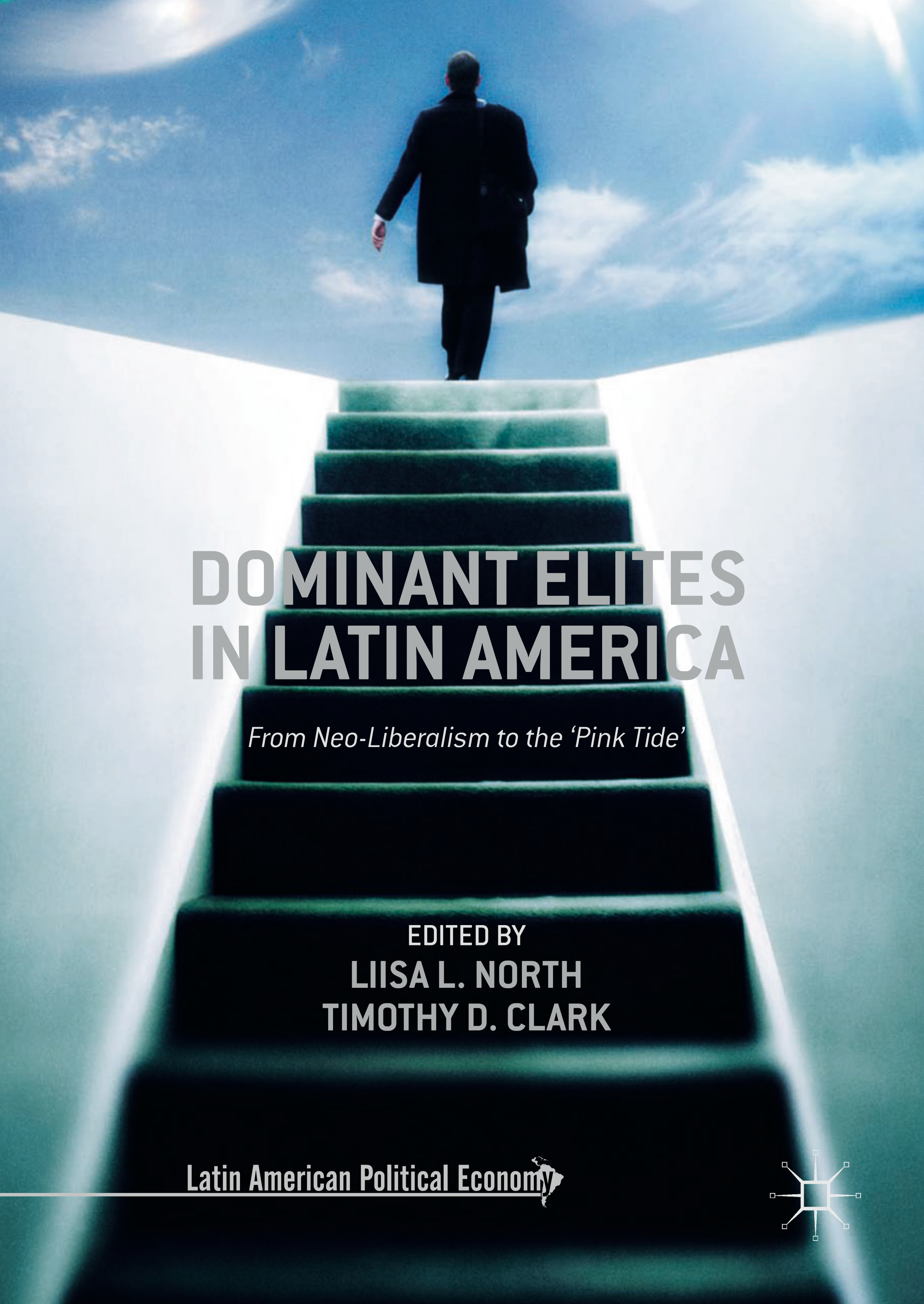

DOMINANT ELITES IN LATIN AMERICA

From Neo-Liberalism to the 'Pink Tide'

EDITED BY
LIISA L. NORTH
TIMOTHY D. CLARK

Latin American Political Economy

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Liisa L. North · Timothy D. Clark
Editors

Dominant Elites in Latin America

From Neo-Liberalism to the 'Pink Tide'

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macmillan

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Latin American Political Economy
ISBN 978-3-319-53254-7 ISBN 978-3-319-53255-4 (eBook)
DOI 10.1007/978-3-319-53255-4

Library of Congress Control Number: 2017936486

Printed on acid-free paper

This Palgrave Macmillan imprint is published by Springer Nature
The registered company is Springer International Publishing AG
The registered company address is: Gewerbestrasse 11, 6330 Cham, Switzerland

Acknowledgements

We would like to acknowledge the generous contributions, of time and thought, made by various colleagues who provided commentary on the chapters included in this volume. They include Ricardo Grinspun, who was involved in the initial moments of planning; Gavin Fridell, who provided helpful commentary on the introductory chapter; and Louis Lefeber and Jim Handy, who reviewed chapters in their areas of interest. Carlos Pastor Pazmiño, who was preparing an extended review of research on economic groups in Ecuador and Latin America, made his work available prior to its publication.

Camila Bonifaz, Program Coordinator at the Centre for Research on Latin America and the Caribbean (CERLAC) at York University, provided support of many sorts, from lively encouragement to printing chapters and assisting with communications. The four York University PhDs among the authors also wish to acknowledge the support they received from CERLAC at various points during their graduate studies.

The authors of the three chapters that emerge from doctoral dissertations prepared in the Political Science Department at York University—Timothy D. Clark, Carlos Velásquez, and Simon Granovsky-Larsen—would like to thank their supervisory committee heads and members as well as the various institutions that provided funding for their doctoral field research: the Social Sciences and Humanities Research Council of Canada (SSHRCC) and Canada's International Development Research Center (IDRC). Carlos Larrea and Natalia

Greene owe special debts to the staff of the Socio-environmental Research Unit at the Universidad Andina Simón Bolívar (UASB) in Quito, and Carlos Larrea acknowledges CERLAC for its support while he completed his Doctorate in the Graduate Program in Social and Political Thought (SPT) at York.

The anonymous reviewers of the original book proposal, of course, provided both the green light and valuable suggestions for the preparation of this publication. At Palgrave, Anca Pusca and Anne Schult have responded patiently and courteously to various delays in the submission of the volume.

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Abbreviations

ACDEGAM	*Asociación Campesina de Agricultores y Ganaderos de Magdalena Medio*/Peasant Association of Agriculturalists and Ranchers of the Magdalena Medio, Colombia
AFPs	*Administradoras de Fondos de Pensiones*/Pension Fund Managers, Chile and El Salvador
ANUC	*Asociación Nacional de Usuarios Campesinos*/National Association of Peasant Cultivators, Colombia
ARENA	*Alianza Republicana Nacional*/National Republican Alliance, El Salvador
AUC	*Autodefensas Unidas Colombianas*/Colombian United Self Defense Forces
BCI	*Banco de Crédito e Inversiones*/Credit and Investment Bank, Chile
BFP	*Bolsa Família*/Family Grant Program, Brazil
BHC	*Banco Hipotecario de Chile*/Mortgage Bank of Chile
BIH	Basic Irrigated Hectares, Chile
BNDES	*Banco Nacional do Desenvolvimento Económico e Social*/ Brazilian Social and Economic Development Bank
BSA	*Banco Sudamericano*/South American Bank, Chile
CAFTA-DR	Central American Free Trade Agreement-Dominican Republic
CCT	Conditional Cash Transfer
CEP	*Centro de Estudios Públicos*/Center for Public Studies, Chile
CEPAL	*Comisión Económica para América Latina y el Caribe*/ Economic Commission for Latin America and the Caribbean (ECLAC)

CICIG	*Comisión Internacional Contra la Impunidad en Guatemala/* International Commission Against Impunity in Guatemala
CNG	*Consejo Nacional Gremial/*National Council of Associations, Colombia
CONAF	*Corporación Nacional Forestal/*National Forestry Corporation, Chile
CORFO	*Corporación de Fomento de la Producción/*Economic Development Agency, Chile
CPDDH	*Comité Permanente por la Defensa de los Derechos Humanos/* Permanent Committee for the Defense of Human Rights, Colombia
CSTC	*Confederación Sindical de Trabajadores de Colombia/* Colombian Union Confederation of Workers
DIESSE	*Departamento Intersindical de Estadística e Estudios Socioeconómicos/*Inter-Union Department for Statistics and Socioeconomic Studies
EAP	Economically Active Population
Ecopetrol	*Empresa Colombiana de Petróleos/*Colombian Petroleum Enterprises
ELN	*Ejército de Liberación Nacional/*National Liberation Army, Colombia
FARC-EP	*Fuerzas Armadas Revolucionarias de Colombia—Ejército Popular/*Revolutionary Armed Forces of Colombia—Popular Army
FDYEP	*Fondo de Promoción y Desarrollo de Petén/*Petén Promotion and Development Agency, Guatemala
FEPP	*Fondo Ecuatoriano Populorum Progresio/*Ecuadorean Populorum Progresio Fund
FMLN	*Frente Farabundo Martí de Liberación Nacional/*Farabundo Martí National Liberation Front, El Salvador
FOSAFI	*Fondo de Saneamiento y Fortalecimiento Financiero/*Fund for Financial Restructuring and Strengthening, El Salvador
FTA	Free Trade Agreement
FUNAI	*Fundação Nacional do Índio/*National Foundation for the Indigenous, Brazil
FUSADES	*Fundación Salvadoreña para el Desarrollo Económico y Social /*Salvadorean Foundation for Economic and Social Development
GDP	Gross Domestic Product
GFC	*Grupo Financiero Cuscatlán/*Cuscatlán Financial Group, El Salvador

HDI	Human Development Index
IBGE	*Instituto Brazileiro de Geografia e Estadística/*Brazilian Instituto of Geography and Statistics
ICARE	*Instituto Chileno de Administración Racional de Empresas/* Institute for the Rational Administration of Business, Chile
IFI	International Financial Institution
IMF	International Monetary Fund
INCRA	*Instituto Nacional de Colonização e Reforma Agrária/*National Institute for Colonization and Agrarian Reform, Brazil
INDAP	*Instituto de Desarrollo Agropecuario/*Agricultural Development Institute, Chile
INEC	*Instituto Nacional de Estadística y Censo/*National Institute of Statistics and Census, Ecuador
INTA	*Instituto Nacional de Transformación Agraria/*National Institute for Agrarian Transformation, Guatemala
IPEA	*Instituto de Pesquisa Económica Aplicada/*Institute for Applied Economic Research, Brazil
ISI	Import Substitution Industrialization
ISIC	International Standard Industrial Classification
IVA	*Impuesto sobre Valor Agregado/*Value Added Tax
LyD	*Libertad y Desarrollo/*Liberty and Development, Chile
MAGAP	*Ministerio de Agricultura, Ganadería y Pesca/*Ministry of Agriculture, Livestock, and Fishing, Ecuador
MAS	Muerte a Secuestradores/Death to Kidnappers, Colombia
MST	*Movimento dos Trabalhadores Rurais Sem Terra/*Landless Rural Workers Movement, Brazil
ODEPLAN	*Oficina de Planificación Nacional/*National Planning Office, Chile
OECD	Organization for Economic Cooperation and Development
PNUD	*Programa de Naciones Unidas para el Desarrollo/*United Nations Development Program
PROCHILE	*Dirección de Promoción de Exportaciones/*Export Promotion Bureau, Chile
PRONAF	*Programa Nacional de Fortalecimiento da Agricultura Familiar/*National Program for the Strengthening of Family-Based Agriculture, Brazil
PROUNI	*Programa Universidade para Todos/*University for All Program, Brazil
PSDB	*Partido da Social Democracia Brazileira/*Brazilian Social Democratic Party
PT	*Partido dos Trabalhadores/*Workers Party, Brazil

RANI	*Registro Administrativo de Nascimento de Indígena/* Administrative Registration of Indigenous Birth, Brazil
SCM	*Sociedad Contractual Minera/*Contractual Mining Society, Chile
SENPLADES	*Secretaría Nacional de Planificación y Desarrollo/*National Secretariat for Planning and Development, Ecuador
SERCOTEC	*Servicio de Cooperación Técnica/*Technical Cooperation Service, Chile
SNA	*Sociedad Nacional de Agricultura/*National Agricultural Society, Chile
SOFOFA	*Sociedad de Fomento Fabril/*Federation of Industry, Chile
SPM	*Secretaria Especial de Políticas para as Mulheres/*Special Secretariat of Public Policies for Women, Brazil
TACA	*Transportes Aereos Centroaméricanos* (later *Transportes Aereos del Continente Américano)/*Airlines of the America Continent, El Salvador
UNICEF	United Nations Children's Fund
UP	*Unión Patriótica/*Patriotic Union, Colombia
USAID	United States Agency for International Development

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CHAPTER 1

Introduction—Reconfiguring Domination: Case Studies from Latin America

Liisa L. North

Introduction

The 1980s' transitions from military dictatorships raised expectations of enduring political and social democratization in Latin America. However, hopes of deepening democracy and accompanying social improvements were soon abandoned when the new democracies, under duress from Washington and ideologically aligned international financial institutions (IFIs), adopted neoliberal, "market-friendly" structural adjustment policies to deal with the region's debt crisis. That crisis too was mostly manufactured in Washington, i.e., by its "sudden, unexpected and unprecedented increase in the interest rate" in 1980–1981 (Stiglitz 2003, 11). The eighties became a "lost decade" in Latin America, as economic growth came to a halt, governments handed over power and sold public assets to private corporations—national and foreign—and social programs were slashed as parts of adjustment policies that, in the words of economic historian Rosemary Thorp, had "extreme short- and long-term social costs" (1998, 218).

Many thanks to Timothy Clark and Gavin Fridell for their valuable suggestions about revisions to an earlier draft of this chapter.

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L.L. North and T.D. Clark (eds.), *Dominant Elites in Latin America*,
Latin American Political Economy, DOI 10.1007/978-3-319-53255-4_1

In the early 1990s, economic growth rates began to inch upward, but only to be followed by a "lost half-decade" of stagnation. At the beginning of the twenty-first century, poverty in most Latin American countries still stood above pre-adjustment levels, and the distribution of income had worsened (Lustig et al. 2011). Meanwhile, national and international capital had gained new ground through the privatization of public assets and the withdrawal of the state from its regulatory, social, and planning responsibilities.

There were signs of optimism, nevertheless. The early- to mid-1990s brought an end to civil wars in Central America through negotiated peace agreements that mandated demilitarization, to be monitored by United Nations (UN) peacekeeping missions; they also promised a new era of political participation and respect for human rights that might lead to social incorporation and redistributive reforms, to be supported by various UN agencies and a broad array of pubic and private international institutions.

Hopes of region-wide social progress and revitalized democratization were raised yet again during the first decade of the twenty-first century. Another transition appeared to be under way, as the neoliberal policies favored by Washington and local elites were abandoned and various progressive parties and movements gained political power in most of Latin America. Some promised to redistribute power and wealth, as in Venezuela (1999), Bolivia (2006), and Ecuador (2007), but most ran on a commitment to growth with equity, as in Argentina (2003), Brazil (2003), Nicaragua (2006), Paraguay (2008), Uruguay (2009), and El Salvador (2009). In Chile too, the left sector of the political alliance that had ruled the country since its 1990 return to democracy gained dominance in 2000 under a Socialist President. The southern hemisphere appeared to be moving toward a post-neoliberal development era that promised to deepen democracy, redistribute wealth, combine economic growth with social equity, and assert national independence vis-à-vis Washington and the globalized international trade system through nationalistic policies and the so-called "return of the state".

A "pink tide" flowed through the region as one "new left" government after another rose to power through democratic elections (Beasley-Murray et al. 2010). Some observers even saw the birth of a new kind of "21st-century socialism" in all this. For the first time in Latin America's history, the voices of Indigenous peoples, women, and environmentalists found expression in party platforms and new national constitutions, alongside the long-standing demands of the urban laboring and middle classes that had been mobilized into political action in earlier eras.

The leftward political trend coincided with an international commodity boom, largely fueled by China's rapid industrialization (Ellis 2014),[1] and just about all governments, not just those of the "new left", invested much of the new export-boom revenue in a great variety of social programs that reduced poverty and indigence to historically low levels. Renewed spending on public education and public health, and both conditional and non-conditional income support programs of many kinds underwrote generally improved opportunities and living standards, although some groups experienced greater improvements than others (Lustig et al. 2011; Bárcena and Byanyima 2016). Not only poverty rates dropped, but also the intensity of poverty came down (CEPAL 2014, 64) as growth picked up, and the share of social spending in the gross domestic product (GDP) began to rise steadily: from an average of 13.8% in the early 1990s to 16.7% in 2006–2007, and then to a high 19.1% of the region's GDP in 2012–2013, before beginning to decline again (CEPAL 2014, 46; Larrea 2014). In effect, the pace of social progress depended on rising export values and volumes, and it began to stagnate when the commodity boom came to an end during the second decade of the twenty-first century.

In the context of plummeting export prices and fiscal revenues, the progressive "pink tide" governments of South America began to unravel as a resurgent right took power, first in Paraguay (2012) through a parliamentary coup, then in Argentina (2016) through narrowly won elections, and in Brazil (2016) through highly questionable congressional maneuvers that some termed a "constitutional coup"; the right also gained ground in Venezuela, the country most affected by plummeting petroleum prices, and it gained space in other countries, such as Ecuador, also highly dependent on petroleum exports.[2] In post-civil-war Central America, in El Salvador the not-so-new left guerilla movement of the armed conflict years converted into a political party with the peace agreements of 1994 and started winning elections in 2000, but it was blocked from advancing on any significant redistributive agenda; in Guatemala, the political right was never threatened by substantial reform; and in Honduras, an elite-backed military coup broke movement toward progressive change in 2009.

How much social transformation and sustainable redistribution was accomplished during the commodity boom years of progressive policies and programs? Was capital brought to heel, or was the power structure that was consolidated under neoliberalism so entrenched that it could not be fundamentally challenged? Was the power of local capitalists and landlords undermined or consolidated? While social spending went up and social conditions improved under the post-neoliberal governments of the new century, in fact, the studies presented in this volume argue that few if any policies to redistribute accumulated wealth were actually pursued. Indeed, in some countries, land and other assets continued to be further concentrated in the hands of traditional or reconfigured elites, whose influence over national economic policies remained decisive throughout the late twentieth and early twenty-first centuries. And nationalistic policies vis-à-vis foreign investment, for the most part, involved "tinkering around margins" although somewhat more substantive changes were accomplished in Bolivia, Ecuador, and Venezuela (Haslam 2010; Cameron and Sharpe 2010).

Below, historical patterns of class domination in the six case study countries are first discussed with reference to a few empirically and historically grounded works that were completed before neoliberal policies reversed much of the social progress that was achieved during the developmental era of the 1950s–1970s. The case studies presented in this volume are introduced in the second section. The Chilean study focuses on the neoliberal reconfiguration of dominant capitalist groups through the state during the military dictatorship that created a new capitalist elite and structure of domination that subsequent democratically elected governments have struggled to change; the cases of Brazil and Ecuador examine the extent to which new left governments failed to implement substantive and durable redistributive and agrarian reforms, as national elites and their foreign allies concentrated ever more economic power; the chapter on Colombia analyzes the ways in which peasants were driven off their lands and criminal organizations gained political power and came to control state institutions in various regions of the country during its long civil war; and studies of El Salvador and Guatemala attest to the failure of UN-monitored peace accords to achieve promised redistributive social reforms as traditional elites became even more powerful through the implementation of "market-friendly", supposedly peacebuilding, policies by states that were funded by international banks and development agencies.

A common theme that emerges from the chapters that comprise this volume is the central role played by states in the restructuring of elite domination. Rather than a withdrawal of the state, in all the cases presented here, in different ways and in somewhat different moments, states played critical roles in sustaining, reinforcing, or reconfiguring historic elites and structures of domination, as did international military and development assistance in Central America and Colombia in particular. Indeed, in all cases states were more or less captured or severely constrained by elites, despite some appearances to the contrary. And in all cases, in one way or another, the United States and the principal International Financial Institutions (IFIs) played critical roles in these transformations.

Histories of Domination

The imposition of neoliberal structural adjustment policies in Latin America, beginning in the early 1980s, represented a dramatic change vis-à-vis the policies of the previous period of developmentalist Import Substitution Industrialization (ISI), dating approximately from the mid-1940s through the 1970s. Nevertheless, only in a few cases, such as Chile under the Socialist government led by Salvador Allende (1970–1973), was traditional elite power threatened by the forms taken by ISI policies, and Cuba, of course, left the capitalist orbit altogether in 1959. To be sure, all over Latin America during the developmentalist decades, the role of the state in economic planning and regulation expanded and deepened, new institutions were created, significant social investments were made, and some countries pursued nationalistic policies that included the expropriation of prominent foreign-owned enterprises, especially in the natural resource sector. Nevertheless, the policies of the ISI years did not alter the structures of elite power and domination that had become entrenched in the course of the region's history, dating back to the colonial period of Spanish and Portuguese rule. In fact, the progressive policies associated with "[i]ndustrialization and import substitution were inserted into and reinforced the existing extremely unequal economic and social system. Even brave efforts at land reform did not modify the essential picture of poverty and exclusion" (Thorp 1998, 199; see also North and Grinspun 2016).[3]

Several important studies have documented the structures of class domination that generated poverty and exclusion in the region, and specifically about the countries presented in this volume. With respect to those studies, Maurice Zeitlin and Richard Earl Ratcliff's *Landlords and Capitalists: The Dominant Classes of Chile* stands out as an in-depth work on the 1960s. Based on the analysis of the family relations and enterprise ownership patters of 229 corporate officials and directors, 68 of their counterparts in the largest commercial banks, the 132 owners of the largest landed estates, and 502 large-scale investors, they identified the presence of "kinecon" (kinship/economic) groups, referring to "a complex social unit in which common economic interests and close kinship relationships are indissoluble" (1988, 7). Contrary to the view that the structural transformations in the economy produced by industrialization would result in divisions between the old landed aristocracy and the new (potentially progressive) industrial capitalists, Zeitlin and Ratcliff demonstrated how traditional landowners successfully diversified their economic activities and incorporated urban industrialists and foreign capital into their dense socioeconomic networks; moreover, the extended family networks of landlords, who had consolidated possession of the country's agricultural lands through civil wars in the nineteenth century (Zeitlin 1984), remained at the apex of political power, blocking advance toward agrarian reform. As the eminent Brazilian economist and historian Celso Furtado had argued earlier, some of these groups dated back to the early independence period when "planters and merchants came to have joint interests and presented a perfectly united front" (1976, 21).

Zeitlin and Ratcliff's concept of interlinked "kinecon" groups that concentrate ownership in all sectors of the economy—land, industry, finance, commerce, and the media—can be extended to other nations. For example, the presence of such interlinked family-based economic groups was documented in two doctoral dissertations about Ecuador. Leslie Ann Brownrigg (1972) identified what she considered to be a caste (*strictu sensu*) in Ecuador's southern highlands, the "nobles" of the city of Cuenca. Originally landowners, the nobles, at the time of Brownrigg's study in the 1960s, monopolized urban enterprises as owners of the major commercial houses and industrial enterprises, and they were proprietors and directors of local banks and the branch offices of national banks; through nepotistic admissions policies, they controlled university admissions to professional careers—such as law, medicine, architecture, engineering, and economics—and the associations that regulated those professions (summarized in North 1985, 430). At about the same time, Hanson (1971), analyzed the holdings of ten family-based "business empires" that formed a "closed elite" in the city of Guayaquil in coastal Ecuador. In addition to owning land, they controlled industrial and commercial enterprises, import–export houses, and banks and insurance companies as well as media outlets (Hanson 1971, 73, 93); and they were the directors of the powerful Chambers of

Commerce, Agriculture, and Industry of the Coast that represented the collective interests of the elites, collaborated with their counterparts in the Highlands, and often provided ministers to governments of various political stripes.[4]

A few years later, Ecuadorean scholar Guillermo Navarro, quite independently of Hanson, identified family-based "super economic groups" with a "national reach" in the city of Guayaquil and somewhat more open and less powerful groups of central Highland elite families in the country's capital city, Quito (Navarro 1976). One of the super groups had investments in commerce, finance, agro-industry and manufacturing industry, finance, tourism, real estate, and other sectors and it, as well as other groups, functioned in collaboration with foreign investors who enjoyed a significant presence in the economy. At the moment of Navarro's study, the attempts to pursue agrarian reform by the reformist military government that ruled Ecuador in the 1970s were frustrated through the combined efforts of the three regional elites studied by Brownrigg, Hanson, and Navarro—the Coast, the southern Highlands, and the central Highlands.[5]

Catherine M. Conaghan's *Restructuring Domination: Industrialists and the State in Ecuador* (1988) dealt with the exclusionary character of ISI development policies and their impacts in Ecuador as a whole. Through 80 interviews with industrialists, she found a consolidation of "traditional" landed and banking elite family networks that had diversified into financial, real estate, construction, industrial and commercial activities, often in partnership with foreign capital and with direct access to government decision makers—presidents, ministers, and the heads of regulatory agencies. Thus, just as Ecuador was descending into the debt crisis and the neoliberal adjustment decade of the 1980s, according to a former minister of state's analysis of the data of the Central Bank's Superintendency of Companies: "the reality is that nine thousand persons concentrate 97 percent of social capital and the remaining three percent belongs to sixteen thousand shareholders" (Maldonado Lince 1983, 107; see also North 1985, 426–433).

In his *Coffee and Power*, Paige (1997) researched similar elite configurations of interlocking, family-based structures of ownership and control of coffee production, processing, and exports in the Central American countries. His work includes systematic analyses of contemporary El Salvador (as well as Nicaragua and Costa Rica), and the historic patterns of elite domination in the region as a whole, based on in-depth research that included 57 interviews with 53 different coffee dynasties.[6] In El Salvador, he found that the

> coffee dynasties controlled… political, professional, and social positions, as well as many sectors of the economy outside coffee. They were also a hereditary elite… [whose] origins in Spanish and other European immigration would suggest, is also a racial elite, much "whiter" than the rest of the population. (Paige 1997, 53)

A developmentalist phase in El Salvador's economic history never took off, as the country's "coffee dynasties" and elite economic sectors favored particularly nasty, exclusionary, and repressive forms of rule. With the support of the country's myriad military forces and their own death squads, they forged a "protection racket state" that employed "state terrorism" (Stanley 1996) to hold back peasant demands for agrarian reform, labor demands for minimal protective legislation, and middle class calls for democratization.

Paige's description of the historical configuration of the Guatemalan elite merits an extended citation.

> The Guatemalan coffee elite controlled more land and people and had a tighter hold on the people than did any other coffee elite in Central America. Its power rested on the captive allegiance of its serfs and the armed forces at its command… [It] was a backward, semi-feudal class that faced little opposition from its captive labor force… Guatemala had so many soldiers that it resembled a penal colony because it *was* a penal colony based on forced labor. (1997, 75 and 87, emphasis in the original)

The country's "democratic spring" (1944–1954), a decade of socially progressive policies that included a substantial agrarian reform (Handy 1994), was aborted by a US supported military invasion organized by a faction of the military that was backed by traditional elite groups. In the subsequent decades, the reforms of the 1950s were rolled back by the local elites, and the decades-long war pursued by them and the military against the country's majority indigenous and peasant populations, with US support, was later judged to be "genocidal" by the United Nations.

In his *Dependent Development: The Alliance of Multinational, State and Local Capital in Brazil* (1979), Peter Evans tried to determine whether or not a national bourgeoisie had emerged in that country and had accumulated sufficient economic strength, with the support of the

Brazilian state, to compete with foreign capital. While he analyzed the extent of Brazilian and foreign ownership in different sectors of the economy and the patterns of competition and collaboration between local and foreign capital, Evans did not examine traditional family business groups as such, although they are frequently mentioned in his work. However, what differentiates Evans' work from the others reviewed above is the absence of landlord classes in his analysis, an absence that he later deemed a deficiency. Indeed, he called it a "dangerous" neglect, since much of Latin America's and Brazil's inequitable growth history and historical authoritarianism, Evans later argued, may be explained by landlord penetration of the state and its policy-making apparatuses, in contrast to the taming of landlord classes through radical agrarian reforms and related social investment that created the bases for successful industrialization in East Asian (Evans 1987, 214).[7]

In Colombia, it is continuous agrarian conflict that stands out as definitional of its economic and political power structures and history. Catherine C. LeGrand's work, *Frontier Expansion and Peasant Protest in Colombia, 1850–1936* (1986 and also 2003), is foundational for understanding the ways in which peasant migrants, starting in the mid 1800s and up to the twenty-first century, colonized public lands in continuous waves of settlement, only to later lose those properties in "enclosure processes" led by "land speculators or landlords seeking to form new haciendas in economically dynamic regions" (LeGrand 2003, 169). Homesteaders who had cleared land, rather than being encouraged in Colombia, were expropriated by those who could exercise power and deploy violence.[8] The most recent phase of the civil wars that have punctuated Colombia's history dates from 1964 and became entangled with the production of illicit crops, first marihuana and then coca leaves. It involved not only guerilla forces supported by peasant farmers but also paramilitary groups organized by landlords and narcotics traffickers; the national army that was bolstered by massive military assistance from the United States, through the Plan Colombia, and was penetrated by the paramilitaries; and a weak and fragmented state and civil society. Colombia's civil wars, LeGrand emphasizes, are rooted in land conflicts, and the penetration of state decision-making centers by landlord groups has stymied reform (see also Machado 1981).

Several common themes emerge from these works that deal with the developmentalist ISI period that pre-dated the 1980s and 1990s decades of neoliberal adjustment policies: the diversification of their economic activities by traditional landlord classes and their capacity to control the most productive rural land and to hold back substantive agrarian reform; alliances among all sectors of local capital through politically powerful family networks that penetrated the centers of state decision-making; strong patterns of collaboration between local and foreign capital; the multiple mechanisms of social control exercised by elites, including the blockage of social mobility through access to professional education and the control of professional associations; and the willingness of local elites, often supported by the US government, to use the armed and police forces of the state and also their own “private armies” to repress the organizational efforts and demands for reform by the laboring classes and the peasantry. It is worth recalling that the period of reformist ISI policies, and not only the first decade of neoliberalism, coincided with the Cold War, and the United States, among its many interventions in the region, was partly responsible for the military overthrow and roll back of the policies of two progressive governments that were engaged in thorough going agrarian reform—reformist in Guatemala in 1954 and socialist in Chile in 1973.

The Six Case Studies

This volume examines the reconfigured concentrations of elite power in six countries: Chile in the Southern Cone; the region’s giant, Brazil; Ecuador and Colombia in the Andes; and El Salvador and Guatemala in Central America. As reviewed above, during the second half of the twentieth century, research of significant depth was conducted on the economic and political power configurations of elites in the countries under consideration here. The studies presented in this volume add to that earlier literature and analyze how traditional dominant classes were reconfigured through state action or inaction, sometimes with the incorporation of new elements (Chile and Brazil), and including criminal organizations (Colombia and Guatemala); how capital and land were possibly concentrated further (in all six countries), even under progressive governments; and how economic elites continued to exercise political power in the putative post-authoritarian neoliberal polities of the 1980s and 1990s (all over the region), as well as during the years of the progressive tide of the twenty-first century (especially in Colombia, El Salvador, and Guatemala).

None of this is to say that there have been no advances in the nearly 40 years since the 1970s: democratic elections were institutionalized all over Latin America in the 1980s and 1990s; levels of poverty and indigence reached historic lows; civil wars were brought to negotiated conclusions in the mid-1990s in Central America; an end to more than a half century of civil war was finally signed in Colombia in November 2016, after four and a half years of negotiations in Havana that were supported by the US government; and state policies turned toward more progressive and reformist directions throughout much of the region. Nevertheless, organized popular sectors were not able to provide sufficient impetus or leverage for the implementation of durable redistributive reforms, and institutionalized electoral democracy remained in a low intensity mode, shaped by powerful elites and their foreign allies. Although the primary export booms provided resources for substantially increased social spending and poverty reduction, reconfigured and revitalized elites were able to secure the implementation of state macroeconomic and sector-specific policies that aligned with and advanced their economic interests.

The chapters presented here examine these processes from differing theoretical, methodological, and disciplinary vantage points and during somewhat different historical moments of the neoliberal and post-neoliberal decades. All, however, pay attention to history and to the ways in which states and markets structured patterns of privilege, domination, and concentration of economic power.

Timothy Clark (Chap. 2) analyzes the state-led reorganization of the traditional dominant elite in Chile during the military dictatorship headed by General Augusto Pinochet (1973–1990), whose regime is often identified as the opening salvo of neoliberal reform in Latin America (Clark 2013). Based on their belief that the weakness and timidity of the old capitalist elite was partly responsible for the rise of the Socialist Popular Unity government (1970–1973), Clark documents how state planners used the enormous power of the state inherited from the Allende presidency to reconstruct a new capitalist class that would be capable of subordinating the state and integrating civil society into its hegemonic networks. Although some traditional family-based economic groups experienced a relative decline, their enterprises received generous subsidies and credit to "modernize" and restructure inefficient businesses to make them competitive and to reallocate resources toward emerging economic sectors. These traditional elites, in turn, were subsumed by a new group of economic conglomerates organized around the tradeable, retail, and financial sectors. Thus a restructured capitalist elite emerged from the Pinochet dictatorship, with even greater power than what had been exercised by the kinecon groups of the past that were analyzed by Zeitlin and Ratcliff. Although poverty was reduced following the transition to democracy in 1990, inequalities remained at historically high levels. Chile's reconfigured dominant sectors had amassed sufficient power to block more redistributive initiatives after the return of democracy.

Using longitudinal quantitative data from censuses and official reports, together with archival information, Simone Bohn (Chap. 3) argues that, although millions of individuals were lifted out of sheer destitution by Brazil's "pink tide", yet another chapter in the long history of elite adaptation and metamorphosis was actually being written. Workers' Party (*Partido dos Trabalhadores*-PT) governments (2003–2016) implemented progressive and highly innovative social policies (or, in some policy areas, deepened existing ones), and these policies helped to substantially decrease overall levels of poverty, indigence, and even income inequality, leading to the creation of a "new middle class". Chief among such public policies were the world-renowned *Bolsa Família* program that provided cash transfers to poor families on the condition that they vaccinate their children and keep them in school; non-contributory pensions for old-age poverty alleviation; and an entire array of life-altering social measures that targeted marginalized groups and destitute Brazilians, i.e., the *Quilombola* (Afro-Brazilian) population, rural women producers, small farmers, and low-income families in the subsistence sector.

Although the PT policies led to notable social progress, the structures of domination did not change. On the contrary, Bohn demonstrates that, with the help of state subsidies, Brazil's internationalized entrepreneurial class exported investments to other parts of the Global South; that both financial and industrial capital benefited from state supports and subsidies; that, in the countryside, a surprising increase in the number as well as the size of *latifundios* took place; and that agribusiness practices (particularly, high levels of mechanization) reduced employment in rural areas, while agribusiness growth intensified land conflicts with indigenous peoples. The gains made by the PT, moreover, came under assault as the old ruling class engineered their return to power though a slow motion "constitutional" or "parliamentary" *coup d'etat* in 2016.

In the Andes, in Ecuador, one of the most progressive of the post-neoliberal governments of South America, headed by Rafael Correa (2007–), has pursued policies that reduced poverty from 46 to 30% and indigence from 19 to 9% between his inauguration in January 2007 and the end of 2014 (Larrea 2014; Larrea and Greene 2014). Nevertheless, Carlos M. Larrea and Natalia Greene (Chap. 4) demonstrate that progressive policies and reforms did little to alter the structure of economic concentration and elite domination. No land reform took place, despite the promises of "agrarian revolution" made by Correa during his first presidential campaign. At the same time, the concentration of capital, in all urban sectors of the economy, remained extremely high and regionally concentrated around the cities of Quito and Guayaquil. To calculate degrees of concentration, Larrea and Greene use various coefficients to analyze data sets from five official public and business sources: 2005 Central Bank data (24,418 enterprises); National Economic and Census Institute (INEC) data for 485,852 business establishments in 2010; two Internal Revenue data bases (the 5000 largest enterprises and the total number of 75,118) that are available for 2010; and EKOS corporation data on the 3000 largest enterprises of 2014. Despite differences in the data bases and the somewhat differing results derived from the four statistical methods used by the two authors to analyze concentration, a common picture emerges: that is, the concentration of capital in all commercial, industrial, agribusiness, and other sectors, is as high or perhaps even higher than the concentration of land, and the patterns of concentration prevail across all regions of the country.

The policies pursued by Rafael Correa's *Alianza País* government (2007–) achieved numerous significant advances: poverty was reduced through income support programs for the most disadvantaged sectors of the population; social conditions and mobility possibilities were improved through investment in education, public health, and housing; and employment and incomes among important sectors of the population expanded through infrastructure projects, especially during the petroleum-boom years up through 2014. However, indigenous peoples continued to be disproportionately excluded from the benefits of the export boom and increased public social spending. Meanwhile, despite agrarian reform laws and programs, starting in 1964, the degree of land concentration had hardly changed by 2000, and the Correa government itself took no significant steps to promote redistribution of assets in the countryside (Martínez Valle 2014) or the cities. Larrea and Greene conclude their analysis by considering how much income would have to be redistributed—through a variety of public programs—in order to eliminate poverty and indigence in the medium term.

With regard to another Andean region country, Colombia, Luis Van Isschot (Chap. 5) analyzes how peace talks between the government and leftist guerrillas unfolded after 2012 against the backdrop of rapid and violent capitalist expansion in rural areas, with specific reference to two regions, Antioquia and the Magdalena Medio. He describes how, in the course of the civil war that can be dated back as far as 1964 if not 1948, government agents, security forces personnel, and regional elites pursued policies of armed colonization, massively and violently displacing rural communities. In response, peasant, indigenous, and Afro-Colombian movements made collective claims to their ancestral territories and, against tremendous odds, these communities undertook processes of return to the land. Thus popular efforts to resettle Colombia's war-ravaged rural areas challenge the militarization of the countryside and even the terms of the newly negotiated peace agreement of late 2016. Through their physical presence in and reporting from conflict zones, collective grassroots organizations have helped to lay bare the architecture and consequences of the state-sponsored violence that has sustained the structures of domination.

Van Isschot sets his analysis in historical context and uses information on the concentration of land in rural conflict areas to shed light on the rise of new elite networks that include the paramilitary organizations and drug cartels that have reshaped and are reshaping Colombian politics even as hopes are raised about the potentially beneficial consequences of peace processes. Special attention is given to international—especially Washington's—support for Colombia's armed forces and the country's agrarian policies, highlighting the continuities between pacification and ostensible rural development programs.

Turning to Central America, basing his arguments on a wealth of qualitative and quantitative data, Carlos C. Velasquez finds that the post-civil war years in El Salvador (Chap. 6) witnessed the reconfiguration of the traditional power structure within the framework of neoliberal political economy, which resulted in the intensification of wide-ranging socioeconomic and political disparities (Velasquez 2012). During the 1990s, through the ideological leadership of a neoliberal think tank financed by the United States and the elected governments of the ARENA party (*Alianza Republicana Nacional* or National Republican Alliance), the country's traditional elite families were able to lead and take advantage of the privatization of publicly owned banking, export, and pension systems to create a new economic base for themselves, as the coffee export economy sunk into crisis following the abandonment in 1989 of the international commodity agreement that had regulated coffee prices. The traditional families abandoned productive sectors and privatized finance and services in their own hands. El Salvador's elites also adopted the US dollar as the official currency, thereby driving the nail into the coffin of the already weakened coffee and agrarian export economy and rural sectors in general by locking in a permanent overvaluation of the currency. Moreover, this class acquired an increasingly transnational character through its participation in the circuits of regional capitalism.

All this was accomplished under the aegis of post-civil war peacebuilding programs monitored by the United Nations, the World Bank, and other international and northern public and private development assistance organizations and agencies. Thus, more than two decades after the signing of the Peace Accords that marked the end of a 12-year long armed conflict (1980–1992), El Salvador was still struggling between an incipient democracy and a reconsolidated form of oligarchic rule.

Meanwhile in Guatemala, as in El Salvador, peace accords (1996) looked beyond the cessation of hostilities, with a mandate to overhaul state institutions for the construction of a new Guatemalan society. Nevertheless, Simon Granowsky-Larsen (Chap. 7) demonstrates that, despite the inclusion of progressive civil society organizations in the peace negotiation process, the reforms incorporated into the resulting accords served to reaffirm the power of both economic and military elites in the post-conflict period. A land distribution program established under the peace accords, in fact, served as a principal tool for the reaffirmation of elite power. Under the program, which provided loans for rural communities to purchase former plantation lands, agricultural oligarchs were able to pass off unwanted poor quality eroded land and reinvest in the financial and extractive sectors within a rapidly globalizing economy, thus securing their dominant position in post-conflict Guatemala. Indeed, even less land was redistributed through the peace-accord-created agency for land transfers financed by the World Bank than through the direct mobilization activity of indigenous and peasant organizations (Granowsky-Larsen 2014).

Moreover, the overall concentration of land may have been and may still be increasing in Guatemala and elsewhere in Latin America as a consequence of "land grabbing" for the cultivation of new agricultural exports. These are the "flexi" crops—soy, palm oil, sugar, and corn—with relatively stable prices due to their multiple uses for alternative energy production and animal fodder as well as for human consumption (Kay 2014, 30).[9]

Concluding Remarks

As noted, the authors of the case studies presented in this volume employed different methodologies and types of data sets to prepare their works. Nevertheless, all belong within a broad political economy tradition that pays attention to long-term historical processes, and certain common themes emerge from their works. First of all, beginning in the 1990s and accelerating during the first commodity boom decade of the twenty-first century, different degrees of poverty reduction and improvements in social conditions took place in the countries analyzed here as well as elsewhere in Latin America.

Second, however, poverty reduction and social improvements did not reflect asset redistribution in any one of the case study countries; indeed, the high levels of concentration of land and agrarian assets may have increased with the "land grabbing" of national and transnational agro-industrial corporations, including new Latin American conglomerates or *multilatinas* (see Kay 2014; Borras et al. 2012).

Third, purposefully or unwittingly, states acted as the agents, or the facilitators, of the reconfiguration of the traditional elites that are discussed above with reference to works that dealt with elite power toward the end of the ISI period. Indeed, although they advocate reliance on the market, both local capitalists and transnational corporations require and use states (and certain types of legal orders) to act as enforcers of their economic privileges and related political power.

Fourth, in contrast to state support for capitalist enterprises, the needs of peasants and rural workers were ignored on the whole, and traditional rural elites maintained or even increased their hold on the economy and on political power. They often did so alongside foreign-owned mining companies that displaced indigenous and Afro-descendant rural populations.

Fifth, the lack of redistribution reflected the continuity and significance of neoliberal economic theories and policies disseminated by principal international institutions, the IMF and World Bank among them. Even UN peace mediation efforts and post-conflict monitoring programs in Central America could not or would not contradict the prevailing "market-friendly" economic theories.

Sixth, reconfigured elites, as in the case of Brazil, have expanded beyond borders to invest in other areas of the Global South and even in the north (e.g., Brazil's Vale mining corporation has investments in various African countries, and also in China and Canada). Similarly, El Salvador's traditional landed elites diversified and expanded their holdings to invest, first, in other Central American countries and then in South America.

Seventh and perhaps the most worrying of all, and a phenomenon only mentioned in the chapters on Colombia, El Salvador, and Guatemala, the economic transformations and elite reconfigurations of the past 20 years have witnessed the rise of national and international criminal organizations that have penetrated the region's parliaments, ministries, and presidencies as well as local governments (Pinto 2015, 8; Carrión 2015).

All these and other issues related to the national and international structural obstacles that lie on the path toward socially just transformation in Latin America are reviewed in our concluding chapter.

