, Izalco and Juayua in the region of Sonsonate– (Lindo-Fuentes et. al 2007, 81). Repression was for sure more intense in Sonsonate as the indigenous there were more organized than rebels elsewhere, which seemed to represent a greater danger to the coffee elite and its main ally, Maxiliano Martinez. In other towns like Chalchupa, Ahuchapán, Colón and Santa Tecla, despite a significant dense indigenous population, extermination was not comparable to that of Sonsonate since the riots were apparently more scattered and failed to appear as a mass revolution (Ching 1998, 228-229).

Without going to question the ability of indigenous group of Sonsonate to organize, it is important to highlight the fact that massive propaganda from the Communist Party and from the International Red Aid (SRI, from the Spanish abbreviation of Socorro Rojo Internacional) was greater in Sonsonate than elsewhere. In particular, the SRI greatly influenced Salvadoran society, in part thanks to the work of Agustin Farabundo Marti. Both Ladino and Indians participated in the SRI evening meetings, held often in cantons and *haciendas*. Why did the communist discourse permeate so much in Sonsonate? One of the most important reasons is that an influential Indian, Feliciano Ama, chief of Izalco, supported the Communist Party (Anderson 2002, 166). Another reason is that the communist movement's discourse did not only emphasize class in Latin America, but also racial discrimination as a crucially interconnected issue. Jules Humbert, who participated in the Latin American Confederation in San Salvador in 1929, said:

> Many comrades have denied that there is a race problem in Latin America, affirming that blacks, Indians and mestizos have equal rights and that nowhere does one find racial prejudice, similar to in the United States. It is true that there are no specifically racist laws but let us consider these facts. Who are the most exploited, miserable agricultural workers? Who are the *campesinos* whom the large landowners and foreign companies expropriate? The Indians (Gould and Lauría-Santiago 2008, 100).

Returning to the elections, the PCS registered its candidates for municipal and legislative elections. The party formed an electoral Political Committee at the national level, which named candidates in all municipalities. These elections were conducted on the 3rd and the 10th of January. Firstly, for local elections and then for legislative elections, both in an atmosphere of violence and under threat of general strike (Ching 2004). The Communist Party proclaimed victory in Santa Tecla and Sonsonate after several days in which no official election results were given. As expected, this was not recognized by Martínez, therefore the PCS leaders desperately gathered during the night of the 20th of January and planned a mass protest for the 22nd of January. The insurrection took place the day they scheduled and it was covered by media report. One of the newspaper headlines read "Red Revolt sweeps Cities in Salvador "(Gould Lauria-Santiago 2008, 6; Anderson 2002, 205).

4.4.2. Elite responses: the alliance between the coffee elite and the military

The response of the military elite was swift. By the end of January El Salvador was under the total control of the government of Hernandez Martinez, thus preserving oligarchic rule and authoritarianism. Repression left a death toll of thousands, including many *pipil* Indians and

some of the communist leaders such Farabundi Martí. However, the rebellion of 1932, considered by many the first subversion of the Western Hemisphere in the twentieth century, left a mark on Salvadoran society, being a starting point for subsequent uprisings throughout the century.

Because of alliances that arose between the military government and the landed elites, El Salvador functioned as a military dictatorship mainly favoring the coffee oligarchy (Lindo Fuentes et al., 2007; Cardinal, 2002). Seeking to internationally ratify his government, General Martinez convoked elections in 1935 which were already declared in his favor. His government lasted until 1944 when he lost the support of the coffee oligarchy. Martínez ruled the country for 13 years after a military coup in 1944, known as the "44 Movement", overthrew his government. The *Martinato*, however, changed the composition of the political elites in El Salvador.

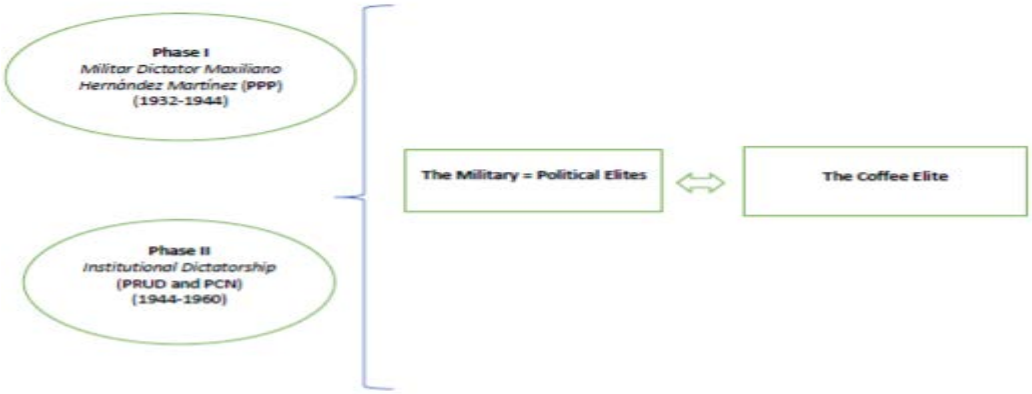
Before the Martinato, at least during the short-lived democratic transition, the political elites were represented by a number of political parties. Some of personal nature such as i) the PND and ii) a persistent PA which was the ultimate head of the opposition during the governments of the so-called Meléndez-Quiñonez Dynasty. Also, some developing parties with high organization such as iii) the PLS and iv) PCS. On the contrary, during the military dictatorship, only three political parties were recognized. Firstly, the Pro Patria Party (*Partido Pro Patria*, PPP), which had a personalist character based on its greatest figure Maxiliano Martinez, and which is imposed in the country between 1932 and 1944 (Ching 2004, 60). On the other hand, two parties which were more institutional in nature: The Revolutionary Democratic Unification Party (*Partido Revolucionario de Unificación Democrática*, PRUD), and the Party of National Conciliation (*Partido de Conciliación Nacional*, PCN), both of which alternated power between 1944 and 1960, representing essentially the military elite (Artiga-González, 2015, 73)[8].

The destruction of any opposition, like the PCS and the PLS, represented the most important achievement of military dictatorship. For long period, the political elites were the same military itself, so for decades it did not have to face any ideological disapproval, not at least until 1960

[8] There were other parties, but they were not outstanding. Among them the i) Democratic Union Party (Partido de Unión Democrática), Social Democratic Unification Party (Partido Unificación Social Demócrata), Fraternal Progressive Party (Partido Fraternal Progresista), Party of the Salvadoran People (Partido del Pueblo Salvadoreño), Salvadoran Agrarian Party (Partido Agrario Salvadoreño), Social Republican Front (Frente Social Republicano), National Union Party (Partido Unión Nacional), Republican Democratic Party (Partido Democrático Republicano); Social Democratic Party (Partido Social Democrático), and Party of Renewal Action (Partido de Acción Renovadora). All they were led by important military officials. See Artiga-González, 2015, 73).

when the Christian Democratic Party (*Partido Demócrata Cristiano* PDC) is founded. Hence the destruction of any threat that jeopardized the welfare of the coffee oligarchy, who assumed the exclusive role of the economic direction of the country. According to Menjivar (75, 1986), " the crisis of the thirties not only ended with the bourgeois project which a fraction of the ruling class fought to impose, but it reinforced, through economic policy, the agro-export model which provided the opportunity to recompose the oligarchy". The figure 4.3 briefly presents the composition of elites in El Salvador during dictatorship, basically represented by two allied sectors with ample power in the country: the military with the political power, and the agro-export group with the economic one. Later I will discuss economic policy during the period of Martinez in which the alliance between the two sectors can be more clearly seen. Also, the way how this alliance affected the welfare of the masses in favor of the agro-export sector.

Figure 4.3
Elites structure during dictatorship 1932-1960



Source: Own

4.4.3. Outcome: The highest peak of wealth inequality

As we noted in the section of Honduras, due to lack of data it is difficult to give a conclusion for this period about anything in regard to income redistribution. However, it can be concluded that, in order to reduce the possibility of conflict, the Martinato was characterized by attempting a social improvement, including that of the poorest, although very weakly and under lots of repression. As Anderson (2001, 274) says, "General Martinez, who was no fool, realized that it was necessary to make some social improvements. [Thus] (...) he distributed surveys about land tenure, wages and meals in the western departments". Moreover, he opened rural credit offices

to help the small farmer and implemented a Social Improvement Program (*Programa de mejoramiento social*) that included certain points such as "the rescue of thousands of small and medium producers from foreclosure and loss of their lands" (Gould and Lauría-Santiago 2008, 241). Also, some pro-indian policies were implemented which encompassed "special schools for orphans of the massacre, support for Indians in land and water disputes, and official recognition of the civil and religious hierarchy that local ladinos attempted to abolish" (Gould and Lauría-Santiago 2008, 242).

In spite of this, the landed elites in the west of the country, whose main feature was its high dependence on coffee, were who had the best profits. What did *La Matanza* represent to El Salvador? Among other things, the political crisis of the Thirties reinforced, through economic policy, a model based on the coffee mono-agro exportation. This was also an opportunity for the agro-exporter elite to regroup, expanding its dominance throughout the country. Martinez gave all his support to the coffee oligarchy, which in turn passed political power to the military but assuming the total control of the domestic economic policy. For many decades, this fact made it possible to consolidate the power of both the Military and the coffee elite against emerging fractions (Menjibar1986, 69).

Regarding economic policy, among the first steps Martínez adopted were the following:

1. A total absence of an Agrarian Reform.
2. Customs duties would be directly paid to the Public Treasury, not to the bankers, as had previously been the case.
3. Suspending payment of all domestic and private debts, and to reduce by 40% the interest to the coffee landowners' debts;
4. Establishing the Central Reserve Bank of El Salvador, which was set up as a private company but with government funds. The Bank received the exclusive right to print money, the supervision of gold exportation and importation, and of exchange rates.
5. Strengthening the Salvadoran Coffee Growers Association (*Asociación Salvadoreña del Café*, ASCAFÉ), previously called the Society of Defense of Coffee, as well as joining the foundation of the Salvadoran Coffee Company (*Compañía Salvadoreña del Café*).
6. Founding the Mortgage Bank of El Salvador (Anderson 2001, 74).

The measures Martinez adopted were clearly designed to favor the coffee elite (Cuenca 1962; Menjívar 1986, 75; Anderson 2002, 276). Proof of this, as mentioned in the list, is the absence of the agrarian reform, even if the poor peasant increased every day in number. Similarly, the

suspension of payments on the coffee elite's debts as well as the reduction of the interest rate. Due to the centralization of banking and the creation of the Mortgage Bank in 1934, the credit policy began to be led exclusively by the coffee sector, which for decades only acted to protect their own interests. Moreover, by enforcing currency and exchange rate controls, the state assured a monetary policy which maintained coffee export incentives. Finally, the suspension of tax on coffee exports greatly increased the oligarchy's profits despite blocking the "ability to maintain or reinitiate productive activities and thereby generate employment" (Gould and Lauría-Santiago 2008, 241). Although the latter policy was able to fit within the liberal economic thinking, the alliance between the military and the coffee sector was widely based on state interventionism. In fact, the country abandoned the shield of free trade to fly the flags of protectionism, which intensified during and after the Second World War. Protectionism, we must remember, was part of the Import Substitution Model (ISM) that was implemented in Latin America after the 1940's. Unlike other countries, –even unlike the cases of Colombia and Brazil, also largely dependent on coffee–, the ISM in El Salvador aimed at strengthening mainly agricultural sectors, not the industry which had just begun to form (Cueva 1977; Menjívar 1986. For a wider perspective, see also Cueva 1974).

The alliance between Hernandez Martinez and the coffee sector prevailed, reaching its peak in the subsequent military administrations of Osmin Aguirre and Salvador Castañeda Castro (Anderson 2002, 276). In contrast to this support, peasant associations of any kind were prohibited. In the legal framework, this was reflected in the more intensive application of the Agrarian Law of 1907, amended by Hernandez Martinez in 1941. Under this law, a peasant could be arrested at the mere request of the landowner for whom he was working. Similarly, it punished peasants who did not work under the service of a specific person, thereby legalizing serfdom relationships (Larín 1971, 5).

4.5. Conclusions

As in Honduras, different preferences towards of the actors are showcased, as in the initial as in the end of the critical juncture. While the coffee oligarchy is clearly against redistribution and is supported by the military, the preferences of political elites are mixed (see table 4.2)

Table 4.2.
Central actors, all mentioned in the explanation of the critical Juncture ES1

Type of Elite	Actors	Actors' preferences
Economic Elites (An agrarian Bourgeoisie)	The coffee oligarchy	Against
Political Elites	Meléndez Quiñonez Dinasty Labor Party (Arturo Araújo) The Communist Party: (Farabundo Martí; Felix Ama)	Mixed Preferences
The Military	Maxiliano Martínez	Against

The situation, however, changes due to the military dictatorship which is established. As in Honduras, the elimination of opposing actors by a means of repression increases the level of cohesion between the economic elites and political power. Finally, wealth inequality rises, reaching perhaps its maximum peak of inequality.

CHAPTER V. HONDURAN ELITES DEVELOPMENT (1950-2010), ELITE RELATIONSHIP AND WEALTH DISTRIBUTION

5.1. Introduction

Carías' long-term stay in power affected the stability of Honduras, causing the U.S. to cease supporting the regime. Rapidly, the US buttressed a government change, which nonetheless would continue favoring its interests and those of the banana companies. A Carías's friend, Juan Manuel Gálvez assumed the presidency on January 1st, 1949, based on an election in which the Liberal Party did not participate due to a lack of political guarantees. The program of Galvez was ambitious, and included the development of sugar, coffee, cotton and sesame seeds, as well as the reinforcement of the banana economy. It also included the creation of economic institutions, thereby founding the Central Bank of Honduras and the National Development Bank (*Banco Nacional de Fomento*), both in 1950. Agreements with the World Bank and the International Monetary Fund were also signed, which included the visit of various economic experts and policy advisers from abroad. Finally, a timid political openness was allowed, which authorized some exiled people from the Liberal Party to return (Barahona 2005, 135-142). Honduras, however, remained a rural and poor society, based almost exclusively on agriculture. Also, different feudal characteristics remained. In the census of 1950, for example, 40% of Honduran workers engaged in the agricultural sector did not receive any monetary remuneration (Barahona, 142-148).

During the fifties, Honduras began to manifest a larger class of urban and non-agricultural workers. While the proportion of urban population in Honduras was one of the lowest in Latin America in 1950, in 1960 Honduras become the third largest urban country in the region, only preceded by Venezuela and Brazil. In the same period, San Pedro Sula also became the most important city in the Honduran economy, far exceeding the capital city of Tegucigalpa (Euraque 1993, 218-219). This is partly explained because the region of Valle de Sula, in particular the city of San Pedro, experienced an unprecedented population growth when the UFC gained importance. Many people around the country moved to San Pedro, involved in trade and industry often with the support of the companies (Euraque 1993, 153). The 1950 census also suggests that the total urban population, unlike the rural one, was based on salaried workforce, most of them employed in handicrafts, food, tobacco production and construction. Others, though a very small part of the population, were self-employed. As stated by Barahona, the census shows "the main difference between the rural and the urban population, between

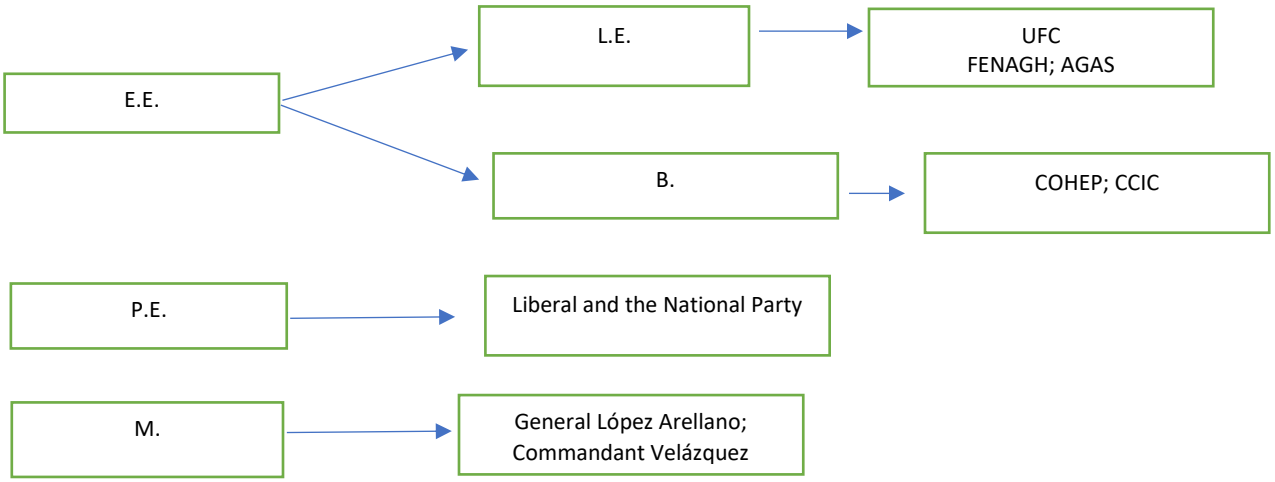
agricultural work and the new economic activities which brought forward the country" (Barahona 2005, 149).

Together with such urban mobilization, two situations arose. Firstly, social protests in the late fifties which gave the people a significant organization and unionization power. This is important to have in mind as it denies what many have claimed: that Honduras has been marked by a lack of active mobilization throughout its history (see for example Rueschemeyer and Stephens 1992). Secondly, the emergence of new leaders such as Ramón Villedas Morales who ruled the country between 1957 and 1963, and who endangered the traditional elite structure of the country, including the UFC itself. Honduran modernization, however, occurred without destroying the power of the agrarian elites, which survived despite sporadic conflicts with other sectors. This conclusion is precisely one of the central objectives of this chapter. Since the 80s, after the leadership of various military dictators which in total lasted around two decades, Honduras has preserved electoral participation, mainly under the competition of two political parties that have alternated power. Many voices, nonetheless, regard Honduras as a weak and unstable democracy, which has survived under high levels of insecurity and poverty and based almost exclusively on agriculture and the maquila industry. The latter, an activity that began to expand in the late twentieth century and that has been accused of exploitation and precarious working conditions. Honduran democracy, therefore, seems not to work. So, it is not surprising that Honduras has currently the lowest level of democratic acceptance, the highest approval of dictatorships or strong leaders, and the highest acceptance of use of force and armed rebellions in Latin America (Booth and Seligson 2009).

5.2. Elite development

In this section, we will explain the development of the elites, all them previously mentioned. Contrary to the first half of the twentieth century, Honduran elites changed significantly in the second half, all having an important role in policy-making. Therefore, the military, the bourgeoisie and local landowners, which were totally weak until the fifties, are this time included when examining preferences towards redistribution in the H2 and H3 critical junctures. A preliminary view of the elites is shown in the figure 5.1.

Figure 5.1
A prelimary view of the elites who will be described in the chapter



5.2.1. The Economic Elites

5.2.1.1. The United Fruit Company

Since the late fifties, the UFC began to reduce its power in Honduras as a result of unions formation and worker strikes. Banana workers' conditions were miserable. By the 50's they hardly earned more than 3 Lempiras a day, which did not represent any real wage increase since 1929 (Barahona 2005, 155). This encouraged the workers to call upon the company to pay double money for carrying out the steam of bananas, about ten cents at the moment (Acker 1988, 84). The workers also argued their holidays work was underpaid, demanding the company to modify what they had received for Easter (Barahona 2005, 155). Both requests were immediately refused by the company, provoking the anger of many peasants. The strike began in May 1954 (Barahona 2005, 166). During the strike, workers had the support of the Workers Coordinating Committee (*Comité Coordinador Obrero*). The committee, founded during Juan Manuel Gálvez's administration (1949-1954), defended union principles and promoted the idea that workers should be organized (Barahona 2005, 155). The workers also enlisted the help of other sectors, including the north coast oligarchy who had gathered into the CCIC (Chamber of Commerce and Industry of Cortes) (Euraque 1996, 97). The strike quickly spread to all banana plantations, stunning not only the banana companies but the Honduran State itself. The state finally negotiated with the movement, allowing the right to organized labor in banana plantations, perhaps the strongest triumph of the strike. Soon, the privilege was extended across

the country, thus reducing the power of the company and endowing the workers with new legal tools (Euraque 1996, 95-98; Barahona 2005, 167).

The Worker's Union of the Tela Railroad Company (*Sindicato de Trabajadores de la Tela Railroad Company*, SINTRATERCO) was established after the conclusion of the strike in July 1954 (Euraque, 1996, 99). SITRATERCO stood at the head of the working class, which represented a high cost for UFC as the Tela Railroad Company was one of its most important subsidiaries. Besides, it put the company in serious trouble with the government of the US. After the victory of communism in Cuba, the US feared that unions in Latin America would fall into the hands of communism and, in this way, progress throughout the continent. This represented a threat to the US as a neighboring country, leading it to no longer tolerate UFC's abuses (Lapper and Painter 1985, 38). Undoubtedly, the loss of the US's unconditional support helps the company to reduce its power.

Different plagues that afflicted banana plantations, including the Sigakota and the Panama disease, also affected the company. By the end of 1940, the UFC reported an annual loss of productive land between 10 and 15 percent, and between 1939 and 1953 the company had already left more than 40000 acres of land. As compensation, the company initiated a policy of buying new lands in the middle and upper Aguán. However, Panama disease soon spread in the region, leading to dozens of farms and the same company leaving the crops again (Soluri 2003, 70). The abandoned lands were later occupied by former workers of the company, by some Salvadoran immigrants, and by the Garifuna community (Casolo 2009; Edelman and Leon 2014, 208). Other factors associated with banana production were natural disasters and some founded cartels to counteract the company power in fixing the banana price. Regarding the first factor, hurricanes were particularly devastating. Hurricane Fifi in 1974 destroyed virtually all banana plantations in the north coast (Frank 2016, 31). Hurricane Mitch in 1998, a category 5 hurricane, the highest possible intensity, served to relocate the company cultivation as it destroyed more than the 70 percent of the cultivation. In the following years, the company decided to plant crops in smaller spaces despite maintaining production, thus dispensing thousands of workers in the non-occupied lands (Arias et al. 2004, 30). In terms of the second factor, the banana-producing countries encouraged the creation of the Union of Banana Exporting Countries (*Unión de Países Exportadores de Banano*, UPEB) in 1974, which followed the example of the Organization of the Petroleum Exporting Countries (OPEC) along with the 1974 oil crisis. UPEB's main objectives were to increase the banana export tax and control supply so as to be able to easily modify prices. The member countries of UPEB also

altered the previously agreed concessions with foreign banana companies. This put in check the UFC, which had enjoyed exceptional privileges throughout the century (Buchelli 2008, 449).

Due to the risks involved in banana production, the company undertook a series of policies to maintain its public decision-making power, not only in Honduras but also in other countries in the region and on the international banana market. Firstly, the United Fruit merged with AMK corporation in 1970, both founding the United Brands. "United Fruit then became part of a giant food conglomerate that included processed foods and meatpacking" (Buchelli 2004, 66). Secondly, it embarked on an aggressive advertising policy, taking up a previous and successful campaign: Miss Chiquita. Initially conceived in 1944, the campaign of Miss Chiquita helped the company to conquer new markets in the sixties, especially in Europe. This campaign was the starting point for the change in global banana consumption to the Cavendish bananas, away from the Gross Michel brand whose plants were prone to the Panama disease. Some years later, in 1975, UFC would change its name to Chiquita Brands, referring to the success of this campaign (Soluri 2009). Also, the UFC started to diversify, expanding its business into palm oil, a product with high return on capital. The UFC introduced African palm in 1926, which was in principle cultivated at the Plant Introduction Station of Lancetilla near Tela. However, it was not until the fifties, when global palm oil prices rose, that the company became enthusiastic about the product. In 1967, the palm plantation of the UFC already had 9400 acres of different crops of palm, as well as different strains of palm, ages, groups and populations (Trafton Jr. and Washburn 1968, 7-8).

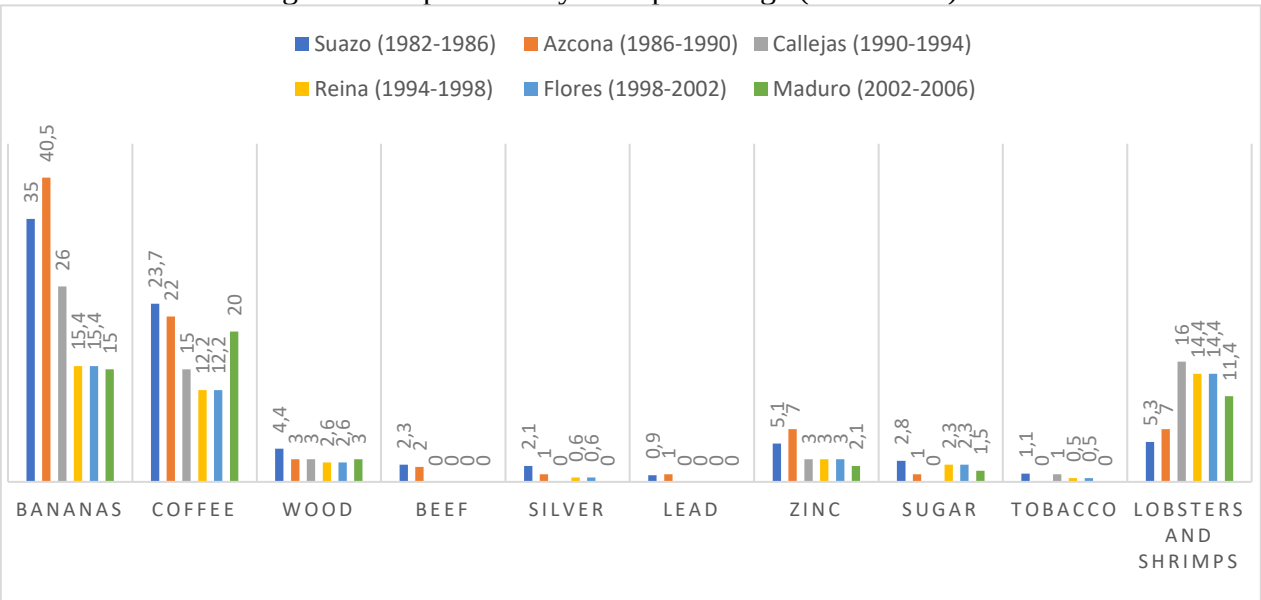
In short, the company managed to remain a major actor in Honduras because of i) the diversification of its main product, bananas, which has been maintained with certain levels of production; and ii) the expansion in other sectors such as African palm, becoming one of the world's leading producers. Today, however, the company's power is no longer the same as it was in the beginning of the century. Undoubtedly, United Fruit - currently Chiquita Brands - continues to influence the Honduran public policy, but its role on it is now shared with new players who also compete for their representation and interests in many sectors. Of these new players, we must speak later.

5.2.1.2. A stronger Landed Elite

Despite the fact banana was throughout the 20th century the main export product in Honduras, the Central American country has been able to diversify to some degree in recent decades. Nowadays, countries such as Ecuador, the Philippines, Costa Rica, Guatemala and Colombia exceeds far Honduran banana production (Food and Agricultural Organization FAO, 2014). Likewise, even though the United Fruit Company continued to absorb much of the growth and the trade of the good, the production of banana has been recently shared by independent makers. The country also began producing high rates of coffee, which is produced mainly by smallholders. As can be seen in figure 5.2. and table 5.1., while the country has lost dependence on banana, it has gained greater reliance on coffee production. Since Maduro's administration (2002-2006), domestic revenue is given by a greater reliance by coffee than by bananas (Illescas, 2008). According to the Central Bank of Honduras (*Banco Central of Honduras*, BCH), other important products by 2015 were palm oil, prawns, and minerals, including silver, lead and zinc (BCH, 2015). Table 5.1. shows that most of the export revenue of Honduras keeps relying on agriculture, except for the maquila commerce and remittances, both of which are not included in the table. Maquila trade and remittances represent, indeed, more than any other export product in the country, almost the entire value of all the FOB exportations: U$2.687 and U$3.649 million, respectively (RMS 2016; World Bank 2016).

According to the Honduran Coffee Institute (Instituto Hondureño del Café, 2012), between 2010 and 2011 there were more than 110.000 coffee growers. Due to this product is mainly grown by smallholders, it is difficult to point out powerful elites related to the grain, At least, not when they are compared with those elites in other sectors, or even the same sector but in other countries. Nonetheless, there are some important coffee associations and guilds: Honduran Institute of Coffee (*Instituto Hondureño del Café*, IHCAFÉ), Honduran Association of Coffee Producers (*Asociación Hondureña de Productores de Café*, AHPROCAFE), and National Association of Coffee Growers (*Asociación Nacional de Cafetaleros de Honduras*, ANACAFEH), which have great power in the country (Tucker 2008). Likewise, there are some important persons such as Jose Alberto Saavedra and Oscar Kafati who obviously are part of the agrarian elite. Both Saavedra and Kafati have developed their business within coffee trade and have been prominent leaders within the aforementioned guilds (Illescas 2008).

Figure 5. 2
Agricultural products by FOB percentage (1982-2006)



Own elaboration based on Illescas, 2008, 241

Table 5. 1
Products by Free-on-Board (FOB) (2015)

Product	%	Millions of US
Coffee	25,1	986
Banana	12,9	505
Gold, silver, lead, zinc, iron and iron manufactures	9,4*	368,5*
Palm oil	6,2	242,5
Prawns	4,6	181,4
Legumes, vegetables and its prepared foods	3,5*	135,8*
Paper and Cardboard	2,9	112,9
Soaps	2,4	95,7
Plastic and its manufactures	2,2	86,8
Textile goods,	1,9	73,1
Tilapia Filet	1,6	64,2
Sugar	1,6	61,1
Other products	25	980
Total	100	3.921

*Pooled data

Maquila Industry not included, remittances not included

Own elaboration based on BCH (2015).

It is not the case the lack of a clear elite in other sectors. In oil palm, cattle and timber, it is easier to find a landed elite. The development of this agrarian bourgeoisie, as has been defined by Euraque (1996), dates back from the fifties in a new attempt by the state to involve more the country with the world economy. To this end, the State supported different families with technical expertise, capital and loans. Among these, those involved in cotton, timber and livestock. Over the years, many of these families gathered in the National Federation of Growers and Breeders FENAGH (in Spanish *Federación Nacional de Agricultores y Ganaderos de Honduras*). FENAGH became a really strong power in the country (Euraque 1996, 143), consequently this thesis pays special attention to this association.

A certain degree of agricultural diversification continues in Honduras, and with it an economic elite which remains being largely related to the agro-business sectors. Using the list of Illescas (2008) of the most powerful men of Honduras, 21 people from the 33 who are listed have businesses in agriculture (63,3%) and one more to the sector of fixed assets (Freddy Nasser). Similarly, from the 19-people linked to the industrial sector or services, 6 of them are also linked to agriculture (32%), including perhaps the most powerful man in Honduras: Miguel Facussé (see Table 5.2). All this suggests that the agrarian elites remain having lots of power, working hand in hand with the elites in other sectors, either those in services or in industry. This conclusion is important to have it in mind throughout all this chapter.

Table 5.2
The Economic Elite by Persons (2017)

	Agriculture Business	Industry or Services
Miguel Andonie Fernández		X
Víctor Manuel Argeñal Espinal	X	
José Adolfo Alvarado Lara		X
Jorge Bueso	X	X
Guillermo Bueso		X
Jorge Canahuati		X
Juan Canahuati		X
Rodrigo Castillo	X	
Vidal Cerrato Carranza	X	
Arturo Corrales		X
Juan de la Cruz Avelar Leiva	X	
Celín Discua Elvir	X	X
Miguel Facussé Barjum	X	X

Gilberto Goldstein	X	X
Jorge Johny Handal Hawit	X	
Rodolfo Irías Navas		X
Óscar Kaffati	X	
Chucry Kafie	X	X
Carlos Lara Watson	X	
Porfirio Lobo Soza	X	
Roberto Micheletti		X
Óscar Ramón Najera	X	
Freddy Nasser		X*
José Rosario Bonnano	X	
Jaime Rosenthal Oliva	X	X
Goldstein Rubinstein	X	
Elisa Cruz Ruiz Guevara		X
José Alfredo Saavedra Paz		X
José Alberto Saavedra Posada	X	
Valentin Suárez Osejo		X
Roberto Suazo	X	
Manuel Zelaya Rosales	X	
Mohammad Yusuf Amdani		X

*Services within Fix Assets Bussiness
Source: Own elaboration based on Illescas (2008); extended from FORBES (2014).

5.2.1.3. The Bourgeoisie: The Arabs

Many people moved to San Pedro Sula where they engaged in trade, real state, industry, transportation and legal services (Euraque 1996). Many emerging actors appeared, often supported by the banana companies as they started to look for technical assistance, especially in the use of fertilizers and chemical processes management (Soluri, 2005). Others came so as to meet people's demands in the North Coast, as they rose due to its huge demographic expansion. From there, it emerged the bourgeoisie in businesses based on commerce, services and industry around the banana companies, showing an incipient process of industrialization (Euraque 1990, 1996). Here it is important to highlight what Euraque (1993) holds, that the bourgeoisie in Honduras emerged not from a transformation of the national agrarian elite, but rather from the attached trade of the banana companies (see also Sieder 1995, Barahona 2005, 235). This is contrary to the approach advocated by some central American historians –see Torres-Rivas (1989) and Paige (1997)— which state that the bourgeoisie in Central America was the result

of an internal, gradual and painful agrarian elite restructure, which weakened though did not disappeared. This approach applies for El Salvador, as we shall see, but not at all to Honduras.

As in El Salvador, many of the members of the bourgeoisie were immigrants, mainly from Arab and Jews origins (Euraque, 1996; Amaya 2000a, 2000b). As can be seen in table 5.3, there was a significant increase of the foreign population between 1910 and 1926, the same period of the great expansion of the banana companies. Arab immigration –referred to as the Turks – experienced the fastest increase rate, from 200 to 1.066 over the same period. Contrary to the English and U.S. immigration who directly worked with the United, and therefore who had a high possibility of non-permanence, the Arabs settled in the region of Sula, and later in other parts of the country, including Tegucigalpa[9]. Moreover, despite the adverse climate with the traditional *caciques*, they engaged early in trading and in those areas where the banana companies did not draw their attention. During the sixties and seventies, Arabs took shape in the Honduran economy, for which they began to diversify in other sectors as in agriculture and industry. Eventually, the Arabs began to be an important part of the social and political structure of the country, wherewith they were able to accumulate enough wealth and become powerful, acquiring the same benefits as those of the traditional leaders (Euraque 1996). Surnames like Canahuati, Nasser, Facusse and Fayad, very well-known today in the daily lives of Hondurans, come from these migratory waves of Arabs in Honduras (Amaya 2000b).

After 1950, when they already controlled the 75% in the investment in the import-export sector, the Arabs started to marry Hondurans and to have children with them, perhaps in order to make their way in the local society (Amaya 2000b, 76; see also Foroohar 2011; Kerssen, 2013). Moreover, but belatedly, they would become part of the business associations in the country (Euraque 1996, 83). Bear here in mind that until the 50s there was no a united private sector. If there were associations, they were widely divided and without a different purpose than protect themselves against their immediate adversaries. It is not until 1957 when the militar Junta oriented the governmental policy approaching to some businessmen trying to link them with the state. This strategy seems to have been also effective in creating an own internal linkage among businessmen. For a long time, however, Arabs needed to create their own associations in order to compete more strongly with the locals, while maintaining its roots and social circle in a hostile environment (Amaya 2000b, 134).

[9]There are, however, no many studies which trace this community history (Amaya 2000a).

Table 5. 3
Non-Centro American Foreigners in Honduras (1887-1935).

Nacionality	1887	%	1910	%	1926	%	1930	%	1935	%
Germans	43	3	177	2,9	246	3	289	4,4	324	4,5
Italians	50	3,5	94	1,5	322	4	166	2,5	180	2,5
French	72	5	122	2	242	2,9	112	1,7	100	1,4
Spaniards	77	5,3	196	3,2	464	5,6	643	9,8	726	10,1
Chinese	-	-	44	0,7	192	2,3	269	9,9	315	4,4
Eastern Europeans	-	-	-	-	1	-	44	0,7	103	1,4
Arabs	-	-	200	3,2	1066	12,9	780	12	868	10,7
U.S. Citizens	185	12,8	668	10,8	1757	21,2	1313	20	1508	21
Englishmen	1017	70,4	4710	75,8	3977	48,12	2921	45	3180	44
Total	1444	100	6211	100	8261	100	6531	100	7204	100

Source: Euraque 1996, 29; Amaya 2000a, 39.

5.2.1.3.1. Bourgeois activities: Industry today

The roots of the industrialization process have its beginnings in the Industrial Development Law in 1958, which defined the industrial practice to be followed in a context of regional integration (Illescas 2008). Since its inception, nonetheless, Honduran industrialization faced the enormous power of the agrarian elite, being in several times under its guidelines. Currently, local industry is still lagging and disadvantaged, as well as highly dependent on sectors which lack of skilled labor. Maquila trade is the great example, which accounted 71,1% of the total exports between 2000 and 2004 (Granados et al. 2007, 10)[10]. During the period of Ricardo Maduro (2002-2006), maquila contributed to 5% of the employed working hand of the country, mostly people with low levels of education (see table 5.4). It is important to notice, here, that the comparative advantages of the maquila depend on maintaining low wages in relation to those of the rest of the world. Thereby, most of maquila's workers are bad-paid and frequently live under conditions of misery. Apart from this, maquila's investment is mostly of foreign capital. The local

[10] The share of Honduran industry in GDP is roughly the same as in the rest of the Central American countries (28,1% in 2014). Honduras, howbeit, is the less diversified as the maquila industry represent most of it.

bourgeoisie who invest in maquila does not focus on production as such but rather on building infrastructure and rent, thereby emphasizing its dependence on fixed assets (Illescas 2008, 248).

Table 5.4
Manufacturing Industry by constitution periods
(in million Lempiras)

Description	Suazo 1982-86	%	Azcona 1986-90	%	Callejas (1990-1994)	%
Gross Domestic Product	3,972		4687		5396	
Manufacturing Industry	582	14,7	704	15	813	15,1
Labor Employed	150,9	13	165,5	12	194,9	12
Labor Employed (Maquila)						
Total of Labor Employed	150,9	13	165,5	12	194,9	12
Description	Reina (1994-1998)	%	Flores (1998-02)	%	Maduro 2002-06	%
Gross Domestic Product	6,038		6762		7932	
Manufacturing Industry	935	15,5	1101	16,3	1296	16,3
Labor Employed	145,9	7,6	272,6	12,5	252,3	10
Labor Employed (Maquila)	83,5	4,4	94,4	3,5	125,8	5
Total, of Employed Labor	294	12	367	16	378,1	15

Source: Illescas (2008, 250)

5.2.1.3.2. Bourgeois activities: Services today

Looking at services, financial investments have become the dominating segment of the bourgeoisie. This sector's circulation is low. When comparing the six most important financial groups in 1980 with the top six banks in 2006, by profits, which concentrate three quarters of the activity in that year, it is possible to conclude the following (see Table 5.5):

a. One of the top 1980-financial group remains: Banco Atlantida, today Bancatlan, in which the majority shareholders are the Bueso, Vinelli and Goldstein families.
b. SOGERIN, the bank of the Armed Forces in 1980, was acquired by BANPAÍS, one of the most powerful banks in 2006.
c. The Facussé Group, in the 1980-list, became the major shareholder at FICOHSA, listed in the 2006-list.

d. The Goldstein Groups, in the 1980-list, became one of the major shareholder at Banco Atlantida, listed in the 2006 list.
e. Five families are linked in both the 1980 and the 2006-lists: Facussé, Bueso, Goldstein, Kafie and Rosenthal.
f. These families (Bueso, Facussé, Goldstein, Kafie and Rosenthal) are also active in the agricultural sector [see the list of the most powerful men of Honduras (5.2)].
g. By 2006, these banks concentrated 78% of the earnings of the entire sector, which does not represent a big change when comparing its capital participation in 1980 (75% of the total) (Romero 2008).
h. In both, the 1980 and 2006-lists, major financial groups were of domestic nature, except for BGA which has transnational capital (see also in this respect Kasahara 2013).
i. The Continental Bank, despite not appearing on the 2006-list, remained one of the leading banks in Honduras throughout all the beginning of the 21st century.

Table 5.5
Comparison of the top financial groups in 1980 and 2006

Top six financial groups (1980)	Top six banks (2006)
SOGERÍN	Banco Atlántida
Facussé Investments	Banco Grupo El Ahorro Hondureño (BGA)
Inversiones Continental	Banco de Occidente
BANCATLAN S.A.	Banco Financiera Comercial Hondureña (FICOHSA)
Goldstein Group	Banco del País, S.A. (BANPAÍS)
Andonie Fernández Investments	Banco Mercantil, S.A. (BAMER)

Source: Own elaboration based on Romero (2008)

It is important to note that some changes have occurred from 2006 to today. BAMER (currently BAC) was acquired by the General Electric Group in 2007. Therefore, it is also of transnational capital. On the other hand, the Continental Bank, which was headed by Jaime Rosenthal, is in the process of liquidation by the United States' Office of Foreign Assets Control (OFAC) because of its connections to drug trafficking. Rosenthal, for many years the president of this important group, is in imprisonment in the US because of this reason.

It is important to stress that, historically, the State has been the main source of capital accumulation in banking, even greater than those of the rest of the Central American counterparts (Romero, 2008). As pointed out by Romero (2008, 10), "the national private banks have constantly avoided risk operations, which are essential in the market. Rather, they have

positioned themselves in state protectionism". This is mostly explained because, according to Flores (1980, 76; cited from Euraque 2009, 263), the banking is controlled by "a national dominant oligarchy that monopolistically controls, along with foreign capital, most of the economic, political and culture of the country ". Although Flores wrote his text in 1990, therefore some things may have changed, this power remains. According to Romero (2008), "because of their diversifying of investments, these groups exert a high control of the Honduran economy. They are present in all areas, which in turn allows them to have a close relation with power and politics".

5.2.2. Political Elites

In terms of politics, bipartisanship has prevailed. The Liberal Party and the National Party, along with the military, have been the driving force of politics in the country. The National Party was easily able to integrate easily due to the favorable position it occupied during Carías dictatorship, which practically exterminated all the opposing parties. Subsequently, the party also had the approval of the banana companies, as well as of the developing military. The National Party, however displayed, until the sixties, a more personal role than institutional, as the most important party members had to have the approval of Carías, and to some extent of the UFC. According to Euraque (1993, 114), "the National Party convention of February 1960 still passed a resolution confirming Carías as the party's *jefe supremo*, thereby postponing unification with the other caudillos (…). Discussions on unification continued in 1961, and formal consolidation resulted in early 1962". Between the late 50's and the 80's, the party was overshadowed and relegated by the military who, except for some specific moments, seized power. The situation for the Liberal Party was more difficult than that of the National Party. With the dictatorship of Carías, the party almost disappeared. It resurfaced in Gálvez's presidency (1954-1955), albeit very weakly and without legal guarantees. The party gradually increased in force thanks to support obtained from many sectors, including the students, the peasant movements and even the north coast elites, as we shall discuss later (Taylor 2010). Moreover, because of alliances with the military, the party managed to govern with a certain freedom under the head of Villedas Morales between 1957 and 1963. However, it was soon deposed by a bloody military coup that established the beginning of the military dictatorship in the political periods which followed.

Alliances between the National and the Liberal Party were notorious. The National Party, in fact, governed in a surprising way for more than a year, between 1971 and 1972. Following the

National Front Arrangement in Colombia, both parties set up an alliance that allowed them to alternate power while they would maintain, to some extent, the same level of power in the Congress. The alliance permitted the country to elect a president by free elections, while they equally divided the number of congressmen: each party could have 32 seats in the 64-member Assembly (Anderson 1988, 134). Ramón Ernesto Cruz, from the National Party, was appointed as president on June 7th, 1971 after winning the elections. The alliance soon flopped, being rapidly deposed by a military coup on December 4th, 1972 (Anderson 1988, 134; Taylor 2010; Euraque 1993). After the entry of democracy in the eighties, bipartisanship became established again without much pressure from outside parties. In recent times, two new and important forces have emerged, although no one with relevant positions in local politics. On the one hand, the Liberal Party and Re-Foundation (*Partido Liberal y Refundación*, LIBRE) in the left-wing side. On the other hand, the Anti-Corruption Party (*Partido Anti Corrupción*, PAC) with a more pro-market discourse (Rodriguez and Brouillard 2013). When analyzing the critical junctures, we will talk a little more about the role of the Liberal and the National Party after the *cariato*, and their relations between them and the economic elite in the years which followed.

5.2.3. The Military

Honduras served as a starting point for the US invasion of Guatemala with the aim of overthrowing president Jacobo Arbenz Guzmán, who it was thought was maintaining direct contacts with the Kremlin in Russia (Chapman 2007,146). Similarly, as already discussed, since the fifties the popular resistance had been growing against companies, mainly because of low wages and poor working conditions, both in Guatemala and Honduras. Both events put pressure on the US government, which did not hesitate to treat the insurgent movements as communist riots. By the years which followed, the US promoted, along with the 1954-military coup against Arbenz, the development of a Honduran army capable of suppressing any communist attempt that could destabilize the order of the country (Arancibia Córdova 1991; Bowman 2002, 545; Leonard 2011, 144-146; Acker 1988, 110-111; Taylor 2010). The military rapidly acquired an unusual power (Sieder, 1995). Moreover, it gained autonomy in 1957 thanks to a pact with the PLH, which implied the president could not give direct orders to the military or elect and remove the highest ranks in the military forces (Taylor 2010). Due to the continuing abuses of power, Ramon Villedas, then president, sought to reduce the military power by creating new forces of authority. In this way, a better balance in the use of State force would be created. The attempt

of Villeda led not only to the coup that overthrew him in 1963, but also to a military dictatorship that lasted until the 1980's.

During these two decades, many military officials involved in agro-sectors businesses, making them closer to the economic elite (Euraque, 1993 143; Meza 2008, 5; Sieder 1995). It is not surprising that the military keeps controlling "a bank, insurance companies, and one of the country's two large cement companies" (Rockwell and Janus 2003, 15). Such a huge connection was derived from the military reforms, which were based on *caudillismo,* clientelism and patronage. It consisted, in other words, in exchanging favors with actors of local power, including the landed elites who progressively gained more importance (Sieder 1995, 112). In Meza's words, a sort of "business army" (*ejército empresarial*) began to form:

> Within the military institution, a kind of social metamorphosis was operating, by which the military leaders were gradually becoming rich and entrepreneurs (...). Through military force, political dominance was ensured and, consequently, the access to wealth and business (…). Thus, the curious establishment that has been called the "entrepreneur army" arose: a group of military leaders who founded several companies and began to establish diverse businesses, all of whom were favored by the political power of the state, by networks of privileged information services and by the waiving of taxes and fees for services they consumed (Meza, 2008, 4-5).

Due to the interest of the US in favor of a return to the democratic process, as well as the support of part of the business sectors for democracy, military power began to wane. According to Meza (2008, 7), "the economic power groups felt the need to facilitate the transition to a new legal order which would rebuild the rule of law (…) without the awkward and uncontrollable interference of the military leaders". In the eighties, the military partially transferred political power to the parties. However, the military kept interfering in the public domain, without clearly established limits. Moreover, it continued to use violence against left-wing groups (Ruhl 1996; Meza 2008, 8-9; Taylor 2010, 100). When the civil wars ended in El Salvador and Guatemala, the Honduran military was embroiled in a very strong internal and external pressure which finally forced it to give up its autonomy. Carlos Reina (1994-1998), in fact, promised during his campaign to change the constitution in order to give civilian control over the military. Although the military openly opposed the change, Reina won the elections and the constitution was amended (Bowman 2002, 217; Taylor 2012, 114). Civil-military relations were stable in subsequent administrations, both in presidencies of Carlos Flores Facussé (1998-2002) and Rodolfo Ricardo Maduro (2002-2006). Facussé, in particular, made a major constitutional reform in 1999, which emphasized the "civilian supremacy over the military". Similarly, he appointed a "civilian defense minister" for the first time in history (Ruhl 2010, 96). The military,

however, has continued exerting an important power and has been active during critical periods. The most prominent example of this is Manuel Zelaya's coup in 2009, the last seen military coup in Latin America (Joyce 2010; Taylor and Ura 2010; Moody 2013; Nejatab 2014).

5.3. Democratization

Honduras may be called what Huntington (2012) points out as an unstable political system – echoing his words throughout Latin America. That is, one in which neither democracy nor dictatorship are part of country's nature, but something beyond both: an unstable political system which predominantly swings between democracy and dictatorship. Honduras is a good example. After the Carista dictatorship, the country envisaged three periods of democracy. The first one between 1957 and 1963, starting with the 1957-elections which brought Ramón Villeda Morales as president. A second one, for a very short period of time of no more than one year, between 1971 and 1972 when the two major political parties agreed the civil return (Posas 1989; Taylor 2010, 95). Both transitions were undermined, however, by military coups which resulted in dictatorships, both carried out by General Oswaldo Lopez Arellano. A third one, from 1981 to today, made it possible because of pressures that different associations put on the military, among then the Honduran Council of Private Enterprise (*Consejo Hondureño de la Empresa Privada* COHEP) and the Labor Confederation of Honduras (*Confederación de Trabajadores de Honduras* CTH) (Posas 1989, 59; Solomon 1994, 46; Bendel 1993, 394). In 1982, a new constitution protected political representation through elections, besides containing essential elements to maintain party competition. Since then, the Supreme Court has the duty to monitor elections, becoming in the guarantor to keep them free and fair (Posas 1989, 75-76).

Democracy, however, remained fragile and unstable. Despite the 1981-elections was considered free (Bendel 1993, 394; Taylor 2010, 99), the hard-fought election of 1985 was done under serious doubts of fraud and coercion. José Ascoya from the Liberal Party was proclaimed victor (Posas 1989). Likewise, the constitution of 1982 maintained certain rules that favored the military. Among these rules, the most controversial one was the permanence of military autonomy, which remained until the government of Carlos Reina in 1995 who finally limited military power. As Taylor (2010, 99) says "during the 1980s the military chief negotiated defense policy directly with the U.S government and then informed the Honduran president of what was decided". Since Reina's administration, the military has been under civilian leadership, allowing the country to increase the democracy rating it receives from various

scholars and institutions: from Polity IV, for example, which places Honduras as a democracy since 1983, and as a stable democracy since 1991. Also, from Freedom House, which since 1997 has evaluated the country as either free (1997-1998) or partly free (1999-2015). Honduras is also included in the famous Huntington list within the third wave of democratization during the 90's. Mainwaring et al (2001) and Bowman et al. (2005) have sited the Honduran transition in 1994 and 1997, respectively. Cheihub et. al (2010), who based almost exclusively on elections and power alternation, place Honduras as a democracy since 1981.

5.4. The critical junctures: H2 and H3

This section is divided in two. This division is not accidental and closely follows the logic of our analysis: two different critical junctures are part of its content. Besides the one explained in chapter III, looking at these junctures allows us to infer the extent to which the elites react against redistributive threats in order to block any possible redistribution. In the first of them, the Honduran political transition is exposed, that is, when Ramon Villeda Morales took place as a president by popular vote. This democratization experience failed as the agrarian elites allied with the emerging military in order to block Villeda's attempt to reconfigure Honduran property. López Arellano, the General who seized power, lasted like a dictator between 1963 and 1971, and again between 1972 and 1975. The second part of the paragraph will focus on the recent coup against Manuel Zelaya in 2009. As for the Villeda's period explanation, the analysis of the coup against Zelaya aims to demonstrate that elites would counteract with strategies that may involve collective actions. Note that for the period of Manuel Zelaya there is already Gini data, so it is possible to undertake the phenomenon beyond a mere qualitative speculation.

5.4.1. H2 - The trigger: The openness of redistribution (1957-1976)

The presidency of Ramón Villeda Morales extended from 1957 to 1963. It was the result of a military ousted against the former president of Julio Lozano López, who had governed through electoral fraud. Moreover, because the PLH sought a pact in which the military acquired autonomy in exchange of accepting democratization. The military accepted the pact under the condition of not being subjected to the order of the president or any other civilian institute (Taylor 2010). A Constituent Assembly was elected in 1957 (Bowman 2002; Taylor 2010). In

these elections, considered free, there were the participation of three political parties: The PLH, which won most votes with 209.109 votes (more than the 50% of the votes), the PNH with 101.274 votes, and the National Reformist Party with 29.487 votes (Fernández 1981, 33). With an absolute majority in the Assembly, the Liberal Party named Ramón Villeda Morales president, without many setbacks and without needing to hold new first-order elections (Barahona 2005, 189). The election of Villedas was also supported by the armed forces who found in him an ally in its aim of preserving its autonomy (Bowman 2001, 552).

Several threats came when the country democratized, especially to the UFC. Although the company did not suffer any expropriation from the government, at least one member of the Congress "called for the immediate nationalization of company properties and railroads" (Soluri 2009, 176). Moreover, various organizations, in which there had been unions, put a considerable pressure to Villedas. Through SINTRATERCO, company's employees made known their dissatisfaction with the low prices the company paid to the bananas growers. In addition, their displeasure of not allowing them to sell the bunch of bananas to any other buyer, thus showing a rigid position on its monopsony power (Soluri 2009, 176). Eventually, Villeda Morales spread different clauses "in holidays, medical benefits and housing to all farmers in the Tela RR Company" (Soluri 2009, 176). Villeda Morales seemed to be a leader prone to the poor, although he also managed to create an agreement with the UFC at a meeting in the US –called by Villedas as a "satisfactory conversation" –, where he pledged his policies would assure and would be consistent with the private interests of the company (Brokett 1987, 78).

5.4.1.1. Villeda's Redistributive program

Villedas was determined to modernize Honduran institutions. With the help of the International Monetary Fund and the World Bank, he created a law that provided "tax relief and investment guarantees to domestic and foreign capital " (Leonard 2011, 144). He was also committed to stabilize the national currency, the *Lempira*, and to increase investment in infrastructure and industry. To do this, he intensified the construction of new roads, including those connecting the Caribbean coast with the major cities: Tegucigalpa and San Pedro Sula (Leonard 2011, 144). There were, likewise, some programs to wane the fate of the labor and peasants. Among these, some are outstanding:

i) A new labor code is implemented in 1957 which introduced the right to organize and to bargain collectively (Bulmer-Thomas 1987, 223; Leonard 144).
ii) In hand with the labor code, it is established the social security law, which gave new guidelines related to unemployment, health, old age pension, maternity, accidents, disability and death benefits (Bulmer 1987, 223).
iii) The Agrarian Reform Law is passed in 1962, seeking to resolve land conflicts between peasants and landowners.
iv) Along with the Agrarian Reform, an uncultivated land tax is established.
v) The National Agrarian Institute (INA) is founded so as to oversee the development of the Agrarian Reform.

5.4.1.2. Elites reactions

5.4.1.2.1. The alliance between landowners and the national party

The opposition claimed Villedas had introduced a sort of communisms in the country. Moreover, they also pointed him out as a Fidel Castro's friend and a supporter of the Cuban Revolution (Mur Dominguez 2015, 392). Reality, nonetheless, was quite different. Honduran reforms occurred in a context in which the US itself had fostered programs that would ensure rights to the poorest: The Alliance for Progress as the greatest example. In doing this, the US pretended to curb revolutionaries advances in the continent (Edelman and León 2014, 205; Valdes 2015, 136). Villeda Morales was faithful to western capitalist democracy and was strongly committed to the anti-communism policy encouraged by the US counterinsurgency. Villedas himself declared: that "this [reform] is neither communist nor socialist; it is a purely liberal and democratic agrarian reform that will not take away any lands from big landowners" (Kerssen 2013, 16). Even so, Villeda's progressive policies were widely criticized. Land reform and the possibility of peasant organizations were undoubtedly the most conflictive ones.

Landowners and the UFC were greatly concerned with Villeda's measures with respect to private property and perceived his presidency like an imminent threat to their well-being (Schulz and Schulz, 1994; Sieder 1995; Edelman and Leon 2014; Mur Domínguez 2015, 130). After having known Villeda's program, the United decided to lay off hundreds of workers. Similarly, the company responded by warning it would stop production in case of continuing Villeda's proposal regarding to land expropriation (Brockett 1987, 80). The same US Ambassador,

Charles Burrows, intervened on behalf of the company, noting the law was not good itself and would cause many internal problems (Brocket 1987; Bowman 2011). In addition to its diplomatic commitments, Villeda took a long-scheduled trip to the United States to soften the situation with the UFC. He met with some company's officials, with who he had a 'very satisfactory conversation'. There, he promised the UFC to revise the law to make it 'livable for its private interests' (Brocket 1987, 70). The law took a new direction, not giving rise to any kind of expropriation as well as protecting the legally incorporated private property (Schulz y Schulz, 1994: 29-30). Subsequently, the reform would only focus on national and *ejidal* lands.

For over a decade, the results of the law were limited. 6.271 peasant families were allocated in 35.951 hectares, many of which were granted in the Aguán Valley (Ruhl, 1984: 53). On the other hand, local landowners continued to disagree with the program, even when it was based on unused lands instead of expropriation. In the previous decades of the reform, the emerging of economic and political strength of large landholders had left many rural peasants with little or no land, allowing the former to maintain political control over the latter. Therefore, "the attempt to provide land to rural peasants was interpreted as a legitimate attack on both the inequitable distribution of national lands and the power of the oligarchy" (Nelson 2003, 8). Moreover, the program threatened landowners control by granting the peasants the right to organize and to use collectively the lands. By the end of the 1960s, in fact, Honduran peasants had organized in different associations, even in a higher degree than the rest of Central America (Brockett 1987, 78).

The domestic landowning oligarchy, who wanted to see Villeda outside, began to be strongly united in the National Party. It served as its main spokesman, becoming the center of the debate to oust Villedas, either in a real or in an imaginary way (Leonard 2011,145; Anderson 1988, MacCameron 1983; Euraque 1993, 116). Nevertheless, as Bowman (2002, 167) rightly asserts, "they themselves [the National Party and the Landowner Elite] were far too weak to challenge the progressive changes occurring in the country". This alliance, indeed, was insufficient to curb Villeda's actions, whose links with the military, as well as the support from popular sectors, including the labor movement and the peasants, assured him his permanence in power.

5.4.1.2.2. Military's rupture

As said before, "in Honduras, the struggle for democracy in 1956 was helped rather than hindered by army intervention" (Bulmer-Thomas, 1987, 149). Military's favorable position continued throughout Villeda's period. In 1959, however, a fracture between the two forces was presented when the Colonel Armando Velasquez in hand with the National Police tried to overthrow Villedas through an unsuccessful coup. The attack of Velázquez – a faithful ally of the National Party, who even had sought to be the candidate for presidency in the 1956- internal party elections (Morris 1984, 38) – was offset by the units of the presidential guard, as well as by hundreds of armed civilians. In 1960, shortly after the coup failed, Villedas created the Civil Guard which was under the direct control of the president. Therefore, constituted a military apparatus outside the Armed Forces, breaking the pact he himself had arranged. The military, as expected, did not like at all such a decision, and turned against president Villeda (Acosta 1986; Ruhl 1996; Mur Domínguez 2015, 130).

The election of Modesto Rodas Alvarado as a candidate of the Liberal Party for the 1963-presidential elections was a second factor which angered the military. Besides seeking the continuation of the promoted redistributive reforms by Villedas, Rodas wanted to boost civilian control of the armed forces (Mur Domínguez 2015, 130). Even though it was conceived as an anti-military idea, causing internal conflict even within the party, this position was supported by much of the Liberal party caucus. Ildefonso Orellana Bueno, at that time deputy for the Liberal Party, introduced the debate in Congress to reform the constitution, particularly the title XIII that granted military autonomy (Funes 2000, 200). According to Bowman (2001, 555):

> In May I959, Francisco Milla Bermúdez, then Magistrate of the Supreme Court and Designate to the Presidency - and one of the leaders of the Liberal Party who actively participated in the constitutional deal- making that granted near omnipotent powers to the military - declared to the Miami Herald that the best thing for Honduras would be the dissolution of the armed forces. The armed forces, added Milla, consumed too great a part of the budget and the army was politically aligned with enemies of the government. The Generals were furious with the Milla statement.

Villeda tried to persuade his party not to elect Rodas. He was aware of the risks his confrontational speech would cause in the country, above all in a context in which the U.S. was persecuting communism. Villedas' intentions were, howbeit, not enough to persuade the Liberal Party not to elect Rodas. From here, a new alliance is formed bringing together three important actors: the landed elite and the National party, together with the military. The same Tiburcio Carías, still alive, buoyed the General Oswaldo López Arellano, who had previously supported

the Liberal Party, to be the National Party presidential candidate for the following elections of 1963. Carías's request, was not accepted by the party, which finally chose Ramon Cruz, a known lawyer leader (Funes 2000, 223; Rojas 1992, 130; Dominguez 1975, 78). On October 3d ,1963, ten days before an election, which appeared to favor the liberal party due to Roda's enormous popular support, Lopez Arellano seized power through a violent coup. Honduran history remembers this coup as the bloodiest one of all time. Many civilians, mostly students, but also some Villedas loyal supporters, were killed or injured when they tried to counter the coup. A very good description is found in Ponce de Avalos (1960).

5.4.1.2.3. A difficult bourgeoisie to convince

While the new dictatorship satisfied United Fruit, traditional landowners and the National Party, it did not seem to please the manufacturing bourgeoisie, who had not long been developed in San Pedro Sula and who had actively supported Villeda. With the entry of dictatorship, the bourgeoisie distanced itself from the new administration and became the main opposing actor of the government. The early work of Arellano was highly criticized by different associations, including the Finance Bank of Central America FICENSA (*Banco Financiera Centroamericano*) and the COHEP under the presidency of Gabriel A. Mejia. Relations between the bourgeoisie and the new government remained conflicting, even to the point the former allied with the labor movement, a very unusual feature in Central America (Euraque 1993, 132-135; Padilla 2001, 286). In fact, both sides called a strike together, leading to the anger of General López who threated everyone who comes out to support such strikes. Moreover, he also threatened the foreign merchants to cancel their permits of residence in the country (Euraque 1993, chapter 8).

The importance of this period for the interest of this paper is huge, as the suleña bourgeoisie not only took a distance from the military dictatorship but it also promoted the undertaken work of Villeda. So, the openness of redistribution Villeda had open had not yet been closed. They demanded, standing before López Arellano, what Villeda had fostered before. In particular, they focused on five issues: a) organization of society, b) liberty and personal rights, c) the role of the state, d) foreign relations, and 6) social equality. It, therefore, contemplated "the rise of the working-class movement, the formation of organizations representing private enterprise, the movement toward economic integration, and the projected new political parties" (Euraque 1993,

126). Besides the benefits for the suleña bourgeoisie, these requests were also made in an international pressure for democratization and social equality.

The Suleña bourgeisoe was not either satisfied with López Arellano's international political economy. The bourgeoisie complained about the little interest of Arellano to promote protectionist policies. Honduran manufacturers, indeed, insisted on obtaining a special protocol in the Central American Common Market (CACM), which had been signed by Villedas, due to their backwardness when comparing with other countries' production. Moreover, due to the elimination of entry taxes of products from neighboring countries, Honduras saw an unexpected income reduction which led the government to raise internal taxes, including those of the manufacturing sector as well as the emerging industry. On August 20th,1968, under a majority of the National Party, the Congress approved the tax increase. Since them,

5.4.1.2.4. The rapprochement between López and the bourgeoisie.

Gradually the speech between both the bourgeoisie and Lopez Arellano started to soften. Three factors contributed to create a new equilibrium. The first, the persecution to which the bourgeoisie were subjected. Arellano, worth saying, persecuted furiously those who continue spreading the " democratic left propaganda ", as he was called it. Repression was carried out to the point of imprisoning Jorge Sikaffy, Jorge Larach, and Jaime Rosenthal. Edmon L. Brográn, meanwhile, had to flee into exile. On September 18th, Arellano also closed *La Prensa*, the newspaper where the bourgeoisie disseminate its ideas. As above-mentioned, Arellano threatened to deport all Arabs businessmen, who was panicked to be deported (Euraque 1993, 134). A second reason was the interest of Lopez Arellano in creating new mechanisms for dialogue. In doing so, he appointed Galdamez Zepeda, one of his best allies and a close member of the Suleño movement, to intervene in order to convince the bourgeoisie to cease their hostilities with the new government. Zepeda played a good mediator role. Soon, in September 1968, the bourgeoisie displayed, under the voice of the CCIC, prone to dialogue, modifying the previously made requests and leaving alone the labor movement (Euraque 1990, 567; Euraque 1993, 132).

There was finally a national union because of the Soccer War with El Salvador. In mid-1960, due to the land expansion and occupation to landowners, as well as the strong presence of Salvadoran immigrants, Honduras for the first time started to raise the same problems of land

scarcity as other countries in Central America (Durham 1979; Anderson). Arellano decided to expel Salvadoran immigrants in order to tone down the government criticisms from the peasant sectors. Honduran situation modestly alleviated, although it worsened that of El Salvador, bringing the two countries clashed in a short civil conflict, known as the Soccer War since it coincided with a football match between the two countries. The Suleña bourgeoisie unconditionally supported Lopez Arellano, who in turn responded by appointing various of its members as commanders of defense throughout the country (Euraque 1993, 137-143).

5.4.1.2.5. Redistribution under dictatorship

It is important here to note that the gestated alliance between the military, on the one hand, and the landowners - National Party, for the other hand, was unstable from the beginning, which is partly explained by the behavior of one of the actors at the stake: the suleña bourgeoisie who took long distance from all of them. Along with the strong presence of the militant peasant movements -who had founded in 1964 the *Asociación Campesina Social Cristiana* (Social - Christian Peasant Association), the bourgeoisie's approchement to López opened again the windows towards redistribution (Euraque 1993, 143-147; Prealc 1989, 97). This openness led to several landowners and prominent businessmen, mostly grouped in FENAGH, qualify Lopez as a communist in the same way as they did with Villedas (Sieder 1995, 116).

The labor movement, the strong demand of the bourgeoisie, and some circumstances which aggravated the political situation such as the war with El Salvador and the Hurricane Francelia, forced the government to call new elections (Funes 2000, 263; Morris 1975). In 1971, in a document called the Political Plan for National Unity (*Plan Político de Unidad Nacional*), which followed the Colombian National Pact, the two main political parties –the Liberal and the National one– were allowed to nominate a single candidate for presidency and to allot an equitable distribution of congressmen. Facing the uncertainty of political instability, the Liberal and the National Party accepted the pact. This brief period of civil return, presided by Ramón Cruz, was of general popular discontent and it was considered by the military as a "complete failure", leading to a new coup in December 1972 (Funes 2000, 268). Some part of the bourgeoisie was, meanwhile, satisfied with the coup and supported the return of Lopez Arellano, who again established as the leader of the government and who adquired a surprising support from the excluding sectors (Euraque).

The second administration of Lopez is quite contrary to the former. Right away after the coup, Lopez Arellano followed the reformist winds of Latin American dictatorships like that of Omar Torrijos in Panama, Juan Velasco Alvarado in Peru, and Juan Jose Torres in Bolivia, leaders who put even into question the benefits of capitalism (Funes 2000, 169; Mur 2015, 132). In the case of Lopez, however, he kept approaching to the bourgeoisie who started to call themselves as the *Fuerzas Vivas* (Living Forces). Indeed, López made informal alliances with the COHEP, in the hand of Gabriel Mejía, which worked in hand with popular sector such as the SINTRATECO, the CTH and the National Asociation of Honduran Peasants (*Asociación Nacional de Campesinos de Honduras,* ANACH) (Euraque 1996, 145). From there, he strongly encouraged the agrarian reform along with the industrial development (Euraque 1993, 132; Funes 2000, 192).

In the following years, Honduras witnessed the greatest wealth redistribution in the century. López Arellano and the agronomist Roberto Sandoval, who was appointed by López as the director of the Agrarian National Institute (*Instituto Nacional Agrario,* INA), were determined to allot a large part of the land (Brockett 1989, 2005; Steven 1984. 43). Moreover, "López also established the first minimun wage and many new government agencies, increasing the government's role in the economy and creating new middle-and lower-class employment opportunities with the government" (Euraque, 1996, 161). As shown in the table below (taken from Brockett 1987), in terms of the annual average number of families who benefited by the program, the greatest implementation of the land reform was achieved in the period 1973-1974. This trend of land distribution persisted after Lopez's period (>1975). However, the pace became increasingly slow and the new redistribution took place under incentives of adjudication, encouraging the colonization of lands rather than concessions (Sieder 1984).

Here it should be noted that Lopez Arellano continued Villeda's policy of not affecting either UFC or local landowner. While it may be likely that these UFC's privileges were associated to the US pressure, like that in Villeda's period, it is also plausible they were the product of alliances between the company and General Lopez Arellano (see Morris 1984, 49; Euraque 1993, 155). One of these alliances was presented in the scandal of *bananagate* in 1975, in which became known the company bribed Arellano to reduce banana export taxes. Unlike other countries like El Salvador where land reform had major political consequences by subtracting part of the lands of agrarian elites, UFC's plantations –as well as landowners' grounds— were not affected (Macías 2001, 52-53). In effect, the reform led to a new land expansion, but this

only applied to national lands and the *ejidos* (Brockett 1987, 78-79; Nelson 2003, 8; Roque 1974, 214).