Notes

1. The Global Economic Governance Initiative (GEGI), at Boston University, publishes the *China-Latin America Round-Up* every two weeks; it compiles news, articles, and other items and can be found at: http://www.bu.edu/pardeeschool/research/gegi/.
2. Venezuela, Bolivia, and Ecuador were the three Latin American countries most highly dependent on primary exports, at 98, 96, and 94% in 2014, according to the Economic Commission for Latin America and the Caribbean (ECLAC).
3. Quite radical agrarian reform policies were pursued in Mexico in the 1930s, Bolivia and Guatemala in the 1950s, Chile and Peru in the 1970s, and Nicaragua in the 1980s. Nevertheless, they were mostly flawed in their design, or did not include supportive or appropriate marketing, extension, and other programs that could have made them viable. Two reforms were reversed by reactionary military takeovers (the case of Guatemala in 1954 and Chile in 1973) and one was partly reversed by an elected neoliberal government (Nicaragua 1990), and all three of the governments that implemented reversals were supported by the United States (Kay 2014). Cuba, of course, carried out a radical agrarian reform following its 1959 Revolution.
4. N.D. Mills (1991, 207–341) provides a detailed account of the ways in which the Chambers of Agriculture, Commerce, and Industry—of the Coast and the Highlands—undercut the efforts of the first elected civilian government, following almost a decade of military rule, to pursue agrarian and other social reforms in the early 1980s.

5. In a similar fashion, in his work on the concentration of finance capital, Fierro Carrión identified 53 family linked groups that controlled 772 productive enterprises and 87 financial institutions at the beginning of the 1990s (1991, 252). Many of those same groups were still present in the second decade of the twenty-first century (see Pástor Pazmiño 2017).
6. In addition to a great variety of other sources, leading elite figures in other economic sectors and government officials were interviewed as well. See Paige's Appendix B (368–372) for the selection of the complete interview population. For analysis of elite transformation in the context of exacerbated dependency in the Central American region during the neoliberal era, see Robinson (2003).
7. Donnelly (1984) presents a complementary argument, analyzing the positive developmental and human rights impacts of comprehensive agrarian reform in South Korea and the highly negative consequences of the lack of such reform in Brazil. More recently, Schneider (2009, 2013) has analyzed the hierarchical and family owned diversified businesses and multinational corporations that characterize Brazilian and Latin American capitalism.

   Hopewell (2013) documents the power and sophistication that Brazil's agribusiness enterprises attained. In 2003, the major agribusiness associations created a specialized trade policy institute, the Institute for International Trade Negotiation (ICONE). It provided technical studies to the Brazilian state, including to the "pink tide" government of President Luiz Inácio Lula da Silva, that allowed the country to successfully win cases at the World Trade Organization (WTO). Those victories, of course, favored the interests of agribusiness.
8. It is worth noting that the opposite process took place in the United States after the Civil War, as the government supported the settlement of public lands by family farmers and provided services that allowed them to prosper.
9. Land grabbing processes across the world are reported at http://farmlandgrab.org.

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CHAPTER 2

The Paradox of the Neoliberal Developmentalist State: Reconstructing the Capitalist Elite in Pinochet's Chile

Timothy D. Clark

Introduction

The Pinochet regime is generally considered the laboratory and paragon of neoliberal reform in the developing world. Albeit with strategic variations and temporary reversals, it reduced taxation, restrained public investment

This chapter is based largely upon 15 months of doctoral fieldwork in Santiago, Chile, between 2010 and 2011. During this time, the author carried out a comprehensive examination of archival and secondary sources at the National Library, including an in-depth review of the leading trade journals and publications of the *Sociedad Nacional de Agricultura* (National Agricultural Society—SNA) and the *Sociedad de Fomento Fabril* (Chilean Federation of Industry—SOFOFA). In addition, the author carried out 12 interviews with former and high-ranking members of the Pinochet government and the post-1990 democratic governments, as well as academics and key civil society actors. The author previously carried out 8 months of research in Temuco, Chile, for his Master's thesis, and has lived and worked in Temuco and Santiago, Chile, for 7 years. In 2015, the author returned to Chile for a month, at which time he updated several aspects of his doctoral fieldwork and reviewed the most recent and relevant research.

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L.L. North and T.D. Clark (eds.), *Dominant Elites in Latin America*,
Latin American Political Economy, DOI 10.1007/978-3-319-53255-4_2

and spending, privatized hundreds of firms under state control, and liberalized trade, price, and labour markets at a pace and with a depth that remain remarkable even today. In less than two decades, Chile went from one of the world's most closed and regulated economies to one of its most open and liberal. From the mid-1970s, the old import-substitution industries collapsed under the weight of trade liberalization, while non-traditional exports flourished. Between 1970 and 2000, non-traditional agricultural exports exploded from just over US$100 million to more than US$7 billion (Banco Central de Chile 2001, 68–70). Export expansion in turn drove growth. Per-capita Gross Domestic Product (GDP) rose close to 5% per annum between 1985 and 2010, nearly quadrupling Chile's historical average from 1810 to 1985 (see Schmidt-Hebbel 2006).

Over time, however, more careful analyses began to reveal the public foundations of many of the new export industries (Schurman 1996; Perez-Aleman 2000), leading Marcus Kurtz to declare Chile a curious case of "state developmentalism without the developmental state" (2001). But how do we explain this apparent paradox, between orthodox neoliberalism and state developmentalism, between a state that is both subsidiary and developmentalist? This chapter will argue that the paradox vanishes when we conceptualize the Pinochet regime in sociological rather than economic-developmentalist terms. More than economic development, the underlying objective of the military dictatorship was social-constructivist, to carry out, in the words of one of its main architects, "an authentic revolution in the productive and social structure, in the orientation of its development, and in the perceptions of the people" (Büchi 2008, 237).

A central component of this capitalist revolution was the construction of a capitalist elite capable of subordinating the state and integrating civil society into its socio-economic and ideological networks.[1] Rather than withdrawing from the socio-economic life of the nation, the military regime deployed the extraordinary state power inherited from the deposed socialist government of Salvador Allende (1970–1973). Through reconstruction of the financial and agrarian sectors, mass privatizations, state subsidies and supports, and ideological renovation and diffusion, the Pinochet regime forged a capitalist elite whose economic, political, and ideological power is unprecedented in Chilean history. Perhaps ironically, it is the very success of this revolutionary project that now represents one of the greatest obstacles to the economic development and political stability of the country.

This chapter begins with a brief examination of the Chicago Boys and the revolutionary and constructivist nature of their political and economic vision, and the centrality of the reconstruction of the capitalist elite to this radical project. Second, the author examines how state planners reconstructed the financial and agrarian sectors, so as to fashion and empower a new set of dominant capitalist actors that would support and advance the revolutionary project from civil society, and provided lavish subsidies for the development of the non-traditional-export sector that would become a key economic base of the new capitalist elite. Third, the chapter demonstrates how the Chicago Boys regrouped after the financial crisis of the early 1980s to complete the reconstruction of the capitalist elite prior to the transition to democracy in 1990. The changing composition and unprecedented power and influence of the new capitalist elite in contemporary Chilean life are examined in the fourth section. The fifth and final section provides concluding thoughts on some of the central fault lines of Chilean society and contends that the renovated capitalist elite, arguably the greatest accomplishment of the dictatorship, may now represent a principal obstacle to the continued economic development and political stability of the nation.

The Chicago Boys and the Revolutionary State

In his discussion of post-revolutionary France, Marx observed that the bourgeoisie came to power not "…through a liberal revolt of the bourgeoisie against the throne, but through…a mutiny of the proletariat against Capital. That which it imagined to be the most revolutionary, came about as the most counter-revolutionary event" (2005, 11). So it was in Chile, where the dialectic of socialist revolution and military reaction set the stage for a state-led capitalist revolution. The principal agents of this revolution were not the military generals, however; they were a small group of Chilean economists trained mostly at the University of Chicago, who came to be known as the 'Chicago Boys' (Valdés 1995).[2] And the Chicago Boys were much more than state technocrats: while their power base rested in the various state ministries responsible for social and economic policy, their reach and influence extended throughout civil society, into the financial and corporate sphere, the universities and professional institutes that trained the new generations of business leaders, and the think tanks and media organizations that developed and disseminated the ideological program of the capitalist-revolutionary project.

From the moment of their ascension to the top ministerial portfolios by the mid-1970s, there was a clear sense of revolutionary mission among the Chicago Boys. Indeed, the historical opportunity presented by the Allende government was clearly grasped, as suggested in the economic and political blueprint that the Chicago Boys prepared for the military junta, *The Brick*: "It [the Popular Unity government] opens a wide channel for a real and profound correction" (De Castro 1992, 29). José Piñera, the architect of the social-security privatization, claimed that the chaos unleashed by the Allende government bestowed the military regime with a "revolutionary legitimacy…to carry out profound transformations" (1979, 7). Jaime Guzmán, who would become a leading ally of the Chicago Boys within the regime, similarly contended that "Chile needs to undergo profound transformations which represent a change considerably more revolutionary than those which would have been needed to convert Chile into a socialist country" (cited in Fontaine 1991, 297).

The Chicago Boys were also cognizant of the lack of widespread support for their revolutionary project, particularly among the traditional capitalist elite. After being rebuffed by most Chilean capitalists throughout the 1960s, the Chicago Boys knew their project would provoke stiff opposition from the entrenched business interests that, in the words of *The Brick*, "…cultivate close relationships with politicians and state officials" and "whose actions run contrary to the general interest" (De Castro 1992, 50, 32). As former Minister of the Economy and President of the Central Bank, Pablo Baraona, observed, the task of the military regime was not only "…to restore in the eyes of the public the role of private enterprise in economic development" but also to transform the practices and mentalities of the dominant business actors by carrying out "…a transition towards an economic system better suited to the production of true businessmen" (DIPRE 1978, 353–355).

The conservatism of the Chilean business elite meant that the revolutionary project would have to be planned and led from within the state. And contrary to popular perceptions, the Chicago Boys were advocates of state planning and intervention. *The Brick* defended the "necessity of planning the global activities of the country" (De Castro 1992, 31), while the Chicago-Boy-dominated *Oficina de Planificación Nacional* (National Planning Office—ODEPLAN) described the state during the dictatorship as "…decisive in the socio-economic development of the country" (ODEPLAN 1976, 8). In his memoirs, former Minister of

Finance Hernán Büchi rejected the term 'deregulation' to characterize the economic policy of the Pinochet years, writing "…the word could not be more unsatisfactory" and arguing that the objective of the military regime was not to deregulate but rather to construct new regulations and norms to govern economic and political activity (2008, 63). In a sense, the Chicago Boys sought to use the power of the state to plan its obsolescence, a sort of historical inversion of the prediction of Engels that the state would 'wither away' in communist society.

The Reconstruction of Finance

Although the expropriations of the Allende years significantly weakened the entrenched capitalist interests that had opposed the Chicago Boys from the 1960s onward, they also left the military dictatorship without a capitalist elite capable of and willing to lead the revolutionary project from civil society. The dictatorship thus faced the same fundamental problem that had haunted Chilean governments from the 1920s onwards: how do you implement pro-capitalist reforms when these are opposed by an ensconced and risk-averse capitalist elite that had been protected from competition since the late 1800s. The answer of the economic planners, as it turns out, was to construct a new capitalist elite, and financial reform and privatization were the two chief mechanisms (Moulian and Vergara 1981; Rozas 1984).

Most left-of-centre analysts view the financial reform of the 1970s as a disastrous experiment in neoliberal and deregulatory orthodoxy, but what such analyses overlook is the deeper purpose of financial reform. One can distinguish between the overt and covert levels of policy, between the specific macroeconomic and sectoral policy and political objectives and effects, such as fiscal and monetary restraint and the repression of real wages to restrict demand and reduce inflation, and the deeper level at which policy impacts the formation and transformation of institutions and social forces (Schneider 1984, 210). At the covert level, it becomes clear that financial reform was designed primarily to channel resources to Chicago-Boy-connected firms in the financial sector who would support the revolutionary project from within civil society.

Indeed, it is telling that the sequence of reforms prioritized financial reform over privatization, given the historically marginal role of financial institutions in the Chilean economy. Rather than quickly privatizing productive assets, the military regime first authorized the creation of new non-bank financial institutions (*financieras*) that could lend money without any interest rate restrictions and with very low reserve requirements, while subjecting the state bank, nationalized banks, and private savings and loan institutions to more stringent interest rate and reserve controls, the effect of which was to channel resources to the new financial institutions (Arellano 1983, 7; Fortín 1985, 167–168). Because Chicago-Boy-connected financial firms, particularly the *Banco Hipotecario de Chile* (Mortgage Bank of Chile—BHC) Group, participated in the deliberations for and design of financial reform (despite the objections of other policy makers and economic groups), they were able to use insider information to set up *financieras* early and use the resources to purchase the privatized banks (Silva 1996, 107–108).

With the financial sector firmly in the hands of the Chicago Boys, restrictions on foreign liabilities were eased in 1977 and eliminated in 1979. As foreign loans trebled between 1977 and 1980, the percentage of the total captured by the financial services sector rose from 4% in 1976 to 72.9% by 1981 (Mizala 1985, 6), granting the financial sector enormous power and influence within the domestic economy. The centralization of the financial sector and foreign savings facilitated a similar concentration of domestic credit, with two of the largest Chicago-Boy-financial conglomerates (BHC-Vial and Cruzat-Larraín) accounting for 60% of domestic credit by 1981 (Mizala 1985, 8). By the second half of the 1970s, then, financial reform had placed the Chicago-Boy-controlled conglomerates at the commanding heights of the national economy.

From their privileged location in the newly prioritized financial sector, the Chicago-Boy conglomerates were well-positioned to snap up the most attractive and lucrative privatized assets. Between 1975 and 1981, the military government privatized 207 firms in which the state held a controlling financial interest, via liquidation, public tender of share blocks, and direct sales (Hachette and Lüders 1992, 45–46; Corbo 1993, 22). The decision to provide state credit to purchases backed by financial assets (the purchased assets which could then be used to guarantee future credit) favoured concentration of ownership by the large financial conglomerates controlled by the Chicago Boys. The number of firms controlled by BHC-Vial and Cruzat-Larraín rose from 28 in 1970 to 174 by 1979, and their total assets tripled those of the next two largest conglomerates (see Dahse 1979; Rozas 1981; Schneider 2010, 663). Profits were similarly concentrated in the financial sector, whose share of total profits rose from 1% in 1960 to 18% by 1980 (Fortín 1985, 186).

The privatization of the 1970s has been criticized for its nepotism (Schamis 2002) and for the sale of state assets at well below market prices (Foxley 1983). More than simple nepotism, however, the privatizations of the 1970s were carried out with the objective of constructing a social foundation for the neoliberal project: a dynamic capitalist elite that would support the revolutionary project from civil society. To this end, assets were concentrated in the hands of newer conglomerates committed to the radical reform project and the development of non-traditional exports, a kind of primitive accumulation to produce a capitalist elite with a stock of capital adequate to drive the restructuring project. Of the six largest family conglomerates at the end of the 1950s, only two were among the six largest by the end of the 1970s (Table 2.1). All the top families in the 1950s were among the economic and political elite of Chile already in the nineteenth century. By the end of the twentieth century, however, only the Matte family, which moved from pulp and paper into forestry exports in the 1970s, would continue to figure among the 20 most powerful economic clans in the nation.

While the established elite declined, they were replaced by new family conglomerates. By the end of the 1970s, Cruzat-Larraín and BHC-Vial controlled nearly 40% of the assets of the 250 largest corporations in the country, more than triple the share of the next two largest conglomerates (see Dahse 1979; Rozas 1981). While Manuel Cruzat, Fernando Larraín, and Javier Vial all hailed from prominent Chilean families connected to politics and finance, they represented a new generation of businessmen and amassed fortunes, power, and influence well beyond that of their ancestors. The Chicago-Boy conglomerates were in turn complemented by two new family groups, Angelini and Luksic. Founded by first generation immigrants from Italy and Croatia, these two families built

Table 2.1 Six largest family-based conglomerates, 1950s and 1970s

1950s	*1970s*
Alessandri-Matte	Cruzat-Larraín
Cortés-Cousiño	BHC-Vial
Edwards	Matte
Braun-Menéndez	Angelini
García-Picó	Edwards
Furman, Pollack, and Lamas	Luksic

Source Elaborated from Martínez Echezárraga (2016) and Zeitlin and Ratcliff (1988) diversified business empires from their origins in non-traditional export industries, particularly fisheries and forestry.

Bolstered by the revolving door between the policy-making apparatus of the state and the largest financial conglomerates, what Rozas called the "state-private sector circuit" (1981, Appendix 19), the Chicago-Boy financial conglomerates utilized 'gravitational pull' and 'demonstration effect' to subsume and rearticulate the old industrial elite. The initial response of established capitalists to the new order was slow: "for most entrepreneurs the old habits remained intact…Diversification under this form of organization is slow and difficult, requiring a break with established patterns based on social, economic and family traditions" (Schneider 1984, 215). The financial conglomerates used their preferential access to savings—gravitational pull—to provide credit for the old economic elite to restructure, diversity, and survive, which helped to modernize production and mute opposition (Rozas 1984, 61; Silva 1996, 145). Gravitational pull was complemented by demonstration effects, whereby the Chicago-Boy conglomerates recruited managers from other groups and encouraged cross investments, constituting interlocking alliances that transcended parochial interests and mindsets: "The conglomerate constituted a node of articulation for the large corporate interests. Early on the young businessmen [Chicago Boys] understood that hegemony over the social group was achieved on the plane of concrete relations" (Rozas 1981, Appendix 18).

The emergent conglomerates utilized their control over financial and productive assets to develop and support the new export sectors, such as forestry, agro-business, and fisheries (Dahse 1979, 140; Gálvez and Tybout 1985; Rozas 1984, 35). Inflows of fixed capital were not channelled into protected non-tradeable sectors, as was the customary pattern, but were invested in the new export-oriented activities promoted by policy makers. As Agacino, Rivas, and Román observed, "…the greater part of new flows [of fixed capital investment] were destined for other sectors of the economy (forestry, mining and services)" (1992, 59). By 1980 five conglomerates, Cruzat-Larraín, BHC-Vial, Angelini, Luksic, and Matte controlled over 60% of the total private sector export bill (Dahse 1979, 140). The shifting sectoral composition of the national economy in turn decimated the organized working class, as employment in industry and construction collapsed from 25.8% of the Economically Active Population (EAP) in the early 1970s to barely 11% by 2009 (Boccardo 2012, 63).

The reorientation of the national economy, moreover, was facilitated by the integration of a new generation of entrepreneurs connected to and supported by the Chicago-Boy conglomerates, who moved from the public to the private sector as salaried employment in the former decline precipitously under the weight of fiscal austerity, from 18.4% of the EAP in the early 1970s to 6.8% by 1995 (Boccardo 2012, 63). Export industries such as fruit, forestry, and fisheries were driven in significant part by small and medium-sized businesses started by a new generation of educated, middle-class entrepreneurs. According to Montero, many of these new entrepreneurs had accessed credit by means of personal contacts they had with former coworkers or classmates working in the financial conglomerates.[3] The findings of Montero are supported by Mizala, who found that firms connected to the financial conglomerates were more likely to access credit (no surprise given the concentration of domestic credit), and more importantly that 83% of the firms that received credit from the Chicago-Boy conglomerates were small and medium-sized, a far more equitable distribution of credit than from other financial providers (1985, 10).

Critics of the 'orthodox' neoliberal reforms of the 1970s have contended (1) that the non-mining export expansion was the product of investments made by previous governments, not the military regime; and (2) that levels of exports and productive investment only really took off in the 1980s and 1990s, after the abandonment of neoliberal orthodoxy. To the first point, it is undoubtedly true that the accumulated base of productive and human capital that preceded the military coup played an important role in the export expansion of the 1970s and 1980s. And yet, there is no reason these prior investments obviate the significance of investments made in the 1970s and 1980s, particularly given the substantial state supports discussed below.

As for the second point, there was clearly a very significant expansion of non-traditional exports in the 1970s, as we can see in Fig. 2.1.

Contrary to the assertion that investment during the 1970s consisted purely of speculation, with little directed towards productive sectors, there were in fact very substantial productive investments made that laid the foundation for the economic expansion from the mid-1980s. While it is true that investment as a percentage of GDP was not appreciably higher in the late 1970s than in the 1960s, this is misleading for two reasons. First, what is missed by the aggregate data is the level and rate of expansion of *private sector* investment in fixed capital. As Fig. 2.2 demonstrates, private sector investment in fixed capital expanded rapidly

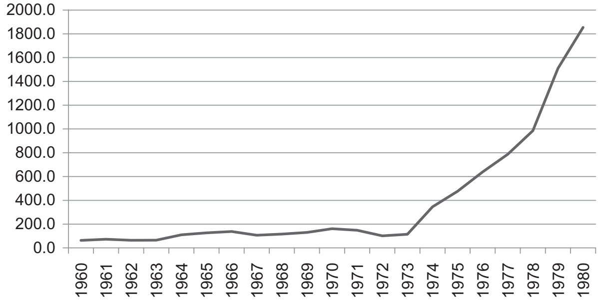

Fig. 2.1 Non-mining exports (millions of US$FOB), 1960–1980. *Source* Elaborated from data in Banco Central (2001, 856–859)

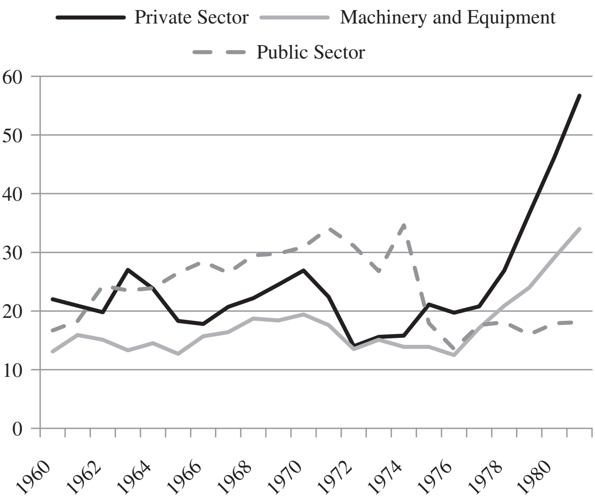

Fig. 2.2 Fixed capital investment (millions of 1977 pesos), 1960–1981. *Source* Elaborated from data in Zucker (1988)

from the mid-1970s, masked in the aggregate by the decline in public sector investment. What is more, a significant portion of public sector fixed capital investment in the 1960s was made in housing sector rather than investments in machinery and equipment.

By the early 1980s, investment in machinery and equipment had more than doubled its 1960s' average, led primarily by the private sector (Gutiérrez Urrutia 1983, 11–12).

Fixed capital investment, moreover, was driven by the non-traditional export sectors, including a fivefold increase in fixed capital investment in the non-mining natural resource sector between 1974 and 1980, which accounted for nearly 40% of investment by 1983 (see Sánchez 1983; Artiagoitía 1988). A massive influx of private sector lending in the agricultural sector drove private sector investment from an annual average of US$16.1 million between 1965 and 1970 to over US$36 million by 1982 (Cox 1983, 95–104). This investment was in turn concentrated in the emergent sectors of agro-industry, fruit, and vineyards (Cruz and Leiva 1982, 15). Real investment in the fruit sector, for instance, rose nearly 150% between 1974 and 1986 compared to the period from 1965 to 1973 (Ministerio de Agricultura 1989, 29), while the number of hectares planted with fruit increased from 65,670 in 1973 to over 96,000 by 1982 (Montero et al. 1992, 62). The forestry sector experienced a similar influx of private investment, with the annual growth of new plantations surging from 45,000 between 1965 and 1973 to nearly 80,000 by the early 1980s. By 1986, of the more than one million hectares dedicated to forestry plantations, 70% had been planted within the previous 10 years (see Clapp 1995; INFOR 1991).

The Chicago-Boy conglomerates also introduced new forms of corporate organization and control that facilitated the centralization of authority and the decentralization of production. The older forms of corporate organization were based upon family groups that were run with little in the way of global planning and coherence (Dahse 1979, 25). The new conglomerates, on the other hand, centralized power and control via holding companies, direct ownership with indirect forms of control via mutual funds and banks, and the usage of interlocking shareholdings, the latter of which can support the diffusion of ideological and political orientations, as well as strategic and management practices (Palmer 1983; Zeitlin 1974). These changes in corporate organization also facilitated the shift towards more capital-intensive production and the decentralization of the productive organization, both of which served to weaken the organizational capacity of labour and integrate workers into the new and more flexible employment arrangements (Díaz 1995, 10–11).

The centralization of power and control in the hands of Chicago-Boy conglomerates was accompanied by a parallel transfer of control within the commodity cycle, as power shifted upstream from production to finance and downstream from production to commerce. Agricultural producers, for instance, found themselves increasingly dominated by agro-export firms and supermarkets, who exercised control over the production process and product as a result of their access to domestic and foreign consumers (Clark 2011). Powered by the decentralization of the productive structure and horizontal integration pioneered by the Chicago-Boy conglomerates, and bolstered by trade liberalization, powerful firms rapidly concentrated the historically dispersed retail sector, squeezing input providers, wiping out small-scale sellers, and restructuring import-substitution industries, like metallurgy, that were most effective in meeting the challenges of foreign competition (Díaz 1995; Stecher 2013).

The power and influence of the Chicago Boys transformed not simply the economic and organizational foundations of the capitalist elite but their ideological orientation and projection as well.[4] Prior to the 1970s, the Chilean capitalist elite were ideologically heterogeneous and dispersed, organized primarily at the sectoral level to extract favourable policies for particular firms and industries (Undurraga 2012, 204). The leftwards drift of the Catholic Church and the political radicalization from the 1960s, however, drove many business people towards ultra-conservative orders such as Opus Dei and the Legionnaires of Christ, and unified the capitalist elite politically, albeit into a fundamentally reactionary position (Undurraga 2012, 204–218).

From this conservative canvass, the Chicago Boys slowly constructed a new self-perception of and public image for business and businessmen as the drivers of social progress, laying the foundations of what Nigel Thrift called "the cultural circuits of capitalism" (2005).[5] The purging of radical elements from the university combined with the expansion of Chicago-school-dominated economics and business administration departments to create an ideological training ground for future entrepreneurs and executives. From their foothold in the flagship daily *El Mercurio*, moreover, the Chicago Boys and their followers in the business world established a host of new print media, such as *Economy and Society* and *Qué Pasa*, to advance their ideological project.

At the same time, think tanks such as the *Centro de Estudios Públicos* (Centre for Public Studies—CEP) and *Libertad y Desarrrollo* (Liberty and Development—LyD) were set up to influence and shape debates over public policy and train the business community in the new ideological vision of free markets and private enterprise (Pollack 1999, 62–64; Ruíz 1983, 12–14). By the early 1980s, the capitalist elite and their major peak associations were under rapid transformation. SOFOFA, once governed by the old industrial elite and opposed to liberalization and competitive forces, was controlled by firms connected to the export-oriented model and imbued with the values of competitive individualism. As the former President of SOFOFA, Orlando Saenz, himself an early opponent of the Chicago Boys, observed in the early 1980s: "Businesspeople [now] ascribe to a logic in which competition forms an intrinsic part of success… even though in the Chilean experience the businessperson had been not so much a competitor than a negotiator with the state and the public administration" (cited by Campero 1984, 299).

Reconstruction and Subsumption of Agriculture

At the time of the coup, the military regime had a weak social base in the countryside as well. The state controlled much of the agricultural land and capital goods, prices were set by state agencies, and property rights were often collective and non-transferable (Kurtz 2004, 73). Rather than return agrarian assets to the former landlords, however, the military regime embarked upon a radical transformation of the countryside and redistribution of land, based upon a dynamic, agro-export model. Indeed, the military junta's views on the old hacienda system were revealed by a representative who declared to the SNA in 1974, "We consider the latifundio socially and economically retrograde" (cited in Ortiz de Zárate 2003, 47).

The military regime reconstructed the countryside via three mechanisms. The first was the return of lands to former owners (revocation and restitution), up to 80 Basic Irrigated Hectares (BIH).[6] This mechanism accounted for nearly 30% of the land in state hands and constructed a medium-sized agrarian capitalist sector, consistent with the objectives of the 1967 agrarian reform law of the Christian democrats (Jarvis 1992, 191). The second mechanism was the utilization of land auctions (7.5%) and the transfer of lands to public institutions (4.2%), primarily to the *Corporación Nacional Forestal* (National Forestry Corporation—CONAF). Auctioned lands were sold to the highest bidder and lands transferred to public institutions were subsequently privatized to conglomerates—such as Luksic and Matte—that would invest heavily in the nascent forestry sector.

The third mechanism was the assignation of lands to small-scale farmers, which represented nearly 60% of the lands in the hand of the state. The ascension of the Chicago Boys, however, transformed agrarian policy away from the farmer road favoured by the military, towards the domination of the countryside by large-scale agro-capitalist exporters. Indeed, the objective of land assignations went from the construction of a political base for the military regime in the countryside to a means of creating a supply of land for fluid property markets. Rather than support the beneficiaries of assignations, the budget for public investment was slashed, guarantees for bank loans were eliminated in 1976, and officials from the *Instituto de Desarrollo Agropecuario* (Agricultural Development Institute—INDAP) were prohibited from providing credit to land-reform beneficiaries (Jarvis 1992, 196; Kurtz 2004, 76).

The military regime then promulgated Decree Laws 2247 and 2405 in 1978, which legalized the sale of land, the holding of estates over 80 BIH, and corporate ownership of land. The elimination of restrictions on large and corporate estates, when combined with the legalization of land sales and the restriction of support for peasant beneficiaries, created both the supply and the demand for the land markets through which state planners hoped to concentrate land in the hands of powerful agro-industrial interests. As the Deputy Director of the National Sugar Company in the 1970s noted, the parcellization of land and the construction of land markets represented the main mechanisms through which "…new capital entered into agriculture" (Büchi 2008, 71). The utilization of asymmetric land markets rather than mere assignation was critical to the legitimization of the neoliberal land reform as, once the original redistribution project was completed, any subsequent outcomes could be attributed to individual responsibility and neutral market forces (Kurtz 2004, 82). The corollary of the reconcentration of land in the hands of large landowners was the creation of a poorly paid rural proletariat concentrated in small towns.

The reconstruction of the countryside produced three new types of agrarian capitalists. The first was the class of medium-sized capitalists that emerged from the restitution of land to previously expropriated owners, the size of whose holdings, under conditions of international competition, compelled them to act as modern capitalist farmers. The second group consisted of middle-class professionals who used loans from the financial conglomerates to purchase land in the new export sectors. The final group consisted of the agro-industrial interests that were privatized into the control of the nascent financial conglomerates and began to purchase lands in the 1970s, a process that accelerated with the crisis of the 1980s (Furche et al. 1987, 111–113). All of these groups, moreover, benefitted from the land made available as a result of the policy-designed collapse of the peasant agricultural sector in the face of trade liberalization and reduced state support. Over the course of the dictatorship, nearly 60% of the peasant beneficiaries sold their land: 50% to the former owners and 40% to other persons, in many instances to investors from outside the agricultural sector (Hachette and Lüders 1992, 51).

The deeper objective of the land reform, however, was the reconfiguration of the relationship between land and capital, and the subsumption of the former to the latter. The Chicago Boys were keenly aware of the political nature of land ownership and agrarian reform. As former Minister of Finance Büchi wrote of the agrarian reform of the 1960s and early 1970s, "My opinion is that the basic objective of the agrarian reform was never economic. It was… at its deepest level…a strategy to break the traditional nexus between landlord and rural worker" (2008, 72). In carrying out their own version of agrarian reform, the military regime sought to invert the historical relationship between land and capital.

In the pre-land reform period, land served an important part as a source of political power. Historically land ownership conferred control over the rural vote, which in turn ensured access to congress and served as a conservative bulwark in the political system (see Bauer 1990). As Zeitlin and Ratcliff (1988) found, the political representatives of the integrated capitalist elite in the 1950s and 1960s continued to come from the great landowning families. The political power conferred by land ownership was used to extract economic rents from the state (and from the mining sector indirectly), while processing industries were established and controlled by large landlords. Two decades of agrarian reform, however, severed the traditional nexus between agriculture and political power, on the one hand, and agriculture and industry on the other (Diaz and Rivera 1986, 43).

In the post-agrarian reform Chile, land ownership ceased to provide reliable votes and new urban agro-industrial and commercial firms not linked to the countryside were concentrated in the hands of the financial and retail conglomerates via privatization and productive restructuring. In the new order, the exercise of political power was shaped not by access to land but by access to capital. According to the new rationality, the value of land ownership was less dependent on the size of the tract than on its relative levels of capitalization and profitability. The social purpose of land became primarily an instrument for the reproduction and expansion of private capital accumulation and landowners were increasingly subordinated to urban agro-industrial and retail interests

(Diaz and Rivera 1986, 53–54). As Sáez and Larraín observed, "…there exists…a new rationality in the agricultural sector. Gone are the patriarchal and aristocratic characteristics of old, as land has ceased to be a symbol of prestige and source of political power and become strictly a business enterprise" (1989, 69). By the 1990s, moreover, capital had effectively subsumed not only land but also labour, with formerly unionized agricultural workers and smallholders reintegrated into productive networks as a dispersed and flexible rural proletariat.

State Supports, Subsidies, and Credits

Despite the public proclamations of sectoral neutrality, state subsidies and supports guided the market towards the development of new firms and sectors throughout the 1970s. As the Chicago-Boy-dominated ODEPLAN affirmed, "The State will provide incentives for the growth and development of modern and efficient national companies through CORFO [(*Corporación de Fomento de la Producción*) (Chilean Economic Development Agency)], SERCOTEC [(*Servicio de Cooperación Técnica*) (Technical Cooperation Service)], the development banks, PROCHILE [(*Dirección de Promoción de Exportaciones*) (Export Promotion Bureau)], the State Bank, and other institutions" (1976, 8). The industrial development and export promotion programs of the dictatorship can be classified into two groups: horizontal and sectoral programs. Horizontal programs supported export industries at the macro-level, while sectoral policies targeted particular firms and industries.

At the horizontal level, sales tax and tariff rebates were approved in the 1970s for the importation of raw materials and capital goods to be used in exports, while special lines of credit were extended to exporters, refinanced by the Central Bank at a reduced cost (Vera Giusti 2001, 49–50; DIPRE 1978, 240–241). In 1975 the military regime founded ProChile to carry out studies and develop contacts in foreign markets and organize exporters to increase market share and export value. ProChile organized and worked closely with export associations to develop foreign markets and facilitate contact with foreign traders, and it paired with CORFO to finance an export promotion fund (Achurra 1997, 66). Microeconomic evidence based on firm surveys suggests that ProChile had a significant impact on product technological improvement, the introduction of new products, and improved management (Alvarez and Crespi 2000, 239–240).

Sectoral policies were even more aggressive. Chile Foundation, a partnership between the Government of Chile and the ITT Corporation (as part of the compensation for expropriation under Allende), played a key role in the establishment of the salmon industry and the modernization of the wine industry, as well as the introduction and development of numerous agro-export lines, including asparagus, blueberries, and oysters (Agosin et al. 2009, 30; Fundación Chile 2007, 23–29). In the forestry sector, Decree Law 701, promulgated in 1974, provided a subsidy for the planting and management of forestry plantations of up to 75% of cost, while also providing a variety of tax incentives (Meller 1994, 105; Vera Giusti 2001, 41–43). In agriculture, the State Bank and CORFO opened multiple lines of credit for investment and expenditures, while the Central Bank set up credit facilities for Chilean exporters and for the purchase of Chilean exports abroad (see ODEPLAN 1978). INDAP more than doubled its credit program for large-scale agriculture between 1974 and 1979 and increased the percentage dedicated to productive investment more than fivefold. In the burgeoning fruit industry, the number of hectares planted with INDAP credit rose from 40 in 1975 to 900 by 1980 (Ministerio de Agricultural 1989, 227–229).

Financial Crisis and Re-privatization

As the Chicago Boys consolidated their influence in the state and civil society, however, storm clouds were brewing in the economy. The fixed exchange rate policy, when combined with the indexation of wages to inflation and the liberalization of trade, created significant 'Dutch disease' effects and provoked severe macroeconomic disequilibria. The trade deficit rose sharply from 3.2% of GDP in 1978 to 12.9% by 1981. The full liberalization of the capital account and inadequate financial regulation, moreover, initiated an explosion of foreign indebtedness, which nearly trebled between 1977 and 1981. The combination of these policies led in turn to an unsustainable asset and consumption bubble. Unfavourable external conditions put the final nail in the coffin, driven by deteriorating terms-of-trade and the dramatic increase in the US dollar interest rate in 1981, which increased net factor payments abroad by 83% and precipitated the most severe economic collapse since the 1930s (Haindl Rondanelli 1999, 10–12).

The economic crisis was concentrated in the financial sector. By late 1981 financial institutions in the country owed US$2.5 billion, double the combined capital of the industry (Martínez Bengoa and Díaz 1996, 59). In June of 1982, the government abandoned the fixed exchange rate; in January of 1983 it dissolved three financial institutions and intervened in another five, including the two largest banks in the country, the Bank of Chile and the Bank of Santiago (Edwards and Edwards 1991, 48). By 1985 the state controlled a share of the total economy comparable to the Popular Unity years, leading critics to deride the economic policies of the military regime as the "Chicago road to socialism".

Faced with extraordinary levels of publically guaranteed foreign debt and direct state control over the economy, debt-for-equity swaps and privatization became two of the principal means to complete the reconstruction of the capitalist elite. Two legal mechanisms were set up to administer debt-for-equity swaps: Chapter XVIII (US$3.28 billion) to convert dollar debt to peso-denominated debt for domestic investors, which could then be swapped for equity, and Chapter XIX (US$3.6 billion) for foreign investors. The chief domestic beneficiaries of Chapter XVIII conversions were the powerful non-financial economic groups that had concentrated assets in the new export industries like Angelini, Luksic, and Matte (Avendaño 2001, 14), while Chapter XIX swaps were organized to allow the Central Bank to channel foreign resources into the tradable sector, which accounted for 70% of Chapter XIX swaps (Williamson 1990–1991, 472–473). Within the tradable sector, more than 70% of conversions went to industry, focussing on new export sectors such as pulp and paper, food-processing sectors, forestry, and fruit (Haindl Rondanelli 1999, 42).

The debt conversion process dovetailed with the privatization of the so-called 'strange area' (firms that were legally private but had come under state control following the financial crisis) and the traditional public monopolies. The main modalities used were patrimonial (auction of share blocks to large investors) and institutional (sale to pension funds). The cash requirement for the purchase of privatized assets favoured large domestic capitalists who were invested in the nascent export sectors. When combined with the debt-for-equity swaps, the cash requirement stimulated joint ventures with foreign investors, which capitalized upon the managerial acumen and foreign-market access of those foreign investors to strengthen domestic exporters (Fernández Jilberto 2004, 198; Montero 1997, 268–278).

Another central component of the reconstruction of the capitalist elite was the creation of the *Administradoras de Fondos de Pensiones* (Pension Fund Managers—AFPs). Although most AFPs are owned by foreign conglomerates, they have played a critical role in the development of liquid capital markets that have bolstered the domestic conglomerates. In 1985, the government liberalized investment rules for AFPs to allow investments in equity and publically traded shares. Supported by regulations and incentives that favoured bond emissions and bank deposits with terms over 1 year, pension funds were able to channel an enormous pool of private savings, around 35% of GDP by 1993, into private capital markets. Between 1985 and 1989, AFP investments in corporate shares exploded from a mere US$200,000 to over US$454 million, and by 1992 pension funds held 60% of corporate bonds (Büchi 2008, 113–117; Hermes 1995, 117; Larroulet 1994, 213).

Over the 1980s the military regime continued to prop up the reconstructed capitalist elite via state supports, subsidies, and credits. CORFO provided more than US$500 million in subsidized credit to non-traditional exporters in 1986, and the State Bank and the Central Bank opened subsidized credit lines for small and medium-sized exporters (Büchi 1987, 1147–1149; Kurtz 2001, 14; Moguillansky 1999, 48). The government also expanded the simplified drawback of import duties for exporters, the value of which was based on export sales. So successful was the drawback program that Agosin et al. estimated that participating firms saw their exports rise by nearly 500% compared to similar but non-participating firms (2009, 25). Decree Law 18,450 of 1985 made substantial subsidies available for irrigation investments in agriculture, 95% of which were captured by large producers, thus further consolidating the emergent agro-industrial capitalists (Kay 1997, 20), while subsidies to forestry and other sectors were sustained and the forestry sector boomed.

The Chilean Capitalist Elite Today

From early on the Chicago Boys were cognizant that their capitalist revolution would require the construction of a dynamic and powerful capitalist elite. Indeed, as Minister of Finance Sergio de Castro observed in 1978, the subsidiary state model depended upon the existence of a dynamic class of capitalist entrepreneurs and investors to exercise leadership and hegemony, from civil society rather than the state: "in this way, and only in this way, can we guarantee the state will become truly subsidiary" (DIPRE 1978, 382). The reconstruction of the Chilean capitalist elite began in the 1970s with the 'state-private sector circuit' organized around the Chicago Boys in the principal economic ministries of the state and a handful of financial conglomerates, which channelled productive assets and subsidies to strengthen those capitalists committed to the project.

When the Chicago-Boy conglomerates collapsed in the early 1980s, the state intervened and bolstered the non-financial elements of the new capitalist elite further via debt swaps, privatization, and targeted supports and subsidies. The continuation of the basic macroeconomic, trade, and support policies since the 1990 return to democracy, moreover, further strengthened the dominant conglomerates, the result of which was the formation of a capitalist elite whose economic clout, political influence, and ideological hegemony is now unprecedented in Chilean history.

The capitalist elite today are significantly different from the elite of the 1950s and 1960s. As Fig. 2.3 demonstrates, the principal family conglomerates that comprise the capitalist elite vary considerably from the main family groups of the 1950s and 1960s. Indeed of the 20 largest family conglomerates in Chile, only six were among the

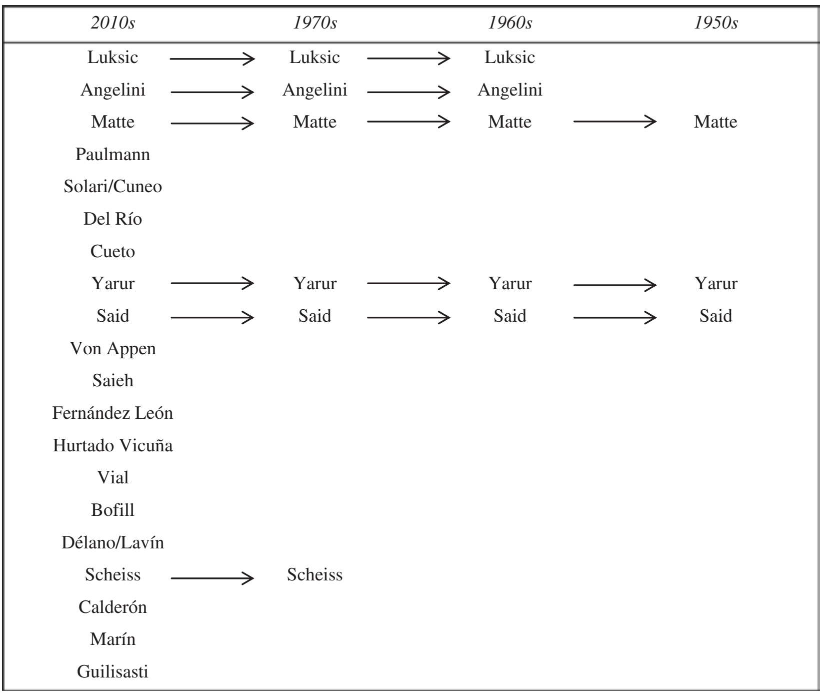

Fig. 2.3 Origins of the 20 largest Chilean entrepreneurial families, 2010s to the 1950s. *Source* Drawn from Martínez (2016)

top 20 families in the 1970s and only three were among the major economic family groups of the 1950s. Put another way, 14 of the 20 largest entrepreneurial families rose to prominence in the last 30 years and 16 of the 20 are led by first or second generation entrepreneurs (Martínez 2016, 266). The shift in the dominant families over the past 40 years, moreover, tracks closely transformations in the economic structure of the nation, from industrial and agricultural production for the domestic market towards resource exports, commerce, and services.

The portfolios of the dominant economic family groups in the 1950s and early 1960s had two main characteristics: first, most of the family groups were organized around a bank. The role of the bank, however, was not as a source of profits. Given the levels of financial repression that prevailed in the 1950s and 1960s, banks were primarily a source of reliable financing. The financing secured from the ownership of banks was in turn invested in agricultural and industrial production for the domestic market.