Table 5.6

Land Distribution Under the Reform Process, 1962-1980					
	Families benefited		Land awarded (he)		
Period	Total	Annual average	Total	Annual average	Average grant per family
1962-1966	281	56	1357	271	4,8
1967-1972	5348	891	34604	5767	6,5
1973-1974	11739	5870	79552	39776	6,8
1975-1977	12405	4135	80150	26717	6,5
1978-1981	9174	2294	38937	9734	4,2
1982-1984	13241	4414	58770	19590	4,4
Total	52,188	2269	293370	12755	5,6

Source: Brockett 1987, 82

There are, however, some minor exceptions, one of which concerned the UFC's businesses. Sandoval, who had come back as director of INA in 1975, began the process of expropriation of 35.000 hectares to the TRC in the end of 1976 (Thorpe 2002, 280-285; Barahona 2005, 222-223). In the same way, more than 22 blocks of the land of the Standard Fruit Company, the second major banana company, were expropriated in April 1975. These lands were occupied by landless peasant groups, who founded there the Associative Business of Isletas EACI (*Empresa Asociativa Campesina de Isletas*). EACI was presented as one of the greatest successes of the land reform in Honduras (Barahona 2005, 222). Both events swiftly triggered a wave of accusations against the institute. "The military government hesitated and annulled the expropriation agreements, recovering the land held by the banana transnational (*TRC*) and prompting the resignation of the director of the INA in March 1977" (Barahona 2005, 222; added word in parenthesis).

5.4.1.2.6. New Reactions of the Landed Elite: the fall of Lopez Arellano

The reactions of agrarian elites against the rapprochement between Lopez Arellano and the bourgeoisie came quickly, leading to a conflict between both economic forces (Sieder 1995, 116). Until 1967, "the manufacturing bourgeoisie had enjoyed substantial support from

agricultural interests associated with the CCIC, mainly the Association of Cattlemen and Farmers of Sula AGAS (*Asociación de Ganaderos y Agricultores de Sula*)" (Euraque 1993, 141; emphasis added; what is in brackets is mine). However, by that year, sectors of the landed elite express their anger against the CCIC– closer to the northern bourgeoisie of Sula. The estrangement of the Chamber of Commerce and Industry of Tegucigalpa (*Cámara de Comercio e Industria de Tegucigalpa*, CCIT) – closer to the interests of the caudillos and landlords –were the first symptom of such a conflict. The CCIT considered that CCIC intended "to establish its political hegemony in the context of CACM-supported industrialization, especially when important sectors of the CCIT opposed economic integration because of its implication for accumulation in Tegucigalpa and the interior" (Euraque 1993, 129). The favorable speech of the bourgeoisie in favor of the new attitudes of López Arellano, like during the Agrarian Reform, worsened also the relations. AGAS (*Asociación de Ganaderos y Agricultores de Sula*), which had been distant from the conflict, was really bothered of this support. According to Euraque (1996, 141), "relations between AGAS and liberal democratic leftist fell prey to contradictions inherent in Honduras agrarian capitalism. By November (…) in an interview published in the democratic leftist La Prensa, [they] characterized López Arellano's government as socialist because of its efforts to revive moribund Agrarian Reform Law of 1962" (what is in brackets is mine).

The brief entry to civilian return, the short time that divides López's administrations, aggravated the situation of the landless peasants and part of the suleña bourgeoisie who demanded the return of the dictator. This short period of democracy was characterized by consolidating the landowners' opposition, who used an unusual violence to strengthen their power against the peasantry. One of the most dramatic cases was presented on February 18th, 1972, with the murder of six peasants and the arrest of dozens of demonstrators, members of the "peasant league" (*la liga campesina*). As pointed out by the Inter-American Commission on Human Rights, which investigated the case, the slaughter was carried out by some landowners of Olancho with the help of members of the public forces (American University 2016, case 1736; see also Brockett 1987, 79; Dunkerley 1988, 552; Sieder 1995, 112).

By the second administration of Lopez (December 1972- April 1975), the landed elite was sufficiently distanced from him to support his dictatorial government. Shortly after he approved two important agrarian reforms (the Decree N. 8 and N. 170), Lopez was removed from office on April 22th, 1975. The High Council of Armed Forces argued he was removed after unleashing the babanagate scandal, previously discussed, in which Lopez apparently agreed to

reduce the proposed banana export tax in exchange for a cash payment of $1.2 million dollars. The scandal, however, seems to have been more a pretext of López's enemies than an impartial commitment of worried politicians in search of the social good. It was, according to Arancibia, "a coup d'etat in slow motion, in episodes" (Arancibia 2001, 89); according to Salomón (2010, 410), a "handmade coup" (see also Mur 2015, 133). This theory seems plausible as Lopez's power evidently decelerated at the same pace he increased his enemies, as in the military as in the landowning sector who did not approve at all his policies.

5.4.1.2.7. A redirection of the bourgeoisie ideology: the grand alliance against redistribution

The suleña bourgeoisie gradually began to acquire a similar speech to that of their landed counterparts. According to Euraque, a clear division is seen when Honduras decided to leave the CACM in 1971 (Euraque 1993, 151). There were two sides. On one hand, San Pedro Sula capitalist who mourned the exit of Honduras, in particular the COHEP in the voice of Gabriel Mejía. On the other hand, the National Association of Industry ANDI (*Asociación Nacional de Industriales*) and the bankers' associations who praised the measure. The conflict became deeper shortly afterwards, in November, as there was not a consensus around a tax reform which president Ramón Cruz though to introduce. It is interesting that, by that year, Fernando Lardizábal, a National Party landowning chieftain and a high FENAGH official, allied with Adolfo Facussé, an Arab textile merchandiser. They accused "Gabriel Mejía of misrepresenting COHEP's opposition to the tax reform (…) it was clear the November incident represented the first salvo against Mejía's dominance of COHEP and hence of the North Coast. This conflict deepened in 1972" (Euraque 1993, 151).

Moreover, with the fall of Lopez in 1975, the bourgeoisie had not only ceased to support the lowest sectors, but it also built a clear anti-communist speech that bounded them with the landed elite. In order to reform the concerning land legislation, advocated by Lopez in his most progressive stage, FENAGH and COHEP finally allied by October 1976. This is a remarkable fact as the former represented the largest association of landowners in Honduras while the latter the most emblematic face of the bourgeoisie. They, according to Sieder, "threatened all-out investments and production strikes if significant changes to the legislation were not conceded. A concerted campaign by the right eventually succeeded (…) Throughout 1976, the agrarian

reform became increasingly bureaucratized, sympathetic public officials replaced by appointees who slow down implementation" (Sieder 1995, 118). Thus, not only the emerging bourgeoisie lost the progressive mentality that came to unite it, but even it turned into a class with a similar mentality to that of the traditional landowners. Both, over time, strengthened their relations. Moreover, an important part of the bourgeoisie gradually transform its resources to agro-businesses, or nearby them (Miguel Facussé, René Morales and Reinaldo Canales are some examples). In the words of Euraque (1993, 161):

> Yet the triumph of North Coast social, economic, and political ambitions in 1972 did not herald the complete destruction of the old system. The difficulties that López Arellano and his loyalist confronted after 1973 showed that Honduras's continuing capital transition, especially in the agrarian sphere also reconstituted older economic power blocs that CACM industrialization did not break down (...) [T]he simultaneous restructuring of this commercial-industrial bourgeoisie into an agrarian bourgeoisie also associated with foreign capitalist left the visionaries of the strongest manufacturing sector of the class – men like Edmond Bográn – isolated and open to attack.

In the same line, Rafael Sieder (1995, 118) says:

> One notable effect of the reformist process was to transform the nature of the dominant class in Honduras: galvanized by the threat of expropriation, a rural elite previously dominated by an intense regionalism became a formidable power block which employed anti- reformist discourse to considerable unifying effect. Those sectors of the private sector initially favoring reform increasingly turned against the government's agrarian program after 1975, subsequently accommodating themselves within the anti-reform camp.

In the late 70's, the spectrum of the elite in Honduras has therefore two characteristics: on the one hand, a bourgeois elite aligned with the agrarian landowners, and, on the other, a military elite which in turn controls the political power. This expression of a highly cohesive power is concretized in 1983 in the establishment of the most known elitist association throughout Honduran history: The Association for the Advancement of Honduras (*Asociación para el Progreso de Honduras*, APROH). The APROH was controlled by a group of military and businessmen and agglutinated the most important actors of Honduran elites. It included some executives of the United Brands (formerly the UFC), the banking, industry, commerce and media as well as some political and traditional leaders (Dunkerley 1988, 24; Guzmán and Portillo 1993, 250). Its president was the General Alvarez Martinez, one of the most conservative men of the Armed Forces, and its vice president was Miguel Facussé, who was an active member of the bourgeoisie's resistance movement in the late 60s. Facussé also became one of the richest and most powerful men of Honduras until his death in 2013. The main goal of APROH was to maintain the partnership between civil society and the armed forces so as to

dictate the country's security policy, a requirement that the military made it clear to accept country's democratization. This association would then become the main link between military, political and business sectors, thus the subsequent repression of popular resistance and social movements, both old and emerging (see Funes 2000, 335-340; Meza 2008; Gúzman and Portillo 1993; Phillips 2015, 45; Dudley 2015, 26; Bulmer -Thomas 2008, 235).

5.4.1.3. Outcome: Redistribution does not prosper

As in the previous periods that had been analyzed, it is very difficult to know without income distribution if the emergence of the most important sectors collusion led to an increase in income concentration. Important factors, however, may suggest that income distribution was unstable. Mobilization from the country to the urban areas (Barahona 2005), as well as the rise of some emerging businesses linked to small and medium land (coffee the greatest example, Tucker 2008) benefited for sure a part of the low classes. Elite collusion, however, eliminated any trace of reformism. Regarding land reforms, a process which has been called the Agrarian counter-reform occurred throughout the late of the seventies and the whole eighties. As above-mentioned, while the land tenure policies continued, they were done by encouraging peasant colonization instead of directly conceding land to the peasants. As a result of the huge rate of rural population, one of the largest in Latin America, the situation worsened as the landless families rose, (Brockett 1987, 80-82).

This long process of contra-agrarian reform reached its peak with the *Ley de Modernización y Desarrollo del Sector Agrícola* (LDMSA) in 1992, two decades after the reform in the late 1972. The LDMSA enormously favored some of the richest people in the country, removing property ceilings and making it possible the sale of lands that had previously granted by the reform. So, more than half of the acquired land were sold, in most cases by low prices and often by a violent means (Deere and León 1998; Edelman and León 2014, 2011). This process is very alike to that discussed by Legrand's work (1986), which shows that land appropriation by peasant colonization rarely implies a wide or even moderate land distribution, mostly because the State may encourage colonization at the same time than allowing speculation into a land market, which favors the most advantaged groups. As appointed by Legrand (1986), the colonization in the western Colombia led to a large concentration of property in the beginning of the twentieth century as it involved speculators with the help of the State. In Honduras, there is a similar parallel. According to Edelman and León (2014, 11):

> The counter-land reform process in the Aguán was sometimes voluntary, sometimes violent (...) [So] most of this land came to be concentrated in the hands of a group of wealthy landowners (…) taking advantage of public funds of infrastructure over the past two decades, as well as the existence of a cheap and expertise labor force in the African palm production …

Regarding industry and services, after López's Fall, some of the most notorious acts of corruption in Honduras's recent history occurred. One of them befell in 1987, which partly explained the huge advancement of some of the richest people in the country. To understand this, we should come back to the National Development Plan of López Arellano's government, which conceded enormous loans in order to invest in industry. Domestic credit largely expanded, more than 100% in ten years, from US$59 million in 1969 to US$112 in 1979. The flagship institution to conduct these processes was the National Investment Corporation CONADI (*Corporación Nacional de Inversiones*), which in turn was highly supported by foreign credits from the State and international agencies (Meza 2008). Most of the companies which had been benefited from credits, however, declared in bankrupt throughout the 80's, a way by which many businessmen, politicians and military officials furthered and enriched. By 1987, under the administration of Carlos Reina but with the surveillance of the military who just had surrendered power, the Central Bank paid the foreign credits it had acquired. Moreover, the National Bank of Agriculture Development (BANADESA) bought CONADI's stock of shares. Miguel Facussé Barjum, above mentioned several times, amassed most of his fortune from that moment. Facussé debt with CONADI, more than 48 million lempiras (sort of 24 million dollars of that time) was paid by the State when the entity declared bankrupt. According to Barahona (2005, 262), "the collapse of the National Investment Corporation (CONADI), created by the developmentalist state to stimulate industrial development through foreign direct investment and loans, showed that economic reorientation of state could benefit some, but at the cost of the decapitalization of the nation".

5.4.1.4. Conclusions of the Critical Juncture

In H2, there is a conflictive situation: all the elites show different preferences towards redistribution (see the table 5.7). Moreover, this conflict persists in dictatorship as López Arellano, a military leader, begins to show left-wing leanings, which are supported in turn by the bourgeoisie and large popular sectors. Howbeit, López Arellano is overthrown in 1975, coinciding this with the transformation of the bourgeoisie. Eventually, the elites align against

redistribution. At the end, wealth inequality rises as a result not of the absence of redistributio, but because the elites use counter-redistributive policies, including amendments to the Land reform, previously implemented.

Table 5.7
Central actors, all mentioned in the explanation of the critical Juncture H2

Type of Elite	Actors	Actors' preferences
Economic Elites	Landed Elite The United Fruit Company Some associations (FENAGH; AGAS, CCIT)	Mixed Preferences
	The Bourgeoisie: often refer as to "The North Coast Suleña Bourgeoisie". (COHEP, CCIC, ANDI, The Banking; people like Miguel Facussé, Gabriel Mejía, Gáldamez Cépeda, among others)	
Political Elites	National Party, Liberal Party (some political leaders like Ramón Villeda Morales, Modesto Rodas, among others.	Mixed Preferences
The Military	Colonel Armando Velasquez; General López Arellano; General Juan Alberto Melgar Castro	Mixed Preferences

5.4.2. Redistribution Threats under Zelaya's government (2006-2009) – H3

A new critical juncture is set up in the period of Manuel Zelaya, which runs from 2006 to 2009. This period is very important for this research as it is the first event, in the light of the foregoing discussion, in which we have distribution income data. Zelaya was elected in free elections and within a relatively long period of democratization. In principle, Manuel Zelaya was considered a moderate conservative. In fact, he initially took a very close position to the free market, not commonly associated with the left-governors. He also worked closely with the business sector, who supported his candidacy during his electoral campaign. Moreover, Zelaya was part of the

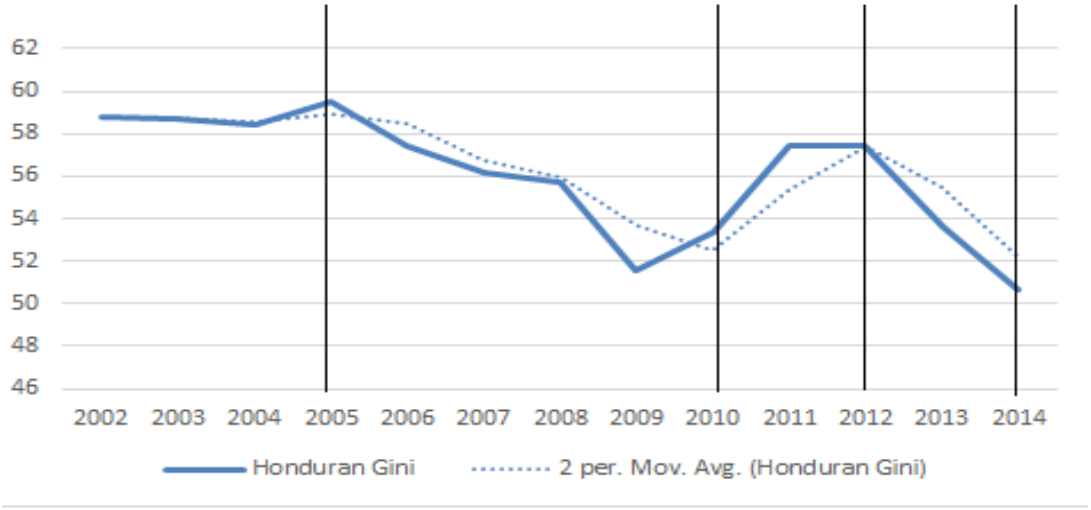
economic and political elite of Honduras. As an entrepreneur in the exploitation of forest and livestock, he acquired some power in his *departamento* of Olancho where he served as the head of the Liberal Party and which he represented in the Congress during two presidential terms (Illescas 2008, 286, Nejatab 2014, 33, Ortiz de Zarate 2016).

Zelaya, however, took an unexpected shift during his administration, engaging in dialogues with left-wing governments in the region, the most visible one the Venezuelan President Hugo Chavez. Honduras entered into alliances with Venezuela and incorporated in macro treaties with it, such as PETROCARIBE and the Bolivarian Alliance for the People of Our America ALBA *(Alianza Bolivariana para los Pueblos de Nuestra América*). It created a difficult political climate in the country, especially because Venezuela was presenting problems with the United States, the country that had influenced further the foreign policy of Honduras, and also because of the left-wing pose of Hugo Chavez, which had created dissatisfaction with Venezuelan elites. Zelaya eventually called for a referendum in order to create a Constituent Assembly. In the eyes of many, the assembly intended to authorize the re-election of the country, although Zelaya's arguments stated that the referendum would give more power to the people through new mechanisms of participation. On June 28th, 2009, Zelaya is hit by a coup and sent in an official plane to Costa Rica.

5.4.2.1. The trigger: Redistribution Threats

From 2002 to 2014, Honduran inequality has been very unstable. From 2003 to 2005, Honduras placed as the most unequal country in Latin America with an average Gini of 59, reaching its peak in 2005 with a value of 59,5. From 2006 to 2009, Honduran Gini fell precipitously to reach 51,6. Between 2010 and 2012, the Gini rose again until having reached a high value of 57,4 in 2012. Finally, the last Honduran Gini shows a new fall with a very outstanding value of 50,6, which is even lower than the 2009-Gini (see figure 5.3). ¿What explains the volatile tendency of income concentration in Honduras in the decade?

Figure 5.3.
Honduran Gini (2002-2014)



Source: own based on World Bank (2016)

According to the figure 5.3, the most remarkable trend of redistribution is given in the period which goes from 2005 to 2009. During these years, Honduran Gini declined, in average, 3,6% annually. Something similar occurs when analyzing distribution of income by deciles. While in 2003 the highest 10% of the population received 45,7% of the total national income, their share reduced up to 39% in 2009 (World Bank 2016). In the same manner, the poorest 10% of the population increased their income in at least 63% between these years (increasing their income share from 0,7% to 1,1% of the total income). The explanation of such a Gini declining revolves around two factors: on the one hand, an increasing of remittances during those years (Klassen et al. 2012; Azevedo et al. 2013; Andrea Cornia 2014), and, on the other hand, the increase of public spending, including education, health and public housing (Johnson and Lefebvre 2013; Andrea Cornia 2014). This resulted in the fall of 7,7% in 2006 and of 20,9% in 2007 of poverty and extreme poverty rates, both pooled together. It is noteworthy that minimum wage also increased in that period by almost 100%, including the rise of 60,9% in 2009, one of the highest

increases of minimum wage throughout all the Central American history. This increase, moreover, was agreed between the government and both the peasant and the union movements.

It is very important to remark that this period coincides with the government of Manuel Zelaya, who seized power in 2006. During his administration, the incorporation of Honduras in the Petrocaríbe Alliance and the ALBA, as mentioned, suggests that Honduras followed the same trajectory as other countries in Latin America such as Venezuela, Ecuador, Argentina, Bolivia and its neighboring Nicaragua, countries which have reached also significant reductions in the Gini coefficient. Venezuela, in particular, has been the center of attention in the whole world as one of its political leaders, Hugo Chavez, commanded what he called the Bolivarian Revolution. The reactions against the unexpected Zelaya's shift to the left did not wait and hinted different connections among the power groups in Honduras, which had already been noted in the past. The new partnership between Chavez and Zelaya, and the social policies which gave priority to the lowest sectors, as the case of the minimum wage increase, led to the immediate sanction of Zelaya by the three power sectors studied here: the economic elites, as the central axis, but also the political elites and the military.

5.4.2.2. Elites reaction: the complains against Zelaya's shift to the left

Most business organizations disagreed with Zelaya's policies, both from the agrarian and industrial sectors: the banana companies (Chiquita Brands and Dole), the main business organizations (COHEP and the ANDI), the National Association of Metal Mining of Honduras ANAMIMH (*Asociación Nacional de Minería Metálica de Honduras*), some important pharmaceutical companies (FINLAY), and the financial sector (FICENSA and BAMER), among others (Kozloff 2009, Fischer 2010, Johnston and Lefebvre 2013, Mur 2015). Regarding the banana companies, Chiquita complained that the new regulations regarding the minimum wage would require an increase of the cost of the banana production in order to fulfill the new salary: ten cents for each crate of bananas, thus losing millions of dollars for the whole production. The COHEP and the ANDI, meanwhile, criticized the agreements made with the president Chávez of Venezuela. According to them, it would generate a state monopoly in a strategic sector for the economy like oil was (Mur, 166). According to Fernando Gaviria, ANDI's director, Zelaya bypassed ANDI's recommendations, and instead he followed those of Patricia Rodas, a well-known left politician (Mur, 179-180).

Four other sectors against Zelaya's initiatives were the mining, the pharmaceutical companies, timber industry and the banking. Initially, the ANAMIMH criticized Zelaya because he amended the General Mining Law in order not to approve any mining concession until the activity were once again regulated. This criticism was also supported by COHEP (Mur 2015, 174). Secondly, the pharmaceutical companies complained about the trade agreement between Cuba and Honduras which included the trade of generic medicines to counteract the high prices of the drugs in the country, including those that are provided in public hospitals. Thirdly, timber industry also complained and entailed a reduction in the forest exploitation, arguing lack of institutional guaranties (Mur 2015, 174).

Finally, the banking infuriated when the government refused, repeatedly, to acquire the remaining amounts of liquidity in the banking sector (Mur 2015, 167). The Central Bank in Honduras, –which in the country is not autonomous of the executive power (Medina Cas eta al. 2012, 159) –, sells and buys bonds to private banks with an annually yield rate (Salgado-Vallejo 2013). This policy, which is used in many parts of the world, intends to manipulate the interest rate in order to reduce the effects of excessive monetary circulation in the marketplace, particularly the inflation effects. By 2008, foreign banks, which do not excessively depend on local policy, maintained high interest rates due to the economic global crisis, thus discouraging local credit (Cordero 2009, 16). Despite the interest rates of national banks were better than those of the foreign banks, they were still too high. With Zelaya's refusal of proceeding with the purchase of excess liquidity, national banks were forced to compete so as to the market could absorb their supplies, making the interest rate fell quickly from 18% to 12%. Although this policy benefited the country's industrial sector, especially small and medium entrepreneurs, it prejudiced local bankers, in particular the largest ones (Mur 2015, 167). Bear in mind that Honduras has a huge concentration of capital in the banking, which implies both profits and losses are extremely biased towards the banks with the greatest market powers (Kasahara 2013, Salgado-Vallejo 2014).

5.4.2.2.1. Political reactions against Zelaya's shift to the left

Regarding the political sector, conflict was given primarily with the members of the Political Parties within the Congress of Deputies. Since his inception in the presidency, Zelaya had a precarious support within his party. Zelaya, however, could overcome this support deficit with different alliances and promises. The rapprochement between Zelaya and Chavez's alliance was

firstly reflected, as we said earlier, in the Honduras entry of Petrocaribe, a regional alliance for the supply of oil. The incorporation of the country into Petrocaribe was easily signed by the Congress, but it apparently obeyed to a large extent on desires of some deputies, who conceived the alliance as a way of personal economic profits. In fact, many of them criticized Zelaya for being too slow negotiating the entry (Moody 2013). According to Moody (2013, 41), "it does not appear that the issue regarding Petrocaribe was anchored in a fear of its leftist origins; rather it seems that political parties were fighting over how to manage the spoils of the program". ALBA was also signed by the Congress, but with an absolutely absence of the National Party which considered this would cause conflicts with the United States, the longtime ally of the country (Moody 2013, 42). With respect to the Liberal Party, the deputies who followed Michelleti, one important party leader and President of the Congress, supported Zelaya, apparently, "in exchange for joint efforts with Zelaya to impede [the Vice-president, Elvin Ernesto Santos] (…) from registering as a candidate [for presidential elections]" (Moody 2013, 79; what is in brackets is mine).

Two things, however, seemed to have contributed to an increasing opposition of Zelaya within his own party. Firstly, he did not seem interested in avoiding the candidacy or Elvis Santos, putting him in direct confrontation with Roberto Michelletti for the internal elections of the Liberal Party (Taylor-Robinson 2009; Oettler and Peetz 2010; Ruhl 2010). Secondly, a radical shift of Zelaya, who started to be increasingly influenced by Patricia Rodas, who presided the leftist side of the party[11]. Zelaya was so confident of Rodas' abilities, so he rapidly appointed her as the President of the Liberal Party, firstly, and then as his Minister of International Affairs, period in which she strengthened the political and economic ties with Venezuela (Ruhl 2010, Moore 2013; Barrachina 2016).

According to the Truth Commission held to clarify the subsequent coup of Zelaya, both the Liberal and the National Party reached an unusual cohesion level before the coup took place (Mur 2015, 216-217). There were no, as pointed out by Mur (2015, 217), attempts to pact with Zelaya, nor to give in before his policies. Zelaya did have some support from part of his party, but it was outside the congress. There, there seemed not to be any fragmentation (see the interviews made by Mur 2015, 219). Moreover, this distaste of the Congress would soon be reflected in the positions of the Supreme Court. Elected only some months before Zelaya's coup

[11] Beside this, Patricia Rodas was the daughter of Modesto Rodas, who we already mentioned before. Remember that Modesto Rodas was a well-known left-wing member of the Liberal Party who, before the military coup of 1963, tried to pursue the presidency of the country.

by the Congress itself, the Supreme Court played a huge role in Zelaya's political fate (Bowen 2013; cited from Moody 2013, 51). It is of common ground that the judges in Honduras are highly politized – they indeed identify themselves according to their political party--. Thus, under a widespread displeasure in the Congress, it was not surprising the Supreme Court had reacted with the same feelings (Bowen 2013; Moody 2013, 51).

5.4.2.2.2. The Military and its complains

Despite the Honduran military is forced to remain autonomous from politics, it was actively involved with the shift of Zelaya. General Romeo Vásquez, the chief of the Armed Forces, was the most notorious actor. The conflict between Zelaya and Vásquez began when the former ordered Vásquez to instruct the military to provide logistical support for a referendum. This, according to Zelaya, sought to know people's preferences about creating a Constituent Assembly to give more power to people (Ruhl 2010). Although in the beginning he was prone to help, Vásquez finally refused. This decision was taken due to Vasquez consulted other military officials, who did not approve Zelaya's intention of doing the referendum. According to Vásquez himself, the military believed, secretly, the referendum came from an illegal order to perpetuate an "international project commanded by Hugo Chavez via countries belonging to the ALBA" (Belén Fernández 2009). In another interviewed, he also said the military consulted some members of civil society, including mass media, the church, and "others", and noticed there was a general displeasure (Mur 2015, 209-210). According to him, Zelaya wanted to follow a "dictatorial democracy", which had already been started in Venezuela. It seems that within these "others" groups, the military consulted the business elites, as was revealed by Fernando García, the president of the ANDI. According to him, the military itself implored the business sectors to intercede, in concert with the politicians, so as to solve the situation, as they did not want to participate directly (Mur 2015, 210).

The conflict exacerbated on June 24th, 2009, when Vásquez, as well as other officials, refused to follow Zelaya, resulting in the removal of Vásquez from its rank. The situation worsened the next day. Along with Vásquez, all the commanding officers resigned from their positions. Edmundo Orellano, Zelaya's minister of defense, also resigned. Very soon, the Constitutional Chamber declared that Zelaya's actions against Vásquez were illegal, so he immediately had to return to office. Since then, Vázquez joined different marches and street protests. He also gave

interviews to the media, putting himself in the same side as the economic elites's discourse. He freely did it, arguing that protesting against illegal instruction was his civic duty, that it was commanded by the Constitution (Moody 2013, 19).

5.4.2.2.3. The coup

On June 26th, 2009, the president of Venezuela Hugo Chavez publicly declared: "A coup is underway in Honduras. It is the bourgeoisie; it is all these alliances they have built (…) " (Alópresidente 2009). Hugo Chávez was right in regards with the coup, which was effectuated on June 29th, the same day Zelaya had called upon for the referendum. In the early morning, Zelaya was taken by the military. Zelaya was immediately sent, still in pajama, to Costa Rica, a fact which clearly violated the constitution and which demonstrated the coup was not done by following constitutional principles. The article 102 of the Honduran Constitution prohibits any kind of forced expatriation, which means no Honduran citizen might be forced to leave the country because of State pressures (Nejabat 2014, 17). Despite this, the Supreme Court did not condemn Zelaya's exile, and supported all the way military actions. As the US ambassador said in an internal diplomatic communication that Wikileaks made public, "none of the (…) arguments has any substantive validity under the Honduran constitution. Some are outright false. Others are mere supposition or ex-post rationalizations of a patently illegal act" (Kellen and Star 2011). Here it is important to note that Zelaya was not the only victim of kidnapping. Patricia Rodas, his main left-wing ally, was also forcibly taken to the Air Base of Tegucigalpa. Rodas was at that moment with the company of the Ambassadors of Venezuela, Cuba and Nicaragua, who were hit by some hooded men (OEA 2009, 14).

Moreover, the military claimed Zelaya had resigned office, leaving to the Congress a letter of resignation. It was not true, even the letter had been signed with a wrong date and it was perhaps said in order to appease possible ensuing protests. After reading publicly Zelaya's letter of resignation, the Congress appointed Roberto Micheletti as the interim president of the country, the former adversary of Zelaya in the Liberal Party (Netajab 2014, 2). The days that follow, Honduras undergone a hostile atmosphere. In the first place, several international sectors reproached the coup, including the same Government of the United States. Secondly, there were different riots and demonstrations, which were offset rapidly by the military. The elites, on the other hand, celebrated the coup, many of whom gathered into a new association: the Civic Democratic Union UCD (*Unión Cívica Democrática)*. The UCD defended the new government

and, after the popular protests, called for a march to support Micheletti. This march was dubbed "the march of white shirts" (*la marcha de las camisetas blancas*), in allusion to peace and freedom (Mur 2015, 279).

Regarding the possible alliances Chavez mentioned, they remain unknown if they were true. However, they seem to be plausible. In the case of the political sector, it is from a public dominion that important members of the economic elite finance both political parties– Miguel Facussé, for example –, a strategy which reduces the risk that party changes of power imply. In the case of the military, some of their members accepted to have been contacted by some business organizations before the coup, as already mentioned. Moreover, important public organizations and NGOs also have reported direct links between both sectors, in particular through drug trafficking (Frank 2011; Dudley 2015, 4; Kerssen 2013, 201). (Frank 2011, Dudley 2015, 65). Some reports on Wikileaks also points out this relationship, accusing Miguel Facussé of doing illegal business with army officials. The Cachiro Organization, a criminal drug cartel, has also created some networks with both the military and important businessmen (Dudley 2015).

In less than one year, the *de facto* government called new elections, which were won by Porfirio Díaz from the National Party. Accordingly, Honduras remained being considered as a democracy in all the indicators as elections have interruptedly celebrated, as well as there have not had restrictions for new political parties to participate in local politics. It is the case, for example, of the center-left wing party LIBRE, under the head of Zelaya.

5.4.2.3. Income Concentration

There is little to say about income distribution in the years which followed the coup since it is the first time we do not require proxies for it. As we see in figure 5,3, inequality increased since the coup up to 2010. This is basically the result of the new government policies, so inequality was the consequence of action undertaken by the State. After the coup, in Porfirio Lobo's government (2010-2014), social spending was reduced from 13.3% of GDP in 2009 to 10,9% in 2012. Three important aspects were dramatically reduced. Education reduced from 6% of GDP in the period 2005-2009 to 1,4% in 2010-2012 period, by average; health from 11,7% to 3,5%, and public housing from 1,2% to 1%. – reaching a peak of 1,7% in 2009–. Social spending reduction, in turn, was reflected in the increase of the rates of poverty and poverty extreme.

While the former had an increase of 13.2 percent between 2010 and 2012, the latter increased 26.3 percent in the same period of time. In the same way, between 2009 and 2012, income received by the 90% of the poorest population had a contraction of 6,5%, while the 10% of the richest received a profit of 6,9%, which shows that all the new national income was received by the richest (Johnston and Lefebvre 2013, 1). It is worth mentioning that inequality in Honduras decreased again in the period 2012-2014. The new inflow of remittances is the main explanatory cause, which heavily rose and reached its peak in 2014, turning Honduras into the most remittance-dependent country in Latin America, even surpassing El Salvador. However, inequality reductions have declined just slightly and for a very short term, compared to its neighbor El Salvador, as some scholars have indeed recognized it (see Andrea Cornia 2014, 8).

3.6. Conclusions

In H3, in general there is a cohesive relation between the economic elites and other sectors, except for some political actors who deviate from the elite's interest like Manuel Zelaya and Patricia Rodas (see the table 5.8). Even though Manuel Zelaya achieves to implement a wide redistributive program, including increasing the minimum wage up to almost 100% during his government, after the coup there is a reversal in the redistribution tendency A new government more akin to elite's interests seized power, and use counter-redistributive policies including fiscal poor exemptions. In this case, cohesion between political and economic sectors increases, again, throught the eliminating of political actors who are opposed to the elites.

Table 5.8.
Central actors, all mentioned in the explanation of the critical Juncture H3

Type of Elite	Actors	Actors' preferences
Economic Elites	The Landed Elite (Chiquita Brands; ANAMIMH; Timber Industry)	Against
	The Bourgeoisie: (COHEP, ANDI, The Banking (FICENSA; BAMER; The pharmaceutical sector).	
Political Elites	Political Parties: National Party (Some political leaders like Manuel Zelaya, Roberto Micheletti, Elvin Ernesto Santos, Patricia Rodas)	Mixed Preferences
The Military	General Romeo Vásquez	Against

CHAPTER VI. EL SALVADOR: ELITES, DEMOCRACY AND INCOME DISTRIBUTION IN EL SALVADOR: (1940-2014)

6.1. Introduction

Hernández Martínez governed until 1944 when he decided to resign due to increasing opposition, from the military as from civil society. El Salvador remained a military dictatorship for a long time despite the fact there were various actors who threatened the regime. The subsequent presidents were all important actors within the military. They were, respectively, Colonel Osmín Aguirre (1944-1945), General Castaneda Castro (1945-1948) and Colonel Oscar Osorio (1950-1956). Opposition elements were either repressed or sent into exile. This was the case with Arturo Romero who was seen as a dangerous person, being forced to abandon the country (Gordon 1989, 75; Lindo Fuentes et al. 2007, 85). Since Osorio, the military strengthened as an institution, having its own political party *Partido Democrático de Unificación Democrática* (PRUD), as well as alternative centers of power which created a kind of internal accountability (Artiga 2015, 72-116). Following his administration, the military also increased investment in education and social security and boosted, in order to modernize the country, the Import Substitution Industrialization Model (ISI). The ISI had enormous consequences for local economy. The governments of Fidel Sánchez Hernández (1967-1972) and Colonel Arturo Armando Molina (1972-1977) continued Osorio's policies.

Inequality, nonetheless, remained an important issue in the country. On the one hand, industrialization involved poor workers who had immigrated to urban areas, in particular the main cities such as San Salvador, Santa Ana and Sonsonate (Gordon 1989, 46). On the other hand, the country continued to be full of poor peasants, who were working either with low salaries, with feudal or semi-feudal relationships, or with very small farms in non- productive lands (Lindo et al. 2007, 130). By 1979, there were 800 properties which, on average, had more than 511 hectares each, which represented more than 28% of the total productive land. On the contrary, there were 132,500 small farms, for the same number of families, which represented only 5% of the productive land of the country (Grenni 2014, 80). This created a society under tension. Poor farmers and urban workers, on one side, and rich landowners, mainly based on coffee, on the other. This tension increased in 1969 when Honduras expelled thousands of Salvadorans, who had immigrated to the neighboring country as a result of a crisis of land shortage, as mentioned in the former chapter, from their land. The Soccer War had different consequences for both countries. While for Honduras it represented, in some way, relieving

pressure from the masses, the result in El Salvador was the opposite (García Guevara 2007, 29.30; Artiga 2015, 98). Moreover, the disruption of the Common Central American Market, broken firstly by Honduras, had serious consequences for the Salvadoran Economy which had been the one that had most gained from the treaty (Durham 1979, 65; Nieto 2003, 118).

As in the case of Honduras, the US anti-communist wars of the sixties and seventies influenced markedly Salvadoran Politics. After being defeated by the Cuban forces in the Bay of Pigs in 1961, the US provided assistance to El Salvador to combat any potential or *de facto* insurgent movement. In addition to economic help, the aid also included military assistance as well as "training in counterinsurgency and surveillance" (Lido Fuentes et al 2007, 87). The military aid from the United States came at a crucial moment of the country's history as the potential left-wing movements started to seriously threaten the regime. It, however, should be kept in mind that El Salvador had had battles against communism for a long time as the local insurgent movements had been quite strong, reaching its peak in the 1932 peasant's mobilization. As Lindo-Fuentes et al. say (2007, 86), the "governing officials always interpreted the laws as providing them carte blanche for anti-communist activities". Thus, the US aid was an ally rather than the initiator of such an anti-communist behavior.

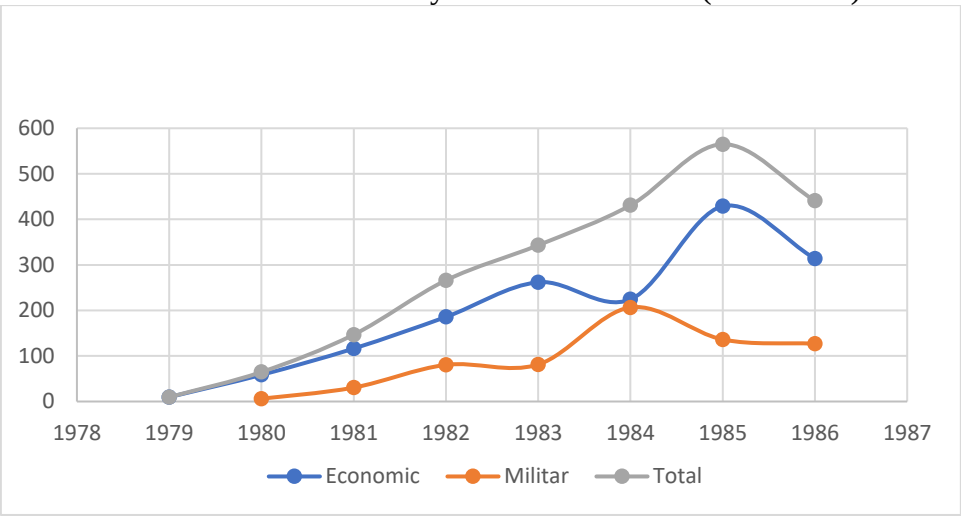
Both circumstances, the huge inequality of the country, both rural and urban, and the new economic power of the military, were important features which explain the civil war throughout the eighties. El Salvador experienced 12 years of a bloody and violent conflict, between 1980 and 1992, which hugely changed the country's internal structure. In 1992, El Salvador did, however, have a successful peace process with the left-wing guerrilla group FMLN (*Frente Farabundo Martí para la Liberación Nacional*), a process which served as a starting point for a new stage of the political history of the country since it allowed the FMLN to be transformed into a political party. Along with the peace accord and the entry of the FMLN in the electoral competition, a huge influx of remittances from abroad helped El Salvador to improve its indicators in terms of poverty and inequality reduction. Such inequality trends make El Salvador an excellent case to analyze in Latin America, a region that characterized by widespread and persistent high inequality.

6.2. Elites Development

6.2.1. The Modern Military

For long time, El Salvador received low financial support from the United States. The aid increased from John F. Keneddy's administration (1961-1963) onwards and became more extensive during the anticommunist defense policy of Ronald Regan (1981-1989). After a short demise during the presidency of Jimmy Carter (1977-1981), who alleged El Salvador was violating human rights (Library of Congress 1988; Carothers 1993, 41; Cale 1996; Crandall 2015, 137), the U.S. - Salvadoran military relationship began a new stage during the Regan Administration. Reagan increased the economic and military aid to El Salvador as is represented in the figure 6.1. The U.S. feared communism would spread in El Salvador, such as had occurred in Cuba, and was concerned about the alarming power of the Marxist guerilla FMLN as well as the left-radical Sandinista National Liberation Front in Nicaragua. The U.S. invested in El Salvador more than US $ 3.9 billion throughout the decade. This represented roughly US $ 200,000 per member of the FMLN guerrilla group, making El Salvador the fifth-largest country in terms of US aid in the world (Brockett 2005, 237-238; Vilas 1998, 294; Marti i Puig 2002, 195). Between 1986 and 1988, the amount of the Salvadoran's government's budget covered by U.S. assistance varied between 20 and 43 percent (McClintock 1998, 221–223).

Figure 6.1
US Economic and Military Aid to El Salvador (1978-1986)



Source: own based on Martí i Puig (2002).

Along with the U.S. economic and military aid, the military also began to present signs of internal fractures. The October 1979 coup by young military officers represented a political opening which introduced civilian engagement to government and included an array of reforms, among them an agrarian one. This represented a totally different approach to that of the most radical military officials who had previously remained in power. As a result of this, José Napoleón Duarte from the Christian Democratic Party became president of the country, working hard to secure U.S. funding for the Salvadoran military and allowing a rapid political opening in the country, very distant to the interest from the coffee elite (Domínguez 1997, 11-13). The pressure of the war, but also the reformist attitude of some political and military leaders paved the way for consolidating democracy and, at last, forsettling a peace process with the FMLN in 1992. Since then, the military has established a stable and good relationship with the civilian governments which have followed. Such attitude has persisted until today, even with the new FMLN, now converted into a political party, during the Administrations of Mauricio Funes (2009-2014) and Salvador Sánchez Cerén (2014-) (Perez 2015, 59).

6.2.2. The New Political Elites

The strong pressure exerted by new social movements led to the military opening to new political parties. The political opening, however, was very narrow as the military did not permit all political parties and gave only due place to those that were in, or near, the military ideological spectrum (Artiga 2015, 128). The Nationalist Republican Alliance (*Alianza Republicana Nacionalista*, ARENA) came about in this political openness. ARENA was founded on September 30th, 1981 by Robert D'Aubuisson, a prolific member of the military who had served at the National Security Agency (ANSESAL). ARENA became one of the most important parties in the country and soon greatly competed with the two traditional parties at that time, the National Conciliation Party (PCN) and the Christian Democratic Party (PDC), as well as some minor parties such as the Salvadoran Popular Party (PPS) and the Party of Popular Orientation (POP) (Artiga 2015, 127).

By the 70's and the 80's, however, it was politically impossible for the leftist organizations to participate through elections. Hence, the adoption of alternative forms of organization gradually began. Thus, the Popular Forces of Liberation (*Fuerzas Populares de Liberación*, FPL), the Revolutionary Army of People (*Ejército Revolucionario del Pueblo* EJP) and the National Resistance (*Resistencia Nacional*, RN) arose. They were essentially guerrilla forces for which

the only way to be visible was through military struggle. They, in turn, allied with other popular organizations such as the Revolutionary Popular Bloc (*Bloque Popular Revolucionario*, BRP), Unified Popular Action Front (*Frente de Acción Popular Unificada* FAPU) and the Popular Leagues of February 28th (*Ligas Populares del 28 de febrero*, LP-28). Through different alliances throughout the 70's, these organizations gave birth to the FMLN, which commanded the war in the next decade. After the peace process in 1992, the FMLN emerged as a political party, becoming currently one of the most important political forces in the country (Artiga 2015, 115).

Alongside ARENA and the FMLN, as well as the traditional PCN and PDC, other parties have reached some extent of representation. Among them, the Grand Alliance for National Unity (*Gran Alianza por la Unidad Nacional, GANA*) is the most representative one, from the right-wing side and formed by some deserted ARENA members. Since its creation in 2009, GANA has shifted, in terms of representation, the third-most importantpolitical party, a position mostly occupied by the PDC. Moreover, it became a significant actor to block or to pass law projects, continuously forming coalitions with the FMLN in order to decrease ARENA power (Artiga 2015, 214).

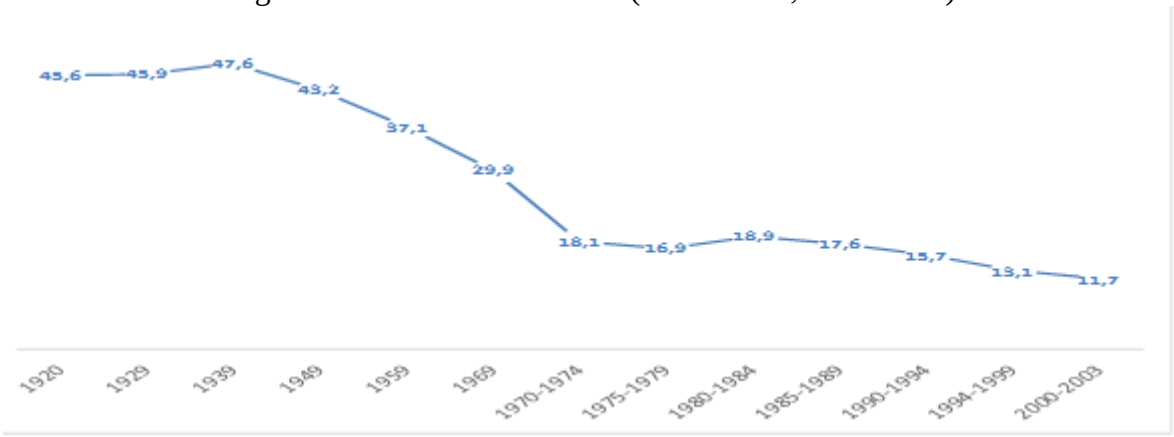
6.2.3. The economic elites

6.2.3.1. The Coffee elite

As seen in the graphs II and III, we distinguish three different periods during the 20th century Salvadoran Coffee History. One which occupies the first half of the 20th century; a second one which lasted from the fifties to the beginning of the eighties; and finally, one that began in the eighties and continues until today. For many decades, coffee accounted for more than 80% of total exports. Even in the forties and fifties, with the clear threat of the Second World War depression, it reached its peak when coffee exportation represented e 88.4% between 1950 and 1954. Cotton, meanwhile, also increased its importance, becoming the second most important product of exportation and accounting for 12% of exportations in 1957 (United Nations 1959, 14, Suárez de Castro 1960; Coiner-Coyner 1971, 9). Despite the fact that the GDP share of coffee reduced over time, the figures demonstrate the importance of agriculture throughout the first half of the century. Consequently, the power of the coffee oligarchy during that period was enormous. Since the fifties, trade, industry and services began to gain importance while

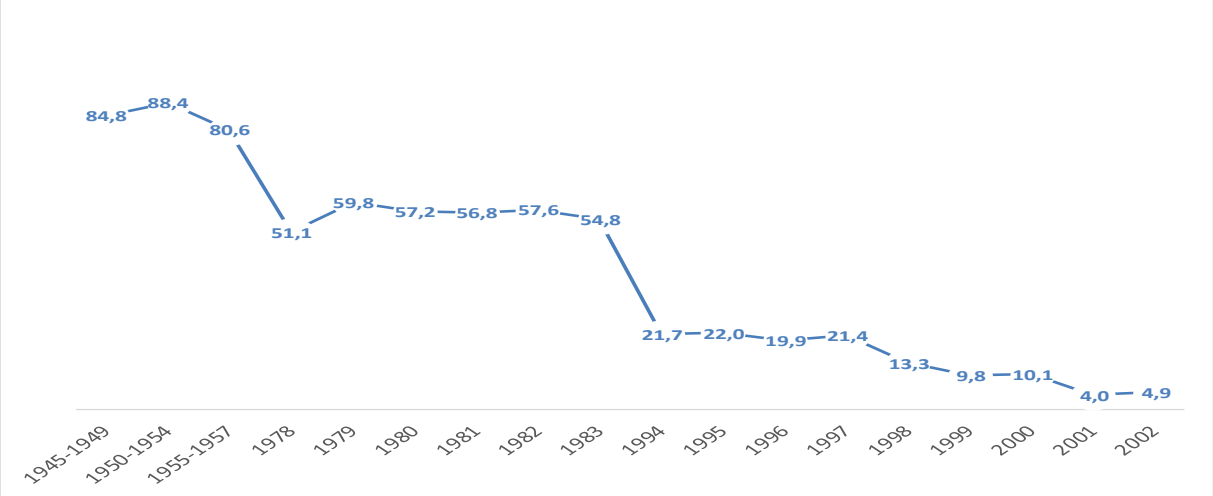
agriculture lost it (see in the figure 6.2 the obvious fall regarding its share of the GDP). Industry and services, however, failed as an exporter product as, like most of the other Central American States, its expansion was given mainly by supplying the domestic market (Bulmer-Thomas 1987, 117). Coffee remained the most important exportation product, representing even in the beginning of the eighties more than the half of the total exports of the country. At that time, agriculture only represented a little less than the 20% of the GDP, although coffee continued to have great participation of more than 50%, a figure not as big as it was until the 50's.

Figure 6.2
Agriculture. Share of the GDP (El Salvador, 1920-2002)



Source: own based on Bulmer-Thomas (1987, 271) for the years 1920-1969; y CEPAL (citado de Segovia, 2004, 21)

Figure 6.3
Coffee exportations. Share of the total exportations (El Salvador, 1978-2002)



Source: Own based on United Nations (1959, 14) for the years 1945-1957; Bulmer-Thomas (1988, 164) for the years 1978-1983; Zúñiga and Rodríguez (2002, 10) for the years (1994-2002)

Throughout the eighties coffee lost importance. While in 1983, coffee represented 54.8% of the total exports, in 2002 it was only 4.9%. What explains such a dramatic change? The increasing dependence of services and, to a lower extent, industry, especially maquila, is the main reason. External factors also played a big role. Notice that El Salvador did not reduce coffee productions, rather it maintained it. For example, it produced 1.1 million bags in 1945 (Bulmer Thomas, 350), 1.3 in 1958 (Bates, 106) and 1.37 in 2005 (ICO 2016). However, the global offering of the product changed, leading to the incorporation of new competitors in Asia and Africa, which broke the coffee cartel among the Latin American countries and reduced world prices of the grain. Soon, El Salvador ceased to be one of the greatest producers of the world, instead becoming just a median producer. Note that while by the first half of the 20th century it ranked as the third/fourth largest producer in the world after Brazil and Colombia – sometimes also competing with Mexico – (Bates 1999, 110; Hoffmann 2014, 208), by 1985 it was the 12th and by 2005 the 15th (Waller, Bigger and Hillocks 2007, 20).

6.2.3.1.1. Agrarian reform: the coffee elite lunge

Along with these new international players, the coffee elite also had to struggle the civil war with the leftist guerrilla group FMNL, which sought to pressure land property changes. Various backgrounds impinged on the implementation of land reform. Firstly, the attitudes of some political leaders, including the president Arturo Armando Molina (1972-1977) who supported the need of a transformation of property land. Molina proposed a land reform which intended to force the landowners to sell part of their properties to government. It, in turn, would transfer the sold properties to the landless peasants who had significantly increased as many had returned from Honduras (Montgomery 1982, 90-110; Artiga 2015, 98-102). Secondly, many peasant organizations emerged by the seventies, many of which would subsequently make up the FMNL (Álvarez 2010, 7-15; Artiga 2015, 112-115). Finally, the Salvadoran Institute for Agrarian Transformation (*Instituto Salvadoreño de Transformación Agraria* ISTA) was created in 1975, as well as the First District of Agrarian Transformation in 1976. Both institutions carried out a modest reform that affected 58,744 hectares, including the largest hacienda of El Salvador: La

Carrera, in the department of Usulutan. Despite the above, the agroexport coffee elite reacted immediately and blocked the reform. Among the powerful associations which intervened were the FARO (El Frente de Agricultores de la Región Oriental), the ANEP (la Asociación Nacional de la Empresa Privada) and the ANDI (la Asociación Salvadoreña de Industriales) (Montgomery 1982, 90; White 2009, 93; Artiga 2015, 99).

Throughout the eighties, Agrarian Reform was unavoidable. The military coup in 1979 brought reformist leaders who came together in a Military Junta (Haggerty 1988, 33-38). There were, for sure, some factions of the state who continued to endorse the coffee elite, even to the point of imposing a less reformist and more violent second Junta (Cardenal 2002, 78-79). External pressures, however, made it very difficult for the state not to monitor the coffee elite. The FMLN exerted huge pressure through the war, but also the United States which endorsed the Military Forces and covenanted with the Democratic Christian Party to support the civil return to power through the polls (Cardenal 2002, 85-97). In the end, land reform was meant to be carried out in three phases, one of which never implemented. In Phase I, which came into force in March 1989, every property larger than 500 hectares was subject to expropriation, despite the fact that owners could retain up to 150 hectares. In Phase II, all properties between 100 to 500 hectares were also subject to expropriation. This land represented 24% of agricultural land and was chiefly the largest part of coffee cultivation. This phase, as mentioned, was not implemented. In Phase III, called *land-to-the-thriller*, every tenant was eligible to own property up to seven hectares after a payment period of 30 years. The National Financier of Agricultural Land (*Financiera Nacional de Tierras Agrícolas* FINATA) was established in December 1980 to carry out the implementation of Phase III (Thome 1984; Goitía 1991, 540; Cardenal 2002, 85-91). Other Laws established were the 842 Decree which embodied the land owned by ISTA into cooperatives, and the 839 Decree which allowed voluntary land transfer. In total, more than 655,710 hectares of land were given to 158,032 families between 1983 and 1989; with phase III being the most effective way of redistribution (see table 6.1) (Goitía 1991, 540).

Table 6.1
Land Distributed in the 1980- Land Reform

Decretos	1983		1988/1989	
	Area (ha)	Families	Area (ha)	Familia
Decreto 154 (fase I)	222921	26205	119107	36558
Decreto 207 (Fase III)	80114	50424	54039	42562
Decreto 842	81450		23378,2	
Decreto 839*			5700,9	2283
Total	373485	76629	282225,1	81403
*The year was corrected				

Source: Goitia (1991, 540)

Despite the fact that phase II was never implemented, which would have affected more directly the coffee owners (70% of the coffee crop), the land reform did affect a group of 136 coffee mega producers, those landowners who had 500 hectares of land or more. Within these were the eight families with the highest coffee production (Regalado Dueñas, Guirola, Alvarez, Salvador Mathies, Salaverría, Meza Ayau, Sun-Millet and Daglio) (Cardenal 2002, 88). Moreover, the reform increased peasants' land access, raising labor costs for landowner producers and leading to the disinterest in coffee by many (Pelupessy, 1987; Pelupessy 1993). Thus, many coffee landowners divided, rented or abandoned their lands. The abandoned area of the private land is an indicator which describes such a situation. The Ministry of Agriculture in 1984 calculated that 42.6% of the cropped land in 1980 had been abandoned by their owners – more than 125,600 *manzanas* of land of a total of 294,500 –. Of that land, 98% belonged to private owners and just 1.5% to the reformed sector (Cardenal 2002, 89).

In addition to land reform, the government also decreed the foreign trade nationalization which aimed to end the private monopoly on coffee processing, stop capital flight, and ease revenue by the State. To do this, the government created the National Coffee Institute (INCAFE) in replacement of the Salvadoran Coffee Company (Coscafe). INCAFE was responsible for implementing the new policy in line with national development plans. Since the reform, INCAFE extended licenses for coffee processing plants, including some of small and medium sizes (*beneficiadoras*), either of individual or cooperative nature. In turn, the participation in foreign trade policy of private organizations was eliminated. Among these, the Salvadoran Association of Coffee Beneficiaries and Exporters (ABECAFE) and Salvadoran Association of Coffee Tasters (ASCAFE) (Pérez 1991, 347- 349).

Even though processors, in the head of ABECAFÉ, strongly opposed the nationalization of trade, they were not the one who harmed the most. To ensure a better price distribution, the State implemented a series of policies to increase the costs of the producers while reducing those of

the processors. Among such policies, the state i) payed the producers a lower price for the bag of coffee; ii) allowed the processors to deduct a part of producers' benefits up to a little higher than the decline of the coffee prices; iii) financed with public funds, almost entirely, processors' activities, but financial costs were charged to producers; and iv) placed the export tax on producers, not on processors (Cardenal 2002, 90-91). Moreover, the nationalization of foreign trade did not imply the loss of control over processing from the hands of private entrepreneurs. Although initially INCAFÉ began processing 27.9% of the total processed coffee in the country, its share in this activity decreased gradually to reach only 3.8% in the period 1983-84 (Cardenal 2002, 91). In summary, directly and indirectly, national reforms affected coffee structure, but the owners and producers were the main losers, not the processors. This is important to take into account as we will talk about this later.

6.2.3.2. Non-Coffee Agrarian Elites

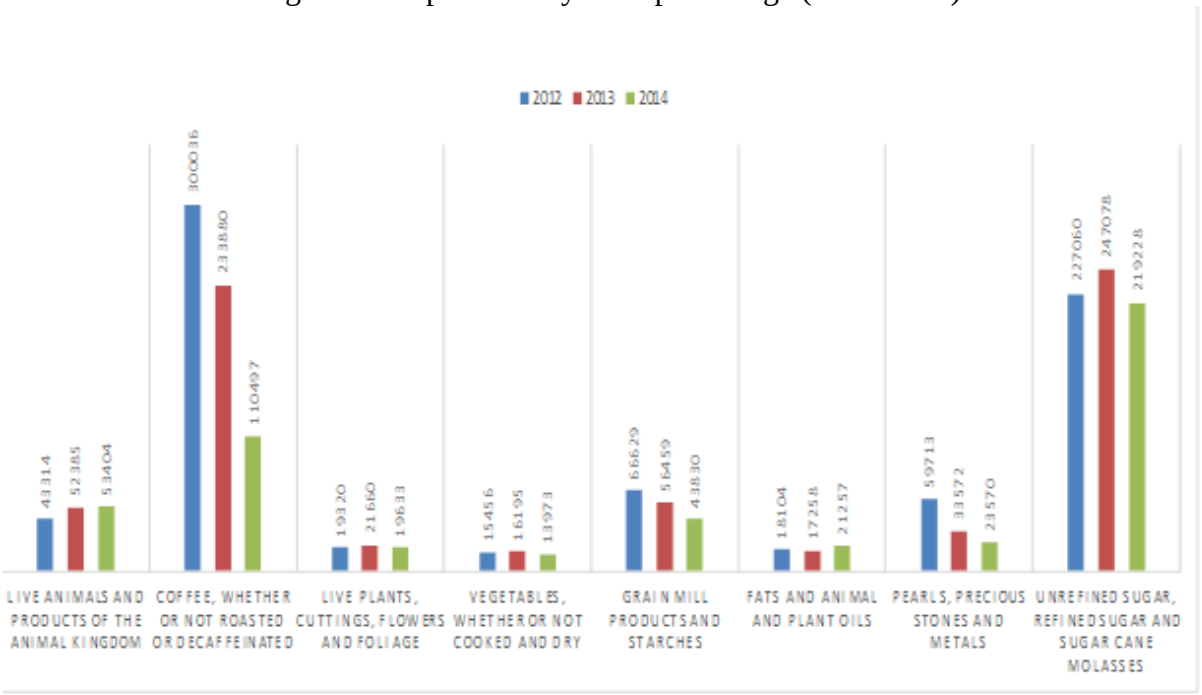
Throughout the 20th century, sugar cane and cotton were other important commodities in Salvadoran Agriculture. Both products, however, had a similar future to coffee. This is not surprising as cotton and sugar were highly produced by coffee elites. For example, from the 26 most important coffee producing families (those who produced more than 10 quintals of coffee), 12 were also on the list of the 14-major cotton-growing families (all except the Wright and Nottebhom families) and nine within the top ten producers of sugar (Cardenal 1994, 131). Cotton, particularly, greatly decreased. While 12.68% of the cultivated land in 1981 was used to grow cotton, it only represented 2.96% in 1989-1990 (from 19,095 hectares to 4,605). For the same periods of time, cotton production decreased from 854,420 bags of 100 pounds to only 171,518. This shows the consequences of land reform on cotton (Gónzalo and Romano 2000, 193).

Over time, sugar cane has persisted as an important product. It surpassed 7.3% of the total cultivated land to 10.23% between 1981/82 to 1989/90. Moreover, production increased from 878,968 bags of 100 pounds to 1,276,671 (Gónzalo and Romano 2000, 193, 194). Currently, the revenues obtained by sugar are greater than coffee. By 2014, it represented 4.5% of total exports, a figure not very different from 1970 when it accounted for 4.5% of exports as a percentage of total extra regional exports (Bulmer- Thomas 1987, 188). Despite this, the product distribution has changed, being concentrated mainly by the cooperatives formed during the land reform. By 1997, sugar mills sow only 5% of the cane grinding, while the remaining 95% is

divided between the cooperatives which provide the 65% of the grow, and independent producers with the remaining 30%. Also, a better distribution of the revenues is also displayed. While cane producers receive 54.5% of revenues obtained by the total sales of sugar, the remaining 45.5% is received by the sugar industry (Pratt and Pérez 1997, 14). From 2013 on, sugar, which is also part of the industrial activity, became the most important agro-related product in El Salvador as coffee kept losing importance. Besides coffee, sugar has no other significant competitor in the agricultural economics of the country (see figure 6.4).

Overall, the agro-export products do not represent much of the Salvadoran International Economy. As we can see in figure 6.2, the agricultural share of the GDP reduced throughout the seventies and eighties to reached only 11.7 in 2000-2003. In 2014, it was11.3%. At the same time, industry and services increased their participation. In 2014, they represent 26.8% and 61.9%, respectively. Of this huge participation, we shall speak in more detail in the next section.

Figure 6.4
Agricultural products by FOB percentage (2012-2014)



Source: own, based on Central Reserve Bank of El Salvador (2015)

6.2.3.2.1. The bourgeoisie: Industry and services

During World War II, developing countries had difficulties to supply manufactured products worldwide, thus favoring the expansion of textile companies in many countries in Latin America, including El Salvador. The ISI model implemented in the mid-forties to face that problem had significant consequences for the Salvadoran Economy. The model proposed the creation of an industry system to replace imported products with domestically manufactured goods. The rise of the prices of raw materials between 1945 and 1954 allowed the Salvadorans agro-exporters groups to implement successfully this model as they had already accumulated enough resources to invest in industry (Gordon 1989, 148).

The state was a great benefactor to implement the model, expanding public spending and carrying out infrastructure works to incentivize private investment. Thus, the Salvadoran Institute for the Promotion of Production (*Instituto Salvadoreño de Fomento a la Producción*, INSAFOP) was created in 1955, whose overall objective was to increase economic activity by expanding the industrial sector and diversifying agricultural production (United Nations 1956, 24; Vásquez 1961, 54; Gordon 1989, 41). In 1961, the INSAFOP was transformed into the Salvadoran Institute of Industrial Promotion (*Instituto Salvadoreño de Fomento Industrial*, INSAFI) which focused solely on industry and which tried to organize activity (Bulmer-Thomas 1987, 373, Jacobson and Ehrenthal 1988, 112; Gordon 1989, 41).

ISI, nevertheless, did not interfere at all with the promotion of traditional exports. As we already mentioned, ISI in El Salvador was conceived to protect adjacent business from the coffee elite, as well as that of the cotton and cattle sector, the three very related activities in the country (Pérez-Brignoli 2011, 113). Note that the establishment of the most important result of ISI for the region, the Central American Common Market (CACM) in 1960,[12], was designed in a way that could be compatible with the interests of the agro-export groups in each member country, encouraging a type of industrialization very close to the traditional sector. By the end of the sixties, for example, the food sector still accounted for 50 % of gross industrial output in Central America (Bulmer-Thomas 1987, 192). There was also a clear dependence on imported inputs, both on capital goods and intermediation products which had to be covered by outside the

[12] CACM, however, was signed by Honduras in 1961 and Costa Rica in 1962.

region. As Bulmer-Thomas says: “Despite nearly one-quarter of industry's raw material requirements were met by the CACM, almost 100% of capital goods imports came from outside the region. In 1970, extra-regional imports for industry in 1970 accounted for nearly 60% of all extra-regional imports and used up nearly two thirds of earnings from extra-regional exports” (Bulmer-Thomas 1987, 193). This trend prevailed in El Salvador. The non-traditional branches of industry were of very little importance. Even in 1975, after CACM had failed and closed, consumer products accounted for 69.9% of industrial production; while advanced and intermediate industrialization sectors only represented 28.6% and 2.1% of production, respectively (Cardenal 1996, 130).

Despite the ISI being mainly conceived to benefit the Coffee Oligarchy, as it had previously diversified its business in other sectors, the model, nevertheless, had some implications for other emerging groups. One of the most extraordinary of these groups was the cotton producers, very related to the coffee oligarchy, as explained. Cotton did not only increase its crop production, but also transformed local industry. Since its inception in 1930 until the fifties, the growth rate of the textile industry was never more than 2% (United Nations 1959). However, between 1950 and 1960, it changed, reaching an average growth rate of 6.18, much higher than that of the previous years (Gordon 1989, 34). Along with the food and the textile industry, basically clothing and footwear related to cotton production, the chemical sector which was composed mostly of fertilizer and insecticide industries that grew linked to the expansion of cotton and coffee, was also encouraged (Cardenal 1996, 130). All this resulted in a new class of entrepreneurs who mostly were conjured up by small-scale companies, although they had received some stimulus from the urbanization associated with the growth of large-scale industry (Bulmer-Thomas 1987, 194). During the sixties and seventies, this group would also seek fiscal policy reforms to maintain industrial activity (Gordon 1989, 161). These entrepreneurs, even if many came from coffee families, began to differ from the agrarian elites in terms of objectives and values.

CACM did not prosper. The main reason was that net profits were not well distributed among the members. El Salvador was particularly successful because of its massive exports to Honduras, which rose since 1950 due to various bilateral treaties prior to the Common Market (Bulmer Thomas 1984, 172; 176). In fact, El Salvador was the most dependent country of the

CACM among all the members, in both imports and exportations – compare the figures in Bulmer-Thomas's table (1984, 193) –. On the other hand, Honduras could not resist the Salvadoran firms which entered the country. This, in addition to the exodus of thousands of Salvadoran immigrants into the Honduran territory, led to Honduras boycotting Salvadoran products in 1966. Afterwards El Salvador rapidly slowed production and soon its relations with Honduras were destabilized. The CACM ended when Honduras rejected a fiscal proposal of the member countries and decided to enter into direct confrontation with El Salvador in the so-called soccer war, which we have previously spoken about (Bulmer-Thomas 1987, 195). At the end of the CACM, the economic structure of El Salvador remained so it failed to diminish the importance of the agro-exporting sector. Rather, industrialization was plunged into serious crises, subordinating it to the agro-exporter elite. Although industry became attractive during the previous decade of the 1970s, the industrials did not constitute as important pressure group capable of determining national policies following the CACM failure (Bulmer Thomas 1987, 176; Cardenal 1996, 130).

Notwithstanding this, industrialists became a powerful group by the 80s. This is explained, above all, because of circumstantial reasons such as the decline of the coffee elites' power because of the war as well as the military detachment from the coffee oligarchy, although also because of rapid growth experienced before (Segovia 2002, ch. I). Along with the increase in power, three important features characterized the industrial and service elite or what we called the bourgeoisie (Velázquez 2011).

Firstly, it shifted its ideology towards the neoliberal doctrine, which was endorsed by the US Agency for International Development, US-AID. In 1983, FUSADES (Salvadoran Foundation for Economic and Social Development) was created in San Salvador, thus becoming the first think tank, which would agglomerate much of the elite outside the coffee oligarchy for the following decades (see also Cardenal 2002, 97-105). By that time, in 1985, FUSADES published the text "The Need for a New Economic Model for El Salvador" where it addressed diverse policy recommendations, very close to the liberal ideology: a model based on the expansion of the free market, private initiative and a limited state (Velázquez 2011, 170; Váldez 2015, 167). Secondly, as we shall see, a significant part of this new oligarchy was much more moderate than to the agrarian elite regarding speech towards the FMLN, as well as more prone

to dialogue with revolutionary forces (Ching 2016, 52). Finally, the arrival of one of the most outstanding members of the new oligarchical wing to power, Alfredo Cristiani, was accompanied by a frontal attack on the agro-export sector even though it implied a dispute within his party: ARENA. Policies such as the introduction of a fixed exchange rate in 1992 to avoid speculation in the black market of dollars enormously harmed the coffee oligarchy (Velázquez 2011, 192). Thus, besides the external pressures of the war, the shift of economic preferences towards services, and, to a lower extent, industry, led to a structural change which implied the destruction of the agro-export model.

The analysis of the 2014- xpor structure by sector betrays this important change. By that year, the textile activity had become the most important export product (US$ 1,581,498,000), followed by the maquila industry (US$1,023,983,000). Currently, several industrial products exceed coffee revenues. Among them, food industry (including those related to sugar); chemical products (including pharmaceutical drugs); wood pulp, paper and cardboard (including toilet paper); and electric machinery (see table 6.2.). It should also be kept in mind that 44% of the 2014 foreign currency corresponded to remittances (US $ 4,154 million), which contributed to boosting domestic industry and services (all the data comes from the Central Reserve Bank of El Salvador 2015).