The Alessandri-Matte group, for instance, was organized around the *Banco Sudamericano* (South American Bank—BSA), but their principal interests were in paper products, cement, steel, agriculture, and livestock. Similarly, the Yarur and Said families were organized around the *Banco de Crédito e Inversiones* (Credit and Investment Bank—BCI) and the *Banco Panamericano* (Pan-American Bank), respectively, but the fortunes of both families originated in the textile industry.

The largest economic family conglomerates today are organized around a quite distinct set of economic interests. The investments of the 20 largest economic family groups are concentrated in finance and insurance (as a source of profit not lending), retail, agro-industry for export, transportation, telecommunications, mining, and energy. The rise to prominence of finance and retail is encapsulated by the Paulmann, Solari/Cuneo, and Del Río families. None of these families were among the dominant economic families of the 1950s, 1960s, or 1970s; all three made the bulk of their fortunes in the last 30 years. As economic power shifted upstream to finance and downstream to retail, the Paulmann, Solari/Cuneo, and Del Río families concentrated the retail sector via department stores and supermarkets, while connecting retail back to finance through the provision of consumer credit.

As one can see in Fig. 2.4, consumer credit exploded in Chile from the mid-1980s, driven largely by the retail stores owned by the Paulmann, Solari/Cuneo, and Del Río families. In fact, Chile is the only country in the world where major retailers have more credit cards in circulation than do the banks (OECD 2011, 23). All the largest conglomerates today, moreover, are characterized by high degrees of concentration and cohesion, building upon the organizational models pioneered by the Chicago-Boy financial conglomerates of the 1970s. The dominant conglomerates of twenty-first-century Chile are very much creatures of the economic, political, and cultural revolution of the Pinochet regime.

The most powerful family conglomerates are not just relatively new; they exercise an extraordinary level of influence within the local economy. The 20 largest economic groups control 85% of the assets of listed companies, with the five largest groups controlling nearly 50% (Lefort 2010, 395). Large firms that comprise 1.4% of all listed companies now account for an extraordinary 81.6% of domestic sales and approximately 95% of all exports (Cademartori 2011, 117; Solimano 2012, 131). At the sectoral level, four supermarket chains control nearly 90% of sales; five banks control 75% of market share; three companies control 92% of the pharmaceutical industry, two companies control 70% of electricity generation, and one firm controls 78% of the sugar market, 88% of airline traffic, and 89% of beer sales (Ruiz 2005, 46; Ruíz and Boccardo 2009, 33; OECD 2011, 22).

The concentration and cohesiveness of the capitalist elite stand in stark contrast to the decline and disarticulation of what was once one

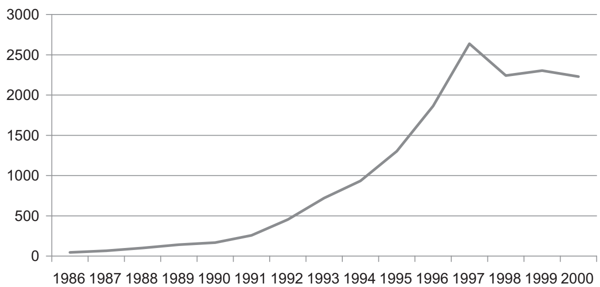

Fig. 2.4 Consumer credit (millions of CP$), 1986–2000. *Source* Elaborated from data in Amar Sapaj et al. (2001)

of Latin America's most organized and influential working classes. Under the weight of trade liberalization, productive reorganization, and social and labour policies designed to individualize and commodify social relations, Chilean workers have found themselves mired in precariousness. Despite the significant increases in real and minimum wages from the mid-1980s, wages in the 1990s were still catching up to pre-coup levels, and the working class has suffered sharp income declines. For instance, the share of blue-collar workers in the top four income deciles fell dramatically from 37% in 1971 to 16% by the second half of the 1990s (León and Martínez 2001, 22–24). Similarly, while the average wage is US$715 per month, 53.5% of Chileans earn less than US$450 per month (Durán and Kremerman 2015a, 6). The decline of protected industries where labour was strong and the harsh Labour Code passed by the military regime produced a collapse in the rate of unionization, from 34% during the Allende government to 14.2% by 2013 (Durán and Kremerman 2015b, 2). Many workers now find themselves at the whim of their employers, with fewer than 40% of workers holding fully protected contracts, i.e., a written contract of indefinite duration with pension, health, and employment-insurance contributions (Ruíz and Boccardo 2009, 41–42; Narbona and Tonelli 2011, 1).

The enormous disparities in the economic power and organizational capacity of the capitalist elite and the working class, buttressed by a constitution and political system designed to impede challenges to elite rule, have conferred upon the Chilean capitalist elite an extraordinary structural and institutional power in the political life of the nation (see Fairfield 2015). Given the remarkable concentration of assets, it is small wonder that an important part of the rationale provided by democratic governments for the mild nature of their reforms since the 1990s has been the need to appease business interests and maintain economic activity. From taxation and environmental policy to labour and social-security reform, the limits of public policy during the post-transition years have been powerfully shaped by what was perceived as acceptable to the dominant conglomerates, so as to "avoid a negative or dysfunctional reaction from business", as Edgardo Boeninger, former top advisor to President Aylwin, noted (1997, 465). The capitalist elite, moreover, maintains tight connections to the rightist political parties (and have strengthened their connections to the centre-left since the 1990 transition), which has enabled them to block and weaken legislative initiatives that threatened their entrenched interests, such as labour reform under President Aylwin and tax reform under President Lagos (see Fairfield 2010). And finally, the high degree of institutionalized consultation between the executive and the dominant economic groups, established during the 1980s, has continued to provide the capitalist elite with privileged access to key policy makers (Teichman 2001, 92).

The political influence and cohesion, in turn, are buttressed by a remarkable degree of ideological coherence. Prior to the 1970s, the Chilean capitalist elite were ideologically heterogeneous and dispersed, with little in the way of a global developmental vision and a significant distance between the 'political' and the 'economic' right (Undurraga 2012, 204). By the 1990s, however, Chile had arguably the most ideologically cohesive capitalist elite in Latin America (Arriagada 2004). While the generation that has taken over from the 2000s is less ideologically rigid and less shaped by the conflicts of the 1970s than their predecessors, their ideological influence within civil society remains powerful, bolstered by one of the most concentrated media industries in the region, in which two conglomerates control nearly 95% of newspapers (Mellado 2012).

The foundations of the 'cultural circuits of capitalism' laid by the Chicago Boys in the 1970s continued to develop and strengthen the ideological coherence and influence of the capitalist elite throughout civil society and the state. For instance, the Department of Economics and Business Administration at the Catholic University not only trained the first generation of new business leaders, it shifted the centre of intellectual gravity and extended the influence of neoclassical economic throughout the country. The CEP, moreover, would become one of the most influential think tanks in Latin America, the 'neurological centre of business thinking', while the Instituto Chileno de Administración Racional de Empresas (Institute for the Rational Administration of Business—ICARE) became a nodal institution and ideological training ground for private enterprise. By the end of the 1980s, the capitalist elite in Chile had transcended its narrow lens and defensive posture and exercised an active leadership role in civil society through the promulgation of an ideology organized around individualism, competition, and private enterprise, a true cultural revolution (see Undurraga 2013).

Conclusion: Was the Capitalist Revolution Too Successful?

This chapter has made two central arguments: (1) that the Pinochet regime carried out a state-led capitalist revolution from above; and (2) that this capitalist revolution required for its success the reconstruction of the Chilean capitalist elite itself. One question that emerges, however, is this: was the revolutionary project a success? The answer of course depends greatly on how one defines 'success', which in turn depends on how one conceptualizes and understands the objectives of the military regime. If the objective was the construction of a capitalist elite capable of driving economic growth and integrating the state and civil society into its networks of power and influence, then the answer would appear to be yes. And yet, the military regime may have created a capitalist elite so powerful and insular that it now represents arguably one of the greatest obstacles to addressing the most serious structural and institutional challenges facing the country today.

Considerable scholarly and policy debate has taken place in Chile since the return of democracy over economic diversification and industrial upgrading. However, the capitalist elite have been able to block the formulation of a more robust industrial policy that they fear would infringe upon their investment and profit prerogatives. As a result of this failure to diversify from the initial export successes of the 1970s to the 1990s, economic growth has slowed and exports have come to depend more and more upon the mining sector. What is more, for all the impressive export growth, exports continue to consist of primary and natural-resource-based products, which represent 70% and more than 90% of all exports, respectively (Mesquita Moreira and Blyde 2006, 5). In the case of copper, diversification has actually regressed, with the share of refined copper in total copper exports falling from 97% in the early 1970s to barely 50% (Nem Singh 2010, 72). As the most recent commodity supercycle unwinds, Chile will face significant pressures on its trade and payments balances. This sense of stagnation and opportunity lost permeates the public. Despite the strong growth and low unemployment for much of the past decade, 60% of Chileans describe the country as stagnating or declining (CEP 2012, 9).

The levels of economic concentration and market power have also produced deep inequalities of income and opportunity that undermine the legitimacy of the political order. Two decades after the transition to democracy, income inequality had barely declined from a GINI of 0.57 in 1990 to 0.55, compared to a GINI of 0.25 for Denmark and Norway, which rank among the world's most egalitarian countries in terms of income distribution. Primary and secondary schools in Chile demonstrate characteristics of 'hyper segregation', and segregation levels have risen since 2000 (Valenzuela et al. 2014). Although the current government has passed a major education reform to address issues related to cost and accessibility, there is evidence that free education may not be the silver bullet for reducing socio-economic segregation. For instance, university graduates from high-income families earn on average 50% more than similar graduates from poor families, and the 'class earnings gap' is nearly twice as large as the gender gap and more than three times the racial gap (Núñez and Gutiérrez 2004; Núñez and Pérez 2007). The inequalities produced by this network of ancestry and income are compounded by profound levels of socio-geographical segregation. In Santiago the isolation index is 90%, meaning that families from poor neighbourhoods have only a 10% chance of interacting with families from other socio-economic strata (Lambiri and Vargas 2011).

Economic slowdown and persistent inequality have in turn contributed to rising levels of social protest throughout the country. And while it would be simplistic to attribute all failures to address these deeper-seated issues to the power and influence of the capitalist elite, they shape the political life of the nation in numerous and significant ways. Their control over investment, output, and employment represents powerful structural constraints on policies opposed by capitalist elites. Their influence within political parties and their access to office holders provide potent instrumental channels through which to shape the formation and legislation of public policy, and their significant ideological reach, particularly within elite circles, means many issues related to their power and privilege remain outside the public debate and off the political agenda. The Chilean capitalist elite are arguably the greatest legacy of the military regime and the greatest obstacle to the future economic development and political stability of the nation. Whether countervailing forces can emerge from civil society to challenge the power and prerogatives of this elite will shape powerfully whether Chile can address the serious social, economic, and environmental challenges facing the nation and escape the 'middle-income trap'.

Notes

1. A note on terminology: the term 'elite' is used here instead of 'class' for a specific reason. The term elite is more commonly associated with the Weberian tradition, where social groups are defined by their internal characteristics, i.e., income level, education, etcetera, while class is more closely associated with the Marxist tradition, in which actors exercise class power, defined and conceptualized in relational terms. Because this chapter is focussed on the internal characteristics of Chilean capitalists, the term 'elite' is utilized.
2. The label 'Chicago Boys' is used here to describe the core group of individuals, most of whom were trained in economics and business administration at the University of Chicago, who designed and implemented the revolutionary project, both from within the state and beyond. Key members of the group were neither economists (Jorge Cauas) nor Chicago-educated (Hernán Büchi and José Piñera), nor state officials (Manuel Cruzat). There were also differences and disagreements amongst the individuals one could describe as 'Chicago Boys'. What united the group, however, was their adherence to a common sense of mission (the revolutionary transformation of Chilean society), values (economics as a neutral science, the elevation of markets, and a suspicion towards politics and the state), and core policy positions (liberalization of markets and private ownership of economic assets).
3. Interview with former President of the Chilean Association of Sociologists and researcher at CIEPLAN, Dr. Cecilia Montero, July 29, 2011, Santiago, Chile.
4. Indeed, former HBC executive and Minister of Finance Rolf Lüders commented that the new generation of business people viewed the older generation with much skepticism and saw themselves as transforming the mentality and role of businesspeople in the country. (Interview with Rolf Lüders, July 19, 2011, Santiago, Chile.)
5. Thumala (2013) contends the neoliberal adulation of private enterprise and markets was largely compatible with ultra-conservative religious beliefs, particularly with regards to the religious belief that the talented and privileged have a responsibility to strive and achieve.
6. BIH stands for Basic Irrigated Hectare, a standard measurement unit that originated from the agrarian reform period to control for land quality.

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CHAPTER 3

Quasi-post-neoliberal Brazil: Social Change Amidst Elite Adaptation and Metamorphosis

Simone Bohn

Introduction

Luis Ignacio Lula da Silva's election as President of Brazil in 2002 was hailed internationally as an unprecedented electoral victory for the institutionalized left (Huber and Stephens 2012). It not only marked the election of a former union leader to the highest office in the land, a leader who had been jailed on several occasions by a lengthy military dictatorship (1964–1985) (Gaspari 2004; Paraná 1996); in Linz's terms, but it also signified the "first transition" which happens when, in a post-dictatorship situation, the traditional left gains the reins of the central government and no supra-constitutional actor blocks it from taking power and governing (Linz and Stepan 1996). The uncontested Workers' Party's (PT) conquest of federal executive power in Brazil signaled the apparent maturity of Brazilian democracy—the path for implementing vigorous social policies aimed to address Brazil's notoriously high levels of socioeconomic inequality was open and, more important, unobstructed by coup leaders of any stripe. Consequently, hopes were high that the

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L.L. North and T.D. Clark (eds.), *Dominant Elites in Latin America*,
Latin American Political Economy, DOI 10.1007/978-3-319-53255-4_3

Workers' Party would seriously address Brazil's inequitable pattern of development. However, in light of Brazil's economic vulnerabilities, class structure, and fragmented political system, two questions remained: how far would the PT go, and especially *could* go, in implementing its social project?

This chapter argues that, on the one hand, Brazil under Lula did fulfill the expectations associated with the rise of the traditional left (Huber 2009), as its policies made major inroads toward a decrease in the overall levels of inequality. The key indicators of these achievements were a substantial reduction of income inequality, which led to the formation of a "new middle class"; improvement in food security for socially marginalized individuals and families; expansion of noncontributory pensions for old-age poverty alleviation; and an entire array of life-altering social measures that targeted, among other socially marginalized groups, destitute disabled Brazilians, the *Quilombola* population (or Afro-Brazilians descendants of slaves), rural women producers; small farmers, and so-called traditional communities. Even though these social policies had a profound, positive effect on social segments that occupied the lower rungs of Brazil's quite fragmented class structure, the pattern of class domination itself did not change.

On the contrary, this chapter demonstrates that, with the help of state subsidies, Brazil exported some of its market forces to other parts of the Global South, boosting the prospects of a highly internationalized entrepreneurial class; that in the countryside, a surprising increase in the number as well as the size of *latifundios* took place; and that current agribusiness practices (particularly the levels of mechanization) reduced employment in rural areas, while their rapid expansion intensified land conflicts with the indigenous population. Using longitudinal quantitative data from censuses and official reports, and archival data, the chapter will argue that, although the thickening of the so-called "C" class—i.e., families lifted up from poverty or extreme poverty (the "D" and "E" classes)—is praiseworthy in itself, Brazil is witnessing another chapter in its long and traditional history of class adaptation and metamorphosis.

Brazil's History of Class Adaptation and Metamorphosis

"Let's make the revolution before the people make it" ["Façamos a revolução antes que o povo a faça"], a politician from Minas Gerais, Antônio Carlos Ribeiro de Andrada, famously remarked in the aftermath of the so-called 1930 Revolution (Fausto 1970). It marked the incorporation of industrial capital, commercial capital, and bureaucratic class fractions into the ruling coalition that was previously controlled by an oligarchic arrangement essentially dominated by agricultural sectors, particularly the export-oriented class fraction. Andrada's well-known *dictum* remarkably captures the essence of several—albeit definitely not all—periods in Brazil's history and two of the essential features of Brazil's pattern of class domination.

The first aspect of Brazil's pattern of historical development attests to many sharp changes, including moments of clear hegemonic crisis (Gramsci 1987 [1935]), but not necessarily clear-cut ruptures in the configuration of class domination. In other words, even its crises of hegemony have been solved in ways that involved adaptation and coalescence of new and old dominant sectors, and not the complete marginalization of a previously dominant class fraction amidst the rise of a new one. In fact, Martins' seminal work (1976) emphasizes the notable preservation of the extant dominant classes when Brazil moved from its oligarchic period (1889–1930) to its bureaucratic phase (1930–1945), and later to its populist phase (1945–1964). In the passage from one market-state-society configuration to the subsequent arrangement, according to Martins there was visible and marked *intra*-elite conflict but no profound clashes *between* essentially distinct classes. That is to say, in several junctures of Brazil's history, the enlargement of the hegemonic bloc occurred without the displacement of its old tenants.

One key example of this pattern of elite adaptation is provided by the emergence of Republican Brazil. As is widely known, in the independence movements of other parts of the Americas, such as in the United States and the bulk of the former Spanish colonies, local elites fought hard against the colonial power (Rodríguez 1998). In Brazil, however, the son of the Portuguese King unilaterally proclaimed independence and ruled independent Brazil until he was toppled by a military coup in 1889, when the republican regime was adopted. Economically, Brazil's independence in 1822 did not translate into substantive changes in the previous export-led model of economic growth, based upon primary commodities (Bulmer-Thomas 1996; Furtado 1976). Apart from an increase in the number of international trade partners that resulted from the opening up of the Brazilian economy and the end of Portuguese monopoly, or "metropolitan exclusivity" (Arruda 1980, 2000; Novais 1979), the large landowners' firm grip on the reins of the state was left unchanged (Prado 1963).

Although the adoption of a republican regime represented the ousting of direct descendants of the Portuguese crown from central government, this period did not witness a change in the dominance of the export-oriented agricultural class fraction but, rather, its expansion. It is important to note that there was a regional shift within this class fraction. With the end of the centripetal force represented by monarchical power, state-level elites gained prominence, leading to the so-called "Politics of the Governors" (Carone 1988). In effect, the 1890s marked the deepening of the political and economic dominance of the coffee-growing sectors of the Southeast of Brazil, to the detriment (but not complete exclusion) of the interests of landowners from other parts of the country, particularly the Northeast (Fausto 1995). Thus, independent, republican Brazil represented a quintessential period of elite adaptation to political change.

Another interesting illustration of continued elite adaptation to large-scale transformations involves the modernization of Brazil's political system, with the increase of its "inclusiveness," to use Robert Dahl's terminology (Dahl 1971). The latter essentially deepened in the 1930s with a substantial expansion of the suffrage, to include women and property-less individuals, but not illiterate citizens. Tellingly, this process took place without sidelining the dominant sectors that had benefitted from Brazil's pattern of "conservative modernization" (Moore 1993). On the contrary, as Nunes Leal (1977) argues in magisterial fashion, large (but sometimes decaying) landowners promptly adapted to these transformations in the political structure; they coopted the innovation, becoming vote brokers of pivotal importance (or "colonels" in local parlance), the key political cogs of the newly expanded liberal representative machine.

Another feature of Brazil's pattern of class domination lies in the dependence of the existing hegemonic bloc on the state's power. "Let us make the revolution before the people make it" ultimately reveals both the class belonging of the one who speaks as well as the locus from which one speaks. The central role of the state, in this sense, is unquestionable. Actually, there are authors—such as Fernandes (1976) for instance—who argue that the bourgeois revolution in Brazil was essentially carried out from within the state's "womb"; i.e., how, in a kind of "revolution from above" (Moore 1993), the state played a key role in the process of capitalist inception and consolidation. That is to say, private power in its different manifestations (whether landowners, industrial capital and/or financial capital, and their different class fractions) and public power have maintained a very close relationship throughout Brazil's history.

One rather notorious event in the hegemonic bloc's need to closely control state power to ensure its reproduction was epitomized by the so-called "Taubaté Agreement" (Carone 1988). It was celebrated in 1906 between the governors of São Paulo, Minas Gerais, and Rio de Janeiro and the federal government. It was agreed that the state, among other measures, had to purchase (bewilderingly, with resort to foreign loans) the surplus production of coffee to guarantee its prices, rate of profitability, and jobs, paradoxically without any federal demand that the coffee growers should diversify their production (Furtado 1991). This agreement and the attendant episodes of burning coffee, in the course of so-called "Coffee and Milk" Politics (Fausto 1995), illustrate the extent of the dependence of the large landowners on state power and resources, and the fact that, different dominant classes and class fractions have been highly dependent on the state to ensure their own reproduction.

"Let us make the revolution before the people make it," thus, speaks to the remarkable capacity that Brazilian elites have had to anticipate challenges to their hegemonic power, to co-opt counter-hegemonic agendas (without even marginally implementing them), and to embrace—and therefore tame, rather than openly resist—innovations.

What were the implications of these features for President Lula da Silva and the Workers' Party once they captured the federal government of Brazil? Under Lula's two terms as president, did the expansion of the hegemonic circle result in the displacement of any of the old tenants? From the perspective of public policies, did a change in hegemony take place? Alternatively, to what extent did the strong element of elite continuity in Brazil tame the Workers' Party program of social transformation once it controlled federal executive power? Further, once in power, did the party enact measures to reduce the dominant classes' close ties of dependency vis-à-vis the Brazilian state? Before delving into these questions, the next section will describe the complex context of the 2002 presidential election that catapulted Lula da Silva and the Workers' Party into the highest executive office in Brazil.

The Context of Lula's Presidential Election in 2002

The 2002 presidential election unfolded, under a climate of profound crisis, uncertainty and nervousness on the one hand, and high hopes and optimism on the other. In the aftermath of the 1997 East Asian financial crisis, the 1998 Russian crisis, and the 2001 Argentine crisis, it was feared that Brazil could be next. In the case of Brazil's next door neighbor, following approximately 10 years of fixed parity with the US dollar, also known as "dollarization," Argentina faced a profound recession, and resorted to extreme measures to stem the crisis, including the freezing of savings accounts, default on the public debt, the unpegging of the *peso* from the American currency, and its later devaluation (Boschi 1979). There was widespread concern—particularly among both domestic and international financial capital—that Brazil could become a victim of contagion, especially in the case of a Lula victory in the 2002 presidential election. Media outlets reported the depreciation of the Brazilian Real and C-bonds once polls made it clear that Workers' Party's success in the 2002 presidential contest was highly likely (BBC 2002). The same happened when international "investors" like George Soros stated that "Brazil will sink into chaos when an eventual Lula administration begins" (Gómez Bruera 2013, 110); or when Lula declared publicly that, should he get elected, he would not keep the then-sitting Central Bank governor (BBC 2002; Silva 2006; Veja 2002).

This aura of crisis stemmed from the international context, as well as from the fact that President Fernando Henrique Cardoso's second term (1994–1998, 1998–2002) had faced considerable problems. Cardoso has been credited with the implementation in July 1994 (when he was still a minister in the Itamar Franco presidency) of the so-called *Plano Real*, which successfully stabilized the economy, ridding it of hyperinflation that aggravated the fiscal crisis of the state (Sallum and Kugelmas 1993). Cardoso's measures meant substantially decreased buying power for Brazilians, particularly those who occupied the lower social strata and who worked in the cash economy.

Despite his indisputable achievements, Cardoso's second administration suffered from a lackluster performance. The currency was substantially devalued at the beginning of this term (in January of 1999); unemployment grew (from 6% in 1995 to 9.1% in 2002) (World Bank 2016); the rates of economic growth were deemed comparatively low (the gross domestic product grew an average of 2.6% under Cardoso I, and 2.2% under Cardoso II) (World Bank 2016); a national energy crisis of major proportions emerged; the government had difficulty in implementing pro-growth policies; and the country had to resort to massive borrowing from the International Monetary Fund (IMF) to stave off crisis in 2002. As to social policies, several initiatives under the umbrella of the "Solidarity Community" project expanded, such as cash transfers (to purchase cooking gas; to help low-income families defray the costs of school attendance; to increase food security and the like); programs to eradicate child labor; and noncontributory pension transfers to prevent old-age poverty (Castro and Cardoso 2005; Draibe 2003). However, these programs—as well as the land reform project, designed with the deliberate intention of demobilizing the landless social movement in Brazil—were deemed timid attempts at attenuating Brazil's rather perverse social problems (Cohn 1999; Pereira 2003). Measurements of income inequality corroborate this assessment. Under Cardoso, Brazil's Gini Index, for example, changed very little, from 59.6 in 1995 to 58.6 in 2002 (World Bank 2016).

All these issues were reflected in the voters' visible and widespread dissatisfaction with Cardoso II. Throughout his second term, the maximum rate of positive evaluation of the government reached 31%, reflecting "the majoritarian perception that the FHC [Cardoso] government did not do enough to improve the life of the poorest." (Carreirão 2004, 181). In short, a mass of dissatisfied voters was available to be mobilized by a more progressive campaign platform.

This very grim scenario helped further cement high hopes and a great optimism that an eventual Lula government would turn things around and raise social programs to the top of Brazil's political agenda. In fact, at this point, after three failed presidential bids, "Lula had become a symbol of the concern with social justice" (Fortes and French 2012, 204). Moreover, with the issue of the "Letter to the Brazilian People," which promised "respect to the country's contracts and obligations" (Lula da Silva 2002, 3), Lula clearly indicated—especially to financial capital—that an eventual PT federal government would not radically change fiscal policy. On the contrary, Lula added that, although a "new social contract" would be pursued, it would be a model "capable of bringing about both growth and stability" (Lula da Silva 2002, 3).

At the same time that Lula and the Workers' Party successfully signaled to multiple domestic and international audiences that they had become moderate political forces (Hunter 2007; Spektor 2014), they resorted to a more militant discourse when they campaigned in their base. The 2002 presidential candidate Lula did not necessarily repeat some of his old catch phrases; in the course of the 1994 presidential campaign, during a visit to a legal settlement located in one of the most conflictive areas of the interior of the state of São Paulo, Lula had said, addressing the landless social movement's rank and file, that, once president, "with the stroke of a pen" he would "distribute so much land that you will be unable to occupy it" (Alves 1994).

When the presidential campaign began, it became clear that candidate Lula was presenting himself more and more as a professional, credible "statesman," "with a purposeful campaign, and with a style which became known as "peace and love," while all the others [candidates] were fighting among themselves to get a spot in the second round" (Carreirão and Barbetta 2004, 76). This time, the four-time presidential candidate succeeded. Lula won 46% of the vote in the first round of the 2002 presidential election (TSE 2016); and 61% in the second round, when he defeated José Serra, the candidate from the PSDB (Brazilian Social Democratic Party), who obtained 39% of the vote (TSE 2016).

In the course of the two Lula presidencies, these contradictory forces created unexpected results. On the one hand, the promised "new social contract," with highly innovative social policies, was implemented and produced very important social improvements, particularly when it came to the reduction of overall income inequality. On the other hand, at the beginning of Lula I, the need to placate the fear of PT radicalism among big business groups, in the midst of an international crisis of major proportions and a difficult domestic economic scenario, led to so-called "financial-ism": a fiscally conservative economic policy, based upon the maintenance of very tight targets for inflation, a low debt-GDP ratio, high levels of accumulation of international reserves, and sky-high interest rates (Lourenço 2004). Although the repayment of Brazil's foreign debt with the IMF and the eventual reduction of public domestic debt allowed for the later reduction of interest rates, a fiscal and economic policy orientation that placed emphasis on specific macroeconomic targets was never abandoned. As Singer brilliantly describes it, the Lula era in Brazil was marked by a model "which, benefitting from a change in the international economic scenario, allowed the adoption of policies to reduce poverty—*particularly extreme poverty*—and to activate the internal market, *without a confrontation with capital*" (Singer 2012, 13; italics in the original).

This chapter argues that not only was there no confrontation with capital, but also that capital was able to adapt to the changes and actually benefitted from policies pursued under Lula's presidencies. Nevertheless, this lack of defiance in relation to capital does not diminish the positive impact of the profound social transformations that stemmed from Lula's two administrations. Before analyzing the relationship with capital, the following section will review Lula's implementation of an enlarged "social contract." What did this entail?

A "New Social Contract"

The "Zero Hunger Program," which President Lula began to implement in 2003, became the centerpiece of his proposed "new social contract." It included a series of initiatives that aimed at the reduction of hunger, the improvement of food security, a decrease in poverty and extreme poverty, as well as the empowerment of socially marginalized or vulnerable segments (Rocha 2009). The ultimate objective was to redress a centuries-old pattern of socioeconomic inequality in a country marked by a highly skewed income distribution, where class-race-and-gender inequities visibly conflate (Bohn 2015).

Some of these social policies expanded and substantially improved upon prior initiatives, particularly those implemented under the two Cardoso administrations. One of the most important among them was the *Bolsa Família* (or Family Grant) program (BFP), which amalgamated several preexisting cash transfer programs under a single umbrella. The BFP targets poor and extremely poor families and individuals; its monetary value varies according to family size. The beneficiaries are selected on the basis of their average household per capita income, and the income information is later cross-checked with information from other databases (such as records on car ownership, house ownership, income tax returns, etc.) with the objective of ensuring that the program is well targeted. As the program's ultimate goal is to reduce the intergenerational transmission of poverty, participants must fulfill a series of conditions to remain in the program. These include vaccinating their infants and children; meeting the requirements of school attendance; and attending pre and postnatal care in the case of pregnant women participants.[1]

The BFP has a clear gender component, as the cash transfer is made to the mothers of the family or, in their absence, to a daughter who is 18 years or older. Only when there is no mother or adult daughter in the family is the benefit assigned to the father. This design stemmed in part from the view that poor mothers, much more so than fathers, tend to maximize the expenditure of additional household income in food items, education, and healthcare (Hoddinott and Haddad 1995). In addition, the program aimed to empower women from the lower rungs of

Brazil's social strata amidst the perceived growing "feminization of poverty" that thought to derive from a combination of factors: in particular, the marked presence of women in the informal sector (IBGE 2008) following the implementation of neoliberal structural adjustment policies, and the growing number of female-headed single parent homes in Brazil (IBGE 2006).[2]

Contrary to other national experiences—such as the Supplemental Nutrition Assistance Program (the new name for the Food Stamps Program) in the United States, where beneficiaries can purchase only food items and only those specified by the state (USDA 2012)–, BFP participants can choose what to buy with the cash transfer; the revenue reaches them (by mail) through a debit card issued by the federal government, which can essentially be used in any store. In contrast to the strictly disciplinary feature of other pro-poor social policies, this freedom to choose what to buy has been portrayed as evidence of the emancipatory and empowering nature of these social policies (Rego 2008). Interestingly, several research projects which have made use of different databases have shown that BFP participants report spending the bulk of the conditional cash transfer on food, and smaller fractions on school supplies, children's clothing (especially school uniforms), and medicine (Bohn et al 2014, 2016; IBASE 2008; Rosinke et al. 2011; Traldi et al. 2012). Furthermore, the use of a debit card to access the benefit has been deemed an important step in bypassing the power that political bosses (Nunes Leal 1977) traditionally held in Brazil (Ansell and Mitchell 2011), particularly in the so-called "backlands" where old-style clientelism prevailed—and is still in existence in some areas (Moreno 2010)—, and where public social goods were commonly exchanged for electoral support.

Under the Lula presidencies, a clear objective of increasing the coverage of the *Bolsa Família* program existed since, in 2002, approximately 58.7 million Brazilians (or about 34% of the population) were below the poverty line. Within this contingent, 23.8 million faced extreme poverty (or 13.9% of the total population) (IPEADATA 2016). Given this magnitude of poverty, and particularly its depth, Lula's administrations expanded the scope of the program substantially. In 2004 (which was the first full year of implementation of the BFP), 6.6 million families benefitted from it; in 2010 (the last year of Lula II), this number had grown to approximately 12.7 million families.

The implementation of this social policy has very low costs for the state: on average, the BFP amounted to less than one percent of Brazil's gross domestic product. This is one of the reasons that explains the fast expansion of CCTs across different parts of the world (Fizbein and Schady 2009; Davis et al. 2012)—and the support and praise that they have received from international financial organizations, particularly the World Bank, and even from financial market intelligence agencies, such as Standard and Poor (Weisshmeir 2006, 45). Much can be done with these social policies to quickly alleviate hunger and reduce extreme poverty, while at the same time maintaining a government's adhesion to strict targets of inflation, public expenditure, and GDP/debt ratio. In the Brazilian context, this meant that the "enlargement of the social contract," to refer to Lula's 2002 presidential campaign promises, could take place without jeopardizing the "financialist" orientation of his administration.

With regard to its accomplishments, the *Bolsa Família* Program has been credited—along with the job growth that resulted from the 2000s commodities boom, increases in the minimum wage, and the growth of lower class income from other social programs (more on these below)—with helping to substantially reduce income inequality in Brazil (Barros et al. 2007; Neri 2008; Soares 2012b). As measured by the Gini Index, income inequality declined substantially under Lula's two terms as president: from 58.6% in 2002 to 53.1% in 2011 (World Bank 2016). Furthermore, although the low monetary value of the transfers means that BFP participants cannot lift themselves out of poverty with that transfer alone, which affects the program's overall impact on poverty reduction (Soares 2012a), many families have moved upwards on Brazil's socioeconomic scale, leading to the thickening of its middle segment, and to what some have termed Brazil's "new middle class" (Neri 2008). In addition, extreme poverty has been reduced, due to the increase in income for those who previously faced destitution:

> (…) based on the observed trends in poverty and inequality, Brazil's growth pattern could be defined as 'pro-poor': i.e., the growth of the income of the poor has been higher than the growth of the income of the rich. From 2001 to 2007, the per capita income of the poorest 10 percent grew 7 percent per year, a rate of growth nearly three times the national average (2.5 percent) while that of the richest 10 percent grew only 1.1 percent … Two-thirds of the decline in extreme poverty can be attributed to the reduction in inequality. (Lustig and Lopez-Calva 2013, 5)

As emphasized by Barros et al. (2007, 10), despite this praiseworthy decrease in income inequality, Brazil still remains one of the most unequal upper–middle income countries in the world. Furthermore, rural poverty, though much lower than in the 1990s and in the process of going down, still plagues some areas of Brazil (Neri et al. 2012). Recent data from the Brazil's Census Bureau (or IBGE, Brazilian Institute of Geography and Statistics) analyzed by the federal government demonstrate positive impacts on child labor as well as the emergence of new challenges. In the 1990s boys under 13 years old from rural zones—who did not attend school—formed the bulk of the child labor force, but nowadays, the key group is formed by urban teenagers (14 years or older) who, for the most part, go to school, but who work in family-owned commercial enterprises (MDS 2016). In other words, child labor in Brazil has a new face and demands new public policies. Finally, although conservative criticisms of the CCTs in general emphasize how these programs de-incentivize employment, and how citizens at large view social assistance beneficiaries are inherently lazy (Seligson et al. 2012, 40), there is evidence, in the particular case of Brazil, that the PBF in fact has had a positive effect on adult participation in the labor market (Soares et al. 2010; Bohn et al 2014).

While the conservative critique of CCTs tends to focus on their (for the most part unconfirmed) negative impact on individual agency when it comes to the search for stable sources of income, some sectors of the left insist that these programs are at best only mildly redistributive, as their pattern of funding does not seriously affect Brazil's class structure (Marques 2006); that they do not deal with the root causes of poverty; and that few if any improvements have been made to the structure of life chances. In support of this point of view, Sewall (2008), for instance, has argued that although CCTs have helped improve school enrollment in most countries where they are in place, Brazil under Lula, unlike other Latin American governments, did not make substantial investments in the *quality* of education. As a consequence, rather than effectively improve "equality of opportunity" (Marshall 1950) for the poor, the *Bolsa Família* in practical terms adds more students to (and retains them for more years than before in) a system of public and free education that is in desperate need of reform and improvement.

What the Workers' Party did accomplish was a significant expansion in the number of federal universities, with fourteen new institutions of higher learning created under Lula's administrations. Besides a sizable increase in enrollment, the number of (face-to-face) courses in these universities grew from 2047 in 2003 to 4327 in 2010; and the number of full-time faculty jumped from 40,523 to 63,212 (SeSu 2014). Interestingly, with the goal of reaching out to populations with limited access to tertiary education, these universities were established for the most part in mid- to small-sized cities, and not in the capital cities of states. Several of them were created in the North and Northeast parts of Brazil, regions known for their lower levels of human development. In addition to expanding university access with the new fourteen federal universities, the Lula governments also provided low-income students with over a million scholarships, which enabled them to attend private universities, particularly in large metropolitan areas.

Among other important public policies of inclusion of previously socially marginalized groups was the so-called “My House, My Life” program, which aimed to improve the rate of home ownership among Brazilians with lower income, by providing them with heavily subsidized mortgages. This program was officially set up in 2009, the penultimate year of Lula’s second administration.[3] Other inclusionary projects included the “Light for All” program (created in 2003), with the goal of bringing electricity to all Brazilian homes, particularly those located in rural and remote areas. The program’s initial target of promoting the electrical energy inclusion of ten million individuals from rural areas was attained in 2009 (MME 2016), but more is required to reach universal coverage (Portal Brasil 2015). Another source of marginalization targeted by President Lula da Silva was the problem of “under-documented” Brazilians, i.e., citizens of Brazilian parents who are born in Brazil but remain without any legal documentation, including birth certificates. According to the IBGE (2007), in 2006, approximately 12.7% of Brazilians were in this situation, which severely limits their citizenship rights since, without documents, children cannot be enrolled in schools; families cannot participate in governmental programs; and, perhaps most importantly, adults cannot seek employment in the formal sector of the economy. Needless to say, the incidence of this kind of under-documentation is higher in areas of Brazil with lower levels of human development (UNICEF), and it is particularly high among the indigenous population.[4]

Whereas the *Bolsa Família* Program (and the other programs mentioned) targeted economically marginalized individuals and families in general, the two Lula administrations developed or improved upon programs aimed at certain specific sectors of this population. One of them was the so-called Continuous Monthly Benefit (or *Benefício de Prestação Continuada*), which is essentially a monthly stipend given to destitute senior citizens (who, by definition, lack a pension), with the goal of attenuating or preventing old-age poverty. Also included in this program are disabled Brazilians from low-income families. Interestingly, by design, the benefit is permanent, which reveals the state's assessment that these groups are in perpetual need of assistance. In addition, by issuing the Statute of the Elderly in 2003, Lula also extended an entire host of rights to senior citizens (which range, among other rights, from discounts for shows and events, up to fixed quotas in governmentally subsidized housing projects) (Bohn 2011, 65).

Other social segments targeted by the Lula governments were small-scale farmers; traditional communities[5] engaged in subsistence extractive activities; rural women; the *Quilombolas*; and the indigenous. Although some programs benefit several of these groups, there are some initiatives that center on one or another separately. In this sense, the National Program for the Strengthening of Family-Based Agriculture (PRONAF), for example, provides family smallholders, as well as beneficiaries of land reform projects, with access to below-market-rate lines of credit, which can be used for different purposes, such as the purchase of seeds and machinery, investment in infrastructural projects, and hiring agriculture-related services. The large outlays on these programs—PRONAF's resources jumped from $740 million in 2002 to $6.3 billion in 2010 (Banco Central 2010)—are a testament of the government's prioritization of family-based agriculture. Families that form part of traditional subsistence extractive sector also benefitted with the establishment of specific subprograms within PRONAF. Among them, the federal government officially recognizes the *caiçaras*, *ribeirinhos,* and *janguadeiros* (traditional small-scale fishing communities); the *marisqueiros* (families traditionally involved in the gathering and sale of shellfish); *quebradeiras de côco babaçu* (women who harvest, process and sell babassu coconut); *castanheiros* (families and individuals who gather and sell different types of nuts); and the so-called *fundo de pasto* communities (groups of families from the Brazilian semiarid region who live off the natural vegetation, and combine small private properties with large areas of common usage where they raise animals, such as goats and sheep, for instance).

Another sector whose social inclusion has been promoted by specific public policies is the so-called *Quilombolas.* The latter are descendants of African forced workers who managed to escape slavery in monarchical Brazil, and who founded safe havens, known as *Quilombos*. These safe havens still exist; some of them are located in isolated, remote areas; others have been engulfed by ever-growing urban sprawl. In 2004, President Lula instituted the National *Quilombola* Plan, which is a multi-pronged initiative aimed to promote their citizenship rights, which includes educational initiatives, cultural programs, and projects to foster economic self-empowerment, among others (Bohn and Grossi forthcoming).

Rural women from traditionally marginalized communities—the "rural female workers from country and the forest," as they call themselves—also benefitted from some programs, such as the *PRONAF Mulher*, which gives rural women access to subsidized lines of credit, and from several pieces of legislation, such as the 2003 INCRA Ordinance, which mandated that the titling of rural properties must be done under the name of both the man and the woman, whether they are legally married or part of a stable union (Brumer 2004; Sales 2007). In addition, rural women have also been targeted by the national campaigns to give them access to basic documents (as they figure prominently among the ranks of "under-documented" Brazilians mentioned above), and by programs to decrease violence against women in the countryside (SPM 2011).

While all these projects, among many others, did help "enlarge" Brazil's social contract, as promised by President Lula da Silva, their implementation was not predicated upon an antagonistic relationship with capital. On the contrary, under his administrations, landowners, business elites, industrial capital, and financial capital also prospered—as detailed below.

Class Adaptation and Metamorphosis

At this point, it should be recalled that the context of the 2002 presidential election was marked by an acute economic crisis in Brazil, in which the federal government—still under President Cardoso—had to resort to an emergency IMF loan in order to keep itself afloat and prevent Brazil from becoming another victim of contagion, which had already affected East Asia in 1997 (Radelet et al. 1998), Russia in 1998 (Pinto and Ulatov 2010), and Argentina in 2001 (Nataraj and Sahoo 2003). This scenario meant that, when Lula da Silva took over the presidency in January of 2003, Brazil was in desperate need of fixing the fiscal crisis of the state. This was the moment in which the so-called "financialist" approach was adopted; it involved, besides keeping inflation firmly under control, imposing very strict targets on the public debt/GDP ratio. Further, as mentioned before, it was important for the PT to signal to multiple audiences that it had moved from being an opposition party, with a former revolutionary socialist bent, into a party which could govern Brazil responsibly, and in an orderly fashion.

This scenario clearly posed a major challenge for the leader of the Workers' Party. How could the social contract be "enlarged" in a context where the central government had to spend less and increase public savings, particularly to repay (old and newly acquired) foreign public debt? This very difficult juncture led the federal government to take a second look at an economic sector that the Workers' Party had always decried: the large landowners, particularly the export-oriented agro-elites. While the PT traditionally had seen the latter as occupying an essential role in producing and reproducing a highly exploitative pact of capitalist and political domination in the countryside, it became evident in 2003 that agribusiness dynamism and vigor could not only help fix the current account deficit rather quickly but also bulk up national reserves, thus helping pave a way out of the economic and fiscal crisis. Under his two presidencies, President Lula da Silva thus struck a very, very delicate balance between keeping his promises of expanding social inclusion—which involved carrying out land reform, and tending to the demands of one of his key supporters (Landless Rural Workers Movement, or *Movimento dos Trabalhadores Sem Terra*, or MST)–, while at the same time developing "positive" relations with large landowners.

In this thorny scenario, it is important to state that land reform did move forward under Lula da Silva. Between 2003 and 2010, approximately 614,000 families accessed land with the creation of 3551 new settlements (INCRA 2010, 3). While President Fernando Henrique Cardoso incorporated 21.1 million hectares into agrarian reform projects in the eight years of his control of the presidency, under the two Lula presidential terms, this number grew to about 48.3 million hectares (INCRA 2010, 3). In addition, the settled families benefitted from programs that brought water and electricity to their newly acquired properties, from an expansion of subsidized credit, from an increase in paved roads near settlements, and from projects to decrease the under-documentation of the rural population. Furthermore, during the eight Lula years, 167,000 families received their land titles; and several *Quilombola*

Table 3.1 Evolution of land sizes in Brazil (2003–2009)

Year:	*2003*				*2009*			
Property size (in hectares)	*N of properties*	*%*	*Area*	*%*	*N of properties*	*%*	*Area*	*%*
Up to 10	1,338,771	31.6	7,616,113	1.8	1,744,540	33.7	8,215,337	1.4
From 10.1 to 100	2,272,718	53.6	76,757,747	18.2	2,709,158	52.3	90,005,536	15.7
From 100.1 to 1,000	557,835	13.2	152,407,203	36.2	648,651	12.5	175,455,900	30.7
Over 1,000	**69,123**	**1.7**	**183,564,299**	**43.7**	**79,296**	**1.6**	**298,064,147**	**52.2**
Total	4,238,447	100	420,345,362	100	5,181,645	100	571,740,920	100

Sources Elaborated from DIEESE (2006, 30) and DIEESE (2011, 30)

communities were either titled or had their titling process initiated (INCRA 2010, 6). Needless to say, these numbers provide unequivocal evidence of a strong commitment to decreasing the social marginalization that has plagued rural Brazil for centuries.