Table 6.2
Products by FOB Percentage (%) 2014. In thousands of US$

Product	In thous. US dollars	% (Maquila included)	% (Maquila not included)
I. Live Animals and Products of the Animal Kingdom	53,404	1,01%	1,26%
II. Plant Kingdom	204,122	3,87%	4,82%
Coffee, whether or not roasted or decaffeinated	110,497	2,10%	2,61%
III. Fats and Animal and Plant Oils	21,257	0,40%	0,50%
IV. Food Industry Products, Beverages, Spirits, Snuff and Substitutes	751,393	14,25%	17,75%
Unrefined sugar	177,207	3,36%	4,19%
Bakery products, confectionery and biscuits	94,099	1,78%	2,22%
Fruit juices	51,806	0,98%	1,22%

Water, mineral water, carbonated, sweetened or flavored, and other nonalcoholic beverages	91,792	1,74%	2,17%
V. Mineral products	148,433	2,82%	3,51%
VI. Chemical Products Industries	261,416	4,96%	6,18%
Drugs for therapeutic uses and / no prophylactic	106,190	2,01%	2,51%
VII. Plastics, rubber and articles thereof	327,812	6,28%	7,74%
Plastics and other articles	51,248	0,97%	1,21%
VIII. Furs, Leather, Saddlery and Leather goods	5,441	0,10%	0,13%
IX. Wood Pulp, Paper and Cardboard and their Waste, Manufacturing and Applications	289,967	5,50%	6,85%
Toilet paper cut for domestic use	114,396	2,17%	2,70%
Packaging paper and cardboard	65,979	1,25%	1,56%
X. Textiles and Textile Articles	1,581,498	29,99%	37,36%
outdoor clothing	528,855	10,03%	12,49%
underwear and clothing	745,152	14,13%	17,60%
XI. Footwear and the Like	54,980	1,04%	1,30%
XII. Pearls, precious stones and metals	23,570	0,44%	0,56%
XIII. Base Metals and Articles Thereof	253,045	4,80%	5,98%
Rolled products of iron or steel	53,633	1,02%	1,27%
Iron, steel and other manufactured goods	108,668	2,06%	2,57%
Aluminium manufacturers	46,742	0,89%	1,10%
XIV. Machinery; Electric material	125,901	2,39%	2,97%
XV. other Products	146,447	2,78%	3,46%
XVI. Maquila	1,023,983	19,42%	Do not apply

Source: Own based on Central Reserve Bank of El Salvador (2015, 36-37).

Looking at the GDP, this structure remains. By the beginning of the 21th century, more exactly the period 2000-2003, it is remarkable that while the secondary sector (industry, construction and energy) and services accounted for 23.5% and 54.7% of the GDP respectively, agriculture only accounted for a modest 11.7% (Segovia 2004, 21). When analyzing the country's annual GDP growth for the same period, it is observed that while the secondary sector contributed to the 53% of the growth, and services the remaining 47%, the agricultural sector GDP decreased with a negative balance of 5.1% (Segovia 2004, 17). As Segovia (2002, xxvi) says: "to some extent these changes have been reflected in the rest of Central America. Traditional exports are

no longer so important in neighboring countries; however, the Salvadoran case is the most extreme". This dominance of services and industry in the domestic economy is also remarkable when paying attention to the members of the Salvadoran elites (see the table 6.3). As we can see, all the members of the economic elite are in businesses either related to services or industry, although more than half also preserve their agro-sector interests. Despite this, in many families the share of agriculture of the total capital is very low with respect to other activities, such as the case of the families Dueñas, Kriete and Cristiani. Moreover, the agro-business interests are frequently in the hands of the older members while the youngest focus on services, especially finance

Table 6.3
The economic elite by people

Families/ Members	Agriculture Business or of fix assets	Industry or services
De Sola		
Diego De Sola		X
Orlando De Sola		
Francisco De Sola	X	X
Dueñas		
Arturo Dueñas Soler		X
Alejandro Dueñas		X
Tomás Regalado Dueñas	X	
Baldocchi		
Archie Baldocchi Dueñas	X	X
Marco Baldocchi Kriete	X	X
Kriete		
Roberto Kriete Ávila	X	X
Ricardo Kriete Ávila	X	X
Poma		
Ricardo Poma		X
Eduardo Poma		X
Andrés Poma		X
Alberto Poma		X
Fernando Poma		X
Simán		
Ricardo Simán	X	X
Salvador Simán		X
Mario Simán Dabdoub		X

Eserski		
Carlos Enrique Araújo Eserski		X
Boris Eserski		X
Cohen		
Alberto Cohen		X
Mauricio Cohen		X
Schildknecht		
Alfredo Schildknecht	X	X
Rodolfo Schildknecht	X	X
Cristiani		
Alfredo Cristiani Burkard	X	X
Antonio Juan Cristiani	X	X
Salume		
Adolfo Salume Barake	X	X
Nicolás Salume Barake	X	X
Adolfo Salume Artiñano	X	X
Nicolás Salume Babun	X	X
Belismelis		
José Gustavo Belismelis Vides	X	X
Antonio Belismelis Álvarez	X	X
Lach	X	X
Roberto Llach Hill	X	X
Maria Cristina Lach	X	X
Freund		
Ricardo Freund		X
Eduardo Freund Waidergorn		X
Ernesto Freund		X
Other members		
Joaquín Alberto Palomo Deneke	X	X
Antonio Belismelis Álvarez		X
Roberto Murray Meza	X	X
Jorge Elías Bahaia		X
César Catani Papini	X	X
Luis Alfredo Escalante Sol		X
Juan Federico Salaverría	X	X

Source: Own elaboration based on collected information from Paniagua (2002), Segovia (2005); Goitía (2006, cited from Velázquez 2011); Equipo Maíz (2006); Robles (2010, 2011); Velázquez (2011, 2012); Pineda (2013); Bull (2013); Váldez (2015).

6.2.3.2.2. The Banking

The government of Cristiani reprivatized national banking, giving rise to a new group of financial power. The privatization was accompanied by different maneuvers which privileged this economic group (Velázquez 2011). Firstly, the government approved two important laws: the Law of Sanitation and Strengthening of Commercial Banks (Ley de Sanidad y Fortalecimiento de los Bancos Comerciales) and the Law of Privatization of Nationalized Financial Institutions (Ley de Privatización de las Instituciones Financieras Nacionalizadas), both in November 1990. Thanks to these laws, the state used a revenue of around US$700 million to reorganize and clean up the portfolio of national banks. Alongside this, the Sanitation and Financial Strengthening Fund (Fondo de Saneamiento y Fortalecimiento Financiero, FOSAFFI) was created, whose central objective was to ensure that banks' portfolios were solvent to attract the purchase of shares by private agents, as well as to provide finance for those who were interested in buying shares (Segovia and Sorto 1992; Velázquez 2011).

By the mid-1990s, the process of banking privatization had led to a financial oligopoly. Moreover, this group benfited from a huge entry of remittances which increased by 367% between 1990 and 2007. Remittances steeply deepened the formal channels of the banking system, which used them to expand investments in other sectors not necessarily of financial nature (Segovia 2002, Robles 2010). This clearly explains why this group is also broadly linked to other sectors, particularly commerce and industry (Paniagua 2002). By the first decade of the 21th century, the local oligarchy sold their banks with a profit that exceeded 4 billion dollars, reshaping again the Salvadoran financial system as different foreign groups (Citygroup, Scotiabank, HSBC and Bancolombia) began to participate in the financial market. The local group, however, continued to concentrate much of the country's financial power, although to a lower extent than the rest of the Central American countries (Kasahara, 2013).

6.2.3.2.3. A transnationalised bourgeoisie

By 2004, main business groups' assets amounted to US$ 17,585 billion, a figure higher by more than US$2 billion than the country's gross domestic product. This is largely explained by the fact that Salvadoran elites have been recently expanded to other countries, perhaps far more than

the rest of the Central American ones, thus acquiring a transnational dimension (Velázquez 2011, 15-19). The main economic groups are clear examples. The TACA group, which belongs to the Kriete Family – also a shareholder of the Banagricola group – has been expanding to South America in the last years. It integrated with TACA Perú in 2001 and allied with Colombia's Avianca in 2013, with which founded the Avianca Holdings consortium with a 33% stake. Before this union, TACA had already been expanding to other countries in the region, controlling a large part of the Central American airlines throughout the 20th century. The Poma-Salaverría-Quirós group has also extended in all of Central America, Mexico, Colombia and the United States, focusing its activities on construction, vehicle importation, shopping centers, hotels, among other activities. Other groups which have been expanding are the Simán and the Agrisal group, both with activities in Nicaragua, Guatemala and Costa Rica. While the former focus on shopping centers, in addition to overseeing the franchise of the Spanish group INDITEX in Central America, property of Amancio Ortega, the latter has concentrated on hotels and commercial business (Velázquez 2011, 19).

6.3. Democratization

There are several interpretations of the start date of the democratic transition in El Salvador. However, in addition to the military coup of 1979, two important processes are pivotal: one in 1984 when the first pluralist elections were held after many years – that is, with the participation of various political parties. A second in 1992 with the signing of the peace agreement and the civilian control of the military (for both cases, see Lazo 1992; Dunkerley 1994; Cardenal 1996; Artiga 2015). As we already said, the Salvadoran military junta allowed the opening of political parties in the early 80's. Moreover, the Junta also called for elections to form a Constituent Assembly, thereby suspending the validity of the 1962 Constitution. Elections were held in March 1982, in which ARENA and the PCN obtained the most deputies of the Assembly. It, in turn, elected Alvaro Magaña as the President of the Republic. Magaña remained until 1984 when the new Constitution and a new Electoral Law allowed a direct presidential election. Along with the president, the Assembly also elected three vice-presidents: Raúl Molina Martínez of the PCN, Gabriel Mauricio Gutiérrez Castro of ARENA and Pablo Mauricio Alvergue Rovira of the PDC, giving way to an Interparty Commission (Bulmer-Thomas 1987, 234; White 2009, 103-104; Artiga 2015, 138).

In the new Constitution, democracy was explicitly established. So, at least *de jure*, non-right-wing doctrines were allowed, although remaining limited to the doctrines that subvert political order (Artiga 2015, 130). *De facto*, political and social movements were, however, restricted, leading to the country's brutal civil war during the 1980s. In 1984, José Napoleón Duarte of the Christian Democratic Party was democratically elected. Duarte worked hard to secure U.S. funding for the Salvadoran military and allowed a more effective political opening (Domínguez 1997, 11-13). Indeed, a substantial change came in 1987. Under the name of Democratic Convergence (CD), two political forces within the Democratic Revolutionary project joined the legally registered Social Democratic Party (PSD): The National Revolutionary Movement (MNR) and the Social Christian Popular Movement (MPSC). Hence, the political spectrum had expanded beyond the center-wing side. The MNR, a party from the Socialist International, was also established (Lazo 1992, 33; Álvarez 2006, 111).

For the legislative and municipal elections that took place in 1988, the PDC had lost most of its representatives. ARENA, for its part, had gained importance. Moreover, on March 19, 1989, Cristiani from ARENA had won the 1989 presidential elections. Both elections showed a displacement of the popular vote from the PDC to ARENA, perhaps because of the continuation of the war and the critical economic situation. During Cristiani's administration and after more than ten years of armed struggle, the FMLN and the government signed the Chapultepec Peace Accords in January 1992, thus ending a civil conflict, which had left more than 75,000 people dead. Along with the pressure of the war and the reformist attitude of some political and military leaders, two facts contributed to pave the way to settle a successful peace negotiation. Firstly, on January 23 1989, two months before Cristiani's takeover, the FMLN presented a new proposal "to make elections a contribution to peace". Thus, the FMLN seemed to suggest that electoral mechanisms can be desirable political options (Artiga 2015, 163). Secondly, and perhaps more importantly, the war reached an unprecedented international level in November 1989 due to the deaths of six Jesuits at the Central American University (Beirne 1996).

The end of the conflict also brought the constitutional reform in 1991 in which the military lost lots of its power. Especially, regarding the surveillance of the Constitution which became a function of The Supreme Court of Justice. The Supreme Electoral Tribunal was also created to preserve alternation of power. In addition, the office of the Human Rights Procurator was

established to monitor military actions (Martínez-Uribe 2013, 144). Despite this, it is important to note that the military has maintained a stable and good relationship with the civilian governments which have followed. Such attitude has persisted until today, even with the FMLN now converted into a political party. Such was the case of the relationships with the Administrations of Mauricio Funes (2009-2014) and Salvador Sánchez Cerén (2014-) (Perez 2015, 59).

Everything mentioned above is expressed in many indicators of democracy, Polity IV considers a diffuse transition in 1984, the year in which the pluralist elections were held. However, only in 1991, with the development of the peace agreement, does El Salvador become as a fully democratic state. Freedom House, on the other hand, considers El Salvador as a partially free country between 1979 – the year of the coup –and 1997. Due to the holding of the 1997 legislative elections and several apparently clean presidential elections, Freedom House regards El Salvador as a free state between 1998 until now, both in political rights and civil liberties (see also Orellana 2013). Regarding the indicators of Mainwairing et al. (2001), and Bowman et al. (2005), both consider El Salvador as a democratic state since 1992 with the peace processes and the signing of the treaty of Chapultepec.

6.4. The Critical Junctures: ES2 and ES3

6.4.1. The trigger: The Peace Accords - ES2

The war produced different costs depending on the group at stake, leading to different actions by each of those actors. In the end, a peace accord between the FMLN guerrilla group and the government was reached. Regarding the peace agreement, how was the behavior of the bourgeoisie? How was the role of the military in terms of making concession to end internal conflict? What made it possible for the FMLN to be part of the political arena? In the following pages, we shall try to explain, one by one, the relationship breaks that took place in El Salvador previously and immediately after the peace accords. Moreover, the peace process, as explained partly above, was simultaneously produced with the entry of neoliberalism, perhaps the greatest structural economic change throughout the last century. Both facts are not, in any way, isolated.

The treaty, it is important to stress, did not question the wealth structure of the country. There were some debates about it during the treaty, but they were focused especially on land. For example, the treaty sought to allocate the peasants in rustic lands over 245 hectares, which had not been transferred in the Agrarian Reform. This worried the elites, especially those related to land who would be directly affected – thus reinforcing their precipitous fall from the land oligarchy which had begun a decade before in the agrarian reform– (Wood 1999). However, apart from this, little progress was achieved in terms of wealth allocation. According to Wood (1999, 110), the agreement was basically a balance of power in which the left undertook to respect democracy within a capitalist economy while the right was committed to maintaining a political regime with the participation of the left.

The bulk of the agreements were centered on the armed forces reform and the human rights violations, not the socio-economic details which were handled with ambiguity and were the weakest part of the treaty. This is explained precisely by this balance of power already mentioned: "The FMLN made the explicit decision to advocate political and institutional conditions that would allow it to give top priority to democratic politics; while the government refused to discuss any changes to its general economic policy "(Wood 1999, 112). In substantive terms, the agreements had the following characteristics (all are found in Wood 1999, 115-117)

i. People who, at the time of the peace accord, were living or working in conflict-affected areas would not be evicted from their land.
ii. The government would transfer unoccupied state lands to peasants who were victims of the conflict. The State would also encourage the voluntary sale of private properties in order to be transfered to poor peasants.
iii. Within 30 days of the signing, the FMLN would present a list of properties in the conflict-affected areas and the government would legalize them within the next six months.
iv. The accords would grant credit to small entrepreneurs to purchase land in accordance with the conditions of the 1980 agrarian reform.
v. Within one month of signing the agreement, the government would submit a project called the National Reconstruction Plan (PRN). The main goals of the plan were i) the integral development of the "war-affected areas", ii) the reconstruction of

damaged infrastructure, and iii) the attention to the basic needs of the population who were affected by the war, as well as those of the ex-combatants of both sides.

vi. In order to facilitate the reinsertion of the FMLN, the government committed to grant scholarship programs, job opportunities, retirement and pension plans, housing construction and business promotion to all the ex-combatants.

vii. The government also agreed to channel foreign aid to communities and grassroots organizations in conflict-affected areas.

viii. The government committed to take measures and strengthen programs aimed at alleviating the social cost of structural adjustment.

ix. Other concerns such as wages and working conditions were assigned to the Forum for Economic and Social Concertation (FCES from its Spanish initials). FCES would be a civil body with the participation of different sectors.

x. An additional agenda was included to be discussed, with broad topics that ranged from how to remedy the social costs of structural adjustment, to how to face the economic and social problems that would result from the end of the conflict.

Despite having introduced this into the treaty, the peace process was mainly linked to other economic interests: bourgeoisie's greed in expanding commercially, which had been brewing for decades but often blocked by the war. It is important to highlight the fact that the legislature approved on April 11th, 1991, to assume a seventy-five-million-dollar loan from the World Bank to support the neoliberal structural adjustment. It was in the beginning of the peace process which started with the San José Agreement on July 26th, 1990, and seven months before the final signing at the Chapultepec Castle in Mexico City. El Salvador received that loan in approximately two years with the condition of "opening to the world market; privatizing banking, at least in part, as well associations of savings and loans; reforming the tax system, and reprivatizing foreign and domestic trade" (Artiga 2015, 175). During and immediately after the signing of the agreement, El Salvador quickly liberalized, a consequence of the new oligarchy's thinking. Among the policies to be highlighted by Cristiani's government and by those which followed it – Armando Calderón Sol (1994-1999), Francisco Flores (1999-2004) and Antonio Saca (2004-2009) – were: i) in addition to the denationalization of INCAFÉ and INAZUCAR, there were a set of privatizations that were carried out. Such was the case of the public banks, oil importation, the electrical distribution, the airports and the pension system with which the AFPs (Pension Funds) were introduced; (ii) Free trade agreements were signed with Mexico,

Chile, Dominican Republic, Panama, and the United States; and iii) the dollarization of the economy in January 2001 so as to prevent volatility to the exchange rate (Velázquez 2011, 11-13).

6.4.2. Elites Reactions

6.4.2.1. The military- the coffee elite disruption

The war and the military aid given by the United States were key factors to understanding the military's attitude changes. The US resources did not only contribute to accentuate the war, as it sought to eliminate any insurgent movement in the region (Pastor and Boyce 2000, 374), but it also helped the Salvadoran military to be more autonomous from the coffee elite. The reason is simple: they began not to depend on the coffee resources, like in the past, but on an external and a foreign actor (Zamora 1997; Dominguez 1997, 12). It is possible to see a relationship between the US military aid and the degree of divergence in the military towards the coffee group's interests. Not by chance the 1979 military coup, which represented the introduction of civilians into government, coincided with the rise of economic aid from the United States (Domínguez 1997, 12). Although a large part of the military continued favoring the coffee sector, by that time the military started to present different approaches regarding it. El Salvador would soon drastically change (Wickham-Crowley 1992).

Duarte's rise to presidency was a subsequent point for a continuous period of class division between the coffee oligarchy and the military. Duarte pursued both the armed forces, and the United States government was able to include new allies in the political spectrum. Although Duarte did not fully succeed, he received unique support from the United States which allowed the military to distance itself from the coffee elite (Dominguez 1997, 12). While it is true that the economic aid from the United States exacerbated and lengthened the conflict, "particularly given the rent seeking opportunities that emerged in an economy flush with foreign economic and military aid" (Partor and Boyce, 374), without such help the military would not have been able to keep a distance from the coffee oligarchy. As Dominguez (1997, 11) says, "the Salvadoran Armed Forces discovered that they did not need to depend exclusively on the most conservative civilian forces (…). President Duarte demonstrated that he shared with military officers a commitment to the maintenance of public order and national sovereignty". Duarte, in other words, gave the military greater security in terms of resources, thus reducing uncertainties.

However, the separation of the military from the coffee elite was not at all abrupt but gradual. As Paige says (1997, 189), even in 1989, when the coffee elite had already seen its power reduced, part of the army continued "to be an important ally of the coffee elite". Also, in spite of the National Democratic Organization (ORDEN) beeing dismantled by the same military junta in 1979 – a paramilitary force that worked together with ANSESAL (Wood 2003, 200) – death squads which worked closely with the army stayed open mainly so as to protect coffee landowners. The most progressive programs of the Junta – like the Agrarian Reform – hence coincided with a high peak of political murders, more than 1,000 per month, including that of the Archbishop of San Salvador Oscar Arnulfo Romero in 1980 as well as of six American citizens: four nuns in 1980 and two advisors of the ongoing Agrarian Reform (Arnson 1993, 60-64; Call 2002, 545; Spence 2005, 488). The past which linked the coffee sector with the military was difficult to get rid of, since for decades the latter had been financially dependent on the former. As Stanley (1996, 257) points out:

> They (the military) were essentially mercenaries of the agrarian elite, yet were also able to manipulate and prey on members of that elite through protection racketeering and outright extortion (…) The willingness of these forces to serve as political agents of the agrarian elite within the military made it impossible for military presidents to carry out reform projects that might have boosted the regime's legitimacy. By blocking reforms, the hardline institutions also served their own interests, since in the process they created a more polarized climate in which their services became all the more necessary. Even when the top military leadership finally agreed to reform under the Revolutionary Governing Junta of 1980, the measures were accompanied by so much violence as to prevent them from depolarizing the political situation.

Military-coffee elite relations, however, were visibly affected as the civil conflict and the growing offensive of the FMLN became stronger (Spence 2005, 483). In addition to continuing with its direct and frontal attack on the agro-export economy, the FMLN gave heavy blows to the army, including important seizures of arms as well as hundreds of soldiers' casualties. Even people like the lieutenant colonel Jose Domingo Monterrosa, one of the most recognized men of the Salvadorian army, as well as his executive officer Major José Armando Azmitia, were killed by the FMLN (Moroni and Spence 1995, 140). The military became tired, reducing its solidarity with the coffee elite; hence increasing the tension with this sector (Stanley 1996). This explains why, even in the scenario of a reformist government, the likelihood of a military coup began to decline. Undoubtedly, the war made it possible to change the military's attitudes and preferences, including those regarding the acceptance of the new political regime and, with it, the potential agreement with the leftist guerrillas.

There are two other explanations for the change in attitude of the military against the oligarchic elite and in favor of the negotiation processes with the FMLN. Firstly, the war had an impact on the reputation of the military sector on a global scale, and with it that of the US government which had financed the army. Raymond Bonner and Alma Guillermo Prieto, journalists from the New York Times and the Washington Post, respectively, were key people in internationally spreading the news of serious human rights violations by the military, including the Mozote massacre in 1981 and the six Jesuits in The Central American University in 1989. Secondly, the threat of political prosecution also weighed on the military. Even Nicolás Carranza and José García, two staunch critics of the military reforms of the 1980s and faithful collaborators of Roberto D'Abuisson as well as other members of the coffee oligarchy began to be threatened with political trials (Williams and Walter 1997, 108). This made the new and old actors be afraid, preferring to end the war under the condition tha an amnesty law be signed. The law was finally signed in 1993, with which the military received an unconditional amnesty in their political crimes committed before January the 1st, 1992. The law, however, was declared unconstitutional by the Supreme Court of Justice in September 2016.

6.4.2.2. The Coffee Elite- Bourgeoisie conflict

From a substantive point of view, the economic elite fragmentation is a fundamental aspect to understand the effects of democratization in El Salvador. Such a fragmentation, which is based on the conflict between the traditional coffee sector and the new bourgeoisie, persisted for years even after the signing of the peace treaty with the FMLN in 1992. It should be borne in mind that Salvadoran history takes this conflict as an indubitable fact, even if there is no measure that quantifies such a fragmentation. Therefore, rather than a historical narrative about the process, we shall only emphasize the reasons why the literature considers this to be a conflict[13]. The first reason is based on external actors' preferences – to some extent the military and the political elites –, who supported the bourgeoisie but left to help the coffee elite. This reason goes back to the reforms of the second junta, costlier for the coffee sector than for the bourgeoisie, hence reducing the coffee elites' power as well as its influence in the country. As explained, the Junta, already weakened by internal divisions, gave way to a rearrangement of power, allowing the

[13] In fact, there is a multitude of works which have studied it in detail. Excellent works can be found in Baloyra (1982), Crosby (1985), Johnson (1993), Stanley (1996), Cardenal (2002), and Wood (2003).

PDC to occupy the political leadership. With the help of Regan's administration, the PDC was a historical enemy of the coffee oligarchy and a great supporter of the development of the three reform packages the Junta introduced, including the above-mentioned agrarian reform. Moreover, despite having great opposition in these sectors, the government of Duarte benefited mainly the financial and industrial elite, not the coffee sector.

A second sign of fragmentation is that, despite going against the interests of the traditional elite, the main business organizations of the country moderated their speech in regard to the war to the point of being in favor of a negotiated pact with the FMLN. This is explained by at least three reasons. Firstly, the most powerful members of the landed elite were absent from the country's organizations, as many of them had gone into exile in Miami and Guatemala. Such was the case of ANEP, which from the beginning was linked to the landed elite but whose main former members were mostly in exile. ANEP, however, was not the only case with absent members. In FUSADES, only 11 of 348 founder members belonged to the agro-export elite. Also, of these eleven the processors were those who stood out, not the producers. The Dueñas, Wright, Guirola, Regalado, Magaña, Meléndez and Quiñónez were absent from FUSADES, all of them notorious members of the landed elite. The Salvadoran Industrial Association (ASI) and the Chamber of Commerce presented similar patterns as the landed elite was notoriously absent (For all this, see Cardenal 2002, 100). Secondly, the representation of the coffee elite in national politics changed. The Salvadoran Coffee Association (*Asociación Salvadoreña de Café* ASCAFÉ), which for decades was the main association of the coffee elite, lost significant importance. Instead, it was replaced by the Coffee Beneficiaries Association (*Asociación de Beneficiadores de Café*, ABECAFE), an organization which had ceased to represent the traditional producers so as to represent only the processors (Paige, 1993; Cardenal 2002, 98). Thirdly, the importance of the generational shift is also redeemable. As we shall see when we talk about ARENA, even the new generations of the producer family members toned down their speech against the war (Cardenal 2002, 99).

The most important reason for fragmentation, however, stems from the consequences of the war on the behavior of the bourgeoisie. The war exacerbated the long conflict between the insurgent groups and the State, realigning the national elite structure. Either because of sabotages by the FMLN, the collateral damage made by the military forces, or the new policies the State used to

halt the crisis – mainly the nationalization of trade –, the bourgeoisie had to face the investment ravages caused by the war. The incurred costs were both real and of opportunity, as well as those produced by the great uncertainty (Wood 2000, 53). These costs became prohibitive, helping to end the war and leading to a change of elite's attitudes towards the peace negotiations with the FMLN in the beginning of the 90's. The bourgeoisie's stance varied deeply from that of the landowners as the latter were exposed to lose more because of the nature of their assets. The bourgeoisie, on the contrary, had developed resources less vulnerable to the vagaries of the war, which explained why they were more prone to negotiate the peace as their assets were not questioned. Thus, the more the conflict went on, the greater the landowners- bourgeoisie conflict became (Cardenal 1996; Boyce and Pastor 2000).

The fourth and last sign, closely linked to the former, is the bourgeoisie's new ideology, which, was clearly liberal in the economic sense. Contrary to the more conservative coffee elite, much of the new economic elite began to consider the market lines as a way of leading the country. FUSADES was the standard-bearer of such ideology and served as mediator between the government and the business sector. The conservative thought the coffee elite tried to preserve for decades was now left behind: currency depreciation so as to stimulate exports, blockades of foreign capital inflows - especially in banking - , preferences to negotiate export quotas with other coffee countries, etc. The bourgeoisie begged, by contrast, for the implementation of different policies, which put the coffee sector greatly at risk Hence the importance of the peace process.

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6.4.2.3. The political elite and the coffee oligarchy disruption: The triumph of ARENA

Political elites were crucial to understanding the erosion of power of the coffee elite. With Duarte as head of the party and president of the Republic, the PDC ensured the continuation of the coffee trade nationalization and the implementation of the agrarian reform, both undertaken by the Revolutionary Junta. The PDC also played a key role for the subsequent negotiations with the FMLN. Despite its rise as a party, a series of events would lead the PDC to lose power and to be transferred to its opponent, the ARENA party. Since its inception in 1981, ARENA

was marked by two things. In the first place, it "espoused an anti-communist ideology that perceived any reform efforts as an assault on the existing order" (Wolf 2009, 437). In the second place, it was a very close party to elites, both old and new, and in a context in which "the national economic elites transformed from an agro-export based national elite into transnationally integrated business groups" (Bull et al. 2015, 33). ARENA indeed was very close to important business associations such as the ANEP, the Salvadoran Industrial Association (ASI) and the Chamber of Commerce (Haggerty 1990, 173, 174; Bull et al. 2015, 33).

ARENA achieved an indisputable victory in the 1989 presidential elections: 53.8% of the votes, a greater number than those of the PDC (36%). The military traditional party, the National Conciliation Party, very close to the coffee oligarchy, lost absolute majority, reaching only 4.1% of the total votes. "Between 1989 and 2009, ARENA won four consecutive presidential elections and 111 municipalities" (Bull et al 2015, 33). There are two important reasons for the rise of ARENA. The first one is the frustration of the business community by its lack of influence over state policy during the Duarte years (Stanley 1996, 264). The second one is the transformation of ARENA because of both the war and the gradual importance of the PDC throughout the years. Soon, ARENA moderated its speech trying to gain the conservative poor votes as well as the medium class and the small coffee growers. As Stanley (1996) says "ARENA gradually transformed itself into a more serious electoral competitor, paving the way for its victories in the 1988 and 1989 elections".

Albeit the shift of ARENA did not necessarily represent a political change in the direction of the Salvadoran government, as the new administration remained within a right-wing party, the election of Alfredo Cristiani did reflect a fragmented elite, both politically and economically. Although it is true that the creation of ARENA was made without taking distance from the coffee elite, who represented an impressive force in ARENA throughout the eighties, the party maintained some rivalries over the years due to its proximity with that sector (Pendergrast 2010, 317; Molina Palacios 2000, 140, Paige 1997, 36). There were, for sure, some substantial representative of the coffee oligarchy within the party, like the cases of Ricardo Valdivieso and Alfonso Salaverría, but many of them lost importance during the war or were finally in exile in Miami and Guatemala (Paige 1997, 35; Wood 2005, 185).

Changes in the discourses of some of ARENA's floor leaders became visible by the end of the decade. Indeed, a radical inflection point came about after the election of Cristiani, when some of the party's *soft leaders* gained importance in the political field. At this point, it is important to remember Paige's distinction between the *soft liners*, people within the traditional political elite but with more moderate discourses, and the *hard liners* who are more radical and not prone to accept changes (Paige 1997, 189-190; see also Wood, 2010, 185). Cristiani's ascension to power was characterized by the importance he gave to the soft liners. He was a rather liberal thinker in economics. Educated in Business Administration in Georgetown University, Cristiani believed faithfully in the principles of liberalism such as more freedom in the market, low state intervention and fiscal discipline. Also, he was a moderate politician in favor of the peace agreement between the government and the FMLN (Van Der Borgh 2000).

Moreover, Cristiani frontally attacked the agroexporting elite, some of which represented the hardest line of ARENA. The opinion divergence of Cristiani with that group is well illustrated by the conflict he had with the De Sola family, in particular with Orlando De Sola. De Sola was defined "as a "crazy rightist in the style of Adolf Hitler" (Paige 1997, 213). Also, his faction within ARENA represented "a small group that excluded everyone else" (Paige 1997, 213). De Sola's main concerns were two: i) he worried about the role on the government of ABECAFÉ, the largest organization for coffee processor and exporters; ii) the FUSADES interference on the ARENA party (Paige 1997, 213). His relationships with ABECAFÉ, however, were not the same over time and broke abruptly with the arrival of Cristiani. As Paige (1997, 214) says, "while ARENA was out of power, the interests of the De Sola faction and ABECAFE converged. Following the election of Cristiani and the return of the export trade to the miller exporters, the interests of the De Sola faction and ABECAFÉ increasingly diverged". After that, De Sola frequently referred to both ABECAFÉ and FUSADES as a "network of millionaires".

According to Paige, the differences between De Sola and ABECAFE after Cristiani are remarkable. Firstly, De Sola wanted to roll back the land reform while ABECAFÉ "regarded a gradual program of privatization". Cristiani, in fact, did not reverse the agrarian reform in favor of the coffee elite but created a "Land Bank to turn peasants into landowners (…) it was another measure of the neoliberal economic model which gradually was consolidating in the middle of the dialogue and the negotiation process" (Artiga 2015, 177; see also Paige, 1997, 215).

Secondly, De Sola, like many other producers, was disgusted with the return of a control system of prices managed by ABECAFÉ, which represented the exporters, but not the producers. Thirdly, their preferences in relation to democracy were opposite. “Respect for democracy was the party line at ABECAFÉ. Orlando de Sola and his faction, however, wanted to go back to the old ways” (Paige 1997, 214). De Sola, like many others, went into exile in Miami after being attacked twice and after two of his close associates were assassinated. A study, nevertheless, suggested that the assassination attempts were not done by the FMLN, but they reflected tensions surrounding the economic elite itself (Paige 1997).

The coffee elite also was against Cristiani’s new policies which he implemented from the massive influx of foreign exchange, both in US aid for the war and in terms of remittances from Salvadorans living abroad (Cardenal 2002. 97). Contrary to other small countries in a context of civil conflict, it is remarkable that the Salvadoran economy did not collapse due to the war. The external transfers from the US and the massive aid from international financial organizations directly propped up the economy and increased the bargaining leverage of the country “about the severity of the usual structural adjustment packages”. The same role was played by the huge entry of remittances from Salvadoran workers abroad, who “had fled the conflict and were working in the US and elsewhere”. Such remittances, being a “product of the war, played an important role in the most critical periods and help the poorer citizens to maintain their standards of living” (all the quotes are from Boyce and Pastor 2000, 374).

These massive inflows led to different economic policies by the government that favored the bourgeoisie (Boyce and Pastor 2000). In addition to avoiding bankruptcy, this phenomenon of subsidization of the economy had the effect of enhancing commercial structures (Cardenal 2002). Nevertheless, the huge entry of foreign currency led to some typical problems such as depreciation of the local currency. Inflation rose even up to 30 per cent in 1986, despite the fact the Christian Democratic government implemented to a great extent the fiscal discipline imposed by the IMF. Cristiani, who took the Presidency in 1989, decided to set a single and fixed exchange rate in order to tackle these problems. This policy harmed the coffee oligarchy and resulted in their *coup de grace* as they would not force depreciation in order to incentive exports.

Besides the external pressures of the war, the change of economic preferences towards services, and, to a lesser extent, industry, led to a structural change which implied the destruction of the agro-export model (Velázquez 2011, 192). Along with this, Cristiani, who sympathized with the

business class, sought to eliminate black-market incentives as remittances were often sent through unofficial channels, so they did not provide enough resources for the government. Additionally, Cristiani opened exchange offices “to channel and better capture incoming dollars” (Boyce and Pastor 2000, 376). Other policies also helped to further strengthen the bourgeoisie at the expense of marginalizing the agro-exporter elite. Among them, "the establishment of an anti-agro and pro-services credit policy; fiscal incentives for non-traditional exports (the *drawback*, or the 6% of return on the value of exports), and tariffs reductions on imports" (Velázquez 2011, 17).

Although the coffee elite, the right-wing traditional sector in the country, sought to hamper the implementation of the peace agreements, its power was already diminished when they were already signed. So, ARENA was able succeed in carrying out the agreements (Lazo 1992, 9). It was at this point that the historical break in Salvadoran oligarchy’s ideology occurred. The traditional agrarian mentality now leapfrogged to a sustained mode of production oriented to finances and import sectors and linked to transnational circuits of capital and services. From now on, a new elite dominates (Velázquez; see also Segovia 2002).

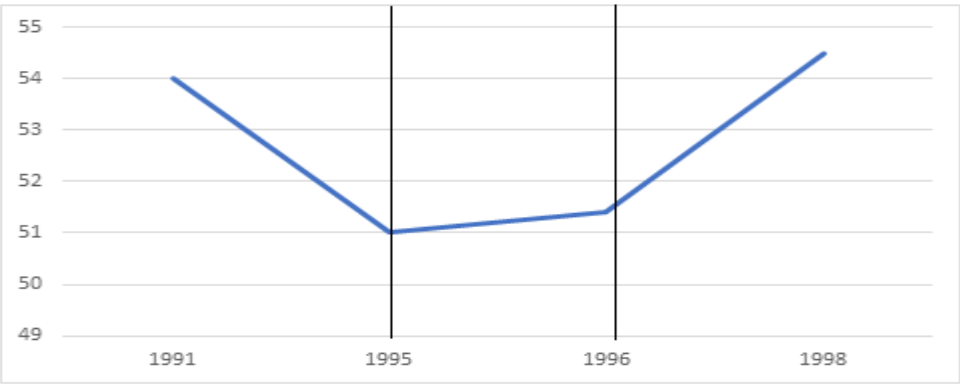
6.4.3. Outcome: A short-lasting redistribution

Salvadoran GINI dropped 1 point per year on average in the immediate post-peace treaty period, between 1991 and1995. In 1996, however, the GINI worsens again and reached its ceiling in 1998 (54.5 points), the highest figure since the country's democratization (see figure 6.5). As stated previously, one of the most convincing hypotheses of the improvements in the income distribution between 1991 and 1995 is the annual increase in the inflow of remittances. This theory seems to fit as remittances increased from US$ 790 million to US$ 1061 million for that period, which represents an increase of almost 34% (Segovia and Lardé 2002; Acevedo and Cabrera 2004, 171; Córdova and Zéphir 2000, 11).

. But taking remittances as the only factor for the fall of the GINI creates some doubts. In the first place, we have no official information on income distribution previous to 1991, so it is difficult to know what the impact of remittances on pre-democratization periods was. This is relevant data because remittances became more and more important from 1985 onwards (See figure 6.6). We do know, however, that since the 1960s until 1971, income distribution became more concentrated, at least regarding salaries the 10% of the poorest (Bulmer-Thomas 1987,

197). After such a period, we rely on two related studies: one in 1977 and another one in 1991, both reported by Gregory (1992). The used surveys show that while in 1977 the poorest 20% of the Salvadoran population received 5.5% of the reported monthly income in the country, in 1990-91 the share had barely reached 3.4% (Gregory 1992). Moreover, "the population living in what the World Bank describes as 'poverty and extreme poverty' grew from 51 per cent to 56 per cent over roughly the same period" (Pastor and Boyce 2000, 376). Although it is difficult to infer the impact of remittances on inequality income since its rise, we can deduce that the war itself had a negative impact on poverty, very much worse than what the benefits of remittances were. The data, in fact, shows that remittances were not large enough to provide the poorest with the same economic welfare as in the 70s (Gregory, 1992; Pastor and Boyce 2000).

Figure 6.5
El Salvador, Gini Coefficient (1991-1998)

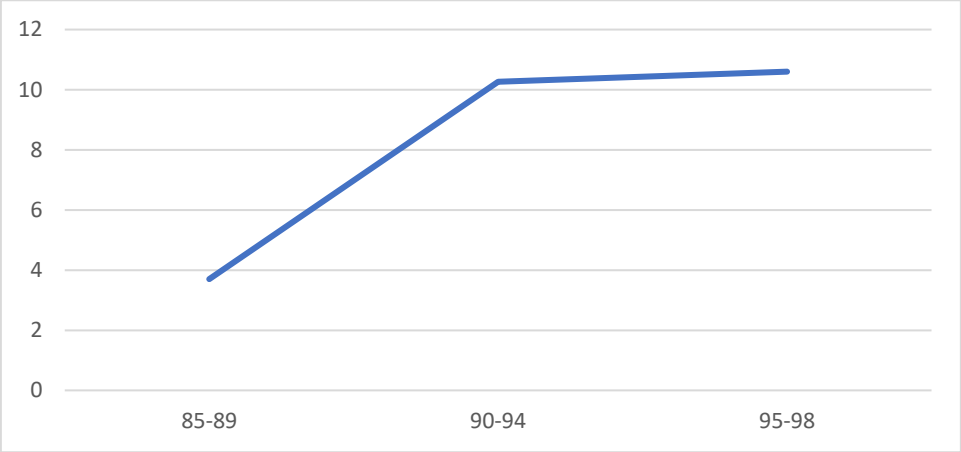


Source: World Bank (2015)

In the second place, remittances drop from 14.9 in 1991 to 11.2 in 1995 as a percentage of the GDP (see figure 6.6), a period for which we do have data. So, the improvements in income inequality are also explained by other factors such as the endi of the war and the new economic structure. The Salvadoran economy, in fact, grew at a faster pace than remittances, about 5% annually between 1990 and 1999. Over this period, private investment recovered, bearing in mind that Cristiani strengthened the neoliberal economic reforms he implemented. This also explains why income distribution improvements came from the urban areas, which firstly benefited from remittances and then from typically urban jobs, mainly maquila, the textile industry and commercial expansion. A political party like ARENA, which mainly focused on the business sector, and political leaders like Cristiani with an opening economic project, made

possible a unique national transformation. Here, the role of the military is clear. Despite going against the coffee sector, Cristiani's government, like that of Duarte's, did not have any coup *d'etat* due to the progressive wing of militarism, making possible the reforms which disrupted the economic power of the old oligarchy and which led to the emergence of a new economic structure.

Figure 6.6
Remittances in El Salvador as Percetage of the GDP
(1985-1998)



Source: Acevedo and Cabrera (2014, 171)

Here we emphasize that the new bourgeoisie as well as its close ARENA political party were not philanthropic nor FMLN sympathizers. They had no interest in redistributing income nor in the FMLN demands. Nonetheless, they had their own project that required a new economic model able to expand services and industry. This behavior of the bourgeoisie was a fundamental feature in understanding income distribution. In the case of accepting a negotiation with the FMLN, this was mainly given because it was the most effective means to carry out its economic project. In fact, neither the entry of ARENA nor the incorporation of its neoliberal model were solutions to the persistent income inequality the country had suffered from for centuries.

As seen, despite its years of declinebefore (1990-1995), the GINI begins to concentrate since 1995 until IT approaches 0.545, an indicator of wide inequality. This is true even when the positive trend of remittances continued, which reached 1374 million in 1998, an increase of 30% over 1995. So, why did income distribution not keep improving between 96 and 98? The explanation lies in the same economic policy used by ARENA, which was very biased to the

bourgeoisie. Cristiani, for example, eliminated the property tax on large estates, halved income tax, and reduced tariffs. Similarly, VAT, the most regressive nature tax, gradually increased. As Boyce and Pastor (2000, 388) say: "the recent shift toward reliance on a value-added tax has made the tax system more regressive, rather than using it as one instrument for redressing distributional inequities; it was also reportedly a factor for plunging the economy into an economic slowdown in 1996".

As we will see, democracy will play a very important role in how Salvadoran society itself faced the inequality problem. The substantive results of democracy are still under study and there is still no explanatory agreement, partly because of the knowledge gap that existed in the previous decades. There are, however, some intuitions that electoral competition has contributed to curbing income concentration. This will be, precisely. the object of our next section.

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6.4.4. Conclusions of ES2

In ES2, there is a conflictive relation inside the economic elites, firstly, but also between them and other sectors of power (see the table 6.31). This conflict persists throughout the critical juncture and became more severe in time because of the war. Finally, a circulation of the elites ocurrs, weaking two traditional sectors of power: the military and the coffee elites. Redistribution occurs, as we saw, but it is short-lasting.

Table 6.31
Central actors, all mentioned in the explanation of the critical Juncture ES2

Type of Elite	Actors	Actors' preferences
Economic Elites	The Landed Elite (INCAFÉ, INÁZUCAR, ANEP, ABECAFÉ, ASCAFÉ, Chamber of Commerce. Often several family surnames are mentioned, among them Magaña, Meléndez, Quiñonez, Ricardo Valdiviezo, Alfonso Salaverría; De Sola)	Mixed preferences
	The Bourgeoisie: The ARENA Party, FUSADES, ANEP, ASI	

Political Elites	Political Parties (ARENA, PDC; PCN. Also, some political leaders: Cristiani, Armando Calderón, Francisco Flores; Antonio Saca; Duarte)	Mixed preferences
The Military	José Domingo Monterroso, Major José Armando Azmitia, José García, Nicolás Carranza, Roberto D'Abuisson.	Mixed preferences

6.5. The Left's seize of power (1999-2015) -ES3

The FMLN participated in the Salvadoran elections, for the first time, in 1994. Since then, it has been one of the most important political forces that has put into pressure electoral dynamics. FMLN's greatest challenge has been to defeat ARENA, the right-wing party, which in turn brought together the business elite. To do this, the party has allied in several times with other left-wing parties or those opposite to ARENA. In 1994, in fact, the presidency candidate of that year, Ruben Zamora, did not form part of the FMLN party ranks, but of the *Democratic Convergence* (CD) due to a coalition made with that organization (Artiga González 2002, 163). Although the presidency was obtained by Armando Calderón of ARENA in a second-round election with 68.31% of the votes, Zamora got a good result: 25% in the first round, and 31.65% in the second one. ARENA also won 39 seats in the National Assembly (46.4% of the 84 possible ones) while the FMLN got 21 (25%), thus proving to be a potential threat for ARENA.

Over the years, the FMLN won greater representation quotas, either in presidential elections or in the Legislative. In spite of ARENA winningagain in 1999 with Francisco Flores with 52% of the votes, the FMLN candidate, Farabundo Guardado, increased the turnout for the party up to 29%. This tendency persisted in the 2004 elections, where the FMLN got 36% of the votes while ARENA got an overwhelming support with 57.71%. In the 2009 and 2014 elections, the FMLN finally won with 51.32% and 50.11%, respectively, although the latter result was obtained in a second-round election (see table 6.4). Regarding the legislative elections, the FMLN received 32.1 % of the votes in 1997, only slightly less than ARENA (33.3 %). In 2000, 2003, 2006 and 2009, the FMLN exceeded the seats of ARENA (see table 6.5). While the FMLN lost some importance in 2012 and 2015, it has maintained the majority power thanks to different

coalitions, in particular with the PCN and the GANA party. It should be noted that since 1999, the FMLN has allied with the PCN in order to have the Assembly control (Artiga 2015, 213).

This rise of FMLN's popularity is also remarkable in the municipal elections, going from having 15 of 262 councils in 1994 to 86 in 2015, with a maximum cap of 104 in 2009. Although in terms of the number of municipalities there is no clear trend, as sometimes the FMLN gains seats while in others it loses them, there has been a greater support as it has won the major cities. Since 1997, the FMLN has controlled San Salvador and Santa Ana, the populates cities of the country, with the exception of the 2009 election in San Salvador and 2012 election in Santa Ana which were obtained by ARENA (Allison and Álvarez 2012, 107; Junta de Vigilancia Electoral 2017). In 2000, the FMNL had already won in 13 of the 15 largest municipalities (Wood 2003, 263), and since 2006 it has obtained, in terms of population, more than 50% of the national territory, achieving a figure of 68% in 2015 (Artiga 2006; Prensa Gráfica 2014).

Table 6.4.
Party Vote share in Presidential Elections, 1994-2014 (percent)

	1994		1999	2004	2009	2014	
Political Party	First Round	Second Round	First Round	First Round	First Round	First Round	Second Round
ARENA	49,11	68,31	51,96	57,71	48,68	38,95	49,89
FMLN	24,99	31,65	29,05	35,68	51,32	48,93	50,11
Others	25,9		18,99	6,61	0	12,12	

Source: own elaboration based on Allison and Álvarez (2012) and Tribunal Supremo Electoral (2017).

Table 6.5
Support and opposition of the incumbent president in the Legislative
1994-2018

Electoral Period	Legislative seats of incumbent president's party	Legislative seats of president's oposition party	Simple majority	Incumbent president's party	Incumbent president's oposition party
1994-1997	46,4	25	ARENA-PCN (51,2)	ARENA	FMLN
1997-2000	33,3	32,1	ARENA-PCN-PDC (55,9)	ARENA	FMLN
2000-2003	34,5	36,9	ARENA-PCN (51,1)	ARENA	FMLN
2003-2006	32,1	36,9	ARENA-PCN (51,1) FMLN-PCN (55,9)	ARENA	FMLN
2006-2009	40,5	38,1	ARENA-PCN (52,4)	ARENA	FMLN
2009-2012	41,6	38,1	FMLN-PCN (54,7)	FMLN	ARENA
2012-2015	36,9	39,3	FMLN-GANA-PCN (58,3)	FMLN	ARENA
2015-2018	36,9	41,7	FMLN-GANA-PCN (51,19)	FMLN	ARENA

Elaboration: Artiga 2015, 212 (updated and enriched)

An indicator of the FMLN electoral power, over time and in relation to that of ARENA, is its flow of votes in the Legislative within the sum of both parties' votes, plus their permanence or absence in the executive branch. Under the premise that to seize both executive and legislative powers add up to a maximum score of 100 (50 each one), which indicate an absolute power of a political party, we have that,

$$Z_1 = \frac{X1 + [X2 /(X2+Y2)]*100}{2},$$

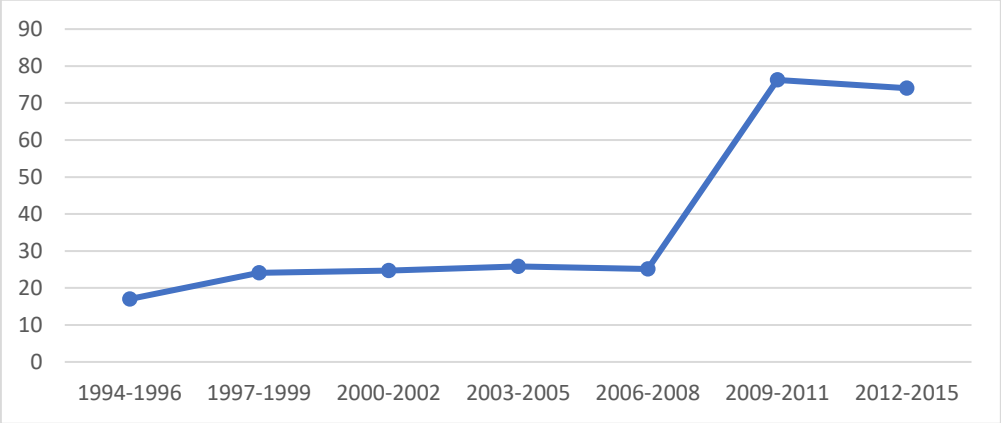
Where Z_1 = FMLN total electoral power in relation to ARENA; X_1 = FMLN electoral power in presidential elections; X_2 = FMLN electoral power in legislative elections; Y_2 = ARENA's electoral power in legislative elections. Besides this, we also assume that X_2 and Y_2 take the range between 0 and 100 (their percental share in the Assembly), and that X_1 is 50 if FMLN wins and 0 if it loses. This is because the presidential election has only one winner, then all the score goes to the victor party. Then,

$$Z_1 = 50 + \frac{\left[\frac{X_2}{X_2+Y_2}\right]*100}{2} = 50\ (1 + \frac{x2}{x2+y2}\ ),\ \text{if wins}$$

$$Z_1 = 50*\left(\frac{x2}{x2+Y2}\right),\ \text{if FMLN loses in the presidential elections}$$

In turn, $Z_2 = 100 - Z_1$, where Z_2 means ARENA electoral power in relation to FMLN

Figure 6.7
FMLN power in elections



Source: own elaboration

As seen in Figure 6,9, FMLN power notoriously rose, gaining a very important peak in 2009 when it won, in relation to ARENA, in both the legislative and executive. Such FMLN electoral growth is important to consider as the FMLN is ideologically very different from ARENA, a party led by Salvadoran economic elites. Also, because ARENA controls the media and has owned much more resources in political campaigns, about 15 times (Rockwell and Janus 2005; Bull et al. 2015, 37; Marcos 2009, 36). Moreover, the most orthodox and revolutionary wing of the FMLN has managed to maintain internal control, even expelling some renewing leaders (Martí i Puig et al. 2013, p 65). A research conducted by Martí i Puig and Santuiste (2008) shows that while ARENA conceives democracy from a standpoint of individual freedom and rights, the FMLN regards it from a substantive point of view, emphasizing on the distribution of wealth and its impact on poverty. This is notorious in all issues related to income redistribution. For example, the FMLN bets for a greater state presence in economy while ARENA in there rejects the regulation of the State. Also, while ARENA's trust in business elites is very high and in unions is very low, the FMLN is the opposite: its trust is very high in unions but very low in businessmen.

Despite the above-mentioned, a discourse moderation in both parties is appreciated, a fact mainly produced by electoral competition.

A clear example in the case of the FMLN is regarding abortion rights. Although in its beginnings the FMLN was presented as a progressive party on this issue, it has set up an anti-abortion discourse, very close to that of ARENA (Viterna 2012). In economic matters, a small approach is also perceived as the FMLN has been committed to protect the market, private enterprise, economy dollarization and foreign investment (Allison and Álvarez 2012; Seelke 2013, 12; Bull 2014, 180; Clark 2015). Moreover, in regard to the military amnesty law, the FMLN has repeatedly ensured to respect the law, a strategy which seems to be in order to gain military support. ARENA has also changed over the years. As its power decreases, its discourse also softens. It has, for example, favored certain policies – very controversial within the party – such as an increase of the minimum wage by up to 9% in 1999, a monetary transfer policy (*Red Solidaria*) in 2005, the curtailment of liberalization policies in certain areas and services, and even the public acceptance of the Universal Protection System (SPSU), after being the principal opposing group of the program. This seemed to be because of the massive support this FMLN initiative had during the last electoral competition (Miranda 2014a, 41-48).

This is understandable since one of the main purposes of the FMLN, especially in ARENA's administrations, has been to fight against the neoliberal structure commanded by ARENA, a purpose supported by dozens of demonstrations throughout the country and fostered by various civic movements (Velázquez 2011, 162; Espinoza 2014, 122; Clark 2015). Here, we do not state that ARENA had not launched a social policy before the arrival of the FMLN, but rather that there was a moderation in its discourse. Previously ARENA's policies were either promoted in the context of the peace agreement or followed by the liberal economic doctrine. They focused on compensatory policies for urban poor (Segovia 1998) and included the Social Investment Fund for Local Development (*Fondo de Inversión Social para el Desarrollo Local*, FISDL), which was agreed with the peace accords and was recommended by various agencies to counteract structural adjustment. Similarly, the Solidarity Fund for Health (*Fondo Solidario para la Salud*, FOSALUD) and the Fund for Economic and Social Development of the Municipalities (*Fondo para el Desarrollo Económico y Social de los Municipios*, FODES) were implemented with liberal premises including the allocation of quotas for health care, public-private cooperation and financial decentralization (PNUD 2013).

6.5.1. The trigger: FMLN's plans

Apart from counteracting ARENA's neoliberal policies, especially those related to privatization, – what some have called the FMNL postneoliberal phase (see Clark 2015) –, other FMLN's flags were: *i*) intensified social policy, for which the government requested loans from international institutions. The World Bank and the Inter-American Development Bank, gave each one $US600 million and $US450 million in 2010, respectively (Silke 2013, 12). *ii*) the National Health Reform in which the government of Funes sought to create a solidarity and universal system on issues concerning health and social welfare. Thus, Funes increased investment in primary care (74.8%) and in hospital networks (46.7%), both from the national budget. Also, quotas to Public System access were eliminated (Espinoza 2014); *iii*) agricultural reactivation for which the government committed to provide loans, agricultural subsidies, school packages, and lands to poor peasants (FMLN 2016); *iv*) increasing and renaming the cash transfer program to *Comunidades Solidarias Rurales* in order to focus the help on rural sectors, but maintaining subsidies to the most precarious urban communities. At this point it must also be taken into account that the rural sector is the most impoverished population of the country. By 2009, *Comunidades Solidarias Rurales* had a budget of US 40 million -0.2 percent of El Salvador's GDP and covered 1.5% of the population: the extremely poor. Notice here that although the number of covered households is small compared to other left-governments such as that of Ecuador and Bolivia (34% and 54%, respectively), El Salvador gives more profit per beneficiary than any other country in the region, 20% of the GDP per capita (Ribe et al. 2012, 330; see also Spalding 2014, 221); *v*) the School Packet and School Feeding Program, which provides resources and food to around 135.000 poor students; *vi*) the Universal Basic Pension (*Pensión Básica Universal*) which benefited 7.000 old people in the poorest 32 municipalities in 2010; *vii*) a housing program called *Piso y Techo* which built around 20,000 dwellings in the poorest 32 municipalities; *viii*) a pilot income support program called *Programa de Apoyo Temporal al Ingreso* (PATI), in the poorest 25 urban municipalities (Ribe et al, 2012). Several of these programs were eventually structured into a broader program called the Universal Protection System (*Sistema de Protección Universal,* SPSU), above mentioned as a point of contention between ARENA and the FMLN. The SPSU sought "to guarantee the population of El Salvador, especially the poor and extremely poor, a basic level of well-being through a combination of universal and targeted policies and programs" (Ribe et al. 2012, 330). This program was finally implemented under the administration of Funes (2009-2014) and its

continuation was guaranteed by Sánchez Cerén (2014-2019), the new FMLN president of El Salvador (see it in detail in Miranda 2014a; PNUD 2013).

6.5.2. Elites Reactions

6.5.2.1. The two faces of the Political Elites

According to Bull (2014, 178), "El Salvador is the only country in the region that has had a stable, institutionalized 'business party'". Hence, it does not surprise that the main business organizations – FUSADES, ANEP and FUNDE (*Fundación Nacional para el Desarrollo*) had extensive representation during ARENA's governments of Francisco Flores (1999-2004) and Antonio Saca (2004-2009), and that ARENA has served for a long time as the voice of the bourgeoisie. Flores indeed guaranteed a good climate with the Salvadoran business elite, whose influence on policy making was remarkable. Notice that important businessmen took in Flores' administration relevant positions in the Nationalist Executive Committee of ARENA (COENA), among them Roberto Murray Meza and Archie Baldocchi who were elected president and vice president of the committee. Roberto Palomo, Ricardo Poma, Ricardo Sagrera, Carlos Enrique Araujo Eserski and Guillermo Sol Bang were also elected as members of the Junta (Miranda 2014a, 14). Moreover, Flores encouraged policies very close to the bourgeoisie interests such as the privatization of public medical services, airports and ports, and the signing of the free trade agreement with Mexico, Chile, the Dominican Republic and Panama. "He also strengthened bilateral relations with the US. by becoming a committed partner in anti-terror efforts, sending forces troops to aid in the reconstruction of Iraq, and by playing a key role in negotiations for the Central American Free Trade Agreement" (IBP 2013, 14).

Despite this huge connection between ARENA and the Salvadoran bourgeoisie, conflicts between the latter and the political elite has increased because of the rise of the FMLN in elections, a party very distant to the main economic elites. Since 1999, the FMLN has been able, through an alliance with the PCN, to govern most of the legislative branch, often constraining bourgeoisie's plans. "The struggles against the free trade agreement with the USA, against highly polluting mining enterprises, or in general in favor of a deeper democratization of the

Salvadoran society, have been led by former activists of the Front" (Álvarez 2010, 33). The FMLN reacted strongly to Flores' neoliberal policies, promoting different projects in the National Assembly to which Flores vetoed. Take here into account that the Salvadoran president may exercise the veto power to Legislative's projects if he does not agree. Flores did it 58 times, more than any other president in Salvadoran history, which clearly shows the conflictive situation between both powers. "The opinions of the commission of treasury and budget were especially controversial, as well as other commissions which also dealt with public funds" (Miranda 2014b; see also Miranda 2014a, 29-30; Artiga 2014, 213).

FMLN's fights against privatization policy of ARENA, ANEP and FUSADES, were accompanied by protests from broad movements. Among these, the Citizens' Alliance against Privatization (*La alianza ciudadana en contra de la privatización*) whose purpose, in principle, was to curb the privatization of health services, although it also later expanded to other sectors. The FMLN itself but also its support from a large section of the population were a setback to ARENA's projects. Thus "anti-health privatization mobilization resulted in the government negotiating a formal agreement (in March 2000 and June 2003) to halt the privatization process" (Almeida 2006, 70). Moreover, social policy increased, perhaps to curb FMLN's pressure before its electoral rise.

With the arrival of Antonio Saca to power, a leader of Samix, a small media group, and a non-strong member of the economic elite, both internal and external relations of ARENA substantially changed (Miranda 2014, 33; Bull 2014, 179). It originated a split in ARENA, in which a new party made up in 2010: GANA. It was presided by Antonio Saca himself in alliance with other important businessmen like Boris Eskersi, Francisco Callejas and Thomas Regalado. Since then, GANA has been in the opposition side of ARENA, many times co-allying with the FMLN (Bull 2014, 179-180). ARENA fragmentation and serious allegations of corruption in Saca's government were the prelude to the victory of Mauricio Funes, the first FMLN elected president. Funes came to power introducing his *Programa de Gobierno 2009-2014* and a Global Anti-Crisis Plan with an investment of roughly US$ 587.5 million to be executed over the course of 18 months. "The government also pushed for increased transparency and progressivity in the tax structure and claimed, in its 2012 midterm report, to have reduced tax evasion and raised the tax burden (tax revenue as percentage of the GDP) to anhistorically unprecedented 15" %".

(Spalding 2014, 221). Funes's economic reforms caused a great opposition by the business sector, leading to a war of words between both sides (Bull 2014, 180). FUSADES "faulted the Funes administration for the deterioration in the investment climate" and suggested that "the Salvadoran private sector was waging an ideologically motivated investment freeze at home" (Spalding 2014, 225). This argument was also showcased by ANEP, whose confrontations with the government became outraged. Jorge Daboub, as a spokesman and president of ANEP, stated that "Salvadoran entrepreneurs kept their capital abroad" because of "the insecurity that is generated in the messages, the proposal for change in our system of liberties" (Spalding 2014, 225).

ANEP's words were not mere threats. Domestic business elites stopped investing domestically in favor of doing it abroad (Bull 2014, 180). While at first it did not seem to bother Funes, the results of the conflict were costly, forcing him to approach some important leaders to better the climate. Thus, Funes called for a fiscal pact to finance social policy which included social meetings with key leaders from the transnational and financial elite "to negotiate their contributions and the benefits they can expect" (Schneider 2012, 206). Moreover, he established a National Growth Council with the presence of Roberto Murray, Francisco de Sola, Francisco Callejas, Juan Carlos Eserski and Ricardo Poma, economic leaders who control around a third part of Salvadoran GDP (Bull 2014, 180-181). The council, however, did not prosper, and ANEP and FUSADES continued being important oppositions (Bull 2014, 181).

In order to reduce FMLN supports, the bourgeoisie also used different strategies like comparing Funes, as well as his vice president, Salvador Sánchez Cerén –c urrently the president of the country –, with Hugo Chavez and Fidel Castro, often calling them *castrochavistas* or *castrocomunistas* and portrayed them as radical socialists. Moreover, "they highlighted the role played by Funes's wife in organizing world socialist forums" (Viterna 2012, 252). These reactions were not surprising as the FMLN has consolidated as a left-party, not very close to the Salvadoran elites who are more on the right-wing side. On the contrary, the party has focused on gaining the supports of small and medium sized entrepreneurs, previously excluded from the circles of businesspeople favored by ARENA governments" (Álvarez 2010, 34-35). They, together with other social groups, gathered into a new association called "Friends of Mauricio

Funes", which has mobilized resources and political support in favor of the FMLN (Allison and Álvarez 2010, 110).

In recent years, as said, ARENA has accepted certain FMLN proposals, which have not been seen in a good light by the business associations. Such an approach, however, is glimpsed either in electoral competition, such as in 2014 with the acceptance of SPSU, or before scandals of corruption in which both political parties were involved. In one of them, of wide public knowledge, ANEP entered for the first time in open confrontation with ARENA as the latter had promoted the decree 743 of 2011, sanctioned by Funes. The decree was launched to stop the functions of four magistrates of the supreme court who had showed an independent attitude, as much against the FMLN government as of several leaders of the Legislative, some attached to ARENA (Reserve 2012, 160; Bull 2014, 181). Since then, several businesses "leaders increasingly preferred direct dialogue with the government (not through any association), partly since the split in the right wing was so deep (…). In any case, it is clear that the days of the hegemony of the DBG [Diverse Business Groups], ANEP, ARENA and FUSADES have passed into history" (Bull 2014, 181; emphasis added in brackets).

6.5.2.2. The two faces of the military

It is very rare for military or former military to have any allusions to the Salvadoran bourgeoisie. However, their preferences towards bourgeoisie's interests may be showed either from their support to ARENA, a direct relationship, or to the FMLN, an inverse relation. We suppose this due to ARENA being, as mentioned, is an essentially business elite party while the FMLN has taken distance from the traditional economic elite. After the war, civic military relations substantially improved because of the subordination of military high command to an elected civilian president as well as the removal of military influence from political life (Barany 2012, 97). This is true *de jure*, but just partially factual. As established in the electoral code of 1992, art. 237, "the military in active service, members of the National Civil Police, and those of any armed body will not be able to make partisan electoral propaganda" (Tribunal Supremo Electoral, 2015). This military detachment from the political arena makes it difficult to trace any of their political preferences. However, some military members have been, to some degree,

involved in politics, especially those who are retired as they are able to do it, but also some in function, thus allowing to glimpse their inclination towards either ARENA or FMLN's plans.

The relationship of the military with ARENA remains too close. The almost extinct PCN, the former dominant military party, "has served chiefly as a supporter of ARENA in the Legislative Assembly" (Montoya 2013, 50). Moreover, ARENA has among its ranks ex-military members of high commands and remains a party to serve as a political channel for anti-communists ex-military (El faro 2014). It was clear in September 2007 when a part of the military demonstrated against the FMLN's possible victory in the 2009 presidential campaign. The non-repeal of the Amnesty Law was a central point. "ARENA embraced this cause. ARENA's presidential candidate, Rodrigo Ávila, served as the keynote speaker at the event (...). In his speech, Avila shouted at the danger that would mark an electoral victory of the FMLN" (Sprenkels 2012, 73; see also Montoya 2013, 61; Sprenkels 2014).

Nonetheless, Mauricio Funes, the FMLN candidate, addressed this issue. Despite the fact the FMLN aimed at ending the armed forces in the war, he stated that, if elected, he would not repeal the Amnesty Law. Soon, he gained popularity among the military, whose support to ARENA began to decline. Following Montoya (2013, 61):

> in Santiago, a former military official accompanied the FMLN departmental deputy Gerson Martínez on his tour of the La Paz department municipios (…) [He said] to the audiences that he had fought with the army during the war but that he was supporting the FMLN in 2009 because ARENA had failed to generate economic prosperity (…). The public endorsement of Funes by former military officials during the campaign benefited the FMLN insofar as it demonstrated that sectors traditionally opposed to the party now support it.

Alongside this, the former military official emphatically denied that the whole military was unanimously supporting ARENA (Montoya 2013, 216). It soon would be reflected as Funes gained support from important former military officials and leaders, who made public their position in favor of the FMLN. Some of them, in fact, joined the group *Friends of Mauricio Funes* like the cases of Colonel David Mungia Payés and Luis Ángel Lagos, the latter a former PCN leader (Allison and Álvarez 2012, 111). Colonel Mungía has been especially an active member of the FMLN, although he was previously pointed out as a supporter of ORDEN – the

paramilitary square in the civil war – and as a radical right extremist. He was a political ally of the FMLN in its 2009 and 2014 elections campaign, being appointed Minister of Justice and Security by Funes and Minister of Defense Administration by Sánchez Cerén (for a more detailed exposition of the Mungia-FMLN relationship, see Pérez 2015).

Funes was also an important ally of the military. As a local newspaper argued, since the Agreement of Chapultepec was signed in 1992, Funes's government gave the military more power than any other before. "During the first two and a half years of the Funes-FMLN government, the armed forces increased by 6,300 men, who in wages costed an additional 25 million dollars per year" (El faro 2011). Moreover, Funes gave back policing functions to the military forces, which were taken away from the institution when the National Civil Police was created. An important fact for the overall objective of this writing is that business organizations have rejected, albeit very cautiously, the increase of the military public spending during the FMLN left-wing government, as well as its new military role with regards to security (La página 2011).

Some scholars have conjectured that Funes' attitudes towards the military showed his fears of a coup d' etait against him, especially considering what had happened in 2009 with the Honduran president Manuel Zelaya (Barany 2012, 97). There were, indeed, ARENA leaders who supported the coup in Honduras and even warmed Funes of the likelihood of a coup in the country because of the danger "that the country is heading to a situation similar to that of Venezuela" (El faro 2010). Funes himself during the summit of the South American Integration System affirmed, "in the region there are still political, economic and military sectors that justify coup practices and who have publicly expressed their support for leaderships that would violate the democratic system" (El faro 2010). Coincidentally or not, the increase of military's power, possible by Funes, was correlative to a greater military's support to the FMLN and a smaller possibility of a coup during the administrations of this party: that of Funes, in the first place, and that of Sánchez Cerén, in the second turn. This, although they have planned and implemented programs which have threatened the status quo of the country.

The current President Sanchez Cerén's stance regarding the military has been alike to that of Funes, only perhaps differing from his ambiguous position on the amnesty law. This behavior has surprised a broad stream of Salvadoran society. Remember that Sánchez was an active

combatant of the guerrilla group during the war and is currently one of the most orthodox members of the party. In spite of this, Sánchez Cerén counts on a wide support in the military. He had, for example, the approval of more than 15 high-ranking militaries in retirement during his campaign in 2014 elections. One of them, Mario Rodezno, just retired and who had been the colonel of the General Staff one year before the presidency of Sánchez Cerén, stated: "we are being the spearhead for other officers who will decide for the FMLN. There are a lot of officials who support us, but they are still with fears to be classified like traitors" (Diario Co Latino 2014). This shows the position the FMLN has gained within the military sector, a surprising relation as the FMLN was a long-lasting enemy of the armed forces throughout the 1980's. However, as we can see, this has substantially changed.