On the other hand, paradoxically, Brazil under Lula experienced a substantial increase in land concentration (Table 3.1). While in 2003, there were over 69,000 large properties (i.e., with more than 1000 ha) in Brazil, in 2009 (the penultimate year of Lula's presidency) this number had reached over 79,000. Moreover, a sharp expansion took place in the total area that these properties occupy: from over 183 million hectares in 2003 to over 298 million in 2009.[6] As a consequence, the GINI Index of Land Concentration[7] moved upwards, reaching the level of 0.854 in 2006 (the year of the last official DIEESE calculation), which is similar to its 1978 level, when Brazil was still under a military dictatorship (Fig. 3.1).

How was this possible? How, amidst steps taken to advance social justice in rural areas (which even included agrarian reform), did Brazil's land ownership structure under Lula remain one of the most concentrated in the world? Many are the factors that help explain this conundrum. Lula's governments made extensive use of publicly owned lands to make room for additional settlements, particularly in the so-called Legal Amazon area (INCRA 2010, 3). The latter encompasses all the Brazilian states from the Northern region (where there is the largest regional concentration of indigenous in Brazil), plus the entire state of Mato Grosso (home to the sixth largest state-level indigenous population), and parts

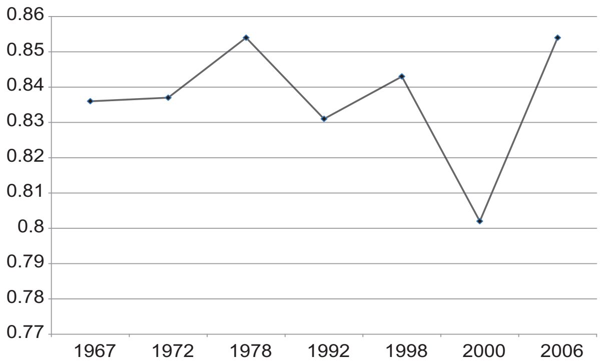

Fig. 3.1 Brazil's GINI index of land concentration. *Source:* DIEESE 2011, 34-35

of the state of Maranhão (which is the state with the second largest number of recognized *Quilombola* communities). Rather than change Brazil's land structure through the implementation of an essentially redistributive land reform, the increase in access to land by landless families and workers was made possible by—at best—mildly distributive measures. In other words, there was no confrontation with capital: it represented another instance in Brazil's history in which the expansion of the hegemonic circle took place without displacing old elites. As the leader of the MST, João Pedro Stedile, made clear in a 2009 interview:

> The Lula government—as he himself likes to say—is very similar to the one by Getúlio Vargas. It is a government of class composition. Throughout these seven years, he [Lula da Silva] adopted policies that pleased both Greeks and Trojans. In other words, he, with his economic policies, benefitted bankers, the large transnational groups, and at the same time, he enacted social assistance policies, such as the *Bolsa Família*, the PROUNI; he increased the minimum wage, increased the PRONAF resources – all of which helped the poorest segment of the Brazilian society. Now with reference to agrarian reform and small agriculture, the Lula government is in the red, because when it comes to land reform policies, one cannot conciliate the large landowners with the landless. One of them has to lose. Unfortunately, the number of land expropriations, especially in the Northeast region, and in the regions of the Southeast and South (which are the most agricultural areas), was smaller than the ones carried

> out during the Fernando Henrique Cardoso's administrations. The [then] current government repeated the tactics that Jungmann would make use of (Raul Jungmann was the Cardoso government's Minister of Agrarian Reform). In order to maintain the statistics, they carried out projects of colonization of the Amazon. They took public lands and distributed them; and in this way, they maintained the statistics. But in truth, what has been happening in the Brazil in the last ten years is a violent process of concentration of land ownership. That is, it has been a movement against land reform. Instead of democratizing land ownership, giving access to more people and offering them the basic conditions for them not to flock to the cities, in the last years, we have experienced a process of concentration, stemming mainly from Lula government's inefficacy in expropriating farms in the Northeast, Southeast and Southern regions. (Stédile's interview, in Balza 2009)

Another phenomenon that helps to explain the maintenance of high levels of land concentration in Brazil, to which the MST leader referred, is the process of land-grabbing, which has multiple actors. At the domestic level, one sees the action of the so-called "*grileiros*," namely individuals who essentially squat on public lands, obtain meticulously elaborated fake land titles for these proprieties and later sell them. When these lands are later sold (and resold), the transaction occurs through legitimate channels, and the eventual buyer ends up obtaining a legally issued legitimate land title. Of course, this type of land-grabbing makes obvious the precariousness of the land registry in Brazil, since it could not occur without registry sanction. However, what is important to emphasize here is the scope of the problem. An official 2006 report prepared by the Ministry of Environment estimated that approximately 100 million hectares (or about 12% of the Brazilian territory) could have been the target of this type of illegal occupation and land title fraud (IPAM 2006, 16). However, this is not the only type of illegal land occupation. The Brazilian government clearly distinguishes proprietors (who own titles to their rural proprieties) from individuals or corporations who only have possession (i.e., they occupy lands for which they do not have an ownership document). Interestingly, in 1998, "possession" comprised 12.5% of all rural properties in Brazil (DIEESE 2006, 36); in 2009, this number had reached the level of 19.2% (DIEESE 2011, 36). Although there are no conclusive official data that clearly pinpoint who these groups or individuals who have possession are (some of them could very well be marginalized communities living in their ancestral—untitled—lands); it is important to emphasize that this growth points to an important issue: The growth of the agricultural frontier in Brazil—rather than a de-concentration of land ownership in the country.

International actors also play a role in the maintenance of Brazil's high level of land concentration, as well as the expansion of its agricultural frontier. With the goal of accessing fertile lands to supply their own domestic markets, especially after the 2008 surge in the price of food, some countries have resorted to the purchase of large swaths of land elsewhere, particularly in areas of the Global South (Deininger 2011), in a kind of "scramble for land." In Brazil, despite the fact that there are clear legal limitations to the direct purchase of land by foreign individuals and corporations (Duarte and Alves 2014),[8] there are few legal instruments to prevent foreigners from accessing lands through Brazilian companies with more than 50% of foreign capital. Although (once more) there are no precise official data regarding the latter, it is clear that some areas of Brazil, such as Mato Grosso's *cerrado* (savannah), have been taken over by monocultures, particularly soybeans, in response to the international boom in agricultural commodities. This is a direct ramification—or an unintended consequence—of Lula's early decision to tap on the "dynamism and vigor" of the Brazilian export-oriented agro-elites: the resumption of a *déja-vu* commodity-based trade dependency (Ortiz 2012). This external linkage exposes once more the "dependent-associated" ties of Brazil's national agro-elites with international capitalism (Tavares 2000).

Moreover, it is important to highlight that the spread of the types of monocultures championed by export-centric agribusiness have had very negative environmental and social consequences. In addition to the negative impact on overall food prices (and on food security) generated by the conversion from traditional products to these more profitable crops, these agricultural commodities call for a very intensive use of the soil through highly mechanized production processes, leading some to talk about a new form of dependency (not only in Brazil, but in Latin America in general): an eco-dependency (Barton 2006) in which the extensive use of pesticides and genetically modified, high-yielding seeds prevails. Despite strong support among environmentalists, President Lula da Silva did not enact legislation to address these highly complex issues stemming from the conflation between commodity-based trade dependency and eco-dependency.

The social consequences of this process of increased land concentration have been negative. As indicated, the large properties make use of a high level of mechanization. As a consequence, whereas in 1970 there were approximately 166,000 tractors in Brazil, by 2006 there were about 821,000 (and close to 1.2 million in 2013) (DIEESE 2014, 8). Needless to say, this mechanization has deleterious effects on rural labor, with a sharp reduction in employment. While in 1985, Brazil's rural proprieties employed 23.4 million individuals, this number decreased substantially; it declined to 17.9 million in 1995; 16.6 million in 2006; and 15.2 million in 2013 (DIEESE 2014, 7). In other words, rural Brazil has been experiencing a hemorrhage of its working force.[9] However, it is important to say that this process predates Lula's two administrations; in fact, the downward trend of rural employment in Brazil coincided with its 1980s and 1990s neoliberal policies of trade opening and structural adjustment.[10] Nevertheless, Lula's rural programs—to strengthen family-based agriculture—though very important, well meaning, and with a long-term horizon, do not seem, as of now, to have had a strong effect in terms of counteracting the powerful effect on rural labor stemming from the high level of mechanization of export-oriented large-scale farming.

Contrary to Soros' prediction, neither did financial capital suffer in Brazil under Lula. Rather the opposite. It blossomed. First, the largest banks' net profit experienced a much greater rate of growth in the course of the two Lula presidencies than during Cardoso's two administrations (Table 3.2). Under Cardoso, the net profits of the 50 largest banks tripled; under Lula, they almost quintupled. When one focuses only on the giants of Brazil's financial system—namely, its fifteen largest banks—the

Table 3.2 Growth of the net profit of banks in Brazil (1995–2002 and 2003–2010)

Group	*1995*	*2002*	*2003*	*2010*
50 largest banks ($)	961,245	4,460,679	5,870,243	34,710,609
Growth	3.64		4.91	
15 largest banks ($)	3,039,655	3,800,193	4,174,662	32,705,806
Growth	0.25		6.83	

Notes (a) Following the procedure adopted by the Brazilian Central Bank, bank size is defined as the total assets owned by a bank minus its loaned credits; (b) all the numbers for net profit are based on the December balance sheet of any given year. Source of data: Banco Central do Brasil, Links: 1995: http://www4.bcb.gov.br/fis/TOP50/port/Top501995120P.asp; 2002: http://www4.bcb.gov.br/fis/TOP50/port/Top502002120P.asp; 2003: http://www4.bcb.gov.br/fis/TOP50/port/Top502003120P.asp; 2010: http://www4.bcb.gov.br/fis/TOP50/port/Top50P.asp (Accessed on July 25, 2016) comparison is even more revealing: they did substantially better with the Workers' Party in control of the central government.

Furthermore, in the midst of the aftermath of the subprime mortgage crisis in the United States, particularly after Lehman Brothers' bankruptcy in 2008, another episode of greedy behavior by private banks took place. In order to increase market liquidity and prevent a recession, Lula ordered the Brazilian Central Bank (Bacen) to liberalize part of the so-called "compulsory deposit" (it is essentially a portion of the resources that banks must deposit at Bacen for every financial asset that they own—for instance, a tiny fraction of an individual savings account). As stated by President Lula, this liberalization of the compulsory deposit amounted to R$100 billion (Alencar 2009) for banks to use—which was more than nine times the cost of the *Bolsa Familia* program in 2008. Interestingly, rather than loaning resources to customers to stimulate the economy (as the federal government had intended), private banks chose to "park" the money in safe investments, which demonstrates financial capital's attachment to its own profit rate, even at the expense of the national interest. In response to the continued scarcity of resources in the Brazilian financial market, the central government then changed its strategy: it ordered *Banco do Brasil* (the country's largest state-owned bank) to purchase shares of private banks which were facing difficulties. In other words, another "socialization of the debt" took place—this time under the PT's watch—and taxpayers' resources were once again used to heal private ailments.

Still with the same goal of preventing a recession and job losses, capital received additional concessions. This time, it was industrial capital that obtained help from the state. The auto-industry, the construction sector, and the white goods industry (which produces refrigerators, stoves, washing machines, among others) benefitted from a PT-mandated substantial reduction of the so-called tax on industrial products, or IPI in Portuguese. The cost to the public purse has been estimated in R$5.8 billion (Ministério da Fazenda 2010, 82). It turned out that this was actually the smallest assistance package given out to industrial capital under the PT presidency. As Lula stated in a 2009 interview, in this difficult situation, he decided to put the so-called BNDES (National Bank for Economic and Social Development, or Brazil's state development bank) into action:

> Some business sectors decided to slow down too fast; starting with the auto-industry, which was following guidance from their headquarters,

which were in a difficult situation… And some other sectors that had already secured loans from the BNDES also stopped [production], as no one knew what was going to happen. Then, we decreased some taxes, liberalized funding, and Meirelles [governor of Brazil's Central Bank] used money from our reserves to facilitate our exports… We had to talk with them, company by company. We had to discuss how to finance, how to prevent some companies from going bankrupt, and we put the BNDES into motion. (Lula's interview, in Alencar 2009)

Under Lula, the BNDES was retooled from its original task of using state resources to overcome the structural bottlenecks that the domestic bourgeoisie faced in countries of late capitalist development (Boschi 1979; Diniz and Boschi 1977; Evans 1982). Traditionally, most of BNDES-sponsored activities involved fostering large-scale domestic development projects, i.e., *within* Brazil. With the PT at the helm, the BNDES also became an instrument to fund the transnationalization of segments of Brazil's entrepreneurial class (Além and Madeira 2010; Novoa 2009). The idea was to facilitate the creation of not only "national champions," but of gigantic businesses with international reach, namely Brazilian companies that were mammoths in the domestic market, but which also had a global projection. An example of this is the exponential growth of the JBS-Friboi company, which, with substantial resources from the BNDES, has become the world's largest meat processing enterprises. Interestingly, the development bank now owns shares in this company. According to media reports, JBS-Friboi has received at least R$8.1 billion in resources from BNDES during the last years (Barrocal 2014). A part of these resources has been invested in the purchase of (formerly rival) meat companies in Argentina, Australia, parts of Europe, and the United States.

Other sectors benefitted as well from this strategy of creating "national champions." The telecommunications sector is a case in point, with the creation of Brasil Telecom, resulting from the merger of two other companies. Interestingly, the then-minister Dilma Rouseff opposed this particular deal. Although Rousseff favored the idea of a national champion in this sector (especially to create a Brazilian counterweight to the expansion of the Spanish Telefónica in Latin America), she was decidedly against the plan of creating a giant entirely on the state's back, i.e., without the injection of any additional private money (Lirio 2008). President Lula himself was adamant about moving ahead with the "national champion" strategy. Referring to the case of Vale (a Brazilian mining giant), the former leader of the Workers' Party spoke about the strategy, the imperative that these (publicly funded) national champions help turn an economic crisis around, and his disappointment with Vale's behavior in the midst of the 2008 international crisis:

> I did not intervene in Vale. We need to put an end to this habit of thinking that only the President of the Republic has responsibility for Brazil. The 190 million [Brazilians] also do. And the business class does even more; especially those who received benefits from the government. What I said to comrade Roger [Agnelli, Vale's CEO] was to ask that Vale use its resources in domestic investments, not only in the exploration of minerals, but also in their transformation into steel. Vale workers know how much affection I have for the company. I have been putting a lot of effort into opening space up for Vale to become a multinational company, with reach in several countries of the world. Now, what happened should not have taken place. At the first sign of a crisis, [Vale] fired a lot of people. Roger already knows that that was a mistake. (Lula's interview, in Alencar 2009)

Under Lula, this expansion of BNDES responsibilities was made possible by a substantial increase in the bank's funding. BNDES disbursed resources during Lula's years that were more than three times higher than those disbursed under Cardoso (Table 3.3). In fact, in 2009 these resources reached the level of 4.4% of Brazil's GDP (Ministério da Fazenda 2010, 53). This strategy of creating national champions has been the target of profound criticism from multiple sectors, as there is no clarity in the criteria behind the selection of either sectors or companies within them. In this sense, Lazzarini et al. (2011), for instance, found that some of the businesses selected for the national champion strategy have become important campaign donors, which creates serious ethical problems for this type of "development" project. In addition, it is important to mention that the BNDES' resources ultimately come from the National Treasury, and that the (increasingly high) volume of public financial injections into the development bank can also have an impact on Brazil's fiscal outlook, particularly its level of public indebtedness (Garcia 2010; Schwartsman 2010).

In July 2015, a parliamentary commission was created to investigate the expanded role of BENDES. It concluded its work in February 2016, when its final report was voted on. Although this document describes a

Table 3.3 BNDES' funding (1996–2009)

Year	*R$ (billion)*	*Year*	*R$ (billion)*
1996	10	2003	34
1997	18	2004	40
1998	19	2005	47
1999	18	2006	51
2000	23	2007	65
2001	25	2008	91
2002	37	2009	137
Average	21.4	Average	66.4

Source Ministerio da Fazenda (2010, 54)

series of wrongdoings in some of the BNDES lending practices, it fell short of listing the names of those responsible for these activities, as the opposition to the PT wished it would (Lindner 2016).[11]

Final Thoughts

What has been Lula's legacy? Undeniably, as demonstrated in the first part of this chapter, considerable social progress took place in Brazil under the two Lula administrations. The overall reduction in socioeconomic inequality epitomized the fulfillment of Lula's original electoral promise of an enlarged social contract.

This type of power project is in keeping with Brazilian tradition. Known as one of the key proponents of abolition in Brazil, Joaquim Nabuco (2012 [1883]), for instance, had already pointed, in the 1880s, to the incredible strength of the state in Brazil, and most importantly, to its capacity to re-craft civil society, in a kind of "revolution from above" (Nogueira 2010).

Did Lula carry out a social revolution from above? With the benefit of (just a bit) hindsight, it seems now that several of the PT social programs may have attained the status of "state policies," such as the *Bolsa Família* program. Other social advances made during the Lula years are now being dismantled, as they were not properly institutionalized, which is an indication that they were in fact governmental projects, rather than state public policies. Clearly, this dismantling hardly allows for making the case for a revolution from above, in terms of the expansion of social rights.

On the other hand, the evidence examined in this chapter unequivocally demonstrates that Lula's governments were clearly not at all antagonistic to the interests of capital, and that financial and industrial capital as well as landowners prospered. Rather than fighting with the PT-led government, capital, just like governor Ribeiro de Andrada had proposed in the 1930s, embraced the newcomer, in a gesture of, "if Lula will make the revolution, let us make it with him." Lula's years, thus, have the features of another chapter in elite adaptation and metamorphosis.

The former president seems to consider this outcome as part of the nature of things in Brazil, particularly as a byproduct of its extremely fragmented party system:

> Anyone who wins the [presidential] elections [in Brazil] – be he the greatest leftist in the country or the biggest rightist – will not be able to assemble a government that is not in keeping with the political reality [of this nation]. (…) Between what one wants to do and what one can do, there is a difference which is the size of the Atlantic Ocean. (…) Put all of this in the frying pan and you will realize that these are the eggs that the chicken laid. It is with them that you have to make the omelet. (…)
>
> I have never made political concessions. I make deals. (…) Whoever comes here [to the Presidency] will not assemble a government that is out of touch with political reality. If Jesus Christ came here, and Judas held a lot of votes in any [congressional] party, Jesus would have to call upon Judas to form a coalition with him. (Lula's interview, in Alencar 2009)

It might take many years for a strong institutionalized left to rise to power at the federal level, and to be able to test whether this is indeed the nature of things in Brazil. Or whether this country can expand its social contract and at the same time rein in the power of its socioeconomic elites.

Notes

1. Some authors, such as Ruckert (2009), criticize the conditional aspect of these cash transfer policies. According to them, it unduly coerces and disciplines the poor. Other authors (e.g., de Brauw and Hoddinott 2011), using empirical data with real beneficiaries, suggest that, depending upon the targeted audience and the issue, imposing conditions do shape

recipients' behavior in the way envisaged by public policy makers, ultimately contributing to boost human development indicators.

2. For critics of the argument regarding the "feminization of poverty" in Brazil, see Costa et al. (2005), and Macedo (2008).
3. According to a 2014 report by a reputable research institute (the IPEA), "from 2009 until June of 2014" this program "contracted the production of 3.6 million homes, with investments of approximately 225 billion Reals [70 billion USD]; 46% of the families" who received these homes "had a monthly income of less than 1,600 Brazilian Reals [or less than 500 USD]" (Ministério das Cidades 2014, 20).
4. FUNAI (the National Foundation for the Indigenous) is the entity responsible for issuing birth certificates to the indigenous children; the latter is called "Administrative Registration of Indigenous Birth" (RANI is its Portuguese acronym). In addition to having a high level of "under-documentation," the indigenous cannot count on the RANI as a guarantee of access to citizenship rights, as there are branches of the federal, state, and local bureaucracies which do not include the RANI in their list of acceptable official documents, further accentuating the problems of access that the indigenous in Brazil face (UNICEF 2005, 82).
5. Legally, the Brazilian government recognizes fifteen "traditional communities and peoples," such as the indigenous, the *Quilombolas*, the Romas, and several others. Not all of them are involved in the subsistence extractive sector. In 2007, President Lula decreed that the federal government must create and implement the "National Policy for the Sustainable Development of the Traditional Peoples and Communities," whose goal is to empower these groups with a view to improve their levels of human development in an environmentally sustainable way, and in a manner that respects and promotes their cultural traditions and norms (Decree 6040 2007).
6. Although Table 3.1 clearly shows that large properties did grow in number and in size, it is not possible, based upon these data, to make conclusive remarks about tiny properties (also known as *minifúndios*), small farms or mid-sized farms. The definition of the latter (in hectares) varies by municipality and over time. Even though this variation applies to all rural proprieties, there is a consensus in the literature that farms whose area encompasses above 1000 ha falls into the category of "large propriety."
7. The index varies from one to zero; the closer to one the index is, the greater is the inequality in land distribution.
8. There are strong legal limitations regarding the size as well as the location of rural proprieties that foreigners can purchase in Brazil. As this text is being written (in the initial months of the Temer presidency), there

have been several press reports stating that President Temer intends to enact laws relaxing these restrictions, with the argument that such pieces of legislation, when approved, will increase agricultural productivity in Brazil (Ninio 2016; Paraguassu 2016). President Temer's Minister for Agriculture, Blairo Maggi—world renowned as Brazil's "soybean king"–, is very supportive of the measure (Matais 2016). In 2005, Greenpeace awarded (the then-Governor) Maggi with the "Golden Chainsaw" trophy, for his businesses' alleged robust contributions to the deforestation of the Amazon (Globo Rural 2005). With his presence in high office, export-oriented agribusiness solidifies its political power at the very heart of Brazil's central government. President Dilma Rousseff, in an attempt to expand her base of support, had also nominated a Minister of Agriculture from this sector, namely Senator Kátia Abreu.

9. According to DIEESE (2014, 14), under Lula, the level of informal rural work went down from 68.4% in 2004 to 64.9% in 2009; but this change seems to be "more associated with the extinction of jobs or the migration to other sectors, rather than an increase in the formalization of previously existing jobs."
10. The same data from DIEESE show that the rural employment was actually growing in Brazil in the previous decades: From 15.6 million in 1960 to 17.6 million in 1970; 20.3 million in 1975; and 21.2 million in 1980 (DIEESE 2014, 7).
11. This chapter is being written in the midst of a massive corruption scandal in Brazil, known as Car Wash scandal. Several businessmen and PT politicians have already been sent to jail. One key former executive of a "national champion" construction company has reportedly stated in his plea bargain deal that BNDES executives would constantly ask for campaign donations to the PT and that Lula personally interceded to defend the interests of Brazilian construction firms in Latin America and Africa (Dias and Cruz 2016). It is important to state that, as of now, these allegations have yet to be proven in court.

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CHAPTER 4

Concentration of Assets and Poverty Reduction in Post-neoliberal Ecuador

Carlos A. Larrea and Natalia Greene

Introduction

While poverty in Ecuador declined from 46 to 30% and indigence went down from 19 to 9% between early 2007 and late 2014, inequality in the distribution of land and productive assets did not budge; during one of the most notably progressive of the post-neoliberal governments of South America, levels of concentration remained extremely high. President Rafael Correa and the leaders of his *Alianza País* movement promised an "agrarian revolution" and a transformation of Ecuador's "productive matrix", among other redistributive social and economic

Thank you to Edgardo Lander, Alberto Acosta, Belén Cevallos, and Miriam Lang for their comments on an earlier Spanish version of this chapter and to Louis Lefeber on the first English draft. We owe a special thank you, however, to Liisa North, who translated this chapter from an earlier longer work (Larrea and Greene 2015) and incorporated material from previous publications that she had co-authored with Carlos Larrea.

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L.L. North and T.D. Clark (eds.), *Dominant Elites in Latin America*,
Latin American Political Economy, DOI 10.1007/978-3-319-53255-4_4

measures. But no identifiable progress took place on these commitments. The Correa administration (2007) did achieve many real advances: taxes from booming petroleum prices were invested into income support programmes that benefited Ecuador's disadvantaged sectors; educational opportunities and access to public health care were improved; credit for popular housing increased and various other progressive initiatives were taken; and infrastructure projects, such as extensive road construction, provided employment for skilled and unskilled workers and had notable impacts on poverty reduction just about all over the country. Nevertheless, the data on land, capital, and income concentration analyzed in this chapter suggest that either politically powerful elites, the Correa presidency's own lack of capacity and political will, or a combination of the two, blocked fundamental redistributive transformation.

This chapter analyzes the data available on the distribution of land, income, and assets. Relying on a variety of census, internal revenue agency, and other sources, the chapter focuses on three questions: how much wealth do those at the top of the class system concentrate? Have changes taken place in the patterns of asset and income concentration? And to what extent has poverty been reduced and how might poverty be eliminated through redistributive measures?[1] From the outset it must be emphasized that social inequity is a multidimensional phenomenon. It cannot be reduced simply to material conditions, i.e. to inequality in the distribution of income and assets, although those are the central themes of this chapter. Other forms of inequity that will only be mentioned briefly here refer to ethnic, gender, and regional differences in access to reasonable levels of well being, and all of these are critical dimensions of exclusion in Ecuador. It is also necessary to clarify that the greater equality sought in the policy analysis and recommendations presented towards the end of the chapter does not imply the pursuit of homogeneity; rather, the objectives presented there presuppose mutual respect among the diversity of cultures and cosmovisions that compose Ecuador, especially with respect to its indigenous and Afro-descendant peoples. Progressive policies also presuppose positive changes in democratic participation and in the political-organizational capacities of those social sectors that are now excluded from policy making.

The first section of the chapter looks at the historic concentration of land ownership and the lack of land redistribution, despite agrarian reform laws that were decreed by military governments in 1964 and 1973, and the presidential campaign promises made by Correa in 2006. The second section turns to an analysis of five data sets that can be used to determine the levels of concentration of income and assets in the urban industrial and commercial economy between 2005 and 2014. The third section looks at poverty levels and labour income to identify the principal trends and changes that took place during the Correa administration in comparative Latin American and global perspectives. The fourth section analyzes, in a schematic and suggestive fashion, the question of how much income and what kind of assets would have to be transferred to excluded social sectors in order to reduce and eventually eliminate poverty in Ecuador. The chapter concludes by briefly identifying the kinds of policies, including asset redistribution, that the state would have to pursue to achieve those objectives.

Land Concentration and Lack of Agrarian Reform

The most reliable information on the historic distribution of land in Ecuador is provided by the agrarian censuses that were published in 1954, 1974, and 2000, years during which the rural population made up approximately 70, 58, and 40% of the total population, respectively. Besides the censuses, there are no other trustworthy national information sources, except perhaps for a 1968 agricultural "survey" and some other occasional survey data compiled by the *Instituto Nacional de Estadísticas y Censos* (National Institute of Statistics and Census—INEC). The information available on the impacts of the "agrarian revolution" promised by the Correa government, as discussed below, are fragmentary and incomplete.

The high levels of inequality reported in the 1954 agricultural census were only slightly reduced at the time of the 1974 census, although land reform programmes were decreed by military governments in 1964 and 1973. The concentration of land continued to decline over the decades, but only very slowly and very slightly, as recorded by the 2000 census; the Gini coefficients of the three agricultural census years were 0.86, 0.82, and 0.80, respectively (a measure in which 1 represents perfect monopoly).[2] The Correa government thus inherited very high levels of inequality in the countryside, a historic condition that dated back to the colonial period when the roots of today's inequitable and racially structured social order were established; even the modest clauses of the 1973 land reform law remained dead letters for the most part, despite the fact that the law was decreed during a moment of fiscal bonanza that provided resources for its possible implementation.

Large estate owners, above all in the highlands during the colonial period and the first half-century of independence, formed the dominant ruling class of Ecuador. As the agricultural economy expanded on the coast with the cacao (1850s–1920s) and banana (1948–1972) export booms, a diversified class of export-oriented landowners, merchants, and bankers joined the ranks of the traditional highland elites who produced mainly for the national market. These two regionally-based landed elites, the lords of agricultural labourers who worked in servile or semi-servile conditions well into the twentieth century, effectively ruled the country until the early 1970s when petroleum became the leading export commodity and accelerated broad social and economic transformations: rural-to-urban migration, the emergence of urban middle classes, and state-sponsored industrial promotion policies, among other changes. For the most part, however, the country's industrial groups emerged from the old ruling class of landlord families and thus blocked any significant land and agrarian reform in partnerships with foreign investors (North 1985; Conaghan 1988; Larrea and North 1997) (Fig. 4.1).

In the three agricultural censuses, properties of less than 1 ha represented more than a quarter of the total number of producers, but they occupied less than 1% of agricultural land. Properties of up to 5 ha made up two-thirds of all producers and occupied only 7% of cultivated and grazing lands. The producers with the least land were indigenous peoples, especially in the highland provinces where their numbers were concentrated; a survey conducted by INEC in 1998 found that 87% of rural indigenous people were cultivators but, on average, they owned only 0.65 ha, three times less than the average non-indigenous producer (Larrea 2008, 142).[3] Little changed in this overall pattern of distribution between 1954 and 2000 except for an increase in the number of properties (due to rapid population growth), and an increase in the area under cultivation (due to the expansion of the agricultural frontier, especially with the colonization of the southern coastal and Amazonian regions of the country).

Today, the concentration of land may actually be increasing on the coast with the cultivation of what have been called "flex crops"—especially sugar cane and African Palm—whose prices are relatively stable and therefore attractive to investors since they can be sold in multiple markets, as animal feed, for human consumption, or as alternative energy sources (Borras et al. 2012a, b). It is not clear to what extent the new highland export crops of the past 20–30 years—cut flowers, broccoli, and other vegetables—may also be contributing to the concentration of land and assets in parts of that region.

At the other extreme of the land distribution structure, properties greater than 100 ha declined from 64% of land in 1954, to 48% of land

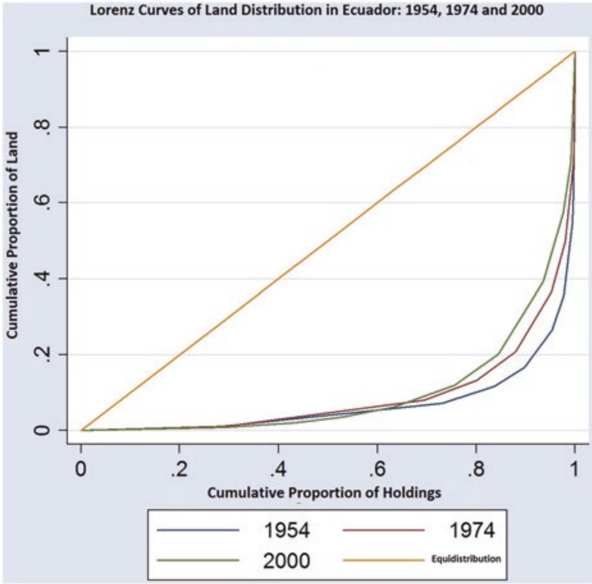

Fig. 4.1 Lorenz curves of land distribution in Ecuador: 1954, 1974, and 2000. The Gini coefficient is the most frequently used measure of asset and income concentration. It is the ratio of the difference between the line of absolute equality (the diagonal of a box made up by the percentage of income or assets against the percentage of population), and the Lorenz curve refers to the triangular area underneath the diagonal. *Sources* INEC, agricultural censuses of 1954, 1974, and 2000

by 1974 and 43% by 2000. Although these figures reflect the expansion of medium-sized farms between 1954 and 2000, the distribution pattern also results from a decrease in the size of all units due to population growth. Moreover, concentration may be considerably higher than the available data suggest since the ownership of multiple properties by landowning families, a quite common phenomenon, is not registered in the censuses. These families may also control entire chains of agro-production from credit and processing to storage and marketing (Martínez 2014, 50).

As for regional differences, it is in the indigenous highland provinces where agricultural property remained most concentrated and the Gini coefficient of land distribution declined the least, remaining at 0.81 in the year 2000. The coastal region's overall Gini was somewhat lower, at

0.75 in 2000, as a consequence of the expansion of medium-sized and even small properties through the colonization and distribution of newly opened frontier lands for banana production in the 1950s and 1960s (especially in the province of El Oro) and a locally circumscribed land reform in rice-producing areas (in Daule in the province of Guayas) in the early 1970s (Redclift 1978; see also Larrea 2008, 135–138). While the Gini index was lower in the coastal region as a whole, one of its provinces, Guayas, the historic seat of Ecuador's landowning-financial-commercial-agricultural-export elite, concentrated in the port city of Guayaquil, at 0.836, registered the highest provincial Gini in the entire country (Alvarado and Vandecandelaere 2011, 59).

The agricultural frontier, defined as the total area of arable land, was occupied by the mid-1980s. Nevertheless, the area under cultivation continued to increase, expanding into regions with few agricultural possibilities, such as the high-altitude *páramos* (alpine tundra ecosystems) and the rain forests of the Amazonian basin, with potentially devastating environmental impacts. Comparing the data on the total area of land under cultivation and employment in agriculture—on the basis of the agricultural and population censuses of 1974, 2000 (agricultural) and 2001 (population)—there is no change in the number of persons involved in agriculture per hectare between 1974 and 2000. This rather surprising result arises from the very high pressure on land that exists in the peasant and family-farming areas of Ecuador. If the number of agricultural workers is the only considered variable, the number of hectares per worker increases rapidly, which is the evidence of the technical transformation and mechanization of capitalist agriculture, with the resulting migration of the excess labour from the countryside to the cities, especially evident in coastal areas.

In synthesis, despite agrarian reform laws in 1964 and 1973, and other social transformations related to rapid population growth and the considerable expansion of the agricultural frontier through colonization of the Amazon and the southern coast region, inequality in land ownership decreased only very slowly. The agricultural "modernization" law of 1994, inspired in neoliberal dogma and enacted by the conservative government of Sixto Durán Ballen (1992–1996), froze the existing maldistribution of land into place. The primary goal of that law was to create "efficient" land markets and promote capitalist agriculture, and certainly not to address the concentration of assets and poverty in the countryside. Thus, Ecuador has remained one of the countries with the highest land concentration in

Latin America, the continent that suffers from the highest levels of land concentration in the world (De Ferranti et al. 2003). The political capacity of landed interests to resist the implementation of even modest agrarian reform laws remained formidable, in Ecuador and elsewhere in Latin America (as other chapters in this volume document). It is not surprising, then, that the "agrarian revolution" that was promised by Correa, during his presidential campaign in 2006, has remained a dead letter.[4]

Although the regressive agricultural modernization law of 1994 remained in force until mid 2016, a national *Plan Tierras* was established by the government in 2010. In addition to selling some lands to peasant associations, lands that had been confiscated from the banking groups that were considered responsible for the meltdown of the country's financial system in 2000, the *Plan* provided titles to certain indigenous communal groups and provided the legal basis for some other redistributive measures. The total number of beneficiaries reported by the Sub-secretariat of Land of the Ministry of Agriculture, Livestock, and Fisheries (*Ministerio de Agricultura, Ganadería y Pesca*—MAGAP) in 2012 numbered only 3,048 peasants and workers who were organized into 45 associations, while the total amount of land involved in sales at "social prices" came to a mere 17,807.4 ha for the entire country (Martínez 2014, 60, Anexo No. 1 based on MAGAP data, 2012).

These meagre results contrast with those of a modest but important earlier programme negotiated by the Catholic Church with the Rodrigo Borja government (1988–1992) and foreign banks. It involved the exchange of a part of Ecuador's foreign debt to establish a rotating credit fund that allowed peasant organizations to purchase agricultural properties: 151 peasant communities and 9,235 families obtained land during the 1990s, mostly in conflictive indigenous highland areas, through the agency of a Church-linked rural development organization, the *Fondo Ecuatoriano Populorum Progresio* (FEPP) (North et al. 2003, p. 120). Moreover, after a nationwide indigenous *levantamiento* or uprising in 1990 and an indigenous March from the Amazonian city of Pastaza to the capital of Quito, the Borja government recognized titles to "territories" for various ethnicities in the Amazon region.[5]

The governments of Borja and Correa point to the importance of social mobilization in policy reform. As stated above, Borja had to deal with, and respond to a peak in indigenous mobilization across Ecuador, as manifested in the *levantamiento* (or uprising) of June 1990 when indigenous protesters cut off roads—and therefore communications and transport—between all the major cities of the highlands (Pallares 2007, 150–154). The earlier land reform laws of 1964 and 1973 had similarly followed major peasant mobilization and organizational successes. By contrast, the weakened peasant and indigenous organizations of the twenty-first century were not able to mount equivalent pressure to influence in any substantive way the direction of the new and controversial agrarian and water legislation offered by *Alianza País* in 2016. Although the new land law includes rhetorical flourishes about the social functions of property and the protection of the environment, similar to the neoliberal legislation of the Durán Ballen presidency, it relies on markets for redistribution and betrays a narrow technocratic approach to agrarian issues, an approach that favours large-scale export interests and agro-industrial enterprises (Daza 2016).

The Concentration of Income and Assets in the Urban and National Economies

The analysis of income and asset concentration presented here relies on five data sets:

1. The Central Bank's *Superintendencia de Companías* (Company Superintendency) data on income from sales and other sources for 24,418 enterprises in 2005;
2. 2010 INEC data on incomes for 485,824 business establishments;
3. EKOS corporation data on the incomes and profits of the 3,600 largest enterprises in 2014;

4 and 5. *Servicio de Rentas Internas* (Internal Revenue Agency—SRI) data sets for the year 2010, with one set for the amount of taxes paid by the 5,000 largest enterprises and another set on the capital stock of 75,118 that paid taxes.

All the sources include public enterprises, as well as foreign capital that is associated with national enterprises and is legally registered in Ecuador.

Although the four institutions collected information in somewhat different ways, their data are comparable and consistent enough with one another to provide sufficient evidence to argue that capital is highly concentrated in all sectors of the urban and national economy, in fact even more so than land. Moreover, there are no indications of trends towards de-concentration.

The data sets were variously processed by disaggregating them by provinces, principal branches of economic activity, and specific branches, utilizing the five-digit identifications of the International Standard Industrial Classification (ISIC) of the United Nations.[6] Then, various indices of concentration were utilized for analyzing each of the data sets.

The four indices that were used to conduct the analyses are:

1. The Herfindahl–Hirschman Index, used for estimating the level of oligopolistic concentration in a branch of the economy, was applied to all 650 branches of the database. Its range varies from 0, which implies perfect competition, to 10,000 in the case of complete monopoly.
2. The Gini coefficient applied to all the enterprises and also disaggregated by province, principal branches, and specific detailed branches.
3. The Atkinson coefficient with the same disaggregation as above.
4. The Thiel index with the same procedures as above.

The first data set—the Central Bank's *Superintendencia*—presents income from sales and other sources for 33,362 enterprises in 2005, i.e. before the election of Correa; of those enterprises, 24,418 reported profits and were included in the analysis presented here. The information was classified by ISIC branch of activity, specified with five digits, and by province. The data set includes information on all legally established businesses that report on a regular basis to the *Superintendencia*.

The Gini coefficient for the incomes of the 24,418 enterprises that reported profits stands at a surprisingly high 0.902. The 100 largest enterprises concentrate 36.5% of all income; the top 1% (244 enterprises) concentrates 50.8% of the total while the first decile (the 2,442 largest enterprises in Ecuador) earns 85.9% of business income. The 25 largest enterprises in the country alone concentrate 19.6% of all business income.

The 12 largest enterprises (with 12.2% of all income), as might be expected given the importance of petroleum as Ecuador's leading export sector since the early 1970s, include three petroleum corporations; four of the largest function in the modern communications sector that has experienced exponential growth in the past two decades; two are supermarket chains, another rapidly expanding sector that is displacing large numbers of smaller grocery stores and therefore attests to a concentration trend; two export houses that market the country's traditional agricultural exports from the coast; and one company that produces vehicles, a new sector of the economy.

The regional concentration of income that emerges from the *Superintendencia* data is also notable: 50.3% corresponds to Pichincha, the highland province in which the capital city, Quito, is located, and 37.3% to the province of Guayas, where the country's largest city, Guayaquil, is found; only three other provinces register more than 1% of business income (Azuay, Manabí, and Tungurahua), the remainder being distributed among the other 19 provinces (Ecuador is politically divided into 24 provinces).

The data on enterprise ownership, as reported by the *Superintendencia*, paints a similar but somewhat less-concentrated provincial picture: 54% of enterprises located in Pichincha; 30% in Guayas; 7.4% in Azuay, a southern highland province where the city of Cuenca, the provincial capital, acquired UNESCO World Heritage Trust status and developed a thriving tourist industry while becoming a site for settlement by retirees from the North with relatively high purchasing power; 3.4% in the central highland province of Tungurahua, well known for its small- and medium-scale industrial and commercial development and relatively equitable land tenure system; and the remainder, with less than 1% for each province, with the exception of the coastal province of Manabí, where 1.2% of the country's business establishments are located (www.supercias.gov.ec).

The analysis of the *Superintendencia* data using the other indices of concentration—Thiel, Atkinson, and Herfindahl–Hirschman—yields similar results for the nation as a whole and for each one of the provinces.

Turning to the *Superintendencia* data on the distribution of enterprises by branches of economic activity, the most important are foreign trade and wholesale marketing (22%), retail marketing (14%), agro-industry and industry (excluding textiles) (12.4%), and transport (10.3%). Agriculture and ranching represent 4% (in this branch, the majority of enterprises are not registered) and agro-industry by itself reaches a rather high 7.3%. Of the 630 detailed branches in the ISIC classification, 73 (11.6%) enterprises are monopolies and 62 (9.8%) are duopolies; 42% have as many as five enterprises, and 58% have as many as ten. Moreover, branches with a large number of enterprises are often classified under categories that are very broad or ambiguous; for example, classifications, such as "importers", "exporters", "without classification", and "other services provided to enterprises" appear in the data. These categories could hide potential concentration, as for example, in bananas where only two large exporters are present.

Although a reduced number of great enterprises concentrate a high percentage of incomes, the possibility exists that the base might be more homogenous, with less inequality among the medium-sized and small companies. The disaggregated information by province and specific branch, however, when analyzed with the Gini, Atkinson, and Herfindahl–Hirschman coefficients, suggests that this is not the case. Inequality runs through the entire distribution; it is high in all branches of the economy and in all provinces. Even provinces that are well known for their large number of small-and medium-sized enterprises, such as Azuay and Tungurahua as indicated above, register high Ginis of 0.848 and 0.894, respectively. The Herfindahl–Hirschman index, at an average of 2,303, is considerably higher than the same index reported for US industry; in that country during the same time period, it oscillated between 200 and 2,000 in relation to the different branches of the US economy (US Census Bureau 2006).

From a conceptual perspective on subsystems or vertical integration of branches, agro-industry and the marketing of agricultural products are particularly important, and export commercialization especially so. Agro-industry appears to be one of the branches with the greatest levels of concentration, with a Herfindahl–Hirschman index of 3,795. Although the levels of concentration by branch of exports do not appear to be high in the data presented by the *Superintendencia*, the oligopolistic concentration of international trade in bananas at the global level, as well as in Ecuador, is well known; indeed, five great enterprises, one of them Ecuadorean, control the world banana trade (FAO 2004).[7] The concentration of capital in agro-industry and international trade, moreover, should be considered in light of the information provided above regarding the very high level of land concentration and ownership of multiple properties by kinship-based economic groups discussed below (Fierro Carrión 2016).

In synthesis, the available information suggests very high levels of oligopolistic concentration in the national economy, and the highest levels of all in the branches linked to the processing and commercialization of agricultural products for export. The sale of agricultural products, for processing or export in branches that are highly oligopolistic, takes place at relative prices that lower the subsistence conditions of peasants and small producers, and reduce the participation of medium-sized and even large producers in the aggregate value of the product, generating high levels of profits for the processing and commercialization enterprises that control the market. By contrast, the markets of small- and medium-sized producers are generally competitive and little concentrated.

It must be noted that the *Superintendencia* has information about a very large number of enterprises; nevertheless, the information is only about those enterprises that function in the formal sector of the economy. The *Superintendencia*'s data do not include all enterprises, since not all segments of the economy are registered, and segments made up almost exclusively of small enterprises are not included. We turn below to the other sources that complement the *Superintendencia* data with more recent and comprehensive information.

The second source analyzed here is the Economic Census of 2010 (about 4 years into the Correa presidency); these data are available to all members of the public. The Census included 511,130 establishments, of which 485,824 provided information on incomes that were used to calculate the Gini coefficient (without trying to incorporate into the analysis the costs of production since many enterprises did not report them or they provided incomplete information). The Gini turned out to be extremely high, at 0.964. The top 1% of the enterprises in the data set (4,866 in total) concentrated 85.8% of all income and the top 5% amassed 93.7%. The data utilized may not be as precise as one might wish since it is provided by the informants or companies themselves; nevertheless, whatever the limitations of the data might be, they do confirm the information presented by the other sources concerning the very high concentration of capital.

The Economic Census of 2010 also sheds light on the regional concentration of economic activity. Pichincha absorbs most of the income (46%), followed by the provinces of Guayas (27%), Azuay (7%), Manabí (3%), Tungurahua (2.2%), and Imbabura (1.7) with its leather goods sector in the town of Cotacachi and a famous indigenous Saturday textile market in Otavalo, both favoured by tourists and retirees from the North as well as Ecuadoreans (Viteri 2015). When the data is analyzed by branch of economic activity, a high level of concentration is confirmed again, except in the hotel and restaurant sectors that are linked to tourism, a sector that has grown and spread around the country during the last two decades.

The third source of data, the ranking of the 5,000 largest enterprises by the *Corporación EKOS*, dates from 2014 (about 8 years into the

Correa presidency). The data set identifies, for each of the enterprises included, its branch, its income, and its profits (EKOS 2014). The distribution of profits was analyzed for 3,600 cases with complete information, with the Gini reaching 0.833 for the entire database. It is worth noting that the number of enterprises is much fewer than the 24,418 of the *Superintendencia*, but *EKOS* too confirms the high levels of concentration. It should also be noted that because the EKOS database is much smaller, the Gini will be lower since only the largest enterprises are included in the measure.

The two last sets of data come from the *SRI*, i.e. Ecuador's internal revenue agency, for the year 2010 (about 4 years into the Correa presidency), but they differ with regard to the number of cases included and the variables presented. The first of these sets includes the 5,000 largest enterprises with regard to branch of economic activity and the amount of taxes paid. The second set includes all 75,119 enterprises that submitted tax declarations, and it reports on their capital stock (*patrimonio*) and the branch of economic activity, with up to six digits of the ISIC classification. In this case, the Gini for the 5,000 largest enterprises reaches 0.812. There is some variation in concentration with regard to different branches of economic activity, with the lowest figures among hotels and restaurants (0.516), agriculture (0.666), and fisheries (0.559). The highest concentrations are to be found in transport and communications (0.921), manufactures (0.796), and mining (0.835).

In synthesis, three of the information sources do not cover the complete universe of enterprises in the country. The two exceptions are the economic census (although it is not entirely reliable), and the complete report on enterprises that paid taxes, that actually may cover the entire stock of capital in Ecuador. Moreover, the variables presented in the five sets are also different. Despite these differences and difficulties, however, and others that are not detailed here, overall the data sets are consistent with one another in recording a very high concentration of productive capital and income. The Gini coefficients that emerge from all five data sets are higher than 0.8 (see Table 4.1).

The consistency of the results from the different data sets suggests that, beyond issues of specific limitations in any one of them, any errors and omissions in the way in which the data was collected, or differences that result from the various statistical procedures, the concentration of capital in Ecuador is very high. Indeed, it is worth reiterating that it is higher than land concentration. Moreover, concentration is found in all

Table 4.1 Gini coefficients on the concentration of enterprise capital in Ecuador

Source	*Variable*	*Number of enterprises*	*Year*	*Gini coefficient*
Superintendencia de Compañías	Incomes	24,418	2005	0.902
INEC Economic Census	Incomes	485,824	2010	0.964
EKOS	Profits	3,600 largest	2014	0.833
Internal revenue A	Income taxes	5,000 largest	2010	0.812
Internal revenue B	Capital stock	75,118	2010	0.955

Prepared by the Socio-Environmental Research Unit, Universidad Andina Simón Bolívar (UASB)

branches of economic activity although there are important differences among them (e.g. the lower concentration in hotels and restaurants), and no trends toward de-concentration can be identified in any of the five data sets.

Finally, it should be noted that these statistical data are compatible with the data and analysis presented some 25 years ago by Luís Fierro Carrión concerning the concentration of financial capital in Ecuador and his updated analysis of degrees of concentration in 2016. Moreover, he documented how the same family surnames appear in the directorships of "banking [and] savings institutions, export houses, commercial enterprises, incipient industries, and great plantations" (Fierro Carrión 1991, 147). Since the ownership of dozens of enterprises by one family group, in different sectors of the economy and different regions of the country, as analyzed by Fierro and others, cannot be captured from the tax agency, census, and other data analyzed in this chapter, the actual degree of concentration of capital is even higher than all the measures presented here suggest. In a recent update of his original study, Fierro Carrión furthermore argues that, during the years of the Correa presidency, the principal economic groups have become even stronger than they were 25 years ago (Fierro Carrión 2016, 32).

Poverty and Inequality: Labour's Share

A principal cause of social inequity arises from the structures and social organization of production that deprive people of the possibility of living a dignified life and enjoying access to basic necessities. In this section, poverty, indigence, and inequality are analyzed through data on household incomes, with poverty and indigence defined as structural syndromes that prevent access to the basic necessities of life. To measure them, a household is considered poor if its income is below the amount considered necessary to access a basket of basic goods and services that satisfy nutritional, educational, health, and housing needs. A family or household is considered indigent if its income is below what is necessary to satisfy its nutritional needs.

The sources for conducting this analysis are the employment surveys of the INEC, and the period analyzed extends from 2007 to 2014, years during which a significant reduction in poverty took place. INEC conducts surveys in urban areas every 3 months, and it generally conducts national surveys that include rural areas twice per year. These surveys were processed by utilizing a poverty line of $90.30 monthly dollars per person at 2014 prices, and a $44.85 line for indigence (Ecuador adopted the US dollar as its national currency in 2000).

In general, social conditions improved considerably during 2007–2014 as Ecuador benefited from exceptional increases in the price of its principal export product, petroleum, creating a fiscal bonanza with no precedent in the country's history, with the possible exception of the 1972–1982 petroleum boom years. Correa's government used the new resources to pursue socially inclusive policies, with significant new spending in education and health, accompanied by labour policies that expanded social security programmes, significantly improved real wages (with the elimination of subcontracting), expanded the public sector and investment in infrastructure, thereby generating employment, and increased conditional cash transfers to the poorest households. As a result, social conditions improved significantly. In particular, access to public secondary education increased considerably and investments in public health led to an important reduction in infant mortality. Today, Ecuadoreans can expect to complete their primary and secondary education, which is free in the public system. Social security legislation has been extended to groups such as construction workers, domestic employees, and many agricultural workers who had no access to benefits before *Alianza País* took action in these areas.

A principal policy goal of the *Alianza País* government has been the strengthening of the state's social and economic role and its administrative capacity to deliver the investments in education, health, science and technology, and the social and labour protections described above. The objective was to reverse the dramatic declines that had taken place in these areas during the two previous decades of neoliberal policy dominance, the “long neoliberal night” in the words of President Correa.

As a consequence of these socially inclusive policies, poverty was reduced from 46 to 30%, and indigence also declined significantly, from 19 to 9%. Inequality in the incomes of households, according to the INEC data, also declined from a Gini of 0.547 to 0.476 between 2007 and 2014 (see also Larrea 2013; ECLAC 2012). These are remarkable improvements. Nevertheless, certain qualifications are necessary.

First of all, the INEC surveys in general capture data from labour income and not the totality of household income. The income from capital is greater than income derived from labour, and it is both highly concentrated and not included in the INEC data. Therefore, the Gini coefficient derived from INEC surveys incorporates only a part of family income in Ecuador, and it underestimates the degree of its concentration.

Second, the reduction in poverty and inequality did not take place in a homogenous and gradual manner. Rather, for the most part it took place between early 2010 and mid-2012. The intervals of time before and after those dates record limited advances or stagnation. The years from 2007 to 2010 were affected by the international financial crisis of 2007–2009, and the reduction of petroleum prices in 2009. Petroleum prices increased between 2010 and 2012 and then started to decline again. Social improvements thus correlated with the availability of fiscal resources, especially from petroleum exports and loans obtained from China.

Third, beginning in 2012 the lowered pace of economic growth in Latin America and Ecuador, and the decline in the international prices of the primary export products of the region, particularly after 2014, accompanied by the deceleration of growth in China and the prolongation of the international economic stagnation (if not crisis), had an impact on slowing and even reversing improvements in social progress in most Latin American countries, including Ecuador. Indeed, poverty rates began to increase again in Ecuador, from 30% in December 2014 to 33% in July 2016; at the same time, underemployment went up from 31 to 39%, and the Gini coefficient of household income deteriorated as well (data analyzed by the Socio-Environmental Research Unit, Universidad Andina Simón Bolívar/UASB).

Fourth, Ecuador, again similar to other countries of varying political complexions in the region, is vulnerable in the new and less favourable international economic context as a consequence of the limited results of the attempts to generate economic diversification, the low productivity of labour, and high levels of dependency on the export of primary products. In the case of Ecuador, there are two additional factors that need to be taken into consideration with regard to its insertion in the global economy: its limited petroleum reserves and the adoption of the US dollar in 2000 as the official currency, a policy decision that generated a permanent "Dutch disease" effect (i.e. the over valuation of the currency). Indeed, the high price of the dollar encouraged imports, discouraged exports, and nullified all attempts to transform the "productive matrix" through selective import substitution (Ospina 2015).

Fifth, despite the social advances that were made during the Correa presidencies, a third of the population continued to live below the poverty line, indigenous peoples were still the poorest among the poor, rural social conditions lagged far behind those in urban centers, and the Gini coefficient of labour income is high, a fact that places the country in a comparatively unfavourable international situation with regard to social achievements. Thus, overcoming poverty and inequity continues to be an ethical imperative and should remain a policy priority.

Finally, it should be noted that economic solvency is not the only explicatory factor for the social advances registered in the INEC surveys. In fact, an ideological shift of sorts took place all over the region as the types of social policies that were pursued by the Correa government were also pursued over most of Latin America during the commodity boom years, and they yielded similar results, with significant improvements in social conditions even in those countries that were not led by left-leaning governments. For example, according to ECLAC between 2004 and 2012, poverty declined from 48 to 33% in Colombia and from 49 to 23% in Peru, two countries with conservative governments, in comparison to a reduction from 51 to 32% in Ecuador (ECLAC, CEPALSTAT).

Policy Alternatives for Reducing Poverty and Inequality

In the analysis presented below, we will argue that it is technically possible to eliminate poverty in the course of two decades by transferring income from the wealthiest groups, especially the top 10% of income earners, to the lowest income groups. Such a transfer would involve increasing taxes, rather moderately in fact, as well as pursuing certain other policies that will be only briefly outlined here. The argument that is presented is technical, with reference to amounts of resources that would be involved; it is not political-economic, which would necessitate an analysis of the differing capacities of social classes and class sectors to pursue policies to accomplish the resource transfers that are involved in the calculations. In this respect, it is worth stating that, in contrast to all previous governments since Ecuador's return to democracy in 1979, no important businessman has headed a ministry during Correa's presidencies; and yet "the weight of great enterprise within the economy has not ceased to grow" (Ospina 2015, 3). It certainly has not diminished, as the data analyzed here demonstrate.

Traditionally it has been argued that economic growth is the most effective way to reduce poverty, and that it is possible to reach an acceptable distribution of the social benefits of growth through the generation of productive employment and other processes (such as land purchases) through "transparent" market mechanisms. This has been the position of the International Financial Institutions, like the World Bank and the International Monetary Fund (IMF) since the debt crisis hit Latin America in the early 1980s. To be sure, market mechanisms have led to a certain reduction of poverty in countries with high growth rates, such as China and India, and the combination of growth and inclusionary policies have brought favourable results in many parts of Latin America during the past decade. Nevertheless, the persistence of high levels of inequity and its expansion at the global level during the past four decades have reduced the potential social benefits of growth and led to the current situation in which about half the world population, and a third of the population in Latin America and Ecuador, continues to suffer the effects of poverty (UNDP 2013, 2014). In other words, the market by itself will not resolve the problems of inequity and inequality, and the capitalist market, in and of itself, generates concentration of assets and incomes (see, for example, Piketty 2014, among recent comprehensive presentations of this argument).[8]

For this chapter, a two-step analysis was conducted to identify the resource transfers that would be required to overcome poverty in Ecuador. First, a quantitative representation of the social distribution of the total incomes of households in the country was constructed, on the basis of (1) the national distribution of labour incomes available from a recent survey completed by the National Survey of Urban and Rural Employment (*Encuesta Nacional de Empleo Urbano y Rural*—ENEMDUR, June 2014), and (2) a projection of incomes from capital, based on the most complete sources reported by the SRI. The resulting distribution was calibrated with reference to the national accounts. In the second step, a simulation was created for a hypothetical situation in which poverty was completely eliminated, and the total amount of resources necessary to eliminate poverty was calculated, on the basis of income transfers, principally from the richest 10% of income earners. The proportion of resources required was evaluated with a technique of calculating increasing proportions that would have to be transferred in relation to the total income of each fraction of income earners (see Fig. 4.2 for the results of these procedures). The population was divided into 200 income segments, organized from the poorest to the wealthiest.

The first step provided an approximation of the real distribution of household income in Ecuador, including labour income captured by the ENEMDUR survey and the imputed income from capital (from SRI data, as discussed above). Given the limitations of the sources, and above all the difficulty of knowing the distribution and real magnitude of income from capital, a precise estimate is not possible; rather, the goal is to arrive at a reasonable approximation of the real distribution of income in Ecuador, with the objective of evaluating the order of magnitude of the resources that would be required to eliminate poverty, especially through redistributive policies. The values obtained through this analysis, therefore, should be considered as only a first general approximation of the real distribution of income in Ecuador. This is the case since the margins of error may be quite great and some variables are not included—for example, capital income that does not derive from property, the taxes paid for income from capital, the effective returns to capital in relation to the size of investments.

The household surveys capture labour income quite adequately, and they also capture a small fraction of income from capital. In order to evaluate the proportion of income captured by the surveys, the income from those surveys was compared with the corresponding value in the national accounts. It was found that the household surveys covered 39% of total national income. This value is consistent with international estimates, according to which wages (which form the principal part but not all of labour income) have amounted to between 24 and 32% of GNP in Ecuador during the last decades (Feenstra et al. 2013). Assuming that the 61% of GNP that is not reported in the household surveys corresponds to income from capital, it has been added to the household incomes, which results in a projected distribution similar to the one obtained from the data on the ownership of enterprises available from the SRI, i.e. if one conservatively accepts a homogenous profit rate among enterprises. It is assumed that capital income is distributed among the richest 33% of the population. This is also a conservative supposition since the percentage may be much smaller. In any case, through this analysis, the resulting distribution of income has a Gini coefficient of 0.786 and can be found in Fig. 4.2, which also includes the Lorenz curves for labour income, the imputed incomes of capital, and the simulated distribution, which is explained below (Fig. 4.2).

It is clear that income, as calculated through this analysis, is concentrated among the richest 1% of the population, who represent approximately 20,000 households, whose total incomes are equivalent to 54% of the GNP. In this group, income from capital represents more than 90% of total income. Although these estimates cannot be considered to be precise, they do provide a reasonable and well founded estimate of the concentration of income in Ecuador on the basis of the available data.

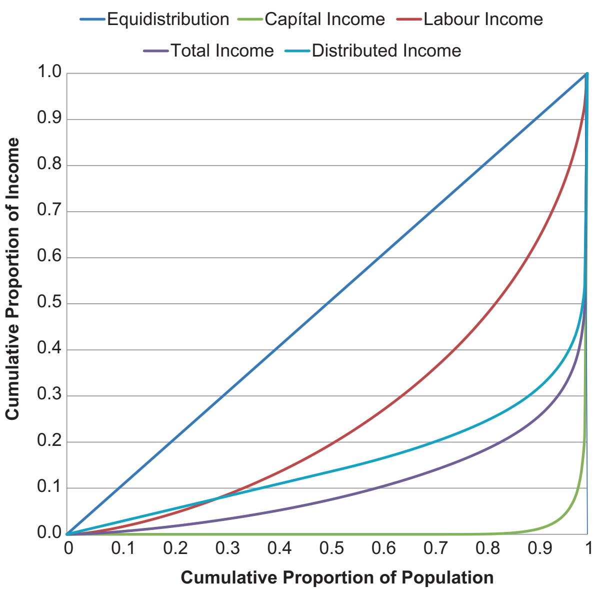

Fig. 4.2 Lorenz curves: Labour income, capital income, total income, and distributed income. Prepared by the Socio-Environmental Research Unit, UASB, from INEC 2014 and SRI 2010 data

To turn to the next step in the exercise that we conducted, a hypothetical scenario was created in which poverty and social vulnerability are eliminated completely in Ecuador, maintaining the 2014 level of per capita income of the country. Social vulnerability is defined as a situation that affects a household when its family income per person is below the line of vulnerability, which is equivalent to 1.5 times the level of poverty. The questions then posed are: first, what proportion of 2014 GNP has to be transferred to the affected families in order to eliminate social vulnerability? And second, to what extent would the incomes of the richest families be affected by the required transfers?

In the simulation, it was found that the elimination of social vulnerability, and therefore of poverty, can be achieved at the 2014 GNP level with the transfer of 6% of the GNP. The idea here does not refer to a mechanical transfer through increments to existing conditional cash transfers like the Human Development Voucher. Rather, the central idea is a medium-term expansion of the human capacities and capabilities of vulnerable households through integrated public programmes that involve: greater investment in education, health, and housing; greater access to credit, technical assistance, and work training; the creation of mechanisms of territorial development formulated with respect to the resource endowments and characteristics of the different regions of the country; and critically, increased access to land, water, and appropriate technology for peasants and small producers to generate increased employment and wellbeing in the countryside and thereby reduce pressures of migration to overburdened cities (e.g. Berry 2015). The coherent application of these policies during the course of various years could lead to the elimination of poverty. The objective of this chapter is not the design of such policies but the demarcation of their general content and their technical feasibility in the context of the current resources available to Ecuador (see Table 4.2). The blockages to the pursuit of such policies of distribution are political and social, not technical.

Conclusions

The analysis presented here demonstrates that impressive social advances were made during the past decade and especially during the boom years of high petroleum prices; there can be no doubt about the benefits of the increments in cash transfers, the employment and incomes generated

Table 4.2 Simulation for the elimination of social vulnerability, poverty, and indigence

Social situation	*Minimum monthly income ($)*	*Transfer as % of GNP*	*Maximum additional tax contribution of top 1% (% of total income)*
Vulnerability	135.45	6.01	10
Poverty	90.30	2.17	3.5
Indigence	44.85	0.31	0.5

Prepared by Socio-Environmental Research Unit, UASB

by massive infrastructure programmes, and investment in health care and education made by the Correa government. Nevertheless, on the basis of the analysis of data on land tenure and the data sets that can be used to determine levels of asset concentration in the economy as a whole, it is also clear that no redistribution of assets—land or capital—has taken place. The improvements in social conditions, moreover, were made possible by conditions external to Ecuador: very high petroleum prices in particular and especially from 2009 to 2012, prices that were largely sustained by spectacular economic growth in China.

There is no evidence to argue that a transformation of the "productive matrix", or productive diversification, has taken place in Ecuador during the Correa presidencies or anywhere else in South America, as both "new left" and conservative governments continued to rely on the extractive economy. Indeed, economic analysts refer to a re-primarization of the Latin American economies during the twenty-first century. Thus, the foundations for a more diversified and sustainable future have not been laid in Ecuador or in the region, although substantially increased investment in education by the Correa administration could augur well for the country's future.

Inequity and inequality continue to be very high in Ecuador and may worsen again as the commodity boom comes to a close, since the social improvements of the Correa years have been dependent on the high commodity prices of international markets. In fact, the Gini concentration of income may be as high as or higher than 0.78, if income from capital is included in its measurement. This level of inequality is not acceptable in equity terms, especially when we consider the fact that, on the basis of the analysis presented here, an income transfer of as little as

6% of GNP—primarily through increased taxation of the wealthiest sectors—could eliminate social vulnerability and poverty in Ecuador within a period of approximately two decades, i.e. if the types of policies suggested here were coherently pursued.[9]

Notes

1. More information about the data sets used and the analyses conducted, including numerous graphs and tables, is available in the published Spanish version (Larrea and Greene 2015) on which this chapter is partly based.
2. Indigenous community lands in the highlands and coast are included in the agricultural censuses. However, the “territories” of Amazonian indigenous groups are not. They involve a form of indigenous sovereignty over extensive areas and are not equivalent to a form of land “ownership”.
3. According to the 2010 census, indigenous peoples made up 7% of Ecuador’s population, but their share was 11% in the highlands and 33% in the Amazonian region. These figures may, however, under record the proportion of indigenous since the census data are based on self-identification and, for a variety of reasons, people may wish to deny their ethnic status.
4. A document published by the National Secretariat for Planning and Development (*Secretaría Nacional de Planificación y Desarrollo*—SENPLADES 2012: 36) proposed that the government would reduce the land concentration Gini to 0.61 in the year 2013. As far as can be determined, the Gini had not budged as of 2016.
5. The groups whose territories were first recognized included the Huaorani, Kichwa, Zapara, Andoa, and Shiwiar; later, a Shuar Arutam territory was also recognized.
6. The ISIC identifies branches of economic activity, and the number of digits refers to the level of disaggregation.
7. This enterprise belongs to the Noboa family group that, according to Ecuador’s Internal Revenue Agency (SRI) data, owned 110 enterprises in various sectors of the economy, most of them in the province of Guayas. Álvaro Noboa Pontón also appears in the *Forbes* list of the richest men in the world.
8. See Skidelsky (2012) for a critical an analysis of basic human needs and a discussion of nature’s incapacity to sustain current patterns of economic growth in the world.
9. The negative impacts of the utilization of the US dollar as the country’s currency have not been factored into the analysis made here. It represents an obstacle to economic growth and especially to economic diversification; however, the issues involved in a possible exit from dollarization cannot be analyzed here; they require another work.

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CHAPTER 5

Rural Colombia: The Architecture of State-Sponsored Violence and New Power Configurations

Luis van Isschot

Introduction

In the small hours of October 6, 1987, a small caravan of merchants departed the city of Cúcuta on the Venezuelan border, bound for Medellín. Their overland route to the capital of the department of Antioquia, where they planned to sell loads of clothing, appliances, and other household items, would take them southwest along a new stretch of highway that cut through the war-affected Magdalena Medio region. Luz Marina Pérez said that her husband Antonio Flórez had misgivings about the journey. Antonio earned about $200 a month driving goods

The chapter is informed by my experiences as a human rights observer in Colombia during 1998–1999. It draws on field research conducted for my book on the origins of human rights organizing in the Magdalena Medio region. In addition to scholarly historical works, information from the reports of social activists and human rights organizations has been incorporated into the text.

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L.L. North and T.D. Clark (eds.), *Dominant Elites in Latin America*,
Latin American Political Economy, DOI 10.1007/978-3-319-53255-4_5

purchased in Venezuela for sale in Antioquia. He knew that illegal armed groups controlled the highway, and promised his wife that this would be his last trip (Inter-American Court 2004, 14). That same evening the merchants were stopped at a military checkpoint near the village of Puerto Araujo, Santander. Antonio and his companions were accused of trafficking weapons on behalf of the guerrillas. They were then taken to a ranch owned by one of the country's most notorious paramilitary organizers, and were never seen again. The case, known to human rights activists as *19 comerciantes*, is illustrative of the processes of militarized capitalist expansion underway in Colombia since the 1980s.

The Magdalena Medio became a crucible of dark forces. The emergence of a new ruling class in the region linked to paramilitarism was announced with the *19 comerciantes* massacre (Proyecto Nunca Más 2000, 251). It is believed that the massacre was committed under orders from General Farouk Yanine Díaz, the so-called "pacifier of the Magdalena Medio," former commander of the army's 14th Brigade in nearby Puerto Berrío, Antioquia. The killings were carried out at a ranch owned by Henry de Jesús Pérez Durán, the so-called "father of paramilitarism," an associate of the Medellín Cartel. The goods being transported by the merchants were sold off at paramilitary-owned stores, or distributed as "gifts" to anyone willing to collaborate with illegal right-wing *autodefensas* or "self-defense" forces. Military and paramilitary commanders convened open meetings in the region in the late 1980s during which weapons and safe-conduct passes were given to peasants as incentives to take up arms against guerrilla forces (Inter-American Court 2004, 74). Local residents accused of supporting the guerrillas were attacked. New highways provided drug traffickers and paramilitaries with easy access to what had long been considered a frontier region. In less than a decade, the area was transformed into a war zone.

In the wake of the *19 comerciantes* massacre, the Inter-American Court of Human Rights (IACHR) ordered Colombia to investigate paramilitarism in the Magdalena Medio. The national Office of the Inspector General organized a commission to travel through the region and conduct interviews with local community leaders. On January 18, 1989, 12 of the 15 members of the commission were massacred near the small town of La Rochela, located half an hour north of Puerto Araujo. The La Rochela killings were carried out by a mixed group of military and paramilitary fighters dressed as leftist guerrillas. Like the *19 comerciantes* massacre, the La Rochela massacre served the interests of regional elites, many of whom had connections to the army's 14th Brigade in Puerto Berrío, as well as Medellín-based drug traffickers. La Rochela was a message from local power brokers that outside interference, whether from Bogotá or international organizations, was unwelcome (van Isschot 2015, 155). These two cases, 19 *comerciantes* and La Rochela, together marked the start of the most brutal period of violence in Colombia's armed conflict, linked to the rise of new rural elites in economically dynamic regions of the country.

It is useful to think of Colombia's new right-wing elites in terms of longer historical processes of militarized capitalist expansion linked to agrarian and other export industries. The 1928 massacre of striking banana workers by the army in Santa Marta is one of the most notorious episodes from Colombian history, immortalized in *One Hundred Years of Solitude* by Nobel laureate Gabriel García Márquez. During the mid-century civil war known as *La Violencia* that began in the mid-1940s and claimed 200,000 lives, coffee production was closely associated with partisan fighting (Bergquist 1986, 368). Since the 1980s, cattle, coca, and palm oil have all fueled violent land grabbing by forces that are internal to Colombia and yet closely related to transnational capital. US military aid has been of central importance to this process, most dramatically through the $1.3 billion Plan Colombia, passed during the Clinton administration in 1999 (since that initial outlay US military assistance has totalled roughly $7 billion).[1] The increase in US military cooperation has been matched by Colombia's own military expenditures, which grew by 50% during the first decade of the twenty-first century, under the leadership of President Álvaro Uribe Vélez (Tate 2015, 230). The emergence of new power configurations in Colombia is a highly heterogeneous process in which regional elites work closely with military and government officials in response to local conditions that are influenced by transnational actors and the US military (LeGrand 1984; Vargas Velásquez 1992; Romero 1994; Medina Gallego 1990; Roldán 1998; Romero 2003; Richani 2007, 2013; Centro Nacional de Memoria Histórica 2013).

Nowhere is the rise of right-wing paramilitarism since the 1980s clearer than in the historic peasant farming areas along the strategic corridor of the Magdalena Medio, the vital transportation route located in the center of the country that was the site of the *19 comerciantes* and La Rochela massacres. This tropical lowland zone was mostly occupied and pacified by oil companies and Colombian state security forces through the first half of the twentieth century, but never so completely or so dramatically as during the long drug boom that began in the 1980s. The colonization of this large territory was carried out by violent entrepreneurs based in the city of Medellín in the department of Antioquia. As they advanced, they received backing from local elites, including landholders, small business groups, security forces, elected officials, and the media. To achieve dominance over the region and assert influence over Colombian national affairs, paramilitary groups eventually laid siege to and occupied the oil refining city of Barrancabermeja, the largest urban area in the region. Here, as in surrounding rural zones, the new elite displaced not only leftist guerrillas, but also social and political activists on the left.

Already in 1979, delegates to the National Agrarian Council in Bogotá had used the term "agrarian militarization" to denounce the processes of surveillance, regulation, and intimidation to which peasants were being subjected in the Magdalena Medio. The army had set up checkpoints near major town centers, and the movement of people and goods was controlled by means of travel passes and quotas, all under the terms of the National Security Statute of then President Julio César Turbay Ayala (1978–1982). A pamphlet distributed by the military read: "Peasant: collaborate with the army, avoid restrictions, do not allow your land to lose its real value, and your children's future to be put at risk" (Medina Gallego 1990, 156). The National Association of Peasant Users (*Asociación Nacional de Usuarios Campesinos/*ANUC) denounced the regulations imposed on the local economy by the Colombian armed forces, as well as the increase in arbitrary detentions, torture, and disappearances (Medina Gallego 1990, 152). While it did not call itself a human rights organization, ANUC used the vocabulary of human rights to communicate its members' urgent concerns to authorities and activists in Barrancabermeja, Bogotá, and abroad (Celis 2013, 5).

A corollary of this pattern of militarized capitalist expansion is the symbiotic decentralization and regionalization of the Colombian state and Colombian elites. As Nazih Richani writes (Richani 2013, 406):

> One would assume that the advent of the FARC-led insurgency in the 1960s would have changed the political stance of the landed elites towards strengthening the state, but this was not the case. On the contrary, these groups were and remained skeptical of the state's capability and willingness to protect their class interests…[with] increasing pressure of the insurgency on the landed elite in the 1980s, they dramatically increased their funding and support for private militias.

Richani argues that elites in Antioquia and the Magdalena Medio actively resisted the strengthening of the state at the end of *La Violencia* and through the current period of paramilitarization, essentially pursuing private and extralegal options for the growth and defense of their interests. As Mary Roldán shows, during the *La Violencia* of 1948–1958, the Colombian state was already "morally weak" and "organizationally dispersed" presence across the country. In rural conflict zones local state officials engaged in secretive politics in the service of "private and particular interests" (Roldán 1998, 106). The recent regional assaults upon the central state build upon its historical weakness.

The consolidation of new elite networks across Colombia connects regional and local landholders, elected officials, government administrators, and others. To these regional elite networks one must add a powerful class of supranational elites linked to oil, mining, finance, and other areas of the economy that exist above and across borders. Special consideration must similarly be given to narcotrafficking networks, not to distinguish them from other actors but to recognize their specialized dynamics and functions, including the rise of paramilitary groups financed by drugs and extortion.[2]

In the pages that follow, I argue that the conditions that gave rise to new power configurations have resulted in a significant restructuring of Colombian politics at the local and national levels, with a hardening of right-wing agendas. Judicial authorities have investigated hundreds of the men and women elected to municipal, departmental, and national office since Álvaro Uribe Vélez's rise to power in 2002 for their alleged ties to paramilitary crimes. In the decade since the so-called "*parapolítica*" scandal broke with the confession of former death squad leader Rodrigo Tovar Pupo, alias "Jorge 40," more than two hundred members of the national congress have been accused and dozens convicted (Human Rights Watch 2008, 74). Uribe himself has been dogged by allegations of ties to drug trafficking and paramilitarism for more than two decades.[3]

Since the late 1990s, a new class of power brokers has strengthened its grip in many departments of Colombia on the basis of export-led growth in agricultural and extractive industries that dispossesses local communities. The boom in coca cultivation for cocaine production has had a particularly distorting impact on land tenure, as has land grabbing for new agro-export industries, including so-called multi-purpose "flex" crops. The mining sector has similarly become emblematic of the changes underway (Studnicki-Gizbert 2016; Deonandan and Dougherty 2016).

In effect an agrarian and extractive counter-reform has been carried out in rural areas, with the support of armed action, both military and paramilitary, buttressed by US aid. In this context, new political coalitions have emerged to displace the longstanding Liberal and Conservative parties' stranglehold on politics, both locally and nationally. These "economies of violence" have thus brought the country's rural war zones under the control of new elites linked to national political power brokers and transnational capital. The influx of narco-dollars and the presence of illegal paramilitaries have had the paradoxical impact of making "governable" what had hitherto been considered outlaw frontier areas (Ballvé 2012, 203).

The new power configurations in Colombian politics have been enabled by neoliberal policies of decentralization, deregulation, and freer international trade. The visible political outcome has been the consolidation of a right-wing movement capable of shaping and even dominating national political debates on solutions to the country's intractable armed conflict. The right-wing surge has not gone unchallenged, however. At the local and national levels new progressive social forces and political parties have persisted despite a terrible uptick in threats and attacks. As happened during the talks with leftist guerrillas under the governments of Presidents Betancur (1982–1986) and Pastrana (1998–2002), the recent peace process has both invigorated and imperilled progressive political actors.

This chapter begins with a chronological look at the phases of political and armed conflict in Colombia, with attention paid to local dynamics, international links, and the emergence of popular and guerilla organizations. It then turns to the rise of the newer and more violent regional elites. The literature on paramilitarism places much emphasis on the emergence of new rightist groups as a response to the expansion of guerrilla insurgencies in the early 1980s, particularly the Revolutionary Armed Forces of Colombia-People's army (*Fuerzas Revolucionarias Armadas Colombianas-Ejército Popular*/FARC-EP). The focus has been on rural elites' displeasure with national government policies they perceive as pusillanimous, including attempts to negotiate with insurgents. While these analyses are important, they sometimes leave out key social actors, namely peasants, and independently organized peasants in particular. In some instances peasant organizational processes could be described as temporary, such as *éxodos campesinos* (peasant exoduses), during which large numbers flee from violence-affected regions and abandon their communities for weeks at a time to draw attention to the violence to which they are subjected. In other cases, the organizational processes are ongoing, sustained efforts to which thousands of peasants adhere over time, although the names and ideological affiliations of peasant groups may change. In either case, peasant resistance has played a major role in shaping right-wing political action at the local level.

The chapter then examines the processes of "agrarian militarization," whereby new, powerful, and violent organizations and groups emerged in the 1980s to confront popular mass movements, focusing on two regions in particular: the department of Antioquia and the Magdalena Medio. Not isolated cases, these intersecting regions demonstrate how certain elites, step by step, came to dominate strategically important rural zones through the capture of territory. In discussing patterns of domination, the chapter attempts to enrich the debates about peasant movements, access to justice, and state formation in rural conflict areas, as well as on the nexus of rural, urban, and international actors. A brief concluding section looks at the recent peace negotiations and the ways in which rural and regional politics have shaped Colombia's peace process since 2012. Notably, the plebiscite on peace with the FARC-EP held October 2, 2016, itself reflected the fundamental political divisions and variety of power configurations in the country.

The Historical Phases of Political and Armed Conflict

Colombian political life in the mid-twentieth century is reflected in the sepia-toned images of Liberal and Conservative leaders in white ties settling differences over glasses of whisky and soda inside Bogotá's Jockey Club. This most restricted of fraternities was established in 1874. It was so exclusive that it famously refused to admit the left-leaning presidential hopeful and Liberal-party-linked Jorge Eliécer Gaitán. From a modest *mestizo* background, Gaitán dedicated himself to social justice causes following the 1928 massacre of banana workers in Santa Marta. After a fact-finding mission to the Caribbean coastal region, Gaitán made stops in the working class port cities of Barranquilla and Barrancabermeja. At the latter he addressed the assembled crowd from the deck of a barge anchored in the harbor. Oil workers moved by his words were reported to have jumped into the Magdalena River to swim out and greet the man they affectionately referred to as *el caudillo* (Green 2003, 51).

Gaitán's murder in Bogotá on April 19, 1948, in the street outside his downtown office, half a block from the Jockey Club, provoked mass rioting that claimed hundreds of lives. From the perspective of the oligarchy, the forces of the *chusma*, the unwashed rabble, had been unleashed. The very worst of the fighting took place in and around Colombia's agricultural zones rather than the capital city. During the next decade Liberals and Conservatives fought bitterly, an epoch known as *La Violencia*, while peasant guerillas independent of the two parties also emerged in the countryside. After a decade of civil war that claimed 200,000 lives, traditional elites negotiated a political pact known as the National Front to alternate the presidency and divide political offices. The National Front would endure for the next 15 years (1958–1974). Both the Liberal and Conservative parties had long represented the interests of oligarchs—the great coffee producers, cattle ranchers, mining executives, industrialists, and bankers—and the veneer of ideological difference was now stripped away by the formation of the National Front. Meanwhile peasant guerillas, who had never entirely disappeared from the political arena, gained strength.

Understanding the character of Colombia's traditional elites and the transformations in the configurations of power during more than half-century of civil war requires special attention to local and regional as well as national and international dynamics. While the Jockey Club has long stood for restricted politics, the images of elite gentlemen gathered within its protective walls reveal little about the ways in which everyday power was and is exercised. In fact, the high-ranking Liberal and Conservative officials based in the capital had never directly exerted dominion over Colombia's fragmented topography. To be sure, the groups of landlords, industrialists, bankers, exporters, and mining executives associated with national political leadership structures articulated the most comprehensive state claims at mid-twentieth century. But to better understand the roles and character of elites after the outbreak of armed conflict in the mid-1960s, we must look to the frontier zones where local elites exercised their power with the support of private militia, foreign capital, and tightly knit clientelistic networks that acted on the basis of local concerns more than partisan politics. Here, heterogeneous elite coalitions clashed with peasants, laborers, Indigenous communities, and armed guerrillas that drew upon local traditions of radical politics.

Notwithstanding pressure from below, the official end of *La Violencia* in 1958 was resolved in favor of the country's elitist and exclusionary political establishment, resulting in the marginalization of popular sectors. The formation of the National Front may have brought peace between factions of the Bogotá elite, but it also ushered in a period of heightened class conflict. Social and labor movements denounced collusion between the traditional parties, oligarchs, and foreign actors, especially the petroleum corporations. During the period of the National Front, class struggle superseded partisan struggle. This dynamic was particularly evident in the Magdalena Medio.

In 1963, workers across the Magdalena Medio organized a strike that simultaneously shut down the operations of Shell, Texas Petroleum, and the state-run Colombian Petroleum Company (Ecopetrol). In response to the violent suppression of the strike by state security forces, the oil workers' union abandoned the Liberal Party and joined the Communist Party-affiliated Colombian Workers Union Confederation (*Confederación Sindical de Trabajadores de Colombia*/CSTC). In 1964, national student strikes at Colombia's public universities were violently suppressed by the military. The occupation of the campus of the Industrial University of Santander inspired a group of students from the Magdalena Medio's most important post-secondary institution to launch the country's first national guerilla insurgency, the National Liberation army (*Ejército de Liberación Nacional*/ELN). Without any means of making claims through the traditional party system, many Colombians turned to street protests, land occupations, and other forms of direct action.

While class polarization increased, US Embassy officials lauded Colombia as a model of stability. The country, they said, was a worthy recipient of foreign assistance because of the forward-looking attitudes espoused by its government, entrepreneurs, and middle classes (Taffet 2007, 153). They argued that "success" in Colombia would demonstrate the effectiveness of the Alliance for Progress, John F. Kennedy's anti-Communist "Marshal Plan" for Latin America, part of the US response to the Cuban Revolution. Colombia would receive US$430 million from the Alliance for Progress in addition to US$60 million from a Military Aid Plan, making the country the third highest recipient of US bilateral assistance to Latin America in the 1960s (Leal Buitrago 2002, 22–23). With the influx of new funding, much of it spent in areas of strategic importance such as the Magdalena Medio, conflict in the country deepened. By 1965, a second insurgency, the FARC-EP, had emerged in leftist enclaves to the south of Bogotá and in the Magdalena Medio.

Opposition to the National Front grew in multiple ways through the 1970s. The 1971 presidential elections resulted in a bitterly disputed victory for Conservative Misael Pastrana. He narrowly beat out third party candidate Gustavo Rojas Pinilla by around 63,000 votes, or less than 1%

of the electorate.[4] The results were a shock to many Rojas Pinilla supporters who took to the streets to celebrate when early returns showed their candidate ahead by a comfortable margin. Vote counting was interrupted on election night when the government in power declared a state of siege to control the pro-Rojas Pinilla crowds, leading to accusations of electoral fraud (Bushnell 1993, 230). Rojas Pinilla's defeat in the 1970 election would inspire the establishment of a third armed guerrilla group named for the day of the election, the *Movimiento 19 de Abril*, or M19.

Misael Pastrana was succeeded in office by Alfonso López Michelsen (1974–1978), a left-leaning Liberal who had opposed the National Front. Regional coalitions comprising labor and new social movements grew in importance during this period, culminating in an historic 1977 national strike. The *Paro Civico Nacional* required careful planning between local committees, strengthening the links between urban and rural groups. In response to the national strike and popular mobilizations, the new Liberal President Julio César Turbay Ayala (1978–1982) adopted a National Security Statute 1 month after assuming office. The law enforced strict rules around freedom of association and assembly and empowered the Colombian armed forces to arrest and prosecute citizens for organizing meetings deemed subversive.

During the National Front, an elite consensus prevailed around the need to maintain peace. Liberals and Conservatives concerned themselves primarily with the maintenance of political power and clientelistic networks at the regional and local levels, which were then refracted back into national politics. Issues of economic development and social justice were largely ignored. Since these basic patterns persisted after the collapse of the National Front, they fueled the radicalization of popular movements. It is in this context that one should analyze the rise of the new regional elites and the agrarian militarization that is the basis of their rule.

New Powers, Illegal Economies, and Dispossession

The new regional elites did not simply emerge from the narco-economy. Rather, they emerged, as argued above, out of the much longer processes of militarized capitalist expansion that can be traced back at least to the middle of the twentieth century. From the 1970s, violence against social movements, trade unionists, and leftist political party activists perpetrated by paramilitary forces allied with drug traffickers, large landowners, and military officials increased steadily until the end of the Cold War in 1990, and then reached terrifying heights by the end of the twentieth century. The escalation of the US-funded War on Drugs beginning in the late 1980s provided material support and ideological cover for new forms of political repression that proceeded with the militarization of territories settled and claimed by small producers. By 2000, mass killings in rural areas were a daily occurrence.[5] To understand how and why these new elites and their particularly violent forms of rule emerged, we need to consider local dynamics and how these have been impacted by national and transnational forces.

The sharp increase in political violence in Colombia since the 1980s entailed a deep restructuring of land tenure, sometimes referred to as a counter agrarian reform. Paradoxically, the 1991 Constitution was drafted by a Constituent Assembly that involved significant participation by progressive forces, as well as the recently demobilized leftist guerrillas of the M19 and Indigenous and Afro-Colombian communities. Notably, Article 55 of the 1991 Constitution protected the rights of Colombia's African descendants to land and became the basis of Law 70, which specifically recognizes the ancestral territory of these same communities along the Pacific coast region.[6] However, at the same time the national government began to deregulate the economy in accord with neoliberal economic theories, and particularly in mining activities that displaced Indigenous and Afro-Colombian communities. Besieged peasant movements, trade unions, and progressive Catholics in the Magdalena Medio region led the denunciation of human rights abuses starting in the late 1970s, and increasingly through the 1990s. Through their pioneering local actions, these groups called attention to the relationships between paramilitary organizations, the Colombian armed forces, and local elites. To understand how this complex process unfolded, however, we must also highlight the ties that bind local capitalist expansion to transnational capital and on the new legal frameworks that encouraged reckless foreign investment.