6.5.3. Outcome: A long lasting redistribution

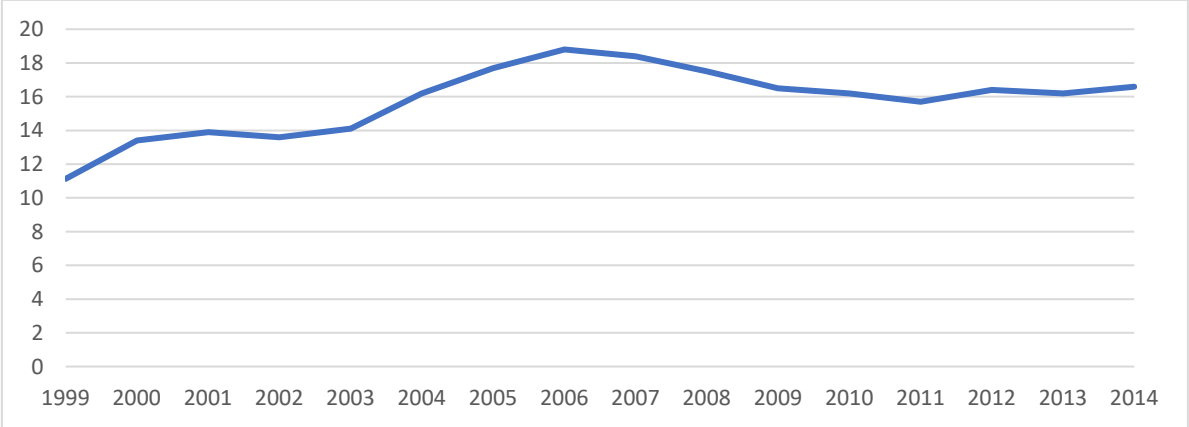
The GINI coefficient has been trending downward since 1998. Nowadays, as mentioned, Salvadoran GINI holds the title of the second lowest in Latin America and the third throughout the Americas after Uruguay and Canada. It does not mean, for sure, that El Salvador is relatively equal as its levels of inequality are huge when comparing them with those of the European countries. However, in comparative terms, its improvements are remarkable. What explains such an improvement which is so successful in a region that has been characterized by an extreme income concentration? Remittances play an important role since it increased from 11 to 18.7% as share of the GDP between 1999 to 2006. They, nonetheless, reduced significantly from 2006 to 2011, where it situated in 15%. Since then, it maintains by an average of 17%. It should be noted that El Salvador is not currently the most dependent Central American country on remittances as it has been superseded by Honduras in 2006 whose share at that year reached 22% of the GDP. Currently Honduran GDP depends on roughly 18% on remittances, without improving income inequality (IADB 2017; World Bank 2017).

Remittances behavior is shown in figure I, which we can contrast with that of the GINI (figure 6.8). It is noticeable the path of the GINI with a downward trend while the path of remittances over the same period approaches an inverted U-shaved curve. The Pearson correlation between both GINI and remittances is, however, very high (-0,68), which demonstrate the unquestionable importance of remittances on GINI. In order to contrast the effect of remittances with another

variable, especially those of our interests, we are going to introduce a new variable: FMLN power in elections, as explained above (see figure 6.9). Remember here our assumption to consider the FMLN as a non-elite party because it has been in dispute with the most important economic elites of the country, which are conglomerated in the opposition party of ARENA. Thanks to this, this variable perfectly serves as an instrumental variable for the degree of political party's autonomy in relation to economic elites.

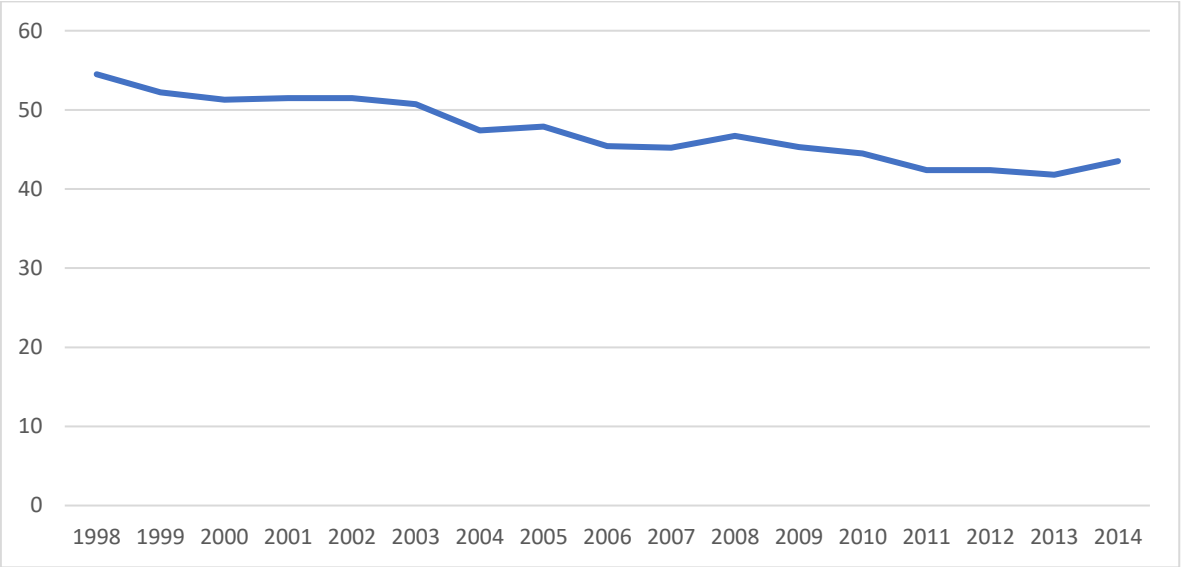
Due to the introduced variable given by periods, in accordance with the legislative terms of El Salvador, we are going to aggregate the GINI and remittance data for the same years. With these pooled data, the Pearson correlation (*r*) of remittances and GINI increases to -0.82. However, the *r* between the FMLN power and the GINI reaches the same value (-0.82). Doing a linear regression to explain GINI with this small universe, there is a determination coefficient (*R squared*) of 66% when remittances are only included. Whereas when including both remittances and FMLN power we have a R squared of 0.92, both statistically significant: almost a perfect prediction. Hence, despite the constant percentage of remittances with respect to GDP since 2006, the GINI would have continued to decline due to the increase in the FMLN power, especially in 2009 when it takes both the legislative and the executive branches. Our conclusions are not in conflict with other analysis about the causes of income inequality reduction in El Salvador during the period studied here.

Figure 6.8.
Remittances of El Salvador. Share of the GDP (2000-2010)



Source: own based on Acevedo and Cabrera (2012) and updated with data from the World Bank (2017)

Figure 6.9.
Gini coefficient, El Salvador 1998-2014



Source: own based on World Bank (2017)

Table 6.6.
El Salvador: Gini coefficient, remittances and FMNL power

Period	GINI (average over the years)	Remittances	FMLN power in elections
1994-1996	51,2	10,6	17
1997-1999	53,35	10,86	24,13
2000-2002	51,43	13,63	24,715
2003-2005	48,66	16	25,78
2006-2008	45,76	18,23	25,09
2009-2011	44,06	16,13	76,25
2012-2015	42,65	16,4	74,02

Source: Own elaboration based on World Bank (2017) and Tribunal Supremo Electoral (2017)

Overall, two things are assumed. In the first place, the Salvadoran GINI is sensitive to a combined effect of i) increased remittances (Córdoba and Zephir 2000, Acevedo y Cabrera 2012; Gindling et al. 2013), ii) economic growth, which deteriorated in the second half of the 1990s and modestly recovered since 2003 (Pastor and Boyce 1996; Marqués 2004; Gindling et al., 2013); iii) real wages volatility because of changes in the basic consumption basket price (Arias 2004; Marqués 2004) and in education returns (Gaspirini et al 2011; Gindling and Trejos 2013). The impact on real wages are very important, taking into account their decline in the second half of the 1990s and their relative stability in industry and services afterwards (Székely

and Hilgert 1999; Marqués 2004; see also Granados and Tobar 2006, 230;). In this sense, some studies point out inequality increase may be considered as a typical structural adjustment problem in transitional economies (Segovia 2002), expected to temporally. This explained why income inequality deteriorated in the second half of the 1990s and improved slightly in the beginning of the 21st century. It would also explain why inequality declined in urban areas while it did not improve in the rural ones (Marqués 2004).

In the second place, however, these macroeconomic factors are not enough to understand Salvadoran GINI dynamics, as some of these same studies affirm. The importance of increasing public social spending in certain sectors has also been noted as pivotal (Marqués 2004; Barreix et al. 2009; Gindling and Trejos 2013). Moreover, improvements of those who live in extreme poverty (Marques 2004) or in rural conditions (Gindling and Trejos 2013) through targeted policies reduce significantly inequality. This is of relevant importance because the Salvadoran poorest are not people who directly benefit from remittances, hence requiring in some degree the help of the State (Marqués 2004). Social policies are well organized since 2005, in a context of electoral competition and within a neoliberal crisis. They, nonetheless, have been intensified since 2009, in the first FMLN government whose programs focused on the poor and the extremely poor (Ribe et al. 2012, 328). The Universal Protection System, which is still in its implementation stage, has broad programs in diverse areas as housing, pensions and education. In the rural zones, transfers, subsidies and school packages have also been set in motion as a huge sector there is placed in the poorest decile populations of the country. We already spoke about all of this before

6.5.4. Conclusions of ES3

In ES3, there is again a conflictive situation because within the political elites and the military are members who oppose the economic elites' preferences (see the table 6.7.). This conflict persists throughout the critical juncture and became deeply from the part of the military, who in time supports more and more the Left-government of the FMLN. Redistribution occurs, as we saw, and it is long-lasting.

Table 6.7
Central actors, all mentioned in the explanation of the critical Juncture ES3

Type of Elite	Actors	Actors' preferences
Economic Elites	The Bourgeoisie (FUSADES, ANEP, FUNDE. Moreover, it includes a political party: ARENA) Often, we name people like Roberto Murray, Archie Baldochio, Roberto Palomo, Ricardo Poma, Ricardo Sagrera, Carlos Araújo Eserski, Guillermo Sol	Against
Political Elites	Political Parties (FMLN, ARENA, PDC; PCN, COENA; GANA; PCN. Some political leaders: Francisco Flores, Antonio Saca, Mauricio Funes, Rodrigo Ávila; Salvador Sánchez Cerén)	Mixed preferences
The Military	Colonel David Mungia Payés, Luis Ángel Lagos; Mauricvio Rodezno, 15 high-rank ex-military oficials supporting Mauricio Funes)	Mixed preferences

Chapter VII
Testing the three hypotheses

7.1. Introduction

The aim of this chapter is to test our hypotheses. To do this, it attempts to show whether or not there is a relationship between income redistribution and the three hypotheses we have already mentioned, one by one, in the same order they were introduced. The scope of the chapter, however, is very limited, as we do not pretend to outline why such relations exist This is, as we shall explain, part of the next and final chapter of this thesis. To test our hypotheses, the analysis will be carried out through the comparison of the cases: Honduras and El Salvador, their respective CJs, and the preferences of all the involved actors during those CJs. Remember here that, depending on the hypothesis, certain CJs are not considered as some of the implied actors are either weak or even non-existent by the time the CJ occurs. For example, for the first hypothesis, neither the first CJ of Honduras (H1) nor the third one of El Salvador (ES3) are considered as in both cases, according to the literature, the landed elite is weak. In the third hypothesis, we also not consider the first CJ of Honduras (H1) because of the weaknesses of the military. This is summed up in table 7. 1 and 7. 2, where we can see the power of the elites by the time the critical juncture takes place in both Honduras and El Salvador.

Table 7. 1
Power of the Honduran Elites by the time of the Critical Juncture

	Of Economic Nature		Of Political Nature	The Military
	Bourgeoisie	Agrarian		
H1	Weak	Strong (but it is of foreign nature)	Strong	Weak
H2	Developing	Strong (both of foreign and domestic nature).	Strong	Strong
H3	Strong	Strong	Strong	Strong

Source: own elaboration based on chapters III and V

Table 7.2
Power of the Salvadoran Elites by the time of the Critical Juncture

	Of Economic Nature		Of Political Nature	The Military
	Bourgeoisie	Agrarian		
ES1	Strong (both together are a single elite)		Strong	Strong
ES2	Strong	Strong	Strong	Strong
ES3	Strong	Weak	Strong	Strong

Source: own elaboration based on chapters III, IV, V and VI

In order to compare the cases and their respective CJs, we shall focus on the preferences of each elite towards the critical juncture's trigger, both at the initial period and the end (see figure 7.1). Each critical juncture's triggers are listed at the table 7.3. As was mentioned in chapter II, the purpose of focusing on actors' preferences is that they enable us to classify the groups' relationships into different categories such as cohesion and conflict, as well as into three other subordinate categories. In order, as to recall how these categories are classified, we again put the table where we explain which characteristics we are looking for are when speaking about cohesion or conflict (see Table 7.4).

Figure 7.1
Focus of observation

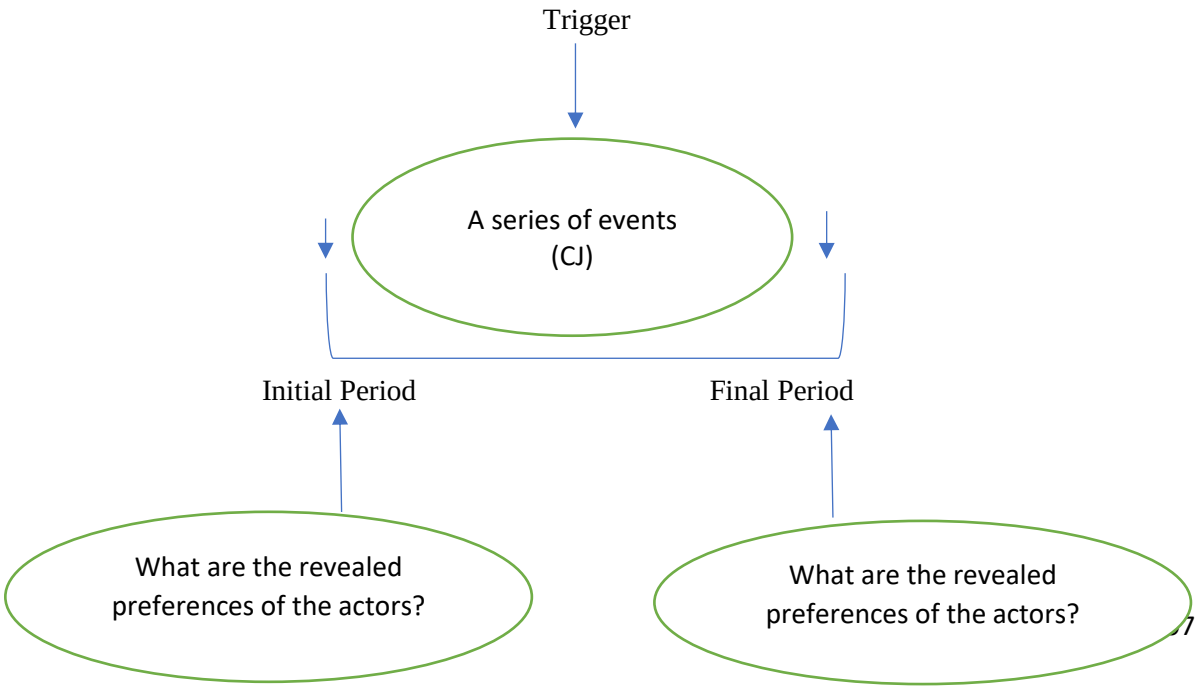


Table 7.3.
Critical Juncture's Triggers

CJ	
H1	Threats of expropriation against the Banana Companies by the PLH and PNH
H2	Villeda's Programs of Redistribution. Also, the attempts of López Arellano to continue these policies
H3	Zelaya's Programs of Redistribution and his rapprochement to the Left-Wing Governments in Latin America.
ES1	Threats of a Land Reform against the Coffee Elite by the PLS and the PCS
ES2	FMLN's demands during the war. The peace accords.
ES3	FMLN's anti-neoliberal programs; The Universal Protection System

Table 7.4.
Characteristics of cohesion and Conflict

If the preferences of "the trigger" between the studied groups are:	Then, it is a relationship based on
In favor- In favor	Cohesion
Against - Against	Cohesion
In favor -Mixed preferences	Mid-level cohesion
Against - Mixed preferences	Mid-level cohesion
Mixed preferences – Mixed preferences	Mid-level conflict
In favor - Against	Conflict

7.2. Testing Hypothesis 1

This hypothesis implies two actors: the bourgeoisie and the landed elite. Therefore, cases H2, H3, ES1 and ES2 are applicable for comparison. This information is summarized in table 7.5.

Table 7.5
Hypothesis 1, implied actors and critical junctures to be analyzed

Hypothesis 1:	The more conflictive the relations between the landed elites and the bourgeoisie are, the higher the likelihood of redistribution under democracy.
Implied actors:	1) The bourgeoisie; 2) The landed elite
Critical Junctures to Analyze:	H2, H3; ES1; ES2

Table 7.6 gives us a picture of implied actors' preferences for each critical junctures' triggers, the relation both groups have, according to those preferences, and, finally, variations in relations over time, as well as the outcomes in terms of inequality after the final period of the critical juncture. Remember that although we do not have income inequality indicators for some periods, we can trace them by proxies of land inequality if the case is based in a context of high dependence on agriculture (more precisely in H1, H2, and ES1), as already achieved by other studies.

As we can see in the table, the relations between the landed elites and the bourgeoisie have not been always harmonious, neither in El Salvador nor in Honduras. In Honduras, a conflictive relation came about when Villeda Morales sought to implement an ambitious program of redistribution, in which even an Agrarian Reform was put forward. Under the leadership of the COHEP and the CCIC, the bourgeoisie supported the program even though other sectors, such as the UFC, and FENAGH and AGAS, (the former two being commanded by local landowners), opposed it. It is interesting to observe that, as the bourgeoisie conflicted with the agrarian elite, the redistributive issues were strongly taken into account by the government, in Villeda's administration, but also in the military dictatorship of López Arellano. The strong influence of the landowners over a section of the military was, however, a thorn in the side for the redistributive aims of the government. Eventually, under the pressure of continuing military coups which overthrew both administrations, the bourgeoisie transformed and aligned itself with the same anti-redistributive discourse of its previous enemies: the landed elite. As previously cited from Euraque (1993, 61) "this commercial-industrial bourgeoisie into an agrarian bourgeoisie also associated with foreign capitalists left the visionaries of the strongest manufacturing sector of the class (…) isolated and open to attack". This alignment between the

bourgeoisie and the landed elites, furthermore, coincided with the failure of redistribution in Honduras, carried out mainly through counter-redistributive policies that included amendments in the previously implemented Agrarian Reform.

Table 7.6
Preferences of the Bourgeoisie and the Landed Elites in the initial and final periods of each CJ

		ACTORS		ACTORS		OUTCOMES	
		Bourgeoisie	The Landed Elite	Bourgeoisie	Landed Elite		
CJ		*Initial Period*		*Final Period*		In term of cohesion	In term of income inequality
H2	Trig. Pref	In favor	Against	Against	Against	Over time, cohesion rises	Land inequality rises at *the end of the critical juncture*
	B-LE	Conflict		Cohesion			
H3	Trig. Pref.	Against	Against	Against	Against	Over time, cohesion is steady	Income inequality rises
	B-LE	Cohesion		Cohesion			
ES1	Trig. Pref.	Against (Both the bourgeoisie and the coffee elite are a single elite).		Against (Both the bourgeoisie and the coffee elite are a single elite).		A perfect cohesion over time	Land inequality rises: A maximum concentration peak is reached.
	B-LE	Cohesion		Cohesion			
ES2	Trig. Pref.	Against	Against	In favor	Against	Over time, cohesion reduces	Income redistribution
	B-LE	Cohesion		Conflict			

During the administration of Zelaya (that is, in H3), this pattern of anti-redistributive preferences between these two sectors persisted. Powerful companies and associations which included the Chiquita Brands – the former UFC –, timber industry, as well as important bourgeois associations such as COHEP, ANDI, and the banking sector, were opposed to the Zelaya's rapprochement with the Venezuelan left-wing government of Hugo Chávez. In the same manner, they were outraged with various actions Zelaya had undertaken and which directly affected them: the most remarkable of these actions was the increase of the minimum wage by almost 100% during his government. As in the case of H2, a military coup was carried out. However, contrary to the 1963 coup against Villeda, the new government was forced to call new

elections. In the years that followed Zelaya's coup, Honduras experienced a reverse in the trend of its GINI, which had substantially improved in Zelaya's government.

In El Salvador, the relationships between the landed elite and the bourgeoisie were quite different to those in Honduras. During the first half of the 20th century, the economic elite of the country was "an agrarian bourgeoisie" because it combined both landowning and industrial functions in a single class. This two-sided feature of the economic elite, one of which was associated with a high dependence on fixed assets like coffee plantations and land, meant that possible losses related to redistributive programs were enormous. Salvadoran elites, in fact, feared any attempt to redistribute land. This was the case when Arturo Araújo from the PLS was elected as president of the Republic in 1931, through elections that were considered to be free and fair. Arturo Araújo, along with his ideologue Alberto Másferrer, wished to implement the country's first Agrarian Reform. However, they soon failed, and the democratic government was replaced in 1932 by a dictatorship which repressed anyone who opposed the interests of the coffee elite. The subsequent years coincided, perhaps, with the most outstanding concentration of income that the country has undergone in the 20th century. According to local historians, concentration of land ownership remained at the same level or became even more concentrated as the population of poor peasants continued to increase.

Over the years, the Salvadoran bourgeoisie detached from the coffee elite, little by little. This also enabled it to grow stronger This separation made itself more visible thanks to two factors: the war in the 1980's, and the subsequent increase of remittances from Salvadorans living abroad. Although both sectors initially showed solidarity with each other and against the left-wing guerrilla FMLN, over time the bourgeoisie became a soft-line actor in favor of the peace accords with the FMLN, being much more moderate the coffee elite in its discourses. With Cristiani's entry into power, not only did the bourgeoisie no longer sympathize with the coffee elite, it also dealt the blow which signaled its defeat with programs and policies that directly attacked the interests of the coffee sectors. With the peace accords, a new leader within the economic elite arose: the bourgeoisie, replacing the coffee elite. Redistribution also was present, basically because of the positive economic consequences of peace, the massive influx of remittances from Salvadorans abroad and, finally, the same expansion of services and industry, strongly linked the bourgeoisie's businesses and which primarily benefited the urban

population. The positive tendency of redistribution, however, was unstable during the second half of the 90's because of the structural adjustments effects of the neoliberal policies which had just been implemented.

7.2.1. Conclusions of Hypothesis 1

According to table 7.6, there is a direct relationship between redistribution and a conflictive B-LE. This is clear when comparing ES2 and H2; while the former ends up in a period of redistribution, in the latter redistribution is reversed. Moreover, while in ES2 the relationship between the bourgeoisie and the landed elites deteriorated over time, both of them showing opposing preferences at the end of the war, in H2 the bourgeoisie transformed from being a conflictive group to an ally of local landowners. In the rest of the critical junctures, these direct relations persist. In ES1, for example, when the agrarian Elites and the bourgeisie were both a single elite and class, the redistributive attempts democracy had brought were severely undermined. Soon after, dictatorship appeared along with the maximum level of inequality. In H3, the low level of differentiation between the two sectors also coincides with the failure of Zelaya's attempts at redistribution.

7.3. Testing Hypothesis 2

This hypothesis implies two actors: the political and the economic elites, the latter ones regardless of whether they are of agrarian or of bourgeois nature. The analysis of this hypothesis, therefore, can be carried out be done through all the critical junctures that have been examined here, as in all of them both actors play significant roles in such junctures. This information in summed up in table 7.7.

Table 7.7.
Hypothesis 2, implied actors and critical junctures to be analyzed

Hypothesis 2:	The more conflictive the relationships between the economic and the political elites are, the higher the likelihood of redistribution under democracy.
Implied actors:	1) Political elites; 2) The economic elites: regardless of whether they are landed elite or bourgeoisie.
Critical Junctures to Analyze	H1, H2, H3, ES1, ES2, ES3

Table 7.8
Preferences of the Economic Elites and the Political Elites in the initial and final periods of each CJ

		ACTORS		ACTORS		OUTCOMES	
		Economic Elites	Political Elites	Economic Elites	Political Elites		
CJ		*Initial Period*		*Final Period*		In term of cohesion	In term of income inequality
	Trig. Pref	Against	Mixed Preferences	Against	Against	Cohesion increases	Wealth inequality increases, but not like in other countries in the region
	EE-PE	Mid- Level Cohesion		Cohesion			
	Trig. Pref	Mixed Preferences	Mixed Preferences	Against	Against	Over time, cohesion increases	Wealth inequality increases
H2	EE-PE	Mid-level Conflict		Cohesion			
	Trig. Pref.	Against	Mixed Preferences	Against	Against	Over time, cohesion increases	Income inequality increases
H3	EE-PE	Mid-levelCohesion		Cohesion			
	Trig. Pref.	Against	Mixed Preferences	Against	Against	Over time, cohesion increases	Wealth inequality rises: A maximum concentration peak is reached.
ES1	EE-PE	Mid-level Cohesion		Cohesion			
ES2	Trig. Pref.	Against	Against	Mixed	In favor	Over time, cohesion reduces	Redistribution
	EE-PE	Cohesion		Mid-level Cohesion			
ES3	Trig. Pref.	Against	Mixed	Against	Mixed	Over time, cohesion is steady	Redistribution
	EE-PE	Mid- level Cohesion		Mid-level Cohesion			

As in the case of the previous paragraph, actors' preferences, their relations according to those preferences, and cohesion and inequality variations are classified (see table 7.8).

In case H1, discussed in chapter III, we have considered the banana companies as the only actor within the economic elites. As shown in this chapter, Honduras became a banana republic par excellence, without a bourgeoisie or even a marked local landed elite. On the contrary, at the political level there were several parties competing with opposing tendencies: the PNH, the PLH and the PCH, the latter two with members who directly clashed with the role of the banana companies in the country. The companies, however, maintained clientelist relations with both the Liberal and the National Party, ensuring that they would receive favorable deals, but under continued threats of expropriation on the part of unsatisfied leaders. We call this "mid-level cohesion". Two facts, however, prompted a more cohesive degree in relations between the banana companies and political sectors. On the one hand, the UFC bought its major rival, the Cuyamel Company, reducing internal competition and increasing its monopoly power. On the other hand, the arrival to presidency of a UFC ally, Tiburcio Carías, who ruled the country as a dictator and persecuted and annihilated the opposition. The greater degree of cohesion between both sectors derived from the suppression of important actors in the political sphere, thus reducing the fears of the banana companies of their enemies' actions. Wealth inequality increased, as the benefits of the banana economy were divided unequally among the political allies of the company. However, inequality did not increase as it didn other countries, for example as in El Salvador, due to most of the benefits of banana economics being obtained by foreign actors, and not by the local caudillos.

In H2, the situation of Honduras had significantly changed: three sectors gained importance over the years: the military, local landowners, and the bourgeoisie. The political opening encouraged by the United States, in turn, led to a more pluralistic approach to redistribution. The Liberal Party, under the administration of Villeda Morales, implemented significant progress in terms of social welfare. Moreover, well-known leaders of the party (Modesto Rodas, and Francisco Mila, among others) threatened both the UFC and the local landowners with expropriation. The landed elite, the most unsatisfied sector, for its part used the National Party as the principal

channel for disclosing complaints. Honduran Elites were undergoing, therefore, a conflictive situation. Despite the fall of Villeda Morales into the hands of the military giving a brief respite to landowners, it did not represent their victory. They, in fact, encountered the same redistribution threats in the subsequent dictatorship. General López Arellano, the new president of the country, continued and implemented Villeda's programs, including the land reform. It was not until the fall of López Arellano in 1975 that, finally, the landowners' preferences achieved perfect consistency with political power, by that time in the hands of a conservative military.

In H3, economic elites had to face the actions of Manuel Zelaya, who had surprisingly turned to the left. The economic elite, however, was largely represented by its allied sectors in both political parties: the PNH and the PLH. This is why we cannot speak of a conflict. Rather, relations between both sectors remained cohesive, but with an opposing political actor who had shifted from the normal praxis of the parties (a mid-level cohesion, as explained above). With the military coup against Zelaya, EE-PE relations stabilized, and the programs Zelaya had implemented or sought to implement were undermined.

In the case of El Salvador, EE-PE relations have been strongly cohesive. Apart from the short-lasting political opening in 1930 (ES1), up until the emergence of the war in the 1980's political power persistently favored the coffee oligarchy. Firstly, because political representation was commanded by coffee families – including the Meléndez-Quiñonez dynasty – but also because the military ruled the country under direct alliances with the coffee elite. Opposition, in turn, was persecuted and annihilated, such as in the case of the PLS whose most important members were condemned to exile; as well as the Communist Party, under the leadership of Farabundo Martí, which was steeply repressed. Support of the communist party would also lead to the tragic event known as La *Matanza* in which more than 30.000 people were killed.

In ES2, EE-PE relations remained strong, although they changed substantially. Firstly, because the landed elite began to lose power due to the war. Secondly, because the bourgeoisie became the dominant group within the economic elite. Despite the political parties being strongly opposed to any demand stemming from the guerrillas at the beginning of the civil conflict, they, over time, became prone to negotiate with the FMLN, thus abandoning the coffee elite. This is

particularly true for the PDC, but also for ARENA itself which had for years been an ally of the coffee oligarchy. In ES3, economic elites – basically, the bourgeoisie – continued to be represented through ARENA, the only institutionalized and bourgeois party in Central America (Bull 2014, 178)[14]. ARENA, nonetheless, had had to compete with the FMLN, by then converted to a party. The FMLN had shown itself to be the most important political force in the country, along with ARENA, gaining over the years more and more political support from the masses,as well as strong opposition from the bourgeoisie. Redistribution, for its part, continued during this critical juncture thanks to the social programs the government implemented in the context of electoral competition, as well as the the inflow of remittances which had persisted over the years.

7.3.1. Conclusions of the Hypothesis 2

With the exception of ES2 where the level of cohesion between the political and economic elites reduces, and ES3 where cohesion is steady, in all the remaining critical junctures (H1, H2, H3, and ES1) the EE-PE relations become more cohesive as time goes by. This canbe explained mainly by the fact that opposing political actors are isolated or annihilated by other dominant groups. Furthermore, in all these critical junctures the outcome is either the failure of any redistributive attempt (ES1, H1) or the blocking of those redistributive programs which had already been implemented (H2, H3). In ES2 where redistribution is present, by contrast, political parties run directly counter to the coffee elite, moderating its discourses towards the FMLN and even accepting it in the political sphere. Similarly, in ES3, redistribution persists. Throughout all of the critical juncture, the existence of two opposing parties is remarkable, one very close to the economic elites (ARENA) and another one very opposed to them, the latter with increasing support in elections (see Table 7.8).

[14] Bull uses the concept 'business party' instead of bourgeois party. We call it a bourgeois party in order to follow the logic we have had throughout our argument.

7.4. Testing Hypothesis 3

This hypothesis implies two actors: the military and the economic elites. As in hypothesis 2, the economic elites are considered as a whole, regardless of whether they are landed elites or bourgeoisie. The analysis of this hypothesis, therefore, can be achieved by looking at the last two critical junctures of Honduras (H2 and H3) and all those of El Salvador. We exclude H1 as the military was not yet strong enough to be deal with it when the juncture occurred. This information in summarized in table 7.9. In table 7.10, we again display and organize actor's preferences, their relations and cohesion and inequality variations.

Table 7.9
Hypothesis 1, implied actors and critical junctures to be analyzed

Hypothesis 3:	The more conflictive the relationships between the economic elites and the military are, the higher the likelihood of redistribution under democracy.
Implied actors:	1) The Military; 2) The Economic Elites, regardless of whether they are landed elite or a bourgeoisie.
Possible Critical Junctures to Analyze:	H2, H3; ES1; ES2; ES3

In the middle of the twentieth century, as we have already noted, Honduras took a turn in its military history, consolidating powerful military forces with the help of the US government. Due to a pact with the liberal party which assured military autonomy, the party was able to rule the country after winning the 1957 elections, considered free and fair by local historians (H2). The breaking of the pact, in addition to the support of part of the military towards the national party, as was the case of the Colonel Armando Velasquez, led the military to seize power in 1963. Quite contrary to what was expected, the dictatorship of López Arellano in time demonstrated a left-wing rather than a right-wing political preference, very alike to what had happened in other countries in Latin American like Peru, Panama and Bolivia, prompting a fragmentation within the military itself. Honduras underwent a situation in which two important sectors found themselves having opposing preferences towards redistribution. On the one hand: the landed elite and its military allies, both together within National Party. On the other hand:

leftism of General López and its incredible support by the bourgeoisie. This conflictive relationship persisted for years, coinciding with the most important achievements the country experienced in terms of redistribution. This conflict, eventually, were undermined when the conservative branch of the military eventually overthrew López. Moreover, because the bourgeoisie also transformed itself, turning "against the government's agrarian program" (Sieder 1995, 118). Thereafter, the economic elite and the military worked together, to the extent that both groups even shared important positions in wide-known associations such as the APROH.

Table 7.10
Preferences of the Economic Elites and the Military in the initial and final periods of each CJ

		ACTORS		ACTORS		OUTCOMES	
		Economic Elites	The Military	Economic Elites	The Military		
CJ		*Initial Period*		*Final Period*		In term of cohesion	In term of income inequality
	Trig. Pref	Mixed Preferences	Mixed Preferences	Against	Against		
H2	EE-M	Mid-level Conflict		Cohesion		Over time, cohesion increases	Wealth inequality increases
	Trig. Pref.	Against	Against	Against	Against		
H3	EE-M	Cohesion		Cohesion		Over time, cohesion is steady	Income inequality increases
	Trig. Pref.	Against	Against	Against	Against		
ES1	EE-M	Cohesion		Cohesion		Over time, cohesion is steady	Wealth inequality rises: A maximum concentration peak is reached.
ES2	Trig. Pref.	Against	Mixed	Mixed	Mixed	Over time, cohesion reduces	Redistribution
	EE-M	Mid-level Cohesion		Mid-level Conflict			
ES3	Trig. Pref.	Against	Against	Against	Mixed		
	EE-M	Cohesion		Mid-level Cohesion		Over time, cohesion reduces	Redistribution

In H3, we see a more cohesive relation throughout all the CJ, as both the military and the economic elites were opposed to Zelaya's programs. Regarding the military, they were particularly angered because of Zelaya's rapprochement with the Latin American left-wing

governments (those in Venezuela, Nicaragua, Ecuador, among others). Under the voice of General Romeo Vasquez, the military explicitly condemned that Honduras becoming part of a left-wing international project commanded by the Venezuelan president Hugo Chávez. In the case of the economic elites, their discourses were very alike. They repeatedly complained about Zelaya's programs, including the minimum wage increase, but alsothe appointmentof Patricia Rodas as minister of International Relations. Rodas was a well-known left-wing member of the PLH and had played an important role in the membership Honduras had obtained from the ALBA. Finally, a military coup against Zelaya occurred. Both Zelaya and Rodas were sent into exile. Coups, again, are presented as the most feasible way to eliminate threats to redistribution.