While most analyses of Colombia's new elites stress the appearance of ruptures with traditional politics, namely how rightist forces broke away from the peace negotiations with the FARC-EP that had been undertaken by Conservative President Betancur in the mid-1980s, this chapter proposes a reframing of the problem. Just as changes in social movement politics need to be understood with reference to *longue durée* traditions of popular radicalism, elite politics cannot be separated from what came before. The feared leaders of the paramilitary groups that emerged in the

Magdalena Medio in the early 1980s were not an "elite" in a cosmopolitan urban sense, but they nonetheless exerted powerful economic and political influence. They initiated a rapid and violent process of capitalist expansion that was remarkable in scale, enabled by the great resources generated by the drug trade and by new technologies of repression. They could never have succeeded, moreover, without the support of established local networks and deeply entrenched traditions of paramilitary self-defense.

The scale of the paramilitary expansion in Colombia since the 1980s can be measured both in terms of land seized and with reference to its international dimensions. The Colombian Inspector General estimated that by 2008 at least 6.8 million hectares of land were under the control of drug traffickers and illegal armed groups (cited in Human Rights Watch 2008, 80–81). But the overall trend of land concentration is not strictly linked to coca cultivation. Indeed, since 1950 the total amount of land dedicated to cattle ranching on large estates has increased from 12 million hectares to more than 30 million (CNMH 2016, 241). According to a 2013 Colombian government study, more than 80% of Colombia's agricultural land is now dedicated to ranching.[7] At the same time, foreign direct investment in Colombia increased more than 500% between 2001 and 2016, mainly in the petroleum and mining sectors. The influx of transnational capital was greatly facilitated by the ideological and policy shift toward free trade neoliberalism that is most conspicuously evident in extractive industries, but extends to many other parts of the Colombian economy.

At its core, Colombia's recent political and economic transformation has been carried out by traditional local elites who operate at the margins of legality. In his public confession, or "versión libre," demobilized paramilitary commander Ever Veloza García, alias HH, described how the lands from which the paramilitaries had displaced *campesinos* in northwestern Colombia were now in the hands of "the same businessmen and banana growers who have maintained their empires with blood" (CNMH 2013, 91). These individuals, heirs to the paramilitary networks of the *La Violencia* period, bankrolled and organized new *autodefensas* (self-defense units). Although dominant in the countryside, paramilitary leaders might not have felt at ease mingling with Bogotá's upper crust. To be successful, they developed partnerships with patrons based in regional urban centers, including established power bases in Antioquia's departmental capital, Medellín, which had the effect of strengthening regional power networks at the expense of the capital. In some areas, there was no local oligarchy, no conspicuous elite. Instead, middle sectors comprised of medium-sized agribusiness and elected officials became the intermediaries. Left-leaning or progressive decision-makers in municipal politics were eliminated, replaced by willing agents of the new networks of influence.

Beginning in the 1990s, the focus on military solutions to the Colombian conflict went hand-in-hand with neoliberal reforms and the deregulation of the Colombian economy, accelerating under the presidency Álvaro Uribe Vélez at the beginning of the new century. The case of coffee is instructive to illustrate the early impact of neoliberalism. More than 100 years after the first coffee export boom in the late nineteenth century, coffee remains Colombia's most important agricultural product. In 2010, coffee production occupied more than 800,000 hectares and employed more than 20% of the agricultural workforce (Forero Álvarez 2010, 93). Nevertheless, the abandonment in 1989 of the International Coffee Agreement by the consumer countries and large purchasing corporations devastated Colombian coffee growers' incomes.

In response, many smaller producers diversified production on their *minifundios*. In some regions, banana, plantain, and sugar cane production offset a 40% drop in worldwide coffee prices. In others, farmers turned to illicit crops, coca in particular. Notwithstanding the entrepreneurial resilience of many family farmers, the overall trend in coffee and other agricultural production has been a decline in small and medium producer incomes. In coffee zones, poverty nearly doubled in the 1990s, to the point that more than 50% of people could not meet their basic needs (Forero Álvarez 2010, 99–101).

In the same neoliberal spirit, Colombia signed free trade deals with the United States in 2006 and Canada in 2008, and began negotiations with the European Union in 2007.[8] As for the privatization of public assets, the most significant and controversial of these was the restructuring of the state-owned oil company, Ecopetrol. An initial public offering of shares of the new and autonomously-managed Ecopetrol S.A. was announced in 2007. Later, even after his two terms as president, Uribe continued to shift public policy conversations on economic policy toward the right.

In sum, the narco-paramilitary networks that emerged in the 1980s were only the latest iteration of a longer tradition of militarized entrepreneurship in Colombia. This violent local and regional elite acted on the frontlines of a process of capitalist expansion that has engaged broad networks of domestic and transnational economic and political actors. As Tate notes,

> Although much remains to be written, academic, human rights, and journalistic research has begun to reveal the entanglements between local paramilitary commanders, regional businesses and multinational corporations, political elites, politicians, and military command structures. (2013, 85)

These trends culminated in the Uribe regime, which advanced neoliberal reform and agrarian militarization to an unprecedented degree, and whose emphasis on national security resulted in a highly polarized context in which social movements and the leftist opposition found it difficult to navigate and intervene.

Antioquia and the Magdalena Medio: The Militarization of Agrarian Conflict

The development of export economies in Colombia through the early twentieth century gave rise to a rural proletariat, an independent market-oriented peasantry, and the possibility of cross-class and pluralist popular movements. In the Santa Marta banana zone and the Magdalena Medio oilfields, the 1920s saw the successful formation of broad-based organizations that incorporated agrarian and industrial workers, as well as smallholding farmers. The resulting clashes that pitted large private corporations, state security forces, and local elites against working peoples were often violent. The hard lessons of this early period would be carried forward over the next decades by all sides.

In the Magdalena Medio, there emerged a particularly robust strain of radical anti-authoritarian and nationalist politics (van Isschot 2015, 36). The popular coalitions founded in this region were anarcho-syndicalist in character, with important rural and urban components. Here we will focus on the rural context. Innovative tactics employed by rural communities such as *éxodos campesinos* compelled the national state to acknowledge social justice demands. Peasant protests also drew the ire of local elites that competed with small producers for land and access to resources. The result in this region, from the 1970s onward, was a violent expansion of ranching, oil, mining, and coca production, at the expense of smallholders. The history of the rural Magdalena Medio, moreover, is closely linked to that of the department of Antioquia and its capital Medellín.

Antioquia is a large department that extends from South to North along the spine of the *Cordillera Occidental* to the Gulf of Urabá on the Caribbean. Medellín has long been a center of capitalist innovation in Colombia, as the location of the country's first textile industry, and is today recognized internationally as an example of urban renewal (Moncada 2016, 34). Its special social, economic, and cultural circumstances make it unique in Colombia, and its central role in national politics, especially since the dawn of the narco and paramilitary era in the late 1970s, makes it key to understanding the broader transformations of the Colombian political economy. The Magdalena Medio region is an unofficial designation, linked by geography, resource exploitation, and conflict. Whereas Medellín has been a center from which internal colonial expansion has originated, the largest urban center in the Magdalena Medio, Barrancabarmeja, is a place where a variety of transnational, national, regional, and local actors and social forces have encountered and confronted each other for generations. Both regions have served as laboratories of sorts for armed groups, local elites, social movements, and the political consequences of their cooperation and confrontation. Since it was from Antioquia that the funding for early forms of paramilitarism emerged, we need to consider the two regions as overlapping and interconnected.

Predominantly conservative, religious, and with close-knit family networks, bipartisan competition was largely unknown among historic *antioqueño* elites. The political project of the elite of the department's capital, Medellín, was both regional and national. They saw themselves as producers of morality and modernity during the first half of the twentieth century when the textile boom took hold and new railroads were constructed linking the Magdalena Medio to a diversified industrial economy. And it was upon this ideological basis that *antioqueño* elites pursued the economic and cultural domination of regions at the periphery of the department, beyond Medellín and its immediate area. Roldán (2002) makes two interrelated points about the history of elites in what has been portrayed as an exceptional Colombian region, a place of opportunity, of entrepreneurial spirit, perhaps more akin to the Anglo-Saxon model of capitalism than the Latin model of Hispanic feudalism.

The first is that the elite competition to which political violence in the rest of Colombia is generally attributed was mostly absent in Antioquia.

The second point is that the popular image of Antioquia as a region of democratic economic and social development was little more than a myth, based on the narrow example of Medellín. In this city, elite interests appeared immune from the violence that engulfed the countryside around them. Indeed the 1950s, the years of *La Violencia* were a golden era of record profits and national political influence. The shifting concern of the elite from morality to productivity was complemented by social-industrial experiments in the capital, where the urban elite had a stake in maintaining order within a rapidly growing and changing economy (Farnsworth-Alvear 2000, 210). Outside of Medellín, however, capitalist expansion was embroiled in violence. In contrast to the experiments in social and industrial policy of Medellín, the mercenary capitalism of Texas Petroleum, Shell, and the Tropical Oil Company prevailed in the departmental periphery, where community welfare was an afterthought and public investment was limited to the security sphere.

In sharp contrast to Antioquia, the Magdalena Medio region was still largely a hinterland at the end of the 1960s. Economic activity was focused in Barrancabermeja, which the Liberal and Conservative parties had insulated from the worst ravages of *La Violencia*. This political arrangement allowed for the peaceful transfer of the Standard Oil-developed refinery at Barrancabermeja to the state-run Ecopetrol in 1951 (van Isschot 2015, 47). As economic historian Marcelo Bucheli observes, the end of the era of foreign corporate domination in Barrancabermeja did not represent a significant political rupture, however.[9] Ecopetrol was not the product of a nationalist expropriation, of the kind that took place in Mexico in 1938, but "of negotiations between the government and the industrial elite" (Bucheli 2006, 2). Standard Oil subsidiary Tropical Oil retained a 10-year lease on the refinery at Barranca and a sizeable interest in the new state entity through its US$10 million loan to Ecopetrol toward the purchase of a high octane cracking plant, necessary for the production of jet fuel (*New York Times*, August 27, 1951). Additionally, Tropical Oil was granted the right to purchase crude oil from Colombia and sell refined products domestically at market prices. The colonization of the rest of the region was relatively precarious, as it lay beyond the "economic frontier," without built infrastructure or easy access to markets (Zamosc 1986, 28). Here opportunistic peasants, many of whom were refugees who had fled Liberal-dominated areas during *La Violencia*, established small subsistence farms on both sides of the Magdalena River, engaged in fishing and raising livestock to supplement their crops.

After a period of diminishing production in the 1960s and 1970s, Colombia experienced a second oil boom that would have a direct impact on the political economy of the Magdalena Medio and the country as a whole.[10] Oil production steadily increased in the 1970s while coffee production waned. The expansion of oil coincided with processes of land distribution in 1961 and 1967 that incentivized peasants to claim rights to territories they had traditionally farmed, even when they lacked legal titles or titles were ambiguous. This process of peasant land occupation put oil production, as well as cattle ranching and palm oil plantations, increasingly in conflict with peasant smallholders. The single most important early peasant battle in the Magdalena Medio took place in 1967, when Shell Condor gave up its claim on the Casabe oilfields across the river from Barranca. As Shell's private guards withdrew from the area, peasants opportunistically occupied adjacent lands. The most direct outcome of this action was the redistribution of 160,000 hectares (Zamosc 1986, 43).

Encouraged by the success of this action, peasants in the region would undertake more and more land invasions. In the same year, 1967, ANUC was created by Liberal President Carlos Lleras Restrepo for mobilizing peasants behind government reforms. Originally conceived as a way of mustering popular support for the National Front government, ANUC was one of the main reasons for the unraveling of the bipartisan Liberal-Conservative consensus. Within its first year, ANUC's membership exceeded 600,000. By 1971 more than one million had signed up (Hartlyn 1985, 168).

The 1970s were a period of intensified peasant mobilization and action mostly led by radicalized ANUC affiliates. Rural land invasions, or the occupation of uncultivated lands by peasant squatters, were the most common expression of popular protest in 1971 (Archila Neira 2004, 142). In fact, 1971 remains an all-time high watershed for the number of organized peasant land invasions in Colombia. By the end of the year, 645 invasions had been organized in 24 of Colombia's 32 departments. A dissident branch of ANUC known as the *Línea Sincelejo* was established in 1972 by independent-minded activists intent on setting a progressive agenda on the basis of this unprecedented mobilization, with strong leadership coming out of these campaigns. In the next few years, however, the national government would push back, making large capital investment a requirement of tenure, which favored large-scale agribusiness (Perry 1985, 122).

The *Línea Sincelejo* itself subdivided in 1977 along regional lines. In some regions of the country peasants sought accommodation rather than confrontation with government. But this was not the case in the Magdalena Medio, where peasants took advantage of opportunities to increase their level of action, building alliances with oil workers and urban civic movements. A *Sector Independiente* of ANUC was launched in Barrancabermeja. The *Sector Independiente* would be one of the first organizations anywhere in the country to document, denounce, and confront paramilitary violence. The *Sector* declared its ambition to become a force for radical change in the Magdalena Medio in 1980 through a rural land invasion in Yacaranda, part of the historical drilling operations of Royal Dutch Shell. ANUC claimed 1200 hectares of land on behalf of 29 displaced *campesino* families and simultaneously occupied the main cathedral in Barrancabermeja for 6 weeks. These actions were timed to coincide with a dispute between the oil workers' union and Ecopetrol. Through the 1980s and 1990s residents of Yondó and other *muncipios* along the Magdalena River would participate in a series of mass mobilizations modeled on the Yacaranda experience. During these protests participants would occupy public spaces in Barrancabermeja, demanding state action to curb military abuses and defend peasant organizations.

The Magdalena Medio region was the staging ground for confrontation between the emerging rightist forces and social movements. In 1981, a coalition of some of the world's most powerful drug lords established the paramilitary group called Death to Kidnappers (*Muerte a Secuestradores*/MAS). The MAS was created jointly by the Medellín and Cali cartels to combat the M19 guerrillas involved in the kidnapping for ransom of the daughter of a narco kingpin Fabio Ochoa (Dudley 2004, 62). Very quickly the MAS became a model for counterinsurgency operations beyond simple retribution for kidnappings. This would include direct attacks that were coordinated with regional military commanders and targeted leftist political activists, peasant leaders, and communities situated in areas of guerrilla influence.

At the same time, social movement leaders and elected officials from across the southern Magdalena Medio mobilized against the advent of paramilitarism in the early 1980s. Protests such as the *la Marcha del Silencio* (October 1982) and *la Marcha de la Solidaridad* (November 1982) were organized in Puerto Berrío by local social and political movements, with the support of the mayor's office and parish priests.

The largest protest of the era was the *Marcha por la Vida y la Paz* in November 1982 during which thousands of people from the region gathered in the oil enclave of Barrancabermeja and proceeded overland more than 600 kms to Cartagena (*Proyecto Nunca Más* 2000, 296).

In the midst of negotiations with the FARC and M19, President Belisario Betancur (1982–1986) created a special commission of the Inspector General to look into rural political violence. Published on February 20, 1983, the Procurador's report described links between Colombia's armed forces and paramilitary groups: "The MAS is a genuine paramilitary movement … it is composed essentially of state officials who commit excesses when faced with the temptation to increase their capacity by making use of private forces" (quoted in Medina Gallego 1990, 189). The report claimed that more than one-third of MAS paramilitary members under investigation were active Colombian military or national police personnel.

Military officers who were collaborating with drug traffickers and large landholders then moved to displace the peasantry and eradicate human rights activism (Grajales 2011, 771–792). Through a series of murders and massacres, paramilitary forces colonized areas of subsistence farming and fishing. Local government and civil society structures were eviscerated and replaced by new institutions. As progressive movements declined in the southern Magdalena Medio, anti-Communist ranchers and politicians created their own organizations, including the Peasant Association of Farmers and Ranchers of the Magdalena Medio (*Asociación Campesina de Agricultores y Ganaderos del Magdalena Medio*/ACDEGAM). Activists in the area who were carrying out human rights work were either killed or forced to flee. In January 1983 MAS paramilitaries murdered Fernando Vélez Méndez, a Liberal town councilor and president of the human rights committee in Puerto Berrío, affiliated with the national Permanent Committee for the Defense of Human Rights (*Comité Permanente por la Defensa de los Derechos Humanos/CPDDH*) (Grajales 2011, 771–792). Subsequently, the mayor of Puerto Berrío left under threat of death. Within a few months there was no human rights committee left in the town, and the Communist Party had closed its office. As social movements were silenced, paramilitaries took over what would become known as the "counterinsurgency capital of Colombia."

The rise of paramilitary activity fueled by the dramatic increase in drug cultivation after 1990 was dramatic, with devastating consequences for small farmers. This trend defied the optimism of US government officials closest to the problem, who in 1989 celebrated what they termed “the best year ever” for the War on Drugs (US Embassy-Bogotá. Cable, January 16, 1990). According to the imprecise estimates claimed by the Embassy, US-backed efforts to interdict drug trafficking yielded 37 metric tons of cocaine—in fact, less than 5% of total production. According to the Embassy, nearly 50,000 hectares of arable land in Colombia were dedicated to the cultivation of coca. In the 1990s coca cultivation would increase by more than 400% to 163,000 hectares (UN Office on Drugs and Crime 2003, 3). In the first 5 years following the murder of drug kingpin Pablo Escobar in December 1993, the land dedicated to coca production doubled. Coca cultivation has since soared to 1880,000 hectares.

The Peace Process: Mapping Local and Regional Histories

In trying to understand the obstacles to peace and democracy in Colombia, we must consider the relationship between elites and the central state that is meant to be a guarantor of land rights and the rule of law. Colombian regional elites have long mistrusted the state to protect their interests. This has allowed the notion of “self-defense” to prevail in business as in politics. It is the same uncertainty about the Colombian national state that has fuelled doubts around the peace process. When the Santos government held a plebiscite in October 2016 on the peace agreement that had been reached with the FARC-EP, former president Uribe propelled a populist campaign that led the “No” side to a slim victory, with fewer than 54,000 votes separating the two sides.

While the No vote is a reflection of social and political forces in the different regions of Colombia, many people tend to vote in favor of the armed group with the upper hand. In the Magdalena Medio, the vote against the peace accord prevailed in many places where the tide was turning to favor paramilitaries. While an amended version of the accord was subsequently ratified by the Colombian Congress on November 30, 2016, the results of the plebiscite revealed deep rifts in the country, particularly in violence-affected regions. Bogotá voted narrowly in favor of the accord, while Medellín voted overwhelming against it. The Caribbean and Pacific coastal regions voted Yes by a wide margin. The inhabitants of *municipios* such as Bojayá and Vigía del Fuerte that experienced violence committed by all armed groups voted more than 95% in favor.

Across Colombia people living in the war-torn countryside tended to support the peace accord. However, the notion of an urban–rural split is deceptively simple. To understand how Colombia is divided for the purpose of proposing solutions, we have to pay close attention to local context, where the politics of land and the history of the conflict converge. The character of local elites, the degree to which they are linked to drugs, extractive industries, agribusiness or other export economies, varies significantly. For instance, the troubled resource-rich departments of Casanare, Arauca, Santander, and Norte de Santander all voted No.

Looking at the results of the vote in the Magdalena Medio region reveals great diversity, shaped by the recent history of violent land grabbing. When we focus in on the sub-regional level, important political discrepancies come into view. Large swathes of paramilitary-dominated rural Antioquia, Santander, and Boyacá voted against the peace accord. While the department of Bolívar voted more than 60% in favor of the accord, its four southern *municipios,* located in the disputed Serranía de San Lucas, resisted this tendency. This longtime stronghold of the National Liberation army (ELN) had been the focus of a massive paramilitary campaign in the late 1990s. Significantly, these communities had suffered direct attacks in the midst of the 1998–2002 peace talks between the FARC-EP and the government of Andrés Pastrana.

Do the plebiscite results here reflect paramilitary hegemony in the urban areas of Simití and Santa Rosa del Sur? The municipalities that voted against the peace accord in this area included those hardest hit by the armed conflict. Not surprisingly, this same small disputed corner of the Magdalena Medio is the site of a conspicuously large number of unsettled land claims submitted to the government-led Land Restitution process initiated in 2011. At the end of 2016, none of these claims had been investigated by the government land claims office, let alone resolved, due to ongoing paramilitary incursions into areas known to have a strong presence of the ELN ("Frenan restitución de tierras en Bolívar", *El Tiempo*, October 30, 2016).

Elites with interests in conflict zones have actively resisted the strengthening of the central state from the end of *La Violencia* in 1958 through the current period of paramilitarization. Indeed, many of these same elites previously converged against peace talks between the government and the FARC-EP in the 1980s and 1990s. Concurrent with this process has been the emergence of new elites whose investments in export economies, including illegal drugs, have produced new political coalitions that supersede traditional politics, that is, rightist forces have emerged in symbiosis with the production of cocaine. In Barrancabermeja and its surrounding region, regional identity and class identity are conflated to a higher degree than virtually anywhere else in Colombia.

Notwithstanding the persistence of peasant, labor and civic organizations in the Magdalena Medio, new economic and social forces emerged in the 1980s to publicly challenge leftist and other popular movements. As previously noted, in the Magdalena Medio a ranchers' association was established in 1982 to provide material and logistical support to counterinsurgency forces. There is also a strong performative element to these fatal encounters between drug traffickers, paramilitary groups, peasants, the FARC-EP, and the state. Narco-accumulation, ranching, mining, and oil are also a story about seeing and showing power. In Puerto Berrío, Antioquia, where the military–paramilitary relationship was born in the early 1980s, there is a billboard declaring the town the "anti-subversive capital of Colombia."

But not all social and political expressions to arise out of recent economic change in Colombia serve elite interests. In the southern Putumayo region, in the 2000s, small-scale coca producers (*cocaleros*) emerged as strong actors in politics. They formed a united front to denounce the punitive practices of militarization and aerial spraying associated with Plan Colombia (Ramírez 2014). In the Magdalena Medio, progressive organizations have endured despite claims of hegemony made by state security forces. Such is the case of the Peasant Association of Cimitarra River Valley (*Asociación Campesina del Valle del Rio Cimitarra*/ACVC). The ACVC counts its membership in the thousands, participates in national debates, and brings together more than 100 rural community councils across an area that is squeezed between military and paramilitary-dominated zones of oil drilling, ranching, and coca cultivation.

Conclusions

Rural Colombia has been the subject of exceptionally intense human rights scrutiny. The Inter-American Court of Human Rights (IACHR), part of the Organization of American States (OAS), has ruled on more rural cases in Colombia than in any other Latin American country. A majority of the Colombian cases adjudicated by the Court concern massacres in strategically important zones where *campesinos* have collectively resisted military and paramilitary terror. Emblematic cases such as 19 *comerciantes* and La Rochela directly concern the processes of violent land expropriation described in this chapter. Rural activists have shed light on these zones of violent encounter between working peoples, capitalists, and security forces at the local level, and how these relate to national and international actors. Colombia is the only country where the IACHR has had a significant impact outside of major cities because displaced peasants and urban social movement activists have resisted state-sponsored violence through the formation of new local, national, and eventually transnational networks for the protection of their rights.

The same patterns of land grabbing experienced in the Magdalena Medio have been underway in the department of Chocó along the Pacific coast since the late 1990s. In the Chocó, the main elements of the occupation of lands by new violent elites linked to traditional regional ruling classes include sugar cane and oil palm production. There too it is extraordinarily risky to conduct legal, journalistic, or academic research, and the illegal activity is hard to document. There too it is peasant-led social movements that have documented, denounced, and challenged the violent capitalist expansion. In this context, the protests have been led by internally displaced peasants seeking to resettle areas claimed by export businesses, with the support of paramilitaries. In June 2001, members of a recently resettled community of internally displaced Afro-Colombians denounced new threats. According to reports from the time, a paramilitary commander known as Vicente Muentes approached community members and stated: "we have come to bring progress and development to the community… communitarianism does not work… there is nothing left to do except go to your farms, mind your own business and grow African palm." In 2011 the IACHR declared Colombia guilty of gross human rights violations in this case.[11]

By making alliances with elected officials, merchants, and military officials at the local level, narco-elites have attempted to diminish or destroy alternative proposals for social and economic justice. The response on the part of peasants, the first to feel the brunt of this process, was to organize protests. The national peasant organization ANUC wrote reports, participated in mass protests, and occupied public buildings to demand an end to military harassment and paramilitary massacres. And it did so at great cost. The story of Colombia's new militarized elites is sometimes told as a cautionary tale about over-reach by the guerrilla organizations, the FARC-EP and the ELN. While this is not entirely wrong, such a focus on the armed left obscures the fact that the new elites are motivated mainly by profit, secured by force, and then politics, to the exclusion of popular and peaceful forms of radicalism proposed and embodied by small producers, urban squatters, and their allies in organized industrial labor. In time, these violent elites would come to control local elections to the Colombian Congress, where their members and henchmen have had profound impacts on national legislation.

In almost all recent works on contemporary Colombia, *local* elites emerge as central actors in the struggle for power. Who are these elites? How do they relate to the nexus of military, paramilitary, narcotraffickers, and leftist guerrillas that have been so central to the conflict? In its 2016 report on the history of agrarian conflict, the *Centro Nacional de Memoria Histórica* urges readers to understand that rural elites are neither monolithic in their composition, nor political perspective.[12] The methodological concern with local dynamics is important to understanding the complex history of elites, including landholders, public officials, and business associations, as well as military and paramilitary forces.

Such a focus should help illuminate specific ways in which particular multinational companies have contributed to the reproduction of violent and militarized economies across the country. High profile cases of transnational collusion with illegal armed groups have included British Petroleum, Chiquita Brands, Coca-Cola, and Drummond. In these conflict scenarios, transnational capital acts to elevate and buttress highly inequitable local power structures. In the Colombian context of massive and sustained US security assistance, local, national, and transnational actors with paramilitary ties have been emboldened. US-owned Drummond, the world's largest producer of coal, is accused of supporting paramilitary organizations financially, and planning the murder of organized labor activists, trade union presidents among them (Ramírez Cuellar 2005, 74). These companies have profited from the violent protection services offered by regional paramilitary groups such as the *Bloque Bananero* and *Bloque Norte*. They have become influential stakeholders in the Colombian civil war. Romero and Torres argue that public regulations in Colombia governing foreign investments in these zones are highly flexible, and in some cases nonexistent (Romero Vidal 2011, 150–151).

If Colombia is one of the most unequal societies in Latin America, why have rightist politics flourished and leftist politics floundered in recent years? Part of the explanation rests upon the ability of the political movement headed by former President Uribe to exploit the insecurity experienced by many Colombians as a result of the armed conflict, strengthening the relationship between the state, paramilitaries, and local elites, who developed new clientelistic networks tied to a coalition of rightist political parties brought together under the banner of the *Partido Social de Unidad Nacional* (Wills-Otero 2014, 195). The "*Partido de la U*" joined powerful regional business leaders, national media, business associations, together with traditional politicians such as Uribe himself. Many members of Uribe's coalition would become tied up in a scandal that exposed their support of paramilitaries and narco trafficking. Unable to run for a third term, Uribe was succeeded by Juan Manuel Santos. But Uribe broke away from the "*Partido de la U*" when Santos announced that he would seek peace with the FARC-EP. Uribe established the *Centro Democrático* in 2013 as an alternative to the movement he helped build.[13]

The problems facing Colombia's prospects for a democratic peace hinge on three issues that are intimately connected to the violence of new local elites and their links to transnational and foreign actors. The first of these is land. One of Colombia's major challenges—and an indispensable requirement for achieving peace—is to address the country's highly unequal land tenure pattern. In 2011, the Colombian government announced the creation of a Land Restitution Agency charged with compensating the victims of displacement and dispossession.

The second issue is that of injustice, from gruesome massacres to selective killings, the expropriation of their land and property, and the forced displacement of entire villages. In total, more than six million Colombians have been displaced, and a quarter million killed, mostly at the hands of rightist paramilitary groups. The task is enormous. If peace is to be achieved, the state must guarantee a measure of justice as well. The demobilization of all armed groups in Colombia is pivotal to this process. The peace talks and accord have led to a renewal of scholarly enquiry into the legacy of violence on relationships among public institutions, economic actors, and social movements. The questions of human rights and justice constitute major fields of scholarly concern for those who study Colombia (Romero 2001; Archila Neira 2004; Tate 2007; Celis 2013; van Isschot 2015).

Finally, we have to consider the role played by transnational capital and the US government, particularly as these pertain to the rise of large-scale agribusiness for export, as well as foreign direct investment in extractive industries, and of course drugs. Some observers have raised the possibility that the peace accord could open up parts of the country to such investors, with insufficient guarantees in terms of social justice or human rights for the residents of these areas (Hylton and Tauss 2016, 253). Support for military assistance to Colombia was reduced by the White House during Barak Obama's second term in office. Nevertheless, the average US military, police, and counternarcotic aid package to Colombia since 2012 has been more than $200 million annually. In 2016, President Obama proposed $450 million toward the implementation of the government-FARC-EP peace accord. Until the role of transnational capital and the US government is addressed, these factors will continue to fuel the violent dynamics upon which the new local elites have built their rule.

Notes

1. Washington Office on Latin America, "US Aid to Colombia" (2016). https://www.wola.org/files/1602_plancol/content.php?id=us_aid.
2. As Jairo Bedoya (2010, 17) has demonstrated, systems of violent protection and racketeering by paramilitary and neo-paramilitary groups were consolidated in the 2000s in the regional capital of Medellín, despite the putative pacification of the city's most notorious narco-controlled neighborhoods by state security forces.
3. On links between Uribe government and narco-elites, see: National Security Archive, "U.S. Listed Colombian President Uribe Among 'Important Colombian Narco-Traffickers' in 1991" (August 2, 2004). http://nsarchive.gwu.edu/NSAEBB/NSAEBB131/.
4. Rojas had been president between 1953 and 1957, rising to power in a peaceful military coup approved by the then-warring Liberal and Conservative parties.
5. According to the Colombian Commission of Jurists, a leading human rights organization, the rate of political murder in Colombia in 2000 was 20 per day (cited in Human Rights Watch 2001, 13).
6. Law 70 specifically defines a large region encompassing swathes of several departments, including Antioquia, but also parts of Chocó, which has been subject to colonization by capitalists working out of Medellín.
7. Universidad Nacional de Colombia, Medellín "Ganadería sigue ganándole tierra a los cultivos," *Unimedios* (May 22, 2014). http://agenciadenoticias.unal.edu.co/detalle/article/ganaderia-sigue-ganandole-tierra-a-los-cultivos.html.
8. Colombia entered into negotiations on nine free trade agreements during the Uribe years, five of which were signed before 2010. Free trade between Colombia, Peru, and the European Union went into effect in 2013.

9. Standard Oil remained a major player in the Colombian oil and coal industries for decades to come and helped to develop one of the world's largest opencast coal mines at El Cerrejón, in northeastern Colombia in the 1970s. Standard Oil was renamed Exxon in 1972 and ExxonMobil in 1999 (see Bucheli and Ruth Aguilera 2006, 40).
10. New investments by British Petroleum and Occidental Petroleum in the 1980s once again made Colombia an oil exporter, and by 1999 oil accounted for 32% of the value of exports (Pearce 2004, 8–11). Today Barrancabermeja houses the largest refinery in the country, Ecopetrol continues to drill for oil in the Magdalena Medio, new private investments are being made to the refinery for the processing of biofuels, and there are plans to resume drilling in an area just south of the city. It is Barrancabermeja's multi-purpose refinery, or industrial complex, that makes the city such a strategic and economic location (Pearce 2004, 2).
11. Comisión Intereclesial de Justica y Paz, Constancia 190601, *Incursión Militar en Cacarica* (Martes 19 de junio de 2001). Retrieved 110516. http://justiciaypazcolombia.com/Incursion-Militar-en-Cacarica.
12. "…when making reference to Colombian producers it is fundamental that we consider their varied roles, experiences and political positions. In the absence of a deeper analysis, it will be difficult to advance any understanding of the behavior of producers in Colombian agriculture, of the miscalculations and lessons learned in trying to address the armed conflict" (CNMH 2016, 552).
13. In the 2015 elections, the *Centro Democrático* demonstrated its potential by winning 154 mayoral and 3 gubernatorial races.

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CHAPTER 6

The Reconsolidation of Oligarchic Rule in El Salvador: The Contours of Neo-liberal Transformation

Carlos Velásquez Carrillo

Introduction

The hegemonic coffee-export oligarchy that emerged from the "Liberal Revolution" of the 1880s in El Salvador managed to sustain a semi-feudal agrarian mode of production for a 100 years; not only did it block attempts

My analysis on the consolidation of oligarchic rule in El Salvador is largely drawn from my doctoral dissertation that relied on three principal methodological approaches: first, a qualitative analysis of in-depth interviews with key informants of Salvadoran history, politics, and political economy (conducted during fieldwork in El Salvador from January to October 2009); second, a systematic review of secondary sources with quantitative data that were reanalyzed for the purposes of this work (including reports by development agencies, government censuses, and official socioeconomic surveys); and third, the analysis of a broad range of literature by relatively little known sources written in Spanish and related to the history and evolution of the Salvadoran oligarchy, as well as sources on the transition to neo-liberalism since 1989. Translations from Spanish were made by the author.

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L.L. North and T.D. Clark (eds.), *Dominant Elites in Latin America*,
Latin American Political Economy, DOI 10.1007/978-3-319-53255-4_6

to modernize and industrialize, but its political and economic dominance was maintained through high levels of racist exploitation and exclusion. In alliance with the country's military, this oligarchy exercised power until 1980 when the generalized injustice and oppression created by its rule erupted in a 12-year-long Civil War (1980–1992).

Since that war ended, El Salvador has changed in fundamental ways: from an agrarian country relying on coffee exports to an import-oriented and tertiary financial center sustained by emigrant remittances. In the course of this transformation, the old ruling oligarchy "renewed" itself through the adoption of the neo-liberal policies favoured by the international monitors and financiers of the Peace Accords that were signed in 1992. The transformation was managed by the party that the modernizing sectors of the oligarchy created during the war years, the National Republican Alliance (ARENA), which "won" a wartime election and subsequent post-war contests to rule unchallenged for two decades (1989–2009).

This chapter attempts to answer several important questions that emerge from this history, taken up to the year in which ARENA lost power: how did the oligarchy change? Can it still be called an oligarchy? Can we speak of oligarchic consolidation? I will argue that a new "oligarchic neo-liberal" power bloc has crystallized and consolidated around eight financially-based entrepreneurial groups in the post-civil war period. This new yet old power structure emerged from policies of neo-liberal structural adjustment that transferred the principal financial, commercial, and social welfare sectors from public ownership into the hands of this new bloc. In other words, during the last three decades, a carefully thought out and implemented neo-liberal programme created new, multidimensional foundations for oligarchic reconsolidation. The neo-liberal reforms undertaken by ARENA, which created an economy based on finance, services, and remittances, had five pillars: privatization, deregulation, tributary reform, dollarization, and free trade.

This chapter begins with a brief historical account of the formation of the traditional coffee oligarchy and its evolution from the late-nineteenth century onwards to establish the historical context for understanding the post-1989 process of oligarchic reconsolidation, including an account of the 50-year long "strategic alliance" established between the oligarchy and the military in the early 1930s. The following sections look at the factors that led to the collapse of the military-oligarchic alliance and the rise of ARENA; the negotiation of a neo-liberal peace, which allowed the oligarchy to recover its historical place of domination; the structural transformation of the economy during the civil war; and the contours of the reconstituted oligarchy, including a new feature, its transnationalization. This final element reflects the oligarchy's new orientation as a transnational player with increasing power and influence in the region.

The "Old" Coffee Oligarchy

The last quarter of the nineteenth century saw the emergence of a coffee export oligarchy that controlled both the national economy and the levers of political power by alternating the presidency among members of its own exclusive family circles. Popularly known as the "fourteen families", the coffee oligarchy traced its historical roots to the Liberal reforms of 1881–1884. The central component of these reforms was the privatization of indigenous and *ejido* lands, which provided land and labour for the incipient coffee plantations and successfully ended all forms of communal and most forms of small-property tenure (Colindres 1977; Lindo-Fuentes 1980, 1990; Menjívar 1980; Bradford Burns 1988; Torres Rivas 2007).[1] The oligarchy that concentrated the best land for the development of the coffee industry monopolized the principal sources of national wealth for a 100 years (1880–1980), that is, coffee production and its related financial, commercial, and service sectors.

Privatization involved two complementary stages. First, laws were passed to dismantle the land tenure structure inherited from the colonial period, when indigenous communities were granted land for subsistence agriculture and indigo production (El Salvador's old export crop). The first major step, the "Community Extinction Law", passed in February 1881, stated that "communal lands impede agricultural development [and] block the circulation of wealth". A year later, in March 1882, the "*Ejido* Extinction Law" was promulgated in order to "liberate" the best land for coffee production since *ejidos* "undermine property rights in the largest and most important agricultural region of the country" (quoted in Geoffroy Rivas 1973, 438). To secure the labour needs of the coffee plantations, other regulations were introduced that prohibited "vagrancy", and appointed "agrarian judges" to control the supply of workers for the coffee plantations and to expel "intruders" (Gordon 1989, 21).

The second part of the privatization process involved the creation of a repressive police apparatus to oversee the implementation of the new land laws. The earlier communal police patrols were replaced in 1889 by a stronger and better organized Rural Police that was stationed primarily in the coffee growing regions, and in 1912 the National Guard was established. It was not uncommon for the new landowning class to use the repressive apparatus to dispossess peasant and indigenous owners to force them into debt peonage and take possession of the best lands for coffee production (Geoffroy Rivas 1973, 439). Not surprisingly, local peasant uprisings were reported in the coffee region in 1872, 1875, 1882, 1885, and 1889 (Menjívar 1980, 89; Trujillo 1981, 128).

All of this led to the creation of an especially rigid social class structure and land tenure system. According to Flores Macal, by 1886 a few families—such as Álvarez, Dueñas, Regalado, Guirola, and Meléndez to name a few—had taken possession of 40% of the national territory, mainly former *ejido* and communal lands (1983, 59–60). With the promulgation of the Constitution of 1886, land privatization and the coffee industry were entrenched as the new pillars of national "progress" (Mariscal 1979, 143). From a population of roughly 1.3 million in 1930, a small group of 38 oligarchic families (Wilson 1978, 182–183) controlled more than 90% of national wealth.

In sum, privatization of land accomplished three goals for the new oligarchy: first, it provided the foundation for the spread of coffee production and reinserted El Salvador into the world market with a profitable cash crop; second, it created a large and disposable labour force needed for coffee cultivation; and third, it centralized the administration of land tenure exclusively in the hands of the national government (controlled by the oligarchy), eliminating local governance. The concentration of economic power in the hands of a few coffee planter families consolidated their grip on political power. Members of the coffee oligarchy or their close collaborators occupied the presidency for almost five decades (1884–1931). Outgoing presidents chose their successors, and in most cases the latter were members of the former's inner family circle.

How might we conceptualize the coffee oligarchy as a class 50 years after the liberal reforms began? In essence, this ruling class was composed of no more than 40 families and displayed the following characteristics:

1. An agrarian basis founded in the control of land acquired through dispossession, that is, the systematic privatization of communal and *ejido* lands.
2. Control over other strategic sectors, especially banking and related activities, financed by the proceeds of the coffee economy.
3. A mode of accumulation and production that was based on an exploitative and racist regime of labour relations that kept the majority of Salvadorans in poverty.
4. A patrimonial state in which all policies were designed to enhance and protect oligarchic interests.
5. The repression of attempts to promote social justice and wealth redistribution.

The Great Depression of the early 1930s brought about a significant change in the balance of power, as the inequalities and poverty that resulted from the liberal reforms and the expansion of the agro-export model were exacerbated by the crash in global coffee prices. The resultant social crisis led to a surge of political mobilization among the rural labour force. In January of 1932, with the recently founded the Communist Party of El Salvador as one of the driving forces, peasants and workers in the coffee-producing areas rose up in arms against the ruling oligarchy, a historical event that shook the foundations of the nation (Anderson 1971; Cerdas Cruz 1986; Guido Béjar 1988; Dalton 2000).

To restore order and repress the rebellion, the oligarchy called in the army. The military's intervention resulted in the death of as many as 30,000 peasants, most of them of indigenous descent (Anderson 1971; Dalton 2000). The massacre served as the inaugural event and anchor of the military-oligarchy "strategic alliance"—a "protection racket state" in the words of William Stanley (1996)—that would rule the country for almost 50 years: the coffee oligarchy would retain its economic power and social dominance, but the military assumed the reins of the state as the new governing class in charge of protecting the former.

Despite the transfer of direct control over the state to the military, the coffee oligarchy's economic power, ideology, and political influence ensured that policy continued to perpetuate oligarchic interests. Efforts to pursue import-substitution industrialization, supported in the 1950s and 1960s by reformist military and civilian sectors, were blocked by the more recalcitrant, agrarian-oriented segments of the oligarchy

(Dada Hirezi 1978; Sevilla 1984), as were proposals that challenged the inequitable land tenure system and skewed distribution of income and wealth.

The family composition of the oligarchy, moreover, exhibited remarkable continuity between the 1920s and the 1970s, when challenges emerged from new reformist and revolutionary forces. According to data from the works of Colindres (1976) and Wilson (1978), 21 of the 25 principal coffee-producing family groups in the early 1970s were among the main oligarchic families of the 1920s, including eight of the ten largest producers.

The Crisis of the Old Order and the Rise of ARENA

By the late 1960s and early 1970s, the "strategic alliance" between the oligarchy and the military began to manifest strains related to a series of developments that included the collapse of global coffee prices in the mid-1970s, which intensified the levels of exploitation and poverty suffered by the majority of urban and rural workers; growth in the organizing and mobilizing capabilities of revolutionary left organizations; and the growth of right-wing paramilitary groups, commonly known as death squads, which were sponsored by segments of the oligarchy to fight the militancy and organizational activities of the left (North 1985; Montgomery 1995).

In a context of mounting instability and violence, reformist junior officers of the Salvadoran army led a *coup d'état* on October 15, 1979 that successfully overthrew a half century of rule by hard-line generals. A joint military-civilian governing Junta was established with the supposed mission of putting an end to paramilitary terrorism and establishing the basis for a transition to civilian rule. The Junta also sought to appease the revolutionary militancy of the masses by introducing long overdue reforms to address popular demands. Indeed, the Junta's three principal reforms shook the very foundations of oligarchic power: the introduction of a limited, but for El Salvador still ground-breaking, three-phase land reform; the nationalization of the banking system; and the nationalization of the export of coffee and sugar. Although implementation was tarnished by corruption and inefficiencies, the power of the oligarchy and its control over the national economy were seriously threatened (Montgomery 1995, 136–140).

As was to be expected, the oligarchy organized to fight reform, and within a few months the civilian members of the first reformist Junta, which included internationally respected social democrats, resigned over the inability or unwillingness of its military members to enforce the reforms fully and to halt state-led repression and death-squad activity. With respect to agrarian reform, 15% of national arable land was supposed to be transformed into cooperatives in the first phase, but it was the second phase that targeted the oligarchy's stronghold: the breakup of all 150–500 ha estates, which accounted for 60% of coffee production and constituted the backbone of the oligarchic export economy. To be sure, some lands were transformed into cooperatives, but the implementation of phase two, the most important step for dismantling the oligarchy's power structure, was postponed while the Junta declared a state of siege (North 1985, 86–89).

By January 1981, El Salvador had descended into full scale civil war, as the *Frente Farabundo Martí de Liberación Nacional*/Farabundo Martí National Liberation Front (FMLN), founded in October of 1980 with the unification of the country's five strongest revolutionary organizations, launched a military offensive against the Junta. In light of the successful overthrow of the Somoza dictatorship by the Sandinistas in neighbouring Nicaragua in 1979, the US government, now headed by Republican Ronald Reagan, became actively involved in shoring up the Junta and organizing "showcase elections" to transfer formal power to the Christian Democratic Party (Bonner 1984; Dunkerley 1985).

An analysis of the basic contours of the political and economic transformations of the civil war years is relevant to our study because these developments presented an unprecedented challenge to the traditional oligarchy in several respects. First, even if the large estates remained intact, the nationalization of coffee and sugar exports and of the banking sector ripped the most profitable economic activities of the oligarchy out of its hands. Second, the oligarchy faced an armed opposition that, if triumphant, could have ended its long period of rule. Third, the Reagan administration opted to work with the reformist Christian Democrats, who were considered foes by the oligarchy since they advocated greater political openness, an active role for the state in the economy, and some social and economic reforms. The most modern sectors of the oligarchy responded to the challenge by founding a political party, the *Alianza Republicana Nacional*/National Republican Alliance (ARENA), to contest power in elections (favoured by

Washington), in addition to actively supporting the military's war efforts with the organization of death squads to spread terror that included the assassination in 1980 of San Salvador's Archbishop Oscar Romero (Ribera 1996, 20–22).

ARENA was founded on three core values: nationalism, understood as anti-communism and the defence of "Western Christian values"; the supremacy of the individual as the center of society; and the protection of free enterprise (González 2003, 177–179; Zamora 1998, 45–52). Characterized by its fervent anti-communism, the founding membership of the party was composed of coffee and other agrarian-based oligarchs, conservative professionals, members of the military, and some small-businessmen. In effect, the support lent to the Christian Democrats and electoral politics by the Reagan administration, in addition to the presence of a well-organized revolutionary army with a mass base, pushed the oligarchy to come up with a new strategy. It was to be based on electoral politics as the institutional mechanism for recovering control of a state that at the time was practically monopolized by the US-supported Christian Democrats.

Those within ARENA who favoured an institutional and electoral path eventually gained control (González 2003, 1179–1180), especially after the party gained strength in the 1982 elections and its founder, death squad leader Roberto D'Aubuisson, became president of the Constitutional Legislative Assembly. Elections for a Constitutional Assembly had been called to refound the country's political institutions after more than 2 years of conflictive government by the Junta and to counter the FMLN with "democracy". In those elections, boycotted by the FMLN, the Christian Democrats garnered 40% of the vote, but ARENA took a surprising 29.5%, becoming the country's second-largest political force (Zamora 1998, 53). Thus within a year of its foundation, ARENA was able to play a leading role in drafting a new constitution that would be used by the party to forge the road to its 1989 presidential victory.

In the negotiations over that Constitution, the oligarchy scored a pivotal victory with what eventually became to be known as the "Pact of Apaneca". The pact involved all the parties that had won seats in the Constitutional Assembly and its first goal was to set up a government of national unity to guarantee a transition to electoral democracy and undermine the FMLN, an objective of both the Christian Democrats and ARENA, as well as of the US government. The Constitution left the

Junta's reforms in place, but it introduced a limit on land expropriations that precluded the critical phase two of the land reform law (Zamora 1998, 53–54). In the new government, moreover, ARENA was left in charge of the ministries that dealt directly with agrarian issues; in that role, the party "chose to freeze the process of land reform and slowly strangle the cooperatives" (Zamora 1998, 53–54). From its earliest days, then, ARENA achieved positive results for a beleaguered oligarchy. Although it lost the presidential election of 1984 and the legislative election of 1985 to the Christian Democrats, these setbacks were used to redirect the ideological orientation of the party towards the neo-liberal policies favoured by Washington and the International Financial Institutions (IFIs).

A Strategic Political Shift and a Neo-liberal Peace

In order to lay the social and economic policy foundations for ARENA's platform, and with the financial help of the Reagan administration through the US Agency for International Development (USAID), business interests linked to the oligarchy created a think tank in 1983, the *Fundación Salvadoreña para el Desarrollo Económico y Social/*Salvadoran Foundation for Economic and Social Development (FUSADES). It was through FUSADES that the neo-liberal paradigm, spearheaded by the IMF and the World Bank, was disseminated among prominent segments of the oligarchy. A seminal FUSADES policy paper of 1985, titled "The Need for a New Economic Model for El Salvador," called for a systematic policy shift towards economic liberalization, privatization, and deregulation. The paper was a frontal attack against the state-led policies of the Christian Democrat government and specifically against the nationalized foreign trade and banking sectors. Instead, it advocated reliance on private investment and limited government.

FUSADES criticized the traditional mono-export economy the country had relied on for decades (Gaspar Tapia 1989, 9), arguing for a new economic model based on non-traditional exports that would take advantage of El Salvador's cheap labour and transform the country into a new Taiwan or South Korea (ignoring the post World War II radical agrarian reform and state-led policies of the two). To facilitate this shift, FUSADES advocated two major policy changes: first, the "elimination of the anti-export and protectionist vestiges"; and second, the "elimination of all market distortions" that had been designed to encourage state-led industrial projects. In other words, FUSADES advocated a significant reduction of the state's role in the economy while extolling the supremacy of market and private interests. The shift in economic discourse was clear and the increasing influence of a "modernizing" wing of the oligarchy, which envisioned success apart from traditional exports, began to set the ARENA agenda. In 1989, the ideas presented by FUSADES would become the pillars of the first ARENA government and the foundation of oligarchic renewal over the next two decades.

This shift to neo-liberalism by ARENA is fundamental to our analysis. After the electoral route was embraced by the oligarchy, the original founding precepts of the party, largely conservative political and moralistic statements with only a vague economic vision, were complemented by practical economic proposals. ARENA also adopted a pluralistic and liberal-democratic discourse that allowed the party to portray itself as the defender of freedom and democracy against the perceived communist threat posed by the FMLN and the "failed statist" alternative of the Christian Democrats. In order to soften its image further and make it more appealing to its US supporters and Salvadorans alike, the party chose Alfredo Cristiani, a member of the coffee oligarchy but a man of relatively moderate views, to represent it in the 1989 "showcase" presidential elections, which it won in a landslide in the midst of ongoing civil war (Gaspar Tapia 1989, 4–10; Albiac 1999, 843–846).

With its new neo-liberal platform, ARENA represented the crystallization of a new oligarchic project. The last major obstacle to the reconfiguration of the oligarchy was the FMLN, which was overcome by ARENA and Cristiani through their masterful participation in the UN-sponsored peace negotiation that were also supported by Washington. In theory, the signing of the Peace Accords in 1992 was to provide the political, socioeconomic, and institutional foundations for a national social contract to address and finally resolve the systematic inequalities that had sparked the civil war in the first place. This was the vision of both the United Nations mediators and the FMLN negotiators, that is, a vision that went beyond the need to end the violence that had killed more than 75,000 Salvadorans: their goal was to establish the foundations for constructing a significantly different country. In this spirit, and throughout the negotiation process, the ultimate objectives were formulated as demilitarization and democratization, the institutionalization of respect for human rights, the enshrinement of the rule of law, and the advance towards social justice.

ARENA, however, was not interested in negotiating social and economic reforms while the FMLN's bargaining capacity was weakened by the fall of the Berlin Wall in 1989 and the Sandinistas' loss of power in early 1990. Thus, the Peace Accords that were signed in January 1992 focused almost exclusively on the resolution of political issues. The Accords made no reference to the core policies of the neo-liberal programme that had already been inaugurated by ARENA: the reprivatization of the banking system and the international trade sector, a regressive tax reform that favoured the wealthy, and the massive layoffs of public employees. When socio-economic policy was addressed, it was vague by design. For example, the historical issue of land tenure was timidly addressed by calling for a minor land redistribution programme for former FMLN combatants, but the large estate system was left intact.

The "socioeconomic softness" of the Peace Accords represented arguably the key moment in the process of oligarchic reconfiguration. In 1989, the only obstacle to neo-liberal reform was the FMLN's armed struggle, and the signing of the Peace Accords in 1992 killed two birds with one stone: on the one hand, it disarmed the FMLN and removed the possibility of radical revolution by forcing the guerrilla leaders to tolerate the system they had fought against for many years; and on the other, it preserved the integrity of the oligarchic socioeconomic system while bolstering the legitimacy of ARENA's neo-liberal programme. Progressive forces pinned their hopes on winning future elections, victories that might allow them to pursue the social and economic reforms that the Peace Accords did not include.

Structural Transformation of the Salvadoran Economy

The civil war and peace accord negotiation process coincided with three key external transformations that hastened and facilitated the structural reorientation of the national economy upon which the Salvadoran oligarchy was reconstituted: the continued decline of traditional commodities, the rise of remittances, and the influx of untied foreign aid and loans from the United States. The most important expanding sector was finance, which was anchored in the growth of emigrant remittances and external loans. The other major expanding sector was services, which was tied to the growth of remittances and imports.

Table 6.1 El Salvador: employment generating sectors, 1992 and 2006

	1992 (%)	*2006 (%)*
Agriculture	36	19
Industry	15	16
Services	49	65

Source Elaborated from PNUD (2008, 56)

In the mid-1950s, El Salvador had still depended on coffee exports, complemented by sugar and cotton. Although industrialization was pursued to diversify and modernize the economy, it did not take root, and in the early 1980s the agro-export sector entered a period of sustained decline, owing to a number of factors. First of all, primary-product prices fell, continuing a trend that had begun in the late 1970s, and the impacts of lower prices were worsened by the multiple disruptions of the civil war, as productive regions became combat zones. Moreover, the nationalization of foreign trade led the oligarchy to withdraw US$2 billion from the country as reprisal for the reforms undertaken by the Junta and the Christian Democrats, a move that had a tremendously negative impact on the production and value chains of these commodities (Vaquerano 2005, 209). By the turn of the new century, agricultural exports had declined dramatically: primary exports as percentage of total export revenue plummeted from 57.8% in 1980–1984, at the height of the civil war, to 30.5% in 1990–1994 when peace was being negotiated and signed, and to 19.4% in 1995–1999, in the years immediately following the peace accords (Segovia 2002, 63). Thus, agriculture absorbed only 19% of employment in 2006; by that year, the service sector accounted for 65% of employment (see Table 6.1) according to the United Nations Development Programme (PNUD in its Spanish acronym). Industry maintained its share as it was transformed by transnational companies into *maquila* production for US markets.

The second major economic phenomenon was the influx of emigrant remittances, primarily from the United States. As the decade progressed, the violence of the civil war expanded throughout the country, provoking the displacement of tens of thousands, primarily from rural areas. By 1984, according to some estimates, more than one-quarter of the population had become displaced refugees, and more than a quarter-million of them had emigrated to the United States, mainly undocumented (Lungo 1990, 98). This massive exodus turned remittances into

Table 6.2 El Salvador: changes in sources of all hard currency entering the country, 1978 and 2004

Source	*1978 (%)*	*2004 (%)*
Traditional agro-exports (coffee, sugar, cotton and shrimp)	81	5
Remittances	8	70
Maquila industries	3	12
Non-traditional exports (outside Central America)	8	13

Source Elaborated from PNUD (2005, 200)

the most important source of not only family income but also of foreign exchange (70% by 2002; see Table 6.2). In 2008, just before ARENA lost power, remittances made up 18.35% of El Salvador's GDP (Orozco 2009, 11, Table 6).

The third factor was sustained aid, military and otherwise, from the United States. The Reagan administration considered El Salvador a high priority in its anti-communist crusade in the isthmus, and from 1980 to 1988 the country received a total of US$3.4 billion in aid, mainly channeled through USAID (Lungo 1990, 95). Aid thus became a major source of state revenues and foreign exchange that ultimately allowed the government to keep its finances afloat as export income declined. The abundance of foreign exchange from the combination of remittances and US aid, largely untied to any productive activity, provided the foundations for the rise of a finance and service-based economy in the 1990s and the definitive shift in the country's economic model (Segovia 2002, 97–104 and Tables 6.1 and 6.2).

In sum, by the early-1990s the Salvadoran economy had experienced a radical structural transformation from a primary export economy to one based on financial and service activities, complemented by nontraditional (mostly *maquila*) exports, a transformation that was completed by the turn of the new century. In conjunction, the old coffee oligarchy experienced a radical metamorphosis whereby its power and influence no longer lay in the control of the fragile primary export economy or on the protection offered by the military. Both the Salvadoran oligarchy and the economy it still thrives on were transformed. The following section explores in greater detail the specific neo-liberal policies that were implemented in the 1989–2009 period, as a systematic plan designed to ensure that the structural transformations in the economy supported a reconfigured and reinforced oligarchy.

The Neo-liberal Programme and the Reconfiguration of the Oligarchy

As the national economy underwent dramatic structural transformation, neo-liberal reforms ensured that the traditional oligarchy would be installed at the commanding heights of the emergent economic sectors and insulated from political interference. On the one hand, privatization handed the oligarchy most of the country's strategic economic and productive sectors, from the financial sector to international trade to pensions, while transnational capital was allowed to take over the utility sector and *maquila* industries. At the same time, tax reform, dollarization in 2001 (discussed below), and the signing of Free Trade Agreements (FTAs) reduced and constrained the capacity of the political system to infringe upon the economic power and influence of the oligarchy. By 2006, as discussed below, the national economy was controlled by eight entrepreneurial groups, with traditional oligarchic family underpinnings.

The transfer of productive assets through the privatization of public enterprises was the key step in the reconstruction of the Salvadoran oligarchy. The most important component was the privatization of the banking system that had been nationalized by the Junta in 1980. The first step came in November 1990, when the Legislative Assembly approved the "Law of Financial Restructuring and Strengthening of Commercial Banks and Loans and Savings Associations". The Law enabled the government to "clean up" the highly indebted national banks through the swap of high-risk debt between the banks and the *Fondo de Saneamiento y Fortalicimiento Financiero*/Fund for Financial Restructuring and Strengthening (FOSAFFI), an entity created by the Law to oversee an adequate transition to privatization. To finance the swap, the state granted the FOSAFFI around US$200 million in new funds, and FOSAFFI was authorized to issue bonds for up to US$150 million. In the end, more than US$700 million of public funds was used to bail out several nationalized commercial banks and facilitate their privatization (Arias 2008, 90; Segovia and Sorto 1992, 7–8).

To begin the sale of the bailed-out banks, the National Assembly approved the operational component of the financial privatization package, the "Law for the Privatization of the Nationalized Financial Institutions". Although the law contained regulations designed to prevent monopoly and unfair dealings, the privatization process was plagued with massive irregularities and outright corruption that favoured the interests of the traditional oligarchy. For example, powerful businessmen and traditional oligarchs used *presta nombres* ("name-lenders") to buy stock packages and acquire most of the private banks' shares, thus circumventing the buying limits established by the Law (Segovia and Sorto 1992, 16).[2]

The checks and balances stipulated in the Law were similarly avoided through the manipulation of legal loopholes and the "dirty tricks" of corrupt lawyers who manoeuvred around an obviously weak Law, or they simply ignored it. According to Segovia and Sorto, the unprecedented rapidity with which bank stocks were acquired reveals a high degree of irregularity and inside dealings (Segovia and Sorto 1992, 13). Moreover, the boards of directors of the most important newly privatized banks, such as *Banco Cuscatlán* and *Banco Agrícola Comercial*, wound up in the hands of close collaborators of large national oligarchic businesses, and this inevitably led to additional illegal activities during the sale of bank stocks (Segovia and Sorto 1992, 14–16). These operational anomalies tell us how the "privatization of the banks has been a mere mechanism to return to the old patterns of concentration of economic power" (Segovia and Sorto 1992, 13); "the direct sale of shares that privileged small investors [and bank employees] during the first 4 months of the process [did not prove] to be an impediment for the acquisition of important share packages by big financial corporations …" (Segovia and Sorto 1992, 15). The privatization of the banking sector was rigged from the beginning to facilitate the return to the pre-1980 ownership regime.

To explain that process in somewhat greater detail, the boards of directors of the most important newly privatized banks, such as *Banco Cuscatlán* and *Banco Agrícola Comercial*, were composed of close collaborators of local oligarchic businesses, and their presence facilitated illegal activities during the sale of bank stocks (Segovia and Sorto 1992, 14–16). Corrupt processes resulted from a lack of authority and capacity to properly oversee the process of privatization on the part of the Board of Control of the Financial System, and this shortcoming pointed directly at the Cristiani government's lack of commitment to implement a democratic and transparent privatization plan. The Board of Control depended directly on the office of the President, in conjunction with the Central Bank, and as such, the Board was and is highly vulnerable to political influence and pressure from oligarchic interests.

These large-scale interests also took advantage of FOSAFFI's policy of financing small investors who wanted to buy shares for less than 90,000 *colones* (US$10,000). The procedure worked as follows: oligarchic interests would work in conjunction with small investors and even bank employees to "finance" their bids to buy stock packages, usually paying for the fees and down payments required by the FOSAFFI as a prerequisite for participation in this programme. In exchange, the small investors would eventually renounce their ownership by transferring the stocks to the large-scale interests through legally sanctioned judicial transfers (Segovia and Sorto 1992, 16). In other words, the state through FOSAFFI financed oligarchic interests in their reacquisition of bank stocks, and by using this illegal manoeuvre, these interests eventually crowded the boards of directors of newly privatized banks and proceeded to even change the internal procedures for the privatization plans of each individual bank in a way that benefited their interests. Needless to say, these actions were made possible by the already mentioned weak legal framework and the powerlessness of oversight institutions. Furthermore, in the end, many of the loans that were supposedly provided to "small investors" were written off as the result of either bankruptcies or "debtor disappearances" (Moreno 2009). The new oligarchy killed two birds with one stone: it circumvented the law while getting the state to finance its schemes to reacquire the backbone of the country's financial system.

By the mid-1990s, the privatization of the banking sector had created a financial oligopoly composed of six major banks and financial consortia linked to seven of the largest economic groups of the country (see Table 6.3). In turn, these groups were controlled by a combination of traditional oligarchic families and those who had emerged as new oligarchic actors in the 1980s and during the post-war financial bonanza. This financial oligopoly managed to control more than 90% of national banking activity by 1998 (Villalona 2007); by 2005, the conglomerate of six banks owned US$1.6 billion in financial assets (Goitia 2009).

The bank privatization is a pivotal event in several respects. First, it is clear that the government measures were implemented in a way that ensured that the main beneficiaries would be the most influential oligarchic families within the party. In other words, ARENA set out to secure the financial power of the people who founded and sponsored the party. Second, the bonanza of financial resources that El Salvador received in the late-1980s and early-1990s, as a result of massive US and

Table 6.3 Private banks and families that owned them, 2004

Bank	*Family (ies)*
1. Banco Cuscatlán	Cristiani*, Llach*, Bahaia, De Sola*
2. Banco Agrícola	Baldochi, Dueñas*, Kriete* Ávila, Palomo* Déneke, Araujo Eserski
3. Banco de Comercio	Belismelis, Catani Papini, Álvarez*, Freund, Sol*, Escalante Sol*, Palomo
4. Banco Salvadoreño	Simán Jacir, Salume, Simán Siri, Zablah Touche
5. Banco De América Central y Credomatic	Murray Meza, Meza Ayau, Sol* Meza, Meza Hill, Palomo, Quiñonez* Meza, Álvarez* Meza
6. Scotiabank and Ahorromet	Poma, Salaverría, Quirós, Llach* Hill, Hill*, Meza Hill, Hill Valiente

Source Elaborated from Equipo Maíz (Equipo Maíz is a San Salvador-based social justice Non-Governmental Organization that addresses social, economic, and political issues from a critical perspective. It is made up of economists, political economists and political scientists, as well as activists involved in various social justice causes. Their research is published through a series of "Popular Education Booklets" in which complex issues, such as dollarization, neoliberal adjustment, and pension reform are explained in plain language) 2006. The * indicates that the family belongs among the principal oligarchic families of the early 1920s identified by Wilson.

other international aid programmes, remittances, and the shift to a tertiary economy, channeled enormous resources into the financial sector, which became the most profitable sector of the economy. According to Vaquerano, from 1992 to 1999 the financial sector grew at an average annual rate of 12% (Vaquerano 2005, 213).

Third, the acquisition and eventual consolidation of the ownership of the banking sector by oligarchic interests allowed them to establish the financial foundations for the creation of multifaceted entrepreneurial/financial conglomerates whose activities expanded to other sectors of the economy, such as real estate, construction, insurance, pensions, and tourism (Equipo Maíz 2006; Goitia 2006). The acquisition of the banks facilitated the oligarchy's conversion from an agrarian to a financial-based class by using the state as the instrument to reconfigure the dynamics of class domination within the framework of neo-liberal capitalism and increasingly evident transnational expansion. To take advantage of the unprecedented financial bonanza provided by international aid for the consolidation of peace in the aftermath of the civil war, the rebuilding oligarchy used the financial sector to channel those resources to its advantage.

One example of the extraordinary profitability and capital accumulation is the *Grupo Financiero Cuscatlán* (GFC). The GFC emerged in 1993 out of the *Banco Cuscatlan*'s initial stock of about US$17 million, which had grown to more than US$90 million by 2003. The consolidation of *Banco Cuscatlán* provided a basis for expanding its investments and capital transactions to other key areas of the economy, many of them tied to the financial system. By 2005, the GFC was composed of 44 companies that offered multifaceted services and operated with a combined capital of US$142 million within El Salvador. The GFC played a significant role in insurance, real estate, foreign exchange, pensions, pharmaceutical imports, agriculture, fertilizers, and retail. According to Alfonso Goitia, the international assets of the GFC, led by the *Corporación Unión de Bancos Cuscatlán Internacional* (UBCI), which had a presence all over Central America and owned 26 financial companies, totalled US$6.7 billion or almost one-third of Salvador's GDP in 2005 (2006, 26).

Other important measures of the Cristiani government included the reprivatization of international trade, whereby the commercialization of coffee and sugar returned to the hands of the old agrarian-based oligarchy. Cristiani also liberalized the economy in other pivotal areas: the prices of basic staples and grains were freed and subsidies for producers were eliminated, together with the deregulation of the housing and land markets, the exchange rate (until the dollar was adopted), and interest rates. Later the Calderón Sol government (1994–1999) privatized the pension system by creating private Pension Fund Administrators/*Administradores de Fondos de Pensiones* (AFPs), which were integrated into the financial circuits of the principal private banks. By 2009, two AFPs, *Confía* and *Crecer*, were owned by the largest business conglomerates of the country and dominated the private pension market.

The tax reforms introduced by successive ARENA governments also clearly favoured the oligarchy. As a first step, the Cristiani administration eliminated all luxury and property taxes, significantly decreased export taxes, reduced income taxes by half, and gradually reduced import tariffs. The fiscal holes were filled with the introduction of a 13% sales tax, a regressive measure because the poor consume a greater share of their income than the rich. In effect, the reform shifted the tax burden from corporations and the wealthy to middle and lower-income individuals. As economist César Villalona noted, "the neo-liberal tax regime in El Salvador resembles a Robin Hood in reverse: it takes from the poor to give to the rich" (Villalona 2007).

Another key measure introduced by ARENA that benefitted the interests of the new financial oligarchy was the adoption in 2001 of the US dollar as the national currency. The Flores administration (1999–2004) argued that a dollarized economy would bring more foreign investment to El Salvador, keep inflation under control while stimulating a favourable interest rate, and force the government to follow strict fiscal discipline. In fact, however, the decision to adopt the dollar favoured the big banks. The elimination of currency volatility reduced the risk of US-denominated debts, while making it easy for importers to buy products in international markets without the risk of dealing with currency fluctuations (Villalona 2001, 5). Having the US dollar as the national currency facilitated the channeling of an ever increasing influx of migrant remittances into the new consumption-based national economy, while this influx also opened the door to the regional expansion of financial oligarchic interests, and according to some observers, the laundering of drug trade profits by the banking system, "*un secreto a voces*", that is, a well known but not openly discussed phenomenon. Moreover, the elimination of the Central Bank as an economic agent capable of overseeing the country's monetary policy, coupled with the lax regulatory framework for finance inherited from the privatization of the early 1990s, ensured that the reconfigured oligarchy would not face potential obstacles or excessive oversight of its financial activities.

Finally, ARENA's neo-liberal package culminated with the signing of several FTAs in the period 1999–2004. In addition to the Central American Free Trade Agreement (CAFTA-DR) with the United States (that included the Dominican Republic), El Salvador signed FTAs with Mexico and Chile. These FTAs led to the almost total elimination of export taxes and of the import tariffs that had survived the neo-liberal tax reform of the 1990s. The immediate results of these agreements were a sharp increase in imports and a skyrocketing increase in the country's trade deficit. While FTAs benefited the new oligarchic importers and opened the door to lucrative business deals with transnational capital, trade deficits ballooned and reached US$5 billion in 2008, the largest ever recorded in the country's history.

After 20 years of neo-liberal reforms implemented by four consecutive ARENA governments (as summarized in Table 6.4), a tertiary, financie-based and import-oriented economy was created, managed by eight oligarchic entrepreneurial groups that exercise control over the pivotal sectors that drive and sustain growth. As a result of dollarization,

Table 6.4 Neo-liberal measures implemented under four ARENA governments, 1989–2004

Alfredo Cristiani (1989–1994)	Privatization of coffee and sugar export trade Privatization of banking sector Privatization of petroleum imports Liberalization of prices for basic staples and elimination of subsidies for agricultural producers Closing of the Regulatory Institute For Grain and Supplies (IRA), which sold basic staples at subsidized prices Closing of the Institute of Urban Housing (IVU), in charge of social housing Reduction of income, export, and import taxes, and elimination of property taxes Introduction of the sales tax (IVA) Liberalization of interest and exchange rates
Armando Calderón Sol (1994–1999)	Privatization of pension system Privatization of electricity distribution Privatization of telecommunications Privatization of sugar mills Privatization of license plate emission services Hike of the sales tax (IVA) from 10 to 13%
Francisco Flores (1999–2004)	Adoption of US dollar as official currency Privatization of some medical services offered by the public health system Privatization of national airport Signing of free trade agreements with Mexico, Chile, Dominican Republic, and Panama
Antonio Saca (2004–2009)	Signing of free trade agreement with the USA (CAFTA-DR)

Source Adapted from data of Equipo Maíz (2004, 18–25) and Moreno (2004, 21)

FTAs, and pro-business tax regimes, it is the service sector and imports rather than exports that sustain capital accumulation and oligarchic power. Because a dollarized and import-dependent economy requires a healthy inflow of dollars and traditional exports have continued to decline, it is migrant remittances that keep the economy afloat. The gigantic deficit in the trade balance is partially financed by the very high levels of those remittances that come mainly from the United States (US$3.7 billion in 2008). As noted above, remittances reached 18.35% of El Salvador's GDP in 2008 (Orozco 2009, 11, Table 6).

As for the social consequences of oligarchic reconfiguration, the extreme concentration of wealth produced a similarly extreme concentration of income and immiseration for large parts of the population. For instance, Social Watch reports that in 1995 the distribution of national income was divided as follows: 66% for capitalists in the form of profits and 34% for workers in the form of wages; by 2005, profits accounted for 75% and wages only 25%. According to ECLAC, the share of national income that accrued to the poorest 40% of the population actually went down from 15.4 to 13.4% between 1996 and 2001, when the Peace Accords signed in 1992 were supposedly being implemented to eliminate the social causes of future conflict; as for poverty, it stood at 47.5% in 2004 while indigence enveloped 19% of the population (ECLAC 2014, 117, 17). Viewed from another perspective, "113,000 businessmen appropriated 75% of the social product produced by 2,591,000 workers" (Hernández and Pérez 2008). In 2002, when most of the neo-liberal adjustment policies had been fully implemented, El Salvador's Gini Index of income was 0.54, placing the country among the 20% most unequal in the world: the richest 20% earned 58.3% of income while the poorest 20% earned 2.4%, almost 24 times less than the richest quintile (PNUD 2003, 63–64).

In 2007, after almost 20 years of rule by ARENA, most Salvadorans continued to live in poverty that would have been more intense if it were not for family remittances: between 500 and 700 Salvadorans left the country every day looking for a better life elsewhere (mainly in the United States). Between 2000 and 2007, the number of households that received monthly remittances grew almost 13 times; the informal economy provided 56% of the country's employment (Moreno 2004, 51–78; Arias 2008, 29); and the country depended more and more on food imports as trade agreements and the high value of dollar favoured the import of basic foods from neighbouring countries and the United States.

In summary, the systematic programme of privatization transferred the country's most important productive and economic sectors to private hands; deregulation led to price, wage, labour, and tax reforms that benefited the interests of oligarchic conglomerates; the priorities of production shifted from agriculture to services and commerce, affecting credit and subsidies for agriculture and engendering the emergence of an import-based economy; dollarization, adopted in 2001, benefitted the interests of large banks and importers; and free trade enabled the leaders of the import-based tertiary system to improve the conditions of trade to facilitate imports and eliminate tariffs and other taxes. An inverse relationship developed between the national state and private capital: the former saw its participation and resources diminished, while the latter experienced a tremendous rise in societal, political, and economic preponderance. Meanwhile, social injustice and violence continued to prevail as the intent of the Peace Accords was subverted by the neo-liberal economic policies favoured by the oligarchy and the IFIs.

The "New" Salvadoran Oligarchy

The eight principal groups that comprised the post-civil-war Salvadoran oligarchy are presented in Table 6.5; they are anchored in banking but also control industry, commerce, services, construction, insurance, and pensions, among other activities.

By 2004, the capital and assets of these eight oligarchic groups totalled almost US$17.6 billion, an figure more than US$2 billion greater than the country's GDP, six times larger than the government's overall budget, twice as much as the country's foreign debt, and the equivalent of 6 years of remittances. In other words, around 280 companies owned by a handful of families, many of them with traditional coffee oligarchy credentials, controlled a level of wealth that is superior to the one enjoyed by more than 6.5 million Salvadorans and significantly greater than the resources the national government had for dealing with its multifaceted responsibilities. The neo-liberal shift facilitated the reconcentration of wealth in the hands of an even smaller oligarchy, while simultaneously stripping the Salvadoran state of most of its productive, regulatory, and redistributive roles. Indeed, the state was used to recreate the oligarchy during the 20 years of ARENA rule from 1989 to 2009.

However, there is yet another important element of El Salvador's reconfigured oligarchy: its growing transnationalization. It is important to note that the neo-liberal model was adopted and implemented by the local oligarchic bloc as a conscious decision and without much direct international pressure (contrary to the case of several other Latin American countries in the aftermath of the debt crisis that started in the early 1980s). The "modern" wing of the oligarchy embraced the neo-liberal creed as an instrument to restore their power that had diminished during the 1980s. In other words, the IFIs did not systematically impose neo-liberal structural adjustment on El Salvador; rather, adjustment was "localized" by the national oligarchy on the basis of its own interests and economic plans.

Table 6.5 New oligarchic groups in post-Civil War El Salvador, 2004

Group	*Families*	*Activities*	*Capital*
1. Grupo Cuscatlán (44 companies)	Cristiani, Llach*, De Sola*, Salaverría*, Hill*	Financial Investment; Banking; Insurance; Pensions; Importing and distribution of medicines; Agriculture and livestock; Distribution of fertilizers; Construction; Stock Exchange; Export of coffee; Real estate; Import and sale of electrical devices; Fishing industry; Textiles; Beverages; Fumigation companies; Tobacco	US$6.8 billion
2. Grupo Banagrícola (36 companies)	Baldochi Dueñas*, Kriete Ávila*, Dueñas*, Palomo Déneke, Araujo* Eserski, Pacas Díaz, Cohen	Financial Investment; Banking; Insurance; Pensions; Airline industry; Cement industry; Paper and plastic; Media and communication companies; Alcohol industry; Export of coffee; Real estate; Chemical industry; Sugar mills	US$6.5 billion
3. Grupo Banco Salvadoreño (54 companies)	Simán, Salume, Zablah, Touché	Financial Investment; Banking; Insurance; Real estate; Chemical industry; Food and beverage; Import of heavy machinery; Construction; Distribution of tobacco products; Flour production; Storage companies	US$1.8 billion
4. Grupo Banco de Comercio (27 companies)	Belismelis, Catani, Papini, Álvarez*, Freund, Cohen, Sol*, Escalante Sol*, Palomo	Financial Investment; Banking; Insurance; Pensions; Cement production; Aluminium production; Dairy products; Export and commercialization of coffee; Chemical production; Generation of electrical power	US$1.3 billion

(continued)

Table 6.5 (continued)

Group	*Families*	*Activities*	*Capital*
5. Grupo AGRISAL (41 companies)	Murray Meza, Meza Ayau, Sol* Meza, Meza Hill*, Palomo, Álvarez* Meza	Financial Investment; Banking; Insurance; Pensions; Beer production; Beverage production and distribution; Shoemaking; Real Estate; Export of Coffee; Cement production	US$768 million
6. Grupo Poma/ Salaverría Prieto/Quirós (55 companies)	Poma, Salaverría* Prieto, Quirós	Financial Investment; Banking; Insurance; Coffee exports; Real Estate; Construction; Import and distribution of automobiles; Aluminuim production; Cement production	US$175 million
7. Grupo Hill/ Llach Hill (13 companies)	Hill*, Llach* Hill*, Meza Hill*, Hill* Argüello	Financial Investment; Banking; Insurance; Coffee exports; real Estate; Storage services	US$51 million
8. Grupo De Sola (10 companies)	De Sola*	Insurance; Chemical production; Food and beverage industries; Coffee exports; Real Estate	US$25 million

Source Elaborated from Equipo Maíz (2006) and Goitia (2006, 24–28). The * indicates that the family belongs among the principal oligarchic families of the early 1920s identified by Wilson (1978)

Despite the localized approach to privatization and liberalization that prevailed through the 1990s, things began to change in 2001 with two important business transactions that involved major transnational agents. The consolidation of neo-liberal reforms, especially the "healthy" financial sector and the favourable tributary regime for investors, began to attract the attention of foreign capital. In 2005, Roberto Murray Meza, the patriarch of *Grupo AGRISAL* and very closely connected to the ARENA leadership, sold *La Constancia*, the country's main brewery and beverage factory and one of the largest in Central America. The buyer was South African Breweries (later to become SABMiller), which had already bought other breweries in Central America (Arias 2008, 114). That same year, the Swiss transnational Holcim became the majority owner of *Cementos de El Salvador (CESSA)*, the country's largest cement producer and property of the

AGRISAL and Banagricola Groups, and in 2010, CESSA became Holcim El Salvador (*Revista Summa* 2010). The Salvadoran groups had bought their main competitor and publicly owned cement company, *Cementera Maya*, during the privatizations of the 1990s to create a monopoly in cement production in El Salvador.

Likewise, El Salvador-based airline TACA (originally *Transportes Aéreos Centroamericanos*), owned by the Kriete family and one of the pillars of the *Grupo Banagrícola*, began its transnational expansion during the first half of the 1990s by forging partnerships with the most important airlines in Central America, namely Guatemala's *Aviateca*, Nicaragua's *Nica*, and Costa Rica's *Lacsa*. The consolidation of these partnerships led to the creation of *Grupo TACA* in 1995. The eventual strength of this business led to its expansion to the South American airline market through the creation of *TACA Perú* in 2001. In 2005, *Grupo TACA*, by now *Transportes Aéreos del Continente Americano/* Airlines of the American Continent, was one of the main founders of Mexico's *Volaris*, an airline that targeted domestic flights in the country's main tourist routes. Finally, in 2009 *Grupo TACA* (which by then had changed its official name to TACA International Airlines) announced a ground-breaking partnership with Colombia's *Avianca*, creating the largest airline partnership in Latin America, with extensive connections to North America and Europe; the partnership is scheduled to evolve into an amalgamation named Avianca-TACA Limited, based in the Bahamas (*Redacción E&N*, February 2010).

Three additional aspects of the transnational expansion of the most important business groups of the renewed Salvadoran oligarchy deserve mention. First, it is clear that this neo-liberal oligarchy, after it consolidated its economic domination on the domestic front, embraced regional expansion as the next step in its process of consolidation, mainly because the domestic market in El Salvador had reached its limits as a source of profit. Second, the reconfigured class finally caved in to permit the transnational take-over of strategic sectors that it had reserved for itself since the beginning of the neo-liberal shift. Third, the sales reviewed above ultimately served as the preamble for the eventual FTA with the United States; the message was sent that the local elite, when the price was right, was willing to "let go" of sectors it had controlled that were also of interest to transnational capital.

The CAFTA-DR opened the door to the largest business deal made by the new oligarchy: the sale of the banking sector to transnational financial interests in 2006–2007. Among many other modifications, the trade deal eliminated all protective measures that were in place to shield the local economy from foreign capital, and the sector that inaugurated the new opening was the most lucrative by far. Briefly, US-based Citigroup bought *Banco Cuscatlán*, Bancolombia acquired *Banco Agrícola*, Scotiabank bought *Banco de Comercio*, and HSBC purchased *Banco Salvadoreño*. The total for the sale of Salvador's four most important banks was US$4 billion (Arias 2008, 96–97). In addition to the banks, the transactions included the insurance companies, credit cards, private pension fund administrators, and stock exchange assets that made up the financial portfolios of the banks.

Perhaps needless to say, the sale of the banks was enormously lucrative for the renewed power bloc. Since most of the banks' holdings were registered in regional financial havens, the Salvadoran oligarchy did not have to pay any taxes to the Salvadoran government (Arias 2008, 96–97). According to progressive analysts, the transaction represents the largest financial rip-off ever perpetrated against the Salvadoran people; the oligarchy received the banks free of debt after public money was used to bail them out (more than US$700 million): yet the massive benefits that the oligarchy reaped constituted tax-free profits in the billions of dollars (Arias 2008, 90; Moreno 2009).

In sum, the reconfigured Salvadoran oligarchy experienced three levels of transnationalization. First, its precursor bloc aligned itself with the neo-liberal ideological precepts that prevailed when ARENA won the presidency in 1989; second, the penetration of transnational capital that began in the mid-1990s with the privatization of the most important utility sectors was intensified with the sale of *La Constancia* and other companies, and reached its peak during the sale of the banking sector; and third, the expansion of this neo-liberal oligarchy into regional/continental markets has included investment not only in Central America and Mexico, but also in South America and to a lesser extent in the United States.

Concluding Remarks

This chapter has argued that a process of oligarchic reconsolidation took place in El Salvador during the post-civil war period as the old coffee oligarchy reconfigured the bases for its domination. The instruments used to achieve the reconfiguration were the neo-liberal programmes implemented by four consecutive ARENA governments, the party created and sponsored by the oligarchy to protect and advance its interests. The economic mentality of the Salvadoran oligarchy changed during that period, sidelining its coffee-based and agrarian roots in favour of "modernizing" neo-liberalism, but the macro socioeconomic consequences of its reconfigured domination resulted in an even more skewed concentration of wealth and sharper inequality and exclusion for the majority of Salvadorans. That is, the historical features that characterized "the oligarchic", based on privilege and massive inequalities, remained largely intact. Moreover, the dynamics of social relations that have emerged from this reconfiguration of economic power remain anchored in old and rigid hierarchical social structures.

When the Peace Accords were signed in 1992, it was expected that the end of armed conflict would permit the construction of a more equitable and democratic society. However, the renewed oligarchic concentration of political and economic power in the post-civil war period blocked the path towards the creation of a new and better El Salvador. The fact that a reconfigured oligarchy managed to push historical disparities to new depths strikes at the heart of the country's democratic dream. How can democracy and social peace be advanced when a small minority manipulates the tools and spaces of socioeconomic and political decision-making and uses the state apparatus to benefit its exclusive class interests?

With CAFTA-DR in 2006, the entire domestic market went up "for sale", if the right offer were made. Indeed, most of the national banking sector, the jewel of the reconfigured oligarchy's economic power, was sold to transnational capital within a few months, a lucrative deal for the Salvadoran financial oligarchs. In light of the transnational takeovers, oligarchs looked to new markets, and this search led them to a systematic and growing regional expansion to maximize profits somewhere else and even replicate some of the business experiments that were successful in El Salvador in the 1990s. This reconfigured ruling class embraced a new role as an increasingly consolidated transnational agent inside the dynamics of capitalist development in the periphery.

Finally, it has to be noted that since 2009 El Salvador has been ruled by the FMLN, the party of the former guerrillas and the historic anti-oligarchic political force. Although the party came to power promising to enact socioeconomic reforms, it has been hemmed in by a solidly entrenched neo-liberal order, dollarization, and international trade treaties. After two decades of right-wing rule, the FMLN inherited a country with high debt levels, few sources of hard currency (other than remittances), and stagnant production, although *maquila* industries have expanded to become a major component of exports. As a result, the FMLN has had little room for taking initiatives to improve the living conditions of the majority of Salvadorans, while the power and domination of the reconfigured oligarchy have remained intact. In this context of diminished opportunities for most, not only does El Salvador continue to export people (now a source of tension with the United States), but, paradoxically, it has become one of the most violent countries of the world after its civil war ended. But these are matters that would require another chapter.

Notes

1. *Ejidos* and communal lands were an inheritance of the colonial period. The Spanish Crown was concerned to provide land for everyone's subsistence, a custom inherited from the Arab influence in the Iberian Peninsula. Thus, every township would receive land to be administered collectively. Indigenous lands were called *comunidades*, or communal lands, and lands designated for the Spanish and *mestizo* populations were called *ejidos.*
2. *Presta nombres* lend their names to cover what would otherwise be illegal operations if undertaken by the principal investor.

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CHAPTER 7

Land and the Reconfiguration of Power in Post-conflict Guatemala

Simon Granovsky-Larsen

Introduction

Over nearly 500 years of conquest and colonization, the control of land has been instrumental to elite domination in Guatemala. This has remained true despite major political-economic shifts under which the agricultural oligarchy has reinvested in new regions to produce crops to satisfy international demand—for example, from indigo on the south coast during the colonial period, to coffee in the highlands beginning in the late 1800s, and to African palm in the northern lowlands today.[1] The end to 36 years of internal armed conflict and genocide ushered one such major change, with peace negotiations laying the path for neoliberal reform and the reassertion of elite power, and, when these were challenged, the

Research for this chapter was carried out in Guatemala between 2009 and 2015. The principal round of fieldwork consisted of 12 months of research with six case studies (two *campesino* organizations and four rural communities) during 2009–2010, as well as archival research in six collections. Follow-up research in 2013 and 2015 tracked ongoing trends and collected updated data. In total, 144 interviews have been conducted.

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L.L. North and T.D. Clark (eds.), *Dominant Elites in Latin America*,
Latin American Political Economy, DOI 10.1007/978-3-319-53255-4_7

re-intensification of repressive violence. This chapter traces the path from peace negotiation to militarized extraction in Guatemala, a 20-year journey during which various factions of the elite have adapted to local and global change in order to reassert their power in the post-conflict context. Land has continued to hold central importance throughout this transition. The chapter begins with an analysis of the peace process as a tool for elite domination. It then presents an overview of the role of land in the reconfiguration of elite power and concludes with an evaluation of the current scenario of power relations, made possible through these processes of supposed peace-building and land reform.

Crafting the Transition

The reassertion and reconfiguration of elite power in Guatemala follows closely the country's recent dual transition: out of war and into a neoliberal political economy. The transition to neoliberalism began first, with major changes to the national economy set in motion in the 1970s, then leading to the consolidation of a neoliberal state form through the peace process of the 1980s and 1990s. Cox (1987) explains that forms of state are shaped primarily by the hegemonic world order of the era, but also in relation to the particular social forces of production within a given society. The change in state form that was heralded by the Guatemalan peace process saw a transition from a counterinsurgent state under total military control and married to the agricultural oligarchy (Dosal 1995; Schirmer 1998) to a neoliberal state in line with the globalized world order.

This new state form can best be described as both post-conflict and neoliberal. The "post" in post-conflict, however, should not be understood as absolute. While it is vital to mark the end of four decades of internal armed conflict in 1996 as a turning point in the political dynamics of the country, those dynamics include the continued power of military officials as well as a gradual return to the use of repressive military force. The "post-conflict" is a temporal period in Guatemala: one that begins with the end of war, but not one that breaks significantly with the war-time distribution and exercise of power (Brett 2016; McAllister and Nelson 2013; Torres-Rivas 2012). Add to this militarized post-conflict state an adherence to neoliberal political-economic doctrine, which has seen states and societies around the world reconfigure their political and productive regimes to facilitate the transnational accumulation of capital

(Harvey 2005; McNally 2011), and we have a form of state that is best characterized by its post-conflict and neoliberal aspects.