In El Salvador, relations between the military and the economic elites (EE-M) were very cohesive. Both groups had strong ties to each other, to such an extent that the former were identified as mercenaries of the latter for almost all the 20th century (Stanley, 1996 257). General Maxiliano Martínez, who ruled the country after La *Matanz*a (ES1), was a great ally of the coffee elite, and his economic policy was strongly tied to oligarchy's interests. EE-M relations began, however, to fragment after the 1979 coup, carried out by a progressive military wing. Although at the beginning of the civil conflict the hard line of the military remained close to the coffee oligarchy, they eventually turned against them, above all because of the pressure of international media. ES3 is perhaps the most interesting case for the relationship that we analyze here. Despite a part of the military remaining very close to the bourgeoisie, supporting ARENA, the military have come closer to the FMLN. This relationship is surprising as both groups has been enemies for a long time. According to Montoya (2013, 61). "it demonstrates that sectors traditionally opposed to the party now support it".

7.4.2. Conclusions of Hypothesis 3

This is a very conclusive hypothesis. Whenever the level of cohesion between EE-M reduces, redistribution is also present. This is obvious in ES2 and ES3, as both cases show an inverse relationship. By contrast, redistribution is blocked whenever the level of cohesion between both sectors increases. This is clearly showed in H2, when EE-M relations became cohesive as a result of General López Arellano's coup and of the subsequent transformation of the bourgeoisie.

Finally, when relations are continually and consistently cohesive, any attempt of redistribution fails (ES1, H3). In all, military coups are the most feasible way to block redistribution (see table 7.10).

7.5. Conclusions

Taking as a starting point the preferences of the actors in the first and last moment of each critical juncture, we have been able to confirm our three hypotheses. First, when the bourgeoisie comes into conflict with the landed elites, the likelihood of redistribution increases. Secondly, when the relation between economic elites, on the one hand, and political sectors and the military, on the other hand, is cohesive or becomes cohesive over time, the likelihood of redistribution reduces. Moreover, we have seen that the degree of cohesion frequently changes because of the annihilation of the opposing actor either in the military or in the political sphere, as we saw in cases H1, H2, H3 and ES1, or because important groups change their preferences over time as in the case of H2 (the bourgeoisie) and ES3 (the military). We have, therefore, shown that intersectoral relations of the elites do matter. We have not yet, however, concluded our theory since our explanation has not been linked with other controlled and intervening variables. This shall be part of the content of our next chapter.

CHAPTER VIII. CONCLUSIONS: FIELD CONTRIBUTIONS, THESIS' SCOPE AND FURTHER QUESTIONS

8.1. Introduction

This chapter aims to achieve three things. Firstly, it presents the conclusions of our theory. Secondly, it makes clear its scope. Finally, it leaves the discussion of redistribution open, raising some questions which this thesis cannot solve. For the first objective, our main intention is to explain why elite cohesion (or rather elite conflict) impacts on income redistribution, considering it along with other intervening factors. As suggested by the Process Tracing technique, an analysis between the control, the explanatory and the dependent variable must be done to build the theory. In the same way, all the factors which arose with the analysis of the cases, but which were not considered during the hypothesis building process, should be incorporated. For the second objective, we make clear the scope of the thesis considering the small number of cases and the limitations of our approach. Finally, we leave some questions open for further research. These questions arose with our explanation, but they cannot be answered by the mere comparison of our cases.

8.2. Building the explanation

So as to give a better understanding of the phenomenon, this section is divided in two. In the first part, according to the studied cases, it explains why greater cohesion of the B-LE reduces the likelihood of redistribution. Then, by the same logic, why a lesser degree of cohesion helps to increase it. In the second part, it addresses the question of why, nonetheless, the presence of low cohesiveness between these two sectors cannot determine a sufficient condition. As we shall see, redistribution will heavily depend on the way the economic elites are related to other important actors: in this case, the political sectors and the military. Moreover, we claim that the impact of this link on income redistribution is strong and remains regardless of the way the bourgeoisie and the landed elites are related. Therefore, contrary to the previous chapter where we inferred the mere existence of a relationship, this chapter will focus on the explanation of

causal sequence: on the mechanisms and the variables that intervene between elite's relationships and income inequality reduction.

8.2.1. Building the causal sequence explanation

There are some common characteristics in all the studied cases in which there is an absence of redistribution (ES1, H1, H2) or a reversal in the redistribution tendency (H2)[15]. Firstly, economy is largely dependent on *fixed assets*, and this point matches with part of the literature on redistribution and democracy (Boix 2013). ES1, for example, is highly dependent on coffee, H1 on banana, H2 on banana and agriculture resources, H3 on agricultural resources and infrastructure rent to foreign maquilas. Secondly, in most cases *there is little differentiation between the landed elite and the bourgeoisie's preferences*, either because both are weak (H1), because both make up a single class (ES1), or because the bourgeoisie over time transforms (H2). When conflictive actors persist, who belong mainly to the bourgeoisie and political sectors persist, they are isolated (H2, H3) or even annihilated (ES1, H1, H2) by means of repression. This is especially interesting in case H2 when, despite the fact that the bourgeoisie was at one point favorable to redistribution and in direct conflict with landowners, in time both sectors' preferences became similar, leading to collective actions in order to isolate conflictive actors, thus blocking redistribution. Thirdly, in all the cases the economic elites have large support from other sectors of power, which is partly explained by the fact that *they shared the same anti-redistributive sentiments.* In ES1, the coffee oligarchy was able to overcome the redistributive threats from the PLS and the PCS because it had the support of the military, who in turn reacted against both political parties and repressed opposition; in H2, apart from the support of part of the military, the landowners used the National Party as the main channel for disclosing their complaints; in H3 all the sectors: the economic elites, the national party and the military itself, strongly opposed Zelaya's rapprochement to other left-wing governments in Latin America. Finally, redistribution is blocked because of *the absence of redistributive policies* (e.g. the absence of land reforms in ES1) or because of the use of *counter-redistributive policies* after

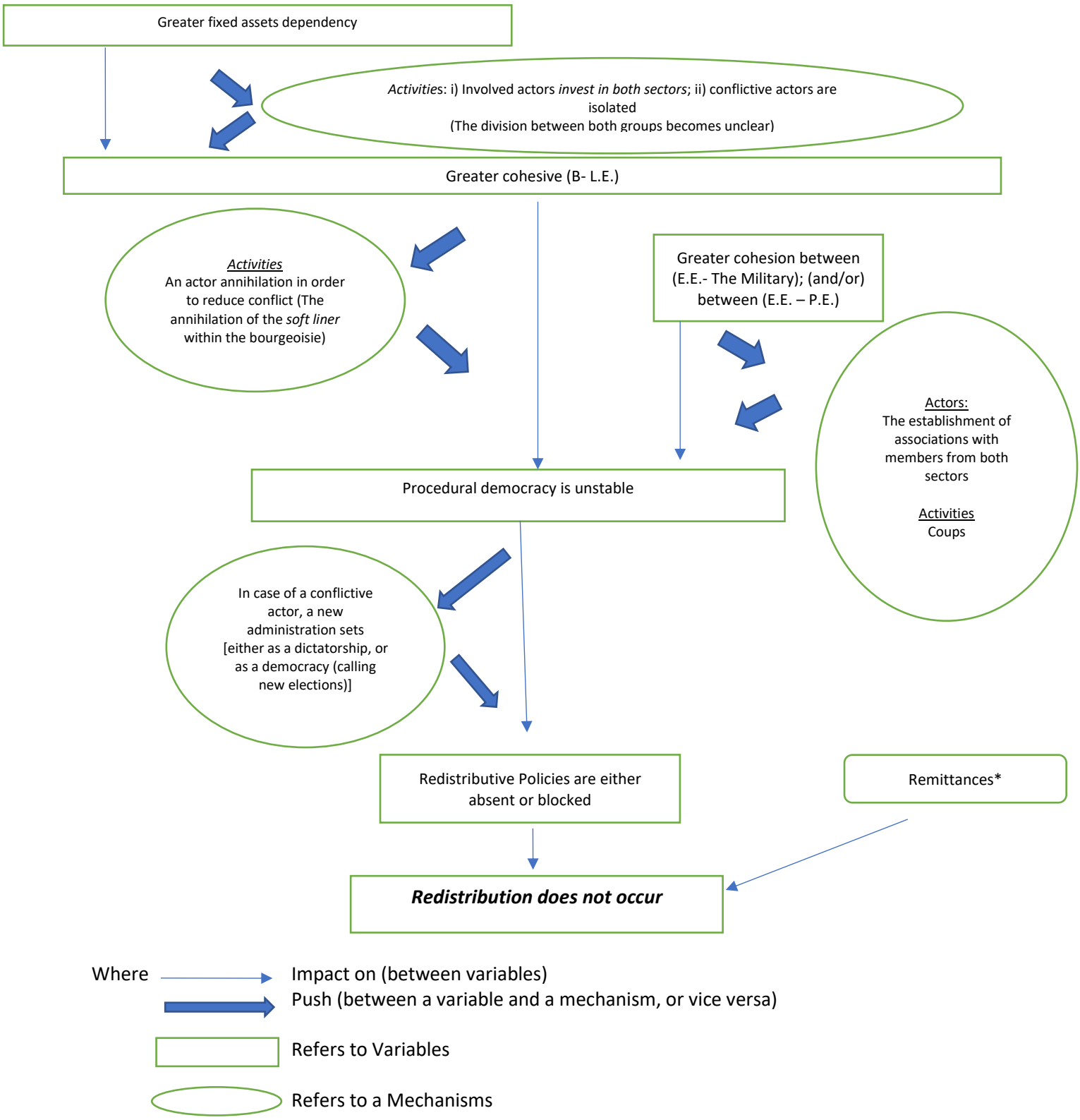
15 In order to make these characteristics clearer, we will mark them in italics.

military coups which would bring governments more in line with elites' interests (amendments to a previous land reform in H2; or the elimination of fiscal exceptions for the poor in H3).

How did all these conditions come together to effect redistribution? As seen in figure 8.1, a greater cohesive relationship between the bourgeoisie and the landed elites effected redistribution because the bourgeoisie became an actor against redistribution, as opposed to it as the landed elite were. This is partly explained because the bourgeoisie also invested largely in fixed assets resources, such as land. However, as seen in the figure, this cohesive relationship cannot explain the absence of redistribution by itself. Actually, as the cases H2 and H3 show, redistribution may occur if political actors in power implement wide redistributive policies. However, the maintenance of distribution over time depends also on the preferences of the military.

Redistribution fails when the preferences towards redistribution among the military, the economic and the political elites converge. This is what we call here a cohesive relationship. In this case, political parties and the military itself intervene in order to block redistribution. The military is of great importance as, in most of the cases, it blocks redistribution by means of repression or by coups, annihilating opposing actors. This closeness of elites, therefore, affects redistribution because democracy becomes unstable as the likelihood of a coup increases, as part of the literature has already warned. However, despite the fact that in some cases the result of such closeness is the establishment of a dictatorship, as in ES1 when the General Maxiliano Martínez took power, or in case H2 when Juan Alberto Melgar replaced López Arellano, democracy may remain as long insofar as whoever is in power does not deviate from elites' interests, as was the case of Manuel Zelaya in H3 who was overthrown by a military coup in 2009.

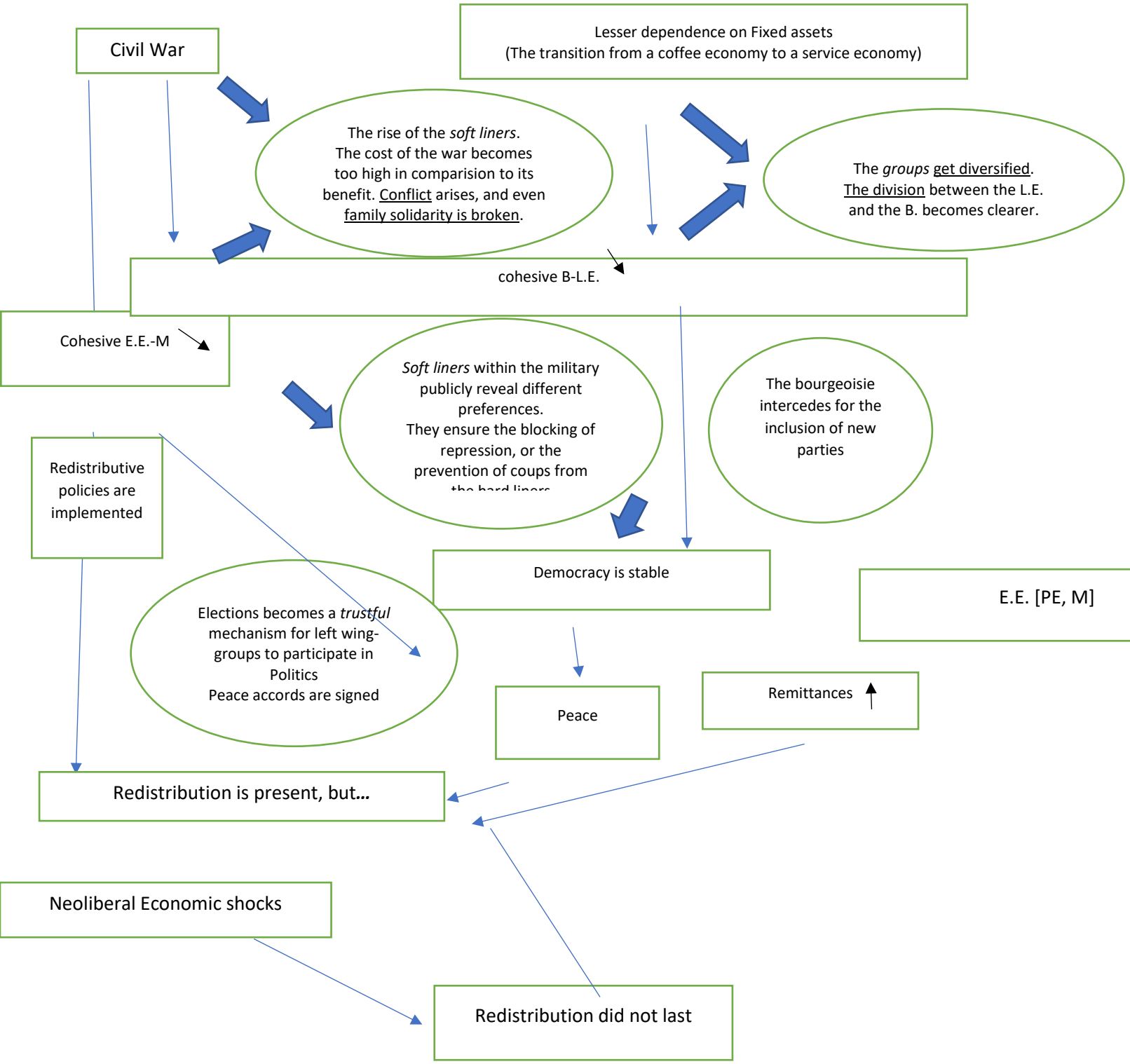
Figure 8.1.
Narrative of the causal sequence of the cases ES1, H2, H3



ES2 and ES3 are two critical junctures whose ends coincide with redistribution. One of them, however, is of small scope and short lasting (ES2). In ES2 there are several characteristics which deserve a more detailed explanation. Firstly, there was a *civil war*, which was accompanied by *a greater diversification of the economy* towards a service-oriented character. Moreover, the high dependence on coffee that had prevailed for decades was broken. According to the historical literature of the case, both things, the war and economy diversification, had a strong impact on the way the landed elites and the bourgeoisie related to each other. In time, the bourgeoisie was in favor of the entrance to the electoral competition of a left-wing party, the FMLN guerrilla, and reinforced the weakening of the coffee elite through programs and policies which harmed them. Therefore, *a conflictive relationship between these two sectors* is present within the juncture.

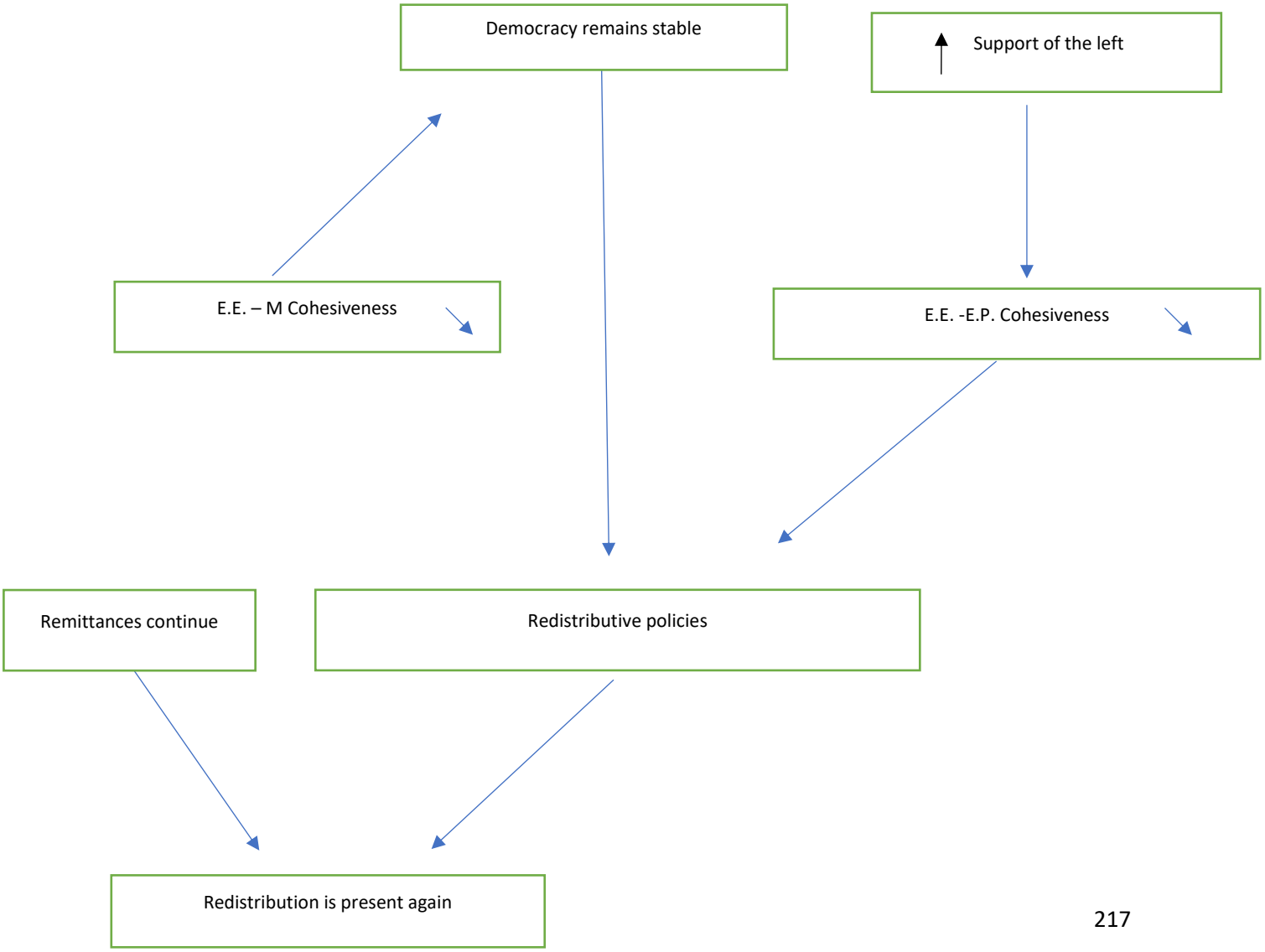
The war did not only affect the relations that the bourgeoisie had with the coffee elite, but also the relations that the latter had established for decades with the military, which in turn maintained control over political power for a long. Both things, the soft-line behavior of both the bourgeoisie and the military, made possible the political opening which would bring the left into electoral politics. This process, in turn, was linked to redistribution of income because of three things: the implementation of a previous *redistributive program*: i) an agrarian reform made by the Military Junta; ii) *the end of the war* which also benefited the lower classes, and iii) the service and industrial expansion which benefited primarily urban sectors. All of this took place in the context of a *massive influx of remittances* which, without doubt, helped to wane income concentration. The positive trend of redistribution, however, would break shortly after 1995, apparently because of the economic shocks that tend to appear in structural adjustment of neoliberal reforms. This is the reason why a positive trend of remittances – which certainly helps to mitigate income inequality as part of the same Honduras history (in H3) also shows –, is not enough to understand income inequality reduction in El Salvador. The graphic explanation of this narrative is shown in figure 8.1.

Figure 8.2
Narrative of the causal sequence of the cases ES2



In ES3, however, there are three conditions which help us to understand why a positive trend of redistribution persists: 1) the divergence of the preferences towards redistribution is clear between the economic and the political elites because of the presence of a left-wing party throughout the entire case: the FMLN, despite the elites being largely represented by ARENA. 2) the divergence also becomes clear when taking the military into account. Even though a branch of the military was close to ARENA, as mentioned when explaining the case, the FMLN has managed to maintain some support of the military, which seems to explain the lack of a coup during its administrations. Finally, there is large support for the left-wing, which has allowed the FMLN to be in power.

Figure 8.3
Narrative of the causal sequence of the cases ES3



Redistribution, finally, is present, because of the implementation of long-range redistributive policies – mainly transfers to focalized populations – and primarily financed by external debt. Those redistributive policies are implemented in the context of electoral competition, forcing both political parties to seek support from the voters. ARENA, in fact, has moderated its discourse towards many of these policies in times of elections, like when accepting the Universal Protection System, even when for years it was the main opposing party of the program.

8.2.1. 1. Conclusions

The implications of conflictive relationships between the landed elite and the bourgeoisie have been long studied in political thinking, in particular when analyzing the emergence of democracy. As we saw in the chapter II, it has been present since Barrington Moore's thesis on the origins of democracy, as well as in the most recent developments of the modernization theory. Only a few studies, however, link this relationship to income inequality. Exceptions are found in Boix (2003), Acemoglu and Robinson (2006) and Ansell and Samuel (2014). In our case, this interest is also present throughout all of this thesis.

The bourgeoisie can take different paths. If, for example, the bourgeoisie is largely related to fixed assets – such as in ES1, H3, and, over time, in H2 –, its redistribution preferences will tend to be like those of the landed elites, even to the point that it is difficult to speak about a difference between both sectors. The bourgeoisie, in this case, becomes i) a hard liner against some mechanisms of redistribution, e.g. agrarian reforms (as in the case of ES1), and ii) a clear sympathetic actor to the landed elite (as in the final period of H2).

On the contrary, when the bourgeoisie clearly differs from the landed elite, they may exhibit different preferences towards redistribution (again, specifically in those related to land). They also directly intervened in processes that might in turn benefit the masses, for example in the expansion of services and industry, as well as in peace accords with left-wing guerrillas. This is the case in El Salvador (in ES2), where the bourgeoise was a soft liner in favor of the peace agreements with the FMLN. Besides other factors such as remittances, the signing of the peace

accords brought with it an improvement of lower class economic conditions as they ceased to bear the costs associated with violence.

In ES2, however, neither a conflictive B-LE relationship nor democracy are determinants of longstanding redistribution tendencies. As we saw, redistribution did not persist. Why? Because income distribution did not improve due to an increase in taxation or monetary transfers, as suggested by part of the literature regarding redistribution under democracy, but rather because of external factors like the end of the conflict together with the solidarity of Salvadorans abroad towards their loved ones who remained in the country. This observation has been already pointed out by Przeworski (2009, 307) for other democracies when he says that, "it appears that there are no countries which equalized market incomes without some kind of cataclysm. The cataclysms come in two kinds: (1) destruction of large property as a result of foreign occupation (…), *revolution* (…) *or war* (…) or (2) *massive emigration of the poor*" (italicized to denote emphasis).

What are the conditions that are present in El Salvador and not in Honduras, and which explain a more long-lasting redistribution tendency? We have concluded that, as ES3 shows us, 1) the presence of a left-wing party as well as the support it has obtained from of part of the military, and from the voters, is a huge determinant in explaining the reduction of income inequality in El Salvador as it forces redistributive policies in the context of electoral competition.

8.3. Mechanisms to block redistribution

Let's call "B" a situation in which the preferences of political and economic elites are similar regarding redistribution, and "~B" a situation when they differ. In the same manner, let's call "C" a situation in which the preferences of the military and the economic elites are similar and "~C" one in which they differ. Under these assumptions, and based on tables 7.8 and 7.9 which are found in chapter VII, we have the following conclusions. The closest situations where B and C occur is in the second and third critical juncture of Honduras (H2 $_{fp}$; H3$_{fp}$), as well as in the final period of the first critical juncture of El Salvador (ES1$_{fp}$). Let's analyze these specific periods of time so as to see what the mechanisms might be in order to block redistribution.

In these cases, redistribution is either not present because of the lack of redistributive policies, or blocked because political elites use counter-redistributive policies in order to confront policies already implemented. The military reacts with coups which overthrow previous administrations which had deviated. What are the mechanisms that are found in these situations which allow the actors to block redistribution? In all these cases, some mechanisms intervene, such as:

i) Direct contact between *economic associations* and sympathetic members within the military. This is present after *La Matanza* in ES1 (between the General Maxiliano Martínez and la *Sociedad de Defensa del Café*); and in H3 before Zelaya's coup (the presence of militaries who were consulting with the ANDI).

ii) Direct contact between military members and political parties akin to the economic elites' interests. This was the case in H2 previous to Villeda Morales' failed coup (the Colonel Armando Velázquez and the National Party).

iii) Appointing members of the economic elites to positions of primary importance in policy-making (as in H3)

iv) The creation of associations with members of all sectors so as to create new channels of communication (e.g. the APROH in $H2_{fp}$).

We can infer that both associations and political parties akin to elites' interests are the most used mechanisms that economic elites have in order to boost redistribution blockades from the State. Previous works have explored the issue in other countries with similar conclusions. Silva (1997) and Schneider (2004, 162), for example, point out that as the left electorally expanded in Chile during Alessandri's presidency, the bourgeoisie defended itself through associations and right-wing parties. Moreover, trying to counteract the redistributive policies Alessandri had left in the country (in particular, some tax increases), they used the associations to negotiate with the new government in order to reduce the negative effects of such taxation.

8.4. Findings' conclusion

Threats of redistribution under democracy are not new. On the contrary, they have been present throughout the history of the cases, either in El Salvador or in Honduras. Redistribution in all cases (H1, H2, H3, ES1, ES2, ES3) is pressured by political sectors who keep their distance from the economic elites. In some cases (H2, H3, ES3), redistribution follows as these political actors manage to readdress public policy. For example, implementing agrarian reforms (ES2, H2), or through monetary transfers in very focalized programs to the poor, financed mostly with external debts from international organizations (H3, ES3). However, in some cases (ES1, H2, H3), redistribution is blocked and reversed. Why? Because it also depends very much on what how the military's preferences towards redistribution are. If this sector is sympathetic with the economic elites, they usually block redistributive processes with coups d'état, as in the cases of ES1, H3 and in the final period of ($H2_{fp}$). They, however, are not always supporters of the economic elites, as in the case of H2 when López Arellano took office and showed leftist leanings. It is only when the more orthodox military sector annihilates its own soft-liners, including López Arellano himself, that redistribution of income is overshadowed and replaced by an anti-redistributive government.

What are the conditions which enable inequality to be curbed in cases ES2 and, especially, ES3, both situated in El Salvador? Political elites are important actors. As mentioned before, they are the ones who pressure for redistribution. In El Salvador, this pressure comes mainly from the FMLN, a political party which came about as a result of the peace accord and which has remained distant from the traditional elites. This important feature is accompanied by three other important conditions that help to curb income inequality. Firstly, the massive inflow of remittances which has continued over the years. Secondly, large support of the Left from the voters, leading to strong representation by the FMLN in both the presidency and the legislative. Thirdly, an increase in the military's support to the FMLN in recent times, contrary to what many might have expected, since it was considered for a long time an enemy of the former left-wing guerrilla group and a trusted ally of the Salvadoran oligarchy. This seems to partially explain the absence of any military coup when the FMLN has been in power, a very common way in Central America to block redistribution. Under these conditions, democracy has been an effective vehicle for the left to push public policy towards redistribution.

8.5. The theoretical scope of the thesis: the scope conditions

This thesis covers the question of why democracy is not, necessarily, a political regime which assures income redistribution. We have concluded, so far, three things. Firstly, a conflictive B-LE seems to favor the likelihood of redistribution as it reduces political conflict, allowing opposing actors to participate in the political arena. Secondly, an autonomous political actor, one whose interests in regard to redistribution are contrary to those of the economic elites, seems to also favor redistribution as it forces the government to implement pro-poor policies. Thirdly, a military which deviates from the economic elites' preferences is also linked to increasing redistribution as the likelihood of a coup against a left-wing or an autonomous party of economic elites reduces. The backbone of our explanation, therefore, is that inter-sectoral elite relations do matter. In addition to this, the latter two conditions seem to be *potentially* sufficient as whenever they change, redistribution does too. On the contrary, the first condition seems to be only *a condition of the case*, because even if it is present inequality can nevertheless increase, as in El Salvador between 1995 and 1998, apparently because of external shocks caused by neoliberal reforms.

Here, we prefer to speak about a condition of the case and not about a necessary condition. It is important to stress that the case selection method we used – the most similar cases design – will not allow us to conclude any necessary condition, only *potential* sufficient ones. This forms part of the "condition scope" of our approach, as it has been called by Mahoney (2007, 128), and should be stated honestly. Can a conflictive B-LA be a necessary condition? In order to answer this question, other cases might be used. In keeping with our approach, taking cases as different as possible from each other. The same applies for other intervening variables that were present with the condition, such as fixed assets dependency, another important variable according to the redistributive theory of democracy. Do both conditions – a conflictive B-LA and a low dependency on fixed assets – explain redistribution in countries which are so different to El Salvador in terms of most of the important variables considered by the literature: growth, education, colonial heritage, clientelism, and so on? This PhD thesis greatly encourages the encountering of such cases and their analysis in further research.

8.6. Further research

As mentioned before, our approach has a scope which this thesis aims to make clear. Besides considering a B-LE conflict as a non-necessary condition, others factors also are questioned. They are the following:

8.6.1. The geographical space

In the first place, as we saw in chapter I, lower income concentrations are remarkably low in countries which have never been colonized by another still-current state. In the same manner, high income concentration is comparatively high in those countries with a colonial history, being even larger in the Spanish-speaking countries. Taking the point of colonization as we have taken it is problematic due to the fact that it coincides with a geopolitical space: Europe, on the one hand, and Latin America, on the other. Can our conclusions be extended to Europe when the military role is more limited and when democracy is protected by an international and intergovernmental organism like the European Union? The approach of this thesis does not allow us to make any conclusions regarding this, primarily because when controlling important variables, the number of cases we studied were limited and restricted to a very specific geography: Central America. Today, however, it would be very interesting to analyze more and more the link between inter-sectoral elite's relationships and income inequality, either taking Europe as a case or comparing European countries with other cases in the world. We certainly encourage further research as it would fill an important vacuum that still exists.

8.6.2. The degree of inequality

The degree of inequality when democratization occurs was also controlled when selecting the cases, considering the fact that it can interfere with inequality itself (the problem of autocorrelation), as well as the way in which democracy intervenes in redistribution. The conclusions of the Meltzer Richard Model, as mentioned, do not make any sense for countries with a moderate-income concentration. According to this theory, forcing economic intervention

in favor of the poor's income would affect economic growth. It blocks in turn redistribution, this being accepted by the poor who agree with having a relative degree of inequality. Therefore, redistribution does not apply. Again, moderate and low inequality economies are highly concentrated in Europe, a continent with comparatively high degrees of economic development. If the case of Uruguay, the most equal Latin American country in terms of income, were extrapolated to Europe, Uruguay would be the most unequal country in the continent. Can our theory be extended to Europe taking into account the other macroeconomic variables that interfere in rich countries? Is an autonomous political party able to force redistribution knowing that it might pose a risk to the comparative economic advantage a country can have in comparison to most of the rest of the world? What is the role of an autonomous political actor considering this interesting dilemma? This is very difficult to infer here. This, however, would be very interesting to explore, especially nowadays when many European countries are experiencing economic recessions along with increases in inequality.

8.6.3. A left or an autonomous party /actor

Some works, this thesis included, have explored the effect of the presence of left-wing parties on income inequality, most of which concluding that the left is a relevant factor in a long-term redistribution process, (see also Hewitt 1977; and Pikkety 1995). As the reader may notice, the importance of the FMLN in El Salvador is critical in our building theory, as well as of that of the communist parties which frequently triggered redistributive threats in the studied cases (ES1, H1). We treated, however, the FMLN not only as a left-wing party, but also as an autonomous political party and in a continued conflictive relationship with economic elite's preferences. It is important to note this since we do not believe that a left-wing party is necessarily an independent party of the elites. Examples of this are the cases of the PSOE (Spanish Socialist Workers' Party) in Spain or the FSLN (Sandinista National Liberation Front) in Nicaragua. A close left-wing party can affect the party's redistribution preferences, leading the party to favor elites despite pressure from the masses. This needs further research so as to track or even measure the effect of the left-wing parties but categorically distinguish them into two groups: those who are close to the elites and those who act independently.

8.6.4. The war

As has been clear in this research, in particular for the cases of El Salvador, the civil war led to different preferences of the studied actors. The presence of a previous war before democratization seems to be a *condition of the case*. The intense manifestation of the war in El Salvador enabled the entry into power of the FMLN and the weakening of the collective action of the most orthodox men in the military sector. This has positively impacted the redistributive tendencies of El Salvador because it increased electoral competition with the presence of a former left-wing guerrilla group, as well as helping to reduce the likelihood of a coup in case the redistributive threat from this actor would persist. We do believe, however, that it is very important to include new cases in the analysis, either cases which are very different to El Salvador and Honduras, or ones with as many shared conditions as possible. Guatemala, for example, is an excellent case to be explored. It underwent a war previous to the country's democratization but has remained with large degree of income concentration, one of the most extreme in Latin America. Taking one or the other way to compare, these types of research might provide us with new insights about redistribution under democracy.

8.6.5. ¿Democracy or democracy consolidation?

The last annotation here concerns the quality and consolidation of democracy. Are the effects of democracy on income redistribution different (i) when it persists over time? (ii) when the likelihood of a political breakdown is low? and (iii) when clientelism and patronage are absent? In other words, does the consolidation of democracy imply different outcomes in income redistribution? The question about democratic consolidation was initially considered. However, over time, it was intentionally avoided as the concept is still ambiguous, making it difficult to operate. Nonetheless, if democratic consolidation is defined in terms of time as well as in the absence of military coups, it does seem to effect redistribution when comparing critical junctures H3 and ES3. While the first case led to in a military coup – the last one witnessed in Latin America –, in the second case democracy has persisted without any disruption, and for a period of almost 30 years. Although a broader research design is lacking, we are hesitant to take democratic consolidation as a sufficient condition of redistribution in widely unequal

economies. As suggested in a previous section, the inclusion of new countries such as Guatemala, Nicaragua and Costa Rica, would be exceptional study cases to explore, the last one the oldest democracy in Central America but which has shown an incredible increase in inequality in recent years.

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