The rise of neoliberalism and the preservation of military power in Guatemala were both achieved through lengthy processes of democratization and peace negotiation, beginning in the mid-1980s. These transitions were preceded, however, by changes in the structure of economic and military power over a number of decades. Following a CIA-orchestrated military intervention and coup against the reformist president Jacobo Árbenz in 1954, the Guatemalan elite began to split in three: the traditional agricultural oligarchy, their military backers who gained autonomy after a sustained run of political power, and a new right based in non-traditional economic activity (Dosal 1995; McCleary 1999; Robinson 2003; Schirmer 1998; Short 2007). This third faction—which invested heavily in banking, nontraditional agricultural exports, maquila production, and tourism—was groomed in large part through hundreds of millions of dollars of funding for economic and political initiatives provided by the US Agency for International Development, especially after the transition to electoral democracy in 1986. By the early 1990s, as the Guatemalan government and guerrillas negotiated an end to the armed conflict, the importance of new economic activities had surpassed that of traditional agricultural exports and the new right had begun to exert considerable influence over political decision-making (Robinson 2003; Segovia 2005; Short 2007).

As the balance of power between elite factions shifted toward the new economic elite, the transition was conducted in such a way as to also preserve the power of the armed forces and include elements of the counterinsurgent state apparatus within the new, neoliberal state (Short 2007). The preservation of military power was achieved when the armed forces themselves initiated a democratic transition, calling for a presidential election in 1984 and the rewriting of the national constitution the following year. The late stage of the armed conflict that preceded this transition, beginning in 1978, was characterized by state terror and genocide, named as such by the United Nations-backed Historical Clarification Commission. The armed forces, in power with few exceptions since 1954, had gradually subsumed all elements of the state within the counterinsurgent apparatus, and they had turned that system on the rural and urban civilian population in an effort to eradicate the guerrilla threat (CEH 1999; ODHA 1998; Schirmer 1998; Weld 2014). While orchestrating the violence, members of the armed forces also rose to economic importance by gaining control of large tracts of land, investing in banking and other activities, and by dominating the nascent drug trade and other organized criminal pursuits (Kading 1999; Peacock and Beltrán 2003; Schirmer 1998; Solano 2005). As the Guatemalan economy sunk under the debt crisis of the early 1980s, and as the military command began to regret its poor international reputation, earned through its genocidal counterinsurgency operations, the need for a civilian transition and economic stability became clear (Jonas 2000; McCleary 1999; Schirmer 1998).

The democratic transition and the peace process that followed were initiated by the armed forces and supported by the new neoliberal faction of the Guatemalan elite. Since those same forces managed to dominate the long transition, the peace process also became the vehicle through which the post-conflict order was established. The Guatemalan accords went beyond the technical agreements that are the standard fare of peace negotiations to present a series of specific elements that were aimed to resolve the root causes of the conflict (Jonas 2000; Short 2007). Far-reaching accords—including the Agreement on the Strengthening of Civilian Power and the Role of the Armed Forces in a Democratic Society, the Agreement on Identity and Rights of Indigenous Peoples, and the Agreement on Social and Economic Aspects and the Agrarian Situation—presented a mandate for the broad reform of political, economic, and social institutions that amounted to "proposals to change the nature of power" (Torres-Rivas 2012, 129). Over eight long years of negotiation, however, Guatemala's new right, along with international actors involved in the peace process, guided those proposals so that power would adopt a thoroughly neoliberal bias, turning the process into one of not just peace-building, but of neoliberal restructuring as well.

Through the peace process, neoliberal elites in Guatemala managed what Short (2007), following Gramsci (1971), describes as a passive revolution: the construction of legitimacy for a dominant group through a tactic of co-opting demands for social change and reducing them to minimal concessions. The organized private sector adopted the concerns presented by the United Nations-sanctioned Civil Society Assembly, but used its political clout to defer the discussion of substantive issues until the final phase of the negotiations (Brett 2008; Short 2007). The discussion of land and economic issues, most importantly, was pushed out of each accord until the final one was under debate. Although the question of land factors heavily into the discussion of specific accords on indigenous rights and on the resettlement of refugees, for example, neither of those two addresses land in its text. Instead, the discussion of agrarian issues, which had formed the basis of guerrilla demands for reform prior to negotiations, was tabled not until a final agreement was reached. That accord, the Agreement on Social and Economic Aspects and the Agrarian Situation, or the Socioeconomic Accord, attempts to resolve all questions that challenge the structure of Guatemala's grossly unequal society in terms that are decidedly inoffensive to the neo-liberal elite (Palma Murga 1997; Short 2007). The final text of the Socioeconomic Accord eliminated all language that addressed redistributive agrarian reform, instead calling for the provision of loans for *campesino* land purchase, and for the creation of a series of state institutions with a mandate to strengthen property rights and the country's land market (Gobierno de Guatemala 1996). In establishing its plan for the neoliberal reform of agrarian policy, Short (2007, 95) notes, "the Socio-Economic Accord fundamentally prioritizes growth over everything else. The discourse of growth prefaces nearly every section of the agreements and growth precedes any mention of social development or social justice every time either term appears in the accord."

Guatemala thus entered the post-conflict era under a blueprint for peace-building that fit the perspective of neoliberal elites and international donors, and that defined all socioeconomic concerns in market terms. In the years since the agreements were signed, accordingly, the Guatemalan state has taken on a neoliberal form including elements of the previous counterinsurgent model. Neoliberal restructuring across Latin America focused on dismantling state institutions and policies that were meant to protect national economies and vulnerable groups. Since the Guatemalan armed forces had already gutted all state institutions to serve the counterinsurgency, however, the neoliberal transition in Guatemala only required that post-conflict political and economic policy not stray from the neoliberal path that was set out in the peace accords. And while the six administrations elected since the end of the armed conflict have oscillated between the representation of various elite factions, they have all governed according to a neoliberal political rationale (Batres 2012; Gaia 2010; Segovia 2005; Solano 2005). Elements of the counterinsurgent state have also survived or been actively revived, as evidenced by the continued military control of the national intelligence system, in persistent impunity and the general weakness of the judiciary, and in the gradual return of the armed forces to domestic security and political repression (CIIDH and El Observador 2014; Torres-Rivas 2012). As demonstrated below, both remilitarization and neoliberalization have been driven in part by agrarian change, which was managed successfully by elites during the negotiation and implementation of peace agreements.

Managing Power Relations

A key institution utilized to secure the continuation and reconfiguration of elite power in the agrarian sector has been the *Fondo de Tierras*, or Land Fund. It was created through an extensive dialogue process that stretched across the peace negotiations and involved Guatemala's landholding elite, the World Bank, and the organized peasant (or *campesino*) and Indigenous sectors, among others, and it represented the triumph of a market-based approach to land over the redistributive agrarian reform demanded by guerrillas and grassroots organizations. Over its nearly 20 years of operation, the *Fondo* has produced some pockets of beneficial impact, including for some peasant communities that successfully navigated the land market, and for some campesino organizations that strengthened their capacity to resist through the increased resource base of their participants (Granovsky-Larsen 2015). In general, however, the institution helped to facilitate a restructuring of the rural sector, where Guatemalan elites have rearranged long-established patterns of plantation production in favour of extractive agricultural and mineral industries and new areas of land acquisition through dispossession.

The *Fondo de Tierras* was created in 1998 under the mandate of the Socioeconomic Accord and through funding from the World Bank. Between 2000 and 2007, the World Bank's International Bank for Reconstruction and Development provided $53 million in loans for the two areas of the *Fondo*'s work: a Land Administration Project to carry out cadastre and land title regularization, and a Land Fund Project designed to facilitate bank loans to peasants for the communal purchase of plantation land. These projects were not entirely novel, as they represented the latest phase in a series of government-sponsored frontier colonization and land distribution schemes. Previous programmes trace a history that reaches back to the 1954 US sponsored coup d'etat and the counterrevolution that overturned the short-lived 1950–1954 experiment with redistributive agrarian reform; during the following decades, that experiment was replaced by minimal land provisions to the indigenous and peasant populations (Handy 1994; Pedroni 1992; Sandoval Villeda 1992; Schneider et al. 1989).

What was new about the *Fondo de Tierras*, however, was its complete replacement of government-sponsored land distribution with a market-based approach to land sales, an approach which had been used with progressive frequency since the early 1980s (USAID 1982). Under the *Fondo* project, large landowners advertise their plantation land for sale and set their own prices. The "willing seller, willing buyer" principle then encourages groups of landless peasants or smallholders to purchase the land collectively, using a loan provided by the Banrural Guatemalan bank, with the transaction overseen and sanctioned by the *Fondo*. This "market-led agrarian reform" approach to land sales represents one aspect of a larger programme to strengthen the land market in Guatemala, with the *Fondo* also formalizing peasant titles to land distributed under previous state-sponsored projects as well as carrying out the nationwide reassessment and certification of land titles. These measures were designed ostensibly to formalize the country's chaotic land registration system and to increase peasant security of land ownership. These three aspects of the *Fondo*'s work—that is, market-based land sales, the formalization of titles, and land cadastre—represent the pinnacle elements of neoliberal land administration, and mirror similar approaches encouraged by the World Bank across the global South during the 1990s and 2000s (Dale and McLaughlin 1999; Deininger and Binswanger 1999; Borras 2006).

If measured according to its stated goals, the *Fondo de Tierras* has been a failure. Land sales, first of all, have been miniscule in number and have generated severe problems that have debilitated peasant beneficiaries and undermined the work of the *Fondo* itself. From the first sale in 1998 through the end of the project's 12th year in 2009, 242 farms, making up 91,811 ha, were sold to a total of 19,236 peasant families. The number of cases per year peaked early, at 59 in 2001, and since 2005 sales has not surpassed eight farms annually (see Table 7.1).[2] Not only are these numbers negligible as an attempt to resolve landlessness and Guatemala's extreme inequality of land tenure; they are also pitiful when compared to previous distribution programmes. The two main predecessors to the *Fondo de Tierras* together distributed over 2.5 million hectares of land between 1959 and 1989 (see Table 7.2): 1.98 million hectares through the Petén Promotion and Development Agency (FDYEP, 1959–1978) and 656,000 ha through the National Institute

Table 7.1 *Farms purchased through Fondo de Tierras land access programme*

Year	*Cases*	*Hectares*
1998	13	4,205.25
1999	17	7,975.35
2000	45	17,276.11
2001	59	26,793.26
2002	21	8,586.14
2003	29	8,991.85
2004	25	6,156.84
2005	15	5,451.87
2006	3	655.17
2007	5	2,169.00
2008	7	3,507.63
2009	3	42.73
Total	**242**	**91,811.20**

Source Elaborated from Fondo de Tierras (2009a)

Table 7.2 Government land distribution, 1954–1989

Programme	*Years*	*Cases*	*Families*	*Hectares*
Estatuto Agrario	1954–1962	–	34,426	209,225
FDYP	1959–1978	–	39,000	1,980,000
INTA	1962–1989	591	86,813	656,168
CONATIERRA	1986–1989	13	1,600	3,420

Source Elaborated from Schneider et al. (1989, 18) and Sandoval Villeda (1992, 233, 241, 242, 256, 257). *Note* INTA figures unavailable for 1990–1999

for Agrarian Transformation (INTA, 1962–1999) (Sandoval Villeda 1992; Schneider et al. 1989).[3] The delivery of such large extensions of land was possible because the two programmes aimed primarily to colonize Guatemala's northern lowlands. Even the granting of 2.5 million hectares of land prior to the creation of the *Fondo de Tierras*, however, did not have much of an impact on the distribution of land nationwide. This was due to a number of factors: most land was granted from state-owned property rather than a redistribution of private holdings; corruption kept much of the available land from reaching peasants; and long-term security of ownership was held back by the violence of the escalating armed conflict and by the state's reluctance to issue formal land titles. If the distribution of over 2 million hectares of land failed to solve the problem, then, the fewer than 100,000 ha sold through the

Fondo de Tierras points resolutely to the ineffectiveness of the market model.

With sales through the *Fondo de Tierras* presented as the only avenue for state-sponsored peasant land access, the post-conflict years have seen no improvement in overall conditions of land concentration. Guatemalans, who remain predominantly rural, suffer widespread landlessness within a context where just 1.9% of all farms account for 57% of farmland, leading to a Gini coefficient of farmland distribution of 0.84 (INE 2004, 19). This number has changed very little over more than five decades. Agrarian censuses conducted in 1950, 1964, 1979, and 2003 show between 1.9 and 2.6% of the country's largest farms (those over 1 *caballería*, or 45 ha) controlling between 57 and 72% of all land. While the amount of land controlled by this elite declined from 72% in 1950 to 57% in 2003, this is most likely explained by the privatization and parceling of large state-owned lands through the FDYEP and INTA colonization programmes. Another trend evident in government agrarian data is that the proportion of land owned by individuals, as opposed to communal or cooperative titles, has grown in the post-conflict period, from 85% in 2004 to 93% in 2008 (INE 2004, 2008). Taken together, these figures tell us that *Fondo* collective land sales and titling efforts have not made a dent in the concentration of land ownership among an elite landholding class which has remained largely intact since the colonial period. In fact, as discussed below, land ownership in post-conflict Guatemala has instead become more concentrated in parts of the country where new extractive activities are centred.

Not only did the *Fondo de Tierras* fail to meet the demand for land distribution but large numbers of the few *campesinos* who did purchase land found themselves facing continued poverty and a new problem of insurmountable debt. A study commissioned by the World Bank in 2003 demonstrated that extreme poverty affected 79% of all households on farms sold through the *Fondo*, with an additional 17% living in nonextreme poverty (Miethbauer 2005). Under such difficult economic conditions, beneficiaries have been unable to repay their loans, with 37% of all communities experiencing payment problems in 2008 (Fondo de Tierras 2009b). In fact, the debt crisis faced by *campesinos* grew to the such extremes that the Guatemalan government eventually gave into pressure from the organized *campesino* sector and forgave the majority of outstanding *Fondo* payments in 2012 (Hernández 2013).

Nevertheless, the poor conditions on *Fondo de Tierras* farms remain. The institution is notorious for having allowed the sale of land at overvalued prices and for illegal transactions, such as farms sold without the knowledge of the registered owner and even sales of titles to farms that turned out not to exist. Beyond these violations, a large number of inadequate farms have been sold to peasant communities, with land that is either unproductive due to soil depletion caused by chemically intensive farming, or remote to the point of being inaccessible for *campesino* participation in markets as agricultural producers (de León 2006; Gauster and Isakson 2007; Granovsky-Larsen 2015; Inforpress Centroamericana 2006; Plataforma Agraria 2010). With *campesinos* left impoverished, indebted, and stranded, the *Fondo de Tierras*' market approach to land distribution has clearly benefitted sellers over buyers.

Similar results are apparent in *Fondo de Tierras* attempts to formalize peasant land title. Both the regularization programme, which provided formal title to peasants who had been awarded land under previous state-managed programmes, and the cadastre programme, which measured and registered properties, were intended to increase peasant security of land ownership. The result of both projects, however, has been the widespread transfer of peasant land to people who seek to create large plantations by combining many small plots. Following registration through these programmes, land previously unavailable for sale due to lack of title entered the land market, regardless of whether or not *campesinos* intended to sell. And since the location of the vast majority of land subject to the two programmes—the northern lowlands of the Petén and Alta Verapaz—coincides with areas that are currently experiencing an aggressive expansion of African palm and sugar cane industries, small plots immediately became targets for acquisition.

Using property registry samples, a community questionnaire, and a participatory mapping exercise, Milian and Grandia (2013) found that between 31 and 46% of *campesinos* in the Petén whose land had been either regularized or surveyed under *Fondo* projects had since sold their land. One by one, small farmers are convinced or coerced into selling their plots to representatives of agroindustries or drug cartels, who have amassed these for the creation of new plantations in a region previously characterized by peasant subsistence farming (Gould 2014; Hernández 2016; Hurtado 2008; Solano 2016). Precise data on land tenure in the northern lowlands during the current period of rapid change are not available, but the general trend suggested by the transfer of land from peasants to plantations involves a reconcentration of land within this region. Alongside an overall unchanged pattern of inequality of land ownership at a national level, then, we must add a worsening of conditions within specific regions.

Regional reconcentration of land ownership, facilitated through cadastre and title regularization, and land sales through market-led agrarian reform, has had the combined effect of helping Guatemalan elites to transition between industries and investments in the period following the armed conflict. Through *Fondo de Tierras* land sales, plantation owners have been able to free themselves of properties that they no longer want and are not attractive to other large landowners. In particular, this has applied to former coffee plantations, which were sold in large numbers through the *Fondo* during the crash of international coffee prices in the early 2000s, and to some land on the south coast, depleted by decades of chemically intensive monoculture farming. As the landholding elite has abandoned traditional crops and regions, the economic base of their power has shifted into new, nonagricultural, sectors as well as into new sources of rural accumulation. As is the case across Central America, the neoliberal era has witnessed a decline in agriculture as a percentage of GDP, alongside an increase in the importance of service sectors, especially finance (Palencia Prado 2012; Robinson 2008; Segovia 2004; see Chap. 5 on El Salvador in this volume). This transition, while underway since at least the 1970s, was given a boost by the *Fondo de Tierras* programme to pass off unwanted plantations to peasant communities. And where agrarian capitalism has retained importance for the post-conflict elite, its expansion has primarily revolved around the "agrarian extractivist project" (Alonso-Fradejas 2015), or the spread of sugarcane and African palm crops grown for agrofuels, often through the acquisition of peasant lands following *Fondo* titling processes.

The final assessment of the *Fondo de Tierras* should not be one of failure—a failure to distribute sufficient land, to follow through on promises, or to resolve rural inequality, although these clearly were results of its programmes. Rather, the *Fondo* should be understood as an example of success—the successful management of economic change in the post-conflict period in order to solidify elite power. If the guerrilla insurgency and the negotiation of far-reaching peace agreements represented challenges to the entrenched power of Guatemala's economic elite, that elite's ability to shuffle investments and land holdings to remain relevant within the globalized neoliberal political-economic order demonstrates its internal reconfiguration and its reassertion of power in the post-conflict context. The World Bank-sponsored *Fondo de Tierras*, despite its apparent "pro-poor" nature, was successfully managed as a key tool to realize that transition.

Militarized Extraction: The Post-transition Order

The years since the formal end of war in 1996—a period commonly referred to as "post-conflict"—have in fact been ones of steadily increasing violence.[4] Much of this violence has taken form around extractive projects, both of the agrarian extractivist type discussed above and the extraction of minerals, metals, and energy through mining and hydroelectric dams. Community opposition to extraction and dispossession has been strong, made visible particularly through municipal plebiscites against particular projects and through peasant direct action tactics such as land occupations or blockades (Granovsky-Larsen 2013; Laplante and Nolin 2014; North and Young 2013; Pedersen 2014). The response of the Guatemalan state and transnational companies has been an increasing use of repressive violence, with the dual purpose of ensuring the operation of extractive projects and normalizing a return to a counterinsurgent reaction to community opposition, including heightened militarization and the frequent use of paramilitary groups. This model of militarized extraction in part builds on the fissures generated by the ongoing agrarian transition described above, while also allowing for the deeper entrenchment and reinvention of economic and military elites in the post-conflict period. The model is illustrated briefly through two cases presented below, followed by a conclusion that explains the overarching and interwoven context that involves militarized extraction, the post-conflict economic transition, and the many uses of the Guatemalan state.

A coordinated eviction of 14 neighbouring peasant communities in Guatemala's eastern Polochic Valley, over a 3-day period in March 2011, laid bare the violence and multiple interests associated with militarized extraction. The valley has long been characterized by social conflict over competing land claims (Grandin 2011), but tensions have been particularly high since 2006, when 5000 ha of land was acquired for agrofuel production by the politically connected Chabil Utzaj sugar cane company.[5] When poor growing conditions led Chabil Utzaj to abandon much of the land in 2010, peasant communities took over, some returning to land that had been taken from them and others occupying land as encouraged by peasant organizations. If peasant communities responded to perceived opportunities to reclaim land, however, so too did the investors behind the project. Expanded sugar cane production in the Polochic Valley and elsewhere in Guatemala currently addresses the growing international demand for agrofuels (Palencia Prado 2012), an expansion which has been encouraged through financial support from international financial institutions including, in the case of Chabil Utzaj, the Central American Bank for Economic Integration. When production faltered, leading to peasant occupations, an injection in March 2011 of $20 million from the Grupo Pellas of Nicaragua—with which Chabil Utzaj's Widmann family held existing investment ties—breathed fresh life into the project and provided the impetus for the evictions (Alonso-Fradejas 2012; Batres 2011; Palencia Prado 2012; Solano 2011; Solano and Solís 2011).

Between March 15 and 18, the occupying settlements were evicted *en masse*, when a single judicial order was used to justify the violent eviction of 14 peasant communities from land claimed by Chabil Utzaj. The division of violent labour during and after the evictions is telling of the coordination between an array of armed groups. Around 200 soldiers and 600 police moved between communities as a convoy and controlled crowds while hired workers, some of whom were given police or military uniforms to wear, set fire to the homes and crops of 800 families. One person was killed during the evictions, but more people were targeted through a terror campaign in the ensuing months. Between May and August 2011, private security guards and unidentified armed men used live fire, and grenades thrown from helicopters, to clear remaining activists and communities from the land. Two more people were killed during these attacks, and at least six more survived gunshot wounds (Batres 2011; CUC 2011a, b; Solís 2011). The Polochic evictions and ensuing violence demonstrate the willingness to use extreme violence, and the importance of the coordinated actions of both state and nonstate armed actors, in protecting the investments of local elites and transnational capital.

A second example—that of the Escobal silver mine at San Rafael Las Flores, Jalapa in 2013—points to a deeper entrenchment of the logic of militarized extraction. The Escobal mine is primarily backed by transnational capital—operated by Tahoe Resources, a company formed by Canada- and US-based executives from Goldcorp and Glamis Gold, among others—but it also involves substantial local interests

(Solano 2015). While their identities are not entirely clear, additional interests include a group of 29 non-Guatemalans that Tahoe company manager Donald Gray states have formed a legal entity in Guatemala in order to share in company profits, and a group of local landowners to whom Tahoe disburses a 0.5% of profits as voluntary royalties (Gray 2014).[6] Opposition to the mine by surrounding communities grew in the 2 years leading up to the approval of its operating licence in 2013, with 12 municipalities voting overwhelmingly against the mine in *consultas municipales*, or municipal plebiscites. A number of attacks were also directed at the mine site, police, and private security personnel in 2012, although local organizers deny involvement in these. Due to this resistance to the project, the Guatemalan National Security Commission declared the mine a "strategic national resource" shortly before an operating license was granted, and, after seven protesters were shot by company security guards on April 27, 2013, the surrounding area was subject to three weeks of martial law and military operations intended to quell dissent (Hernández 2014; Solano 2015).

The violence directed at community opposition to the San Rafael mine has been frequent and severe. Four members of the indigenous Xinca Parliament, which has organized against the mine, were kidnapped and one was killed in March 2013; seven protesters were shot in a single incident in April 2013; 16-year-old Topacio Reynoso was murdered in April 2014, shot alongside her father, Alex Reynoso; and Alex Reynoso was shot again in October 2015 along with three others, all four of whom survived (NISGUA 2015; Solano 2015). As in the case of the Polochic Valley, violent roles were distributed across numerous armed groups. The military, while used for intimidation, have not used direct violent aggression against organizers. Police, likewise, have arrested over 90 community members over the years, but have not used armed force. Instead, violence has been contracted to private groups: guards from the local branch of the Israeli private security company Grupo Golan, which protected the mine between 2011 and 2013, shot seven protesters in 2013; and the kidnapping, assassination, and shooting of organizers has been carried out by unidentified hitmen.

While this may make the repression appear chaotic, there is in fact evidence of the premeditation and coordination of some of the violence between Tahoe Resources, the Guatemalan government, and the armed forces. After the San Rafael mine was declared a strategic national resource, but before the military mission was carried out, the Guatemalan government established an Inter-Institutional Group on Mining Affairs, which brought together the Ministry of Energy and Mining, the Ministry of the Interior, the Technical Secretary of the National Security Commission, and the Secretary for Strategic State Intelligence, among others. In its 2013 annual report, Tahoe makes mention of the company's participation in the inter-institutional group, stating that it "helped the commission to locate suitable office space in SRLF [San Rafael Las Flores] and get established" (cited in Solano 2015, 19). Guatemalan analysts point to the similarity between the commission and clandestine intelligence operations, an overlap which points to a counterinsurgent mentality that is shared by the government and Tahoe Resources. For its part, Tahoe contracted the US-based International Security and Defense Management, a company specializing in military training, military intelligence, and counterintelligence, to design its approach to security at the mine site (Hernández 2014; Solano 2015). The interconnected interests surrounding the Escobal mine point to not only the mutually beneficial roles of transnational capital and local elites, and not only to the willingness of both to resort to extreme violence, but also to the institutionalization of economic interests and violence that has come to characterize extractive projects in Guatemala.

Eduardo Gudynas provides us with the concept of *extrahección*, which is a useful framework for understanding the above cases. *Extrahección*, Gudynas writes (2013, 15),

> is the most acute case of the appropriation of natural resources, where these are extracted using violence and where human rights and the rights of nature are violated. This violence is not a consequence of a form of extraction, rather it is a necessary condition in order to carry out the appropriation of natural resources.

The most extreme form of *extrahección*, Gudynas writes, involves the assassination of people in order to impose an extractive project, control land, or repress a social movement. In Guatemala today, what is called militarized extraction in this chapter represents the adoption of this most extreme form as standard practice, if not formal policy. Extraction, indeed *extrahección*, has become a cornerstone of the Guatemalan economy, and the use of military and paramilitary force in order to ensure its operation is no longer carried out on a case-by-case basis but represents an ongoing, nationwide project and the most important domestic task of the Guatemalan armed forces today.

As should be evident in the cases briefly described above, militarized extraction is not solely a project of the military. Instead, such examples provide us with a window onto the relationships between the military, other armed groups, Guatemalan elites, and transnational corporations. Research on ownership and investment in contemporary Guatemala suggests that—without discounting the very real role of external pressure (Deonandan and Dougherty 2016; Paley 2015)—local elites, rather than foreign corporations, hold the upper hand in driving the current dynamics of extraction and repression (Aguilar-Støen 2015, 2016; Aguilar-Støen and Hirsch 2015; Bull 2014a; Palencia Prado 2012). Aguilar-Stone (2015, 131–132), for example, argues that “Guatemalan business elites have been successful in keeping transnational elites in a subordinate position, because the former control important political resources, networks and information without which the latter could not operate.” The economic elite in Guatemala did not just survive the challenges represented by the revolutionary movement and peace negotiations. It successfully reinvented itself within the new political context and within neoliberal globalization, in order to hold onto the reins of power. Given the current wave of resistance to the extractives economy from communities and social movements, and given the elite’s confidence in holding post-conflict power, militarized extraction has taken shape in a manner beneficial to all involved: the economic elite, the military elite, and transnational investors (both from within and outside the region).

Elite power and militarized extraction have not only reshaped the economy and society, they have further hollowed out the shell that is the Guatemalan state. At the time of writing, a torrent of corruption investigations carried out by the UN-based International Commission Against Impunity in Guatemala (*Comisión Contra la Impunidad en Guatemala*, CICIG) is leading to the daily arrest of high-profile officials (Gutiérrez 2016). The allegations do not point to individual crimes, but rather, in the words of the CICIG (2016), to “a Mafioso criminal structure that had co-opted power through the ballot box in Guatemala and whose principle leaders were [former president and vice-president] Otto Pérez Molina and Roxana Baldetti.” With the collaborators in this structure representing not just corrupt politicians but core members of many factions of the economic and military elite, this is a clear example of electoral authoritarianism: the manipulation of the electoral process in order to retain authoritarian power while propping up a façade of democracy (Schedler 2006; Wolf 2009).[7] The Guatemala that has emerged from war, genocide, peace negotiations, and neoliberal reform counts with a state conducive to authoritarianism and oligarchic power despite the language of democracy (Tilly 2006).

Through the successful navigation of peace negotiation and the selective implementation of resulting agreements, powerful economic and military groups have made sure that Guatemala has remained a country of "weak institutions and strong elites" (Bull 2014b). Land tenure—which has remained *the* fundamental base of elite power since the conquest of Guatemala in the 1500s (Handy 1994; Hurtado Paz y Paz 2008; Martínez Peláez 2009; McCreery 1994)—played a significant role in this reconfiguration of power. The *Fondo de Tierras*, as the cornerstone institution of post-peace state agrarian policy, made sure that the official approach to land would continue to benefit large landowners. Market-based land sales were passed off as agrarian reform and allowed the elite to dump unwanted properties in order to reinvest, and the provision of peasant land titles led immediately to a reconcentration of properties in areas suitable for the new boom crops of African palm and sugarcane.

Alongside a diversification of the traditional oligarchy through investment in the financial and service sectors especially (Palencia Prado 2012; Segovia 2005), this shifting of land ownership fed into the adaptation and strengthening of the elite within neoliberal globalization. Where communities have resisted this regressive agrarian change, military force and other forms of organized violence have stepped in to protect capital and to reassert the power of military elites. We can chart a short path from peace negotiation to militarized extraction, throughout which a plan to reaffirm and reconfigure elite power has been carried out at the expense of peasants, the majority population, and democracy. That this majority has lost out in post-conflict changes is reinforced by recent socioeconomic indicators: the proportion of Guatemalans living in poverty grew by nearly 5% between 2000 and 2011, and up to 15% of Guatemalans now live in the United States and send home, via remittances, earnings that surpass those of the top export crops (Prensa Libre 2016; Taylor et al. 2016). Land continues to hold vital importance to both power and poverty in Guatemala, and it must be a central aspect of any future attempt to address inequality and violence.

Notes

1. This is not an exhaustive list of crops or temporal periods important to the evolution of the Guatemalan elite. For histories of agriculture in Guatemala, see Cambranes (1992) and Smith (1990).
2. While complete data are only available to 2009, reports indicate that by July 2013 the total number of farms had reached 273, or an additional eight farms per year (Hernández 2013).
3. INTA data is for 1962–1989; figures were not available for 1990–1999.
4. Indeed, Knowlton (forthcoming) cites interviews with Q'eqchi' Mayas affected by extractivist projects to argue that many in Guatemala view the current period as one of a persistence of conflict, rather than one that is in any way "post." I continue to use the term "post-conflict" to demarcate the end of a very particular phase of violence, without disregarding its continuity and adaptability in the current period.
5. The Widmann family that owns Chabil Utzaj and other sugar companies is connected by marriage to former Guatemalan president Oscar Berger (2004–2007) (Solano 2011).
6. Gray offered this and many other telling pieces of information in a sworn affidavit entered into court, when seven community members shot by Tahoe security guards sued the company in Vancouver. Much of the evidence considered to date in the ongoing trial has been made public (see tahoeontrial.net).
7. Post-conflict Guatemala also provides a raw case in support of Tilly's theory of "war making and state making as organized crime." The Guatemalan state today fits Tilly's description wonderfully, being made up of a collection of "coercive and self-seeking entrepreneurs [which] bears a far greater resemblance to the facts than do its chief alternatives: the idea of a social contract, the idea of an open market in which operators of armies and states offer services to willing consumers, the idea of a society whose shared norms and expectations call forth a certain kind of government" (1985, 169).

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CHAPTER 8

The Limits of Democratization and Social Progress: Domination and Dependence in Latin America

Timothy D. Clark and Liisa L. North

Introduction

After the catastrophic social and economic performance of the 1980s and the mild recovery of the 1990s, the decade of 2003–2013 was in many ways among the best in Latin America's history. Buoyed by a commodity super-cycle, the region experienced accelerated expansions of output and incomes, and improvements in social wellbeing. A renewed focus on public investment and social-policy innovation resulted in improved education, health, and social security coverage. Rapid economic growth and rising social expenditures generated historic declines in the rates of poverty and extreme poverty. Even the Achilles heel of Latin American political economy, inequality, improved from 2000 onwards. United Nations' peace building programs in Central America

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Latin American Political Economy, DOI 10.1007/978-3-319-53255-4_8

and the election of various left-leaning governments all over the region generated high hopes. Indeed, in the heady years of the early 2000s, analysts even rhapsodized over Latin America's 'New Tigers,' and Brazil reemerged as a darling of the 'next superpower' debates.

With the exception of the chapter on Chile, which focuses on dark days of that country's neoliberal military dictatorship (1973–1990), this was the optimistic context for most of the research presented in this volume, a context of high expectations about the potential transformation of historically oppressive relations of social, economic, and political power. The unwinding of the commodity super-cycle since 2014, however, has lead some to take a closer look behind the veneer. In fact, what the chapters presented here reveal should be of little surprise to those familiar with the region's history: while social progress was made, inequalities of wealth, income, and opportunity remained distressingly high and intersected by gender, race, and ethnicity; dependence upon primary commodity exports persisted and even intensified in many countries; and seemingly reinvigorated states remained in many respects weak and ineffective, unable to challenge the structural and institutional power of elites, without the capacity to articulate and carry out a meaningful and sustained developmental vision, and perhaps most worrying of all with regard to future movement toward deepening democracy, often responding to popular frustration and resistance with repression and violence. In many ways Latin America today remains the same as it ever was: a region trapped in a postcolonial cycle of hierarchy and domination, violence and exclusion, ruled by a small elite with little interest in inclusive 'national development,' in which every step forward is met by a half step backward and often by explosions of state-sponsored violence (Franco 2013).[1]

In our concluding chapter, we first review the overall regional trends of the twenty-first century that provide evidence of important social advances, relying largely on the wealth of data available from the UN-Economic Commission on Latin America and the Caribbean (UN-ECLAC). We then turn to analyze the persistent national and international structural obstacles to sustainable and equitable development and their relationship to concentrations of elite power and postcolonial dependence. We draw on arguments presented in recent works on the region while focusing on the key elements and findings of the research on which the chapters in this volume are based. We conclude with some reflections on Latin America's current conjuncture of economic and political crises and their possible implications.

Advances During the Boom: Improvements to Socioeconomic Conditions and Governance

The past 15 years brought unquestionable gains to a region that struggled to recover from the disaster of the debt crisis of 1982, and the subsequent and largely externally imposed neoliberal structural adjustment policies that exacerbated and prolonged that crisis. After negative growth of GDP and GDP per capita in the 1980s, growth rebounded modestly in the 1990s. Then, between 2003 and 2013 the growth trend accelerated with the rapid expansion in the quantity and price of primary commodity exports: regional GDP grew at an annualized rate of 4% and GDP per capita at 2.9%, the latter representing an increase of more than 80% over the 1990s. Job creation also improved remarkably, as the unemployment rate fell from 11.2% in the early 2000s to 6% by 2014 while the labor-force participation rate rose from 56 to 62%. As a result, real average wages rose throughout the period in most of the region (ECLAC 2010, 2015).

In addition to the commodity super-cycle, output and employment gains were buttressed by more stable and sound macroeconomic policies. For much of the region's history, fiscal, monetary, and exchange-rate policies were markedly pro-cyclical, amplifying booms, exacerbating busts, and fomenting macroeconomic volatility. Upswings in the business cycle were augmented by loose fiscal and monetary policies while recessions were reinforced by fixed exchange rates that prevented external adjustment and pressured governments to adjust relative costs by reducing wages via fiscal retrenchment and monetary contraction. These policies contrasted sharply with those of developed nations, where public policy generally sought to smooth out the business cycle by stimulating economic output in recessions and withdrawing such support during recoveries.

The shift toward countercyclical macroeconomic policy over the past 15 years, through fiscal rules, automatic stabilizers like employment insurance, and discretionary policy like fiscal stimulus packages, reduced the risks of external shocks and ensured greater stability in economic performance in many countries of the region (Klemm 2014). Since the 2000s, quite a few Latin American countries adopted so-called 'fiscal rules' that anchor expenditures to long-term trends and target and restrain spending during periods of high commodity prices. The benefits of fiscal rules are the reduction of macroeconomic volatility and the institutionalization of countercyclical fiscal policy. The strongest fiscal rule legislation was passed in Chile under Socialist President Ricardo Lagos.[2]

The benefits of countercyclical policy levers were rendered clearer by those countries to which they were not available. As the examples of Ecuador (Chap. 4) and El Salvador (Chap. 6) demonstrate, despite the important differences between the two countries, the adoption of the US dollar (known colloquially as 'dollarization') dramatically restricted the expansionary and developmental possibilities of public policy. In both cases local currencies were replaced by the US dollar in order to provide stability and limit the possibilities for hyperinflation and financial crises by taking monetary policy out of the hands of local authorities and eliminating the risk of foreign indebtedness. In practice, however, dollarization functioned in a manner similar to the 'golden fetters' of the gold standard in earlier historical periods. On the one hand, dollarization greatly restricted the capacity of governments to engage in countercyclical macroeconomic policy, thus exacerbating boom–bust cycles, although Ecuador did engage in some creative tinkering, with increased borrowing from China. And on the other hand, the permanent currency overvaluation made it extremely difficult for countries to diversify exports and support domestic industries in the era of global trade liberalization.

Over all, nevertheless, stronger growth and reduced volatility facilitated and proved compatible with significant increases in public investment and expenditures, as well as important innovations in social policy. Public spending and public investment as a percentage of GDP increased between the early 2000s and 2013 from 24.8 and 4.5% to 29.5 and 5.6%, respectively. Much of the increase in public spending, moreover, was concentrated in social expenditure, which rose sharply from 14% of GDP in the early 2000s to 19% of GDP by 2013. As a result, the share of social expenditures in public spending rose from 56 to 65% (ECLAC 2014, 47; 2015, 72). With regard to the distribution of social expenditures, social security and welfare spending increased its share of GDP by 2% while expenditures on education and health rose by a modest but important 1% of GDP (ECLAC 2014, 49–50).

Rising levels of social expenditure were complemented by innovative social policies that aimed to improve the efficiency of delivery and the effectiveness of expenditures. Perhaps the most famous policy innovation was the conditional cash transfer (CCT). Pioneered by Brazil

(Chap. 3) and Mexico in the 1990s, by the early 2010s CCTs had spread to eighteen countries and benefitted more than 130 million people. Though the CCTs suffer from deficiencies (Handl and Spronk 2015), they have helped to reduce poverty, particularly in its most extreme forms. One study found that the absolute number of people living in poverty in the region would increase by 13% without CCTs, which means that the programs have lifted approximately 60–70 million people out of poverty (Stampini and Tornarolli 2012, 1).

Strong growth, reduced volatility, and significant expansion in public and social investment and expenditure produced substantial improvements in aggregate socioeconomic indicators. All of our case study countries improved or maintained their rating in the World Bank's income classification system, and Chile became the first country in the region to be designated as a 'high income economy.'[3] Similarly, all the countries studied in this volume experienced improvements in their scores on the United Nations' Human Development Index (HDI) between 2000 and 2014, and Chile was classified as a country of 'very high human development.'[4]

In addition to the general improvements in socioeconomic indicators, Latin America experienced marked and unprecedented declines in poverty. After two decades of increased deprivation in most of the region, levels of poverty and indigence dropped precipitously from the early 2000s onwards. Between 1980 and 2000 poverty had stubbornly remained around 40% while rates of indigence hovered around 20%; between 2002 and 2014, however, rates of both poverty and indigence fell dramatically, from 44 to 28% and 19 to 12%, respectively, and they fell in all the countries analyzed in this volume, albeit to different degrees. Moreover, it was not just the rates of poverty and indigence that declined: the absolute number of people living in poverty and indigence fell sharply from 225 million to 167 million (ECLAC 2014, 16).

Even inequality, long the bane of Latin America, declined. Between 2000 and 2013, the weighted GINI coefficient in the region fell from 0.548 to 0.486, a reduction of more than 10% (ECLAC 2014, 22). And inequality declined in almost every country in the region over this period, that is to say, inequality declined regardless of economic structure or the ideological orientation of governments. Of the cases studied here, during the commodity boom years income inequality declined the most in Ecuador, El Salvador, and Brazil, while Guatemala was the only one where inequality rose, albeit only slightly (Lustig et al. 2013, 2–4).

The Persistence of Structural Obstacles: National Power Structures

From 2000 onwards, Latin America made real and significant progress with regard to macroeconomic, fiscal, and socioeconomic performance. Nevertheless, it is also true that the region in general failed to address the deeper, structural obstacles to sustainable and equitable development that have plagued it since colonial times, even when countries were ruled by leftist or 'pink tide' governments. Specifically, the case studies presented in this volume make clear that Latin America's socioeconomic development continues to be blocked and distorted by a host of interrelated factors, most important among them the overwhelming power and influence of a small elite and the related inability of state institutions, even when led by progressive governing parties and coalitions, to articulate and implement a coherent development agenda.

Despite the reductions in income inequality since 2000, Latin American elites remain extremely powerful, perhaps more powerful than at any other moment since the Great Depression of the 1930s when progressive movements began to have significant impacts on public policy. Recent declines in the regional GINI have simply returned income inequality to its pre-neoliberal or 1980s level, and it still remains the highest in the world (Lustig 2015, 2). Income inequality, moreover, underestimates the economic power of elites. While the top decile of income earners in the region accounted for approximately 38% of all income, that same group controlled more than 70% of all assets (as recorded by Carlos Larrea and Natalia Greene in Chap. 4 on Ecuador, for example). Indeed, the GINI coefficient for assets in 2015 stood at 0.809, or nearly 70% higher than income inequality (Credit Suisse 2015, 104).

Land distribution continued to drive inequality, as numerous chapters in this volume make clear. On the one hand, nonfinancial wealth (land and housing) accounted for nearly 65% of asset value in Latin America, compared to only 45% at the global level; on the other hand, the GINI for land distribution stood at 0.74 for Central America and 0.80 for South America, well above the global average of 0.60 and the East Asian average of 0.395 (Credit Suisse 2015, 96–104; Frankema 2008, 47). Land remains a key power resource for the elite and a major source of sociopolitical conflict. While land was effectively subsumed by capital in Chile and land reform ceased to be a significant political issue (see Chap. 2), in much of the region land continued to drive political struggle. As the case studies of Brazil (Chap. 3), Ecuador (Chap. 4), Colombia (Chap. 5), and Guatemala (Chap. 7) make clear, control over land underpins elite power; it drives patterns of resistance, violence, and dispossession in much of the region, fueled by the emergence of flex crops that drive the reconcentration of land.

From a political-economy perspective, the distribution of assets is more significant than income distribution because of the structural power that asset ownership confers on elites vis-à-vis the state and civil society, with regard to investment decisions, output levels, and information flows within the nation and globally. Moreover, this significant structural power of the Latin American elites has expanded in recent years as a result of another trend that is documented in the studies included in this volume: that is, their internationalization. The past decade has witnessed the rise of so-called '*multilatinas*,' or multinational firms headquartered in Latin America. Whereas fewer than half of the 500 largest firms in Latin America were locally owned in 2000, that figure had risen to nearly 80% by 2013, when there were approximately one hundred Latin American multinational firms, including global leaders in the mining, aviation, cement, and food industries (Vargas-Hernandez et al. 2013; Kandell 2013).

As the chapters in this volume demonstrate, the economic interests of Latin American elites are increasingly regional and global. Carlos Velazquez (Chap. 6) documents how El Salvador's traditional landed elites diversified and expanded their holdings to invest first in other Central American countries and then in South America. The expansion of intra-regional foreign investment in turn strengthened local elites in the receiving countries and facilitated the development of new industries, as demonstrated by Simon Granovsky-Larsen (Chap. 7) in the case of Guatemala. In Chile (Chap. 2), the Pinochet regime used debt-for-equity swaps to encourage joint ventures with foreign multinationals to strengthen local capital, while Simone Bohn (Chap. 3) explains how Brazil's elite expanded its economic interests throughout the developing and even into the developed world; for instance, the properties of the Brazilian mining giant Vale span the globe, from Canada and Australia to Mozambique, Tanzania, Zambia, and China. Meanwhile, Brazilian and Chilean multinationals, among others from the region, have emerged in key agro-export sectors, and they have played significant roles in the phenomenon of 'land grabbing' in agro-export zones (Borras et al. 2012; Kay 2014).

Multilatinas and their home nations have likewise emerged as increasingly forceful players within international institutions, but to strengthen and enforce international trade rules that often harm the poorest sectors, not to challenge them (Hopewell 2013). One must be careful, however, not to overstate the internationalization of Latin American elites. Recent work on transnational elite networks, for instance, found that the internationalization of Latin American investment interests has not resulted in a parallel integration of Latin American elites into regional or transnational networks (see Cárdenas 2015, 438–440).

The power and influence of elites persisted even, and perhaps especially, in those countries where significant challenges to elite power and influence took place. In El Salvador, the nationalization of key sectors of the economy, including international trade, challenged the economic foundations of the traditional oligarchy during the civil war years of the 1980s. From the early 1990s onwards, however, in the context of massive US economic assistance and neoliberal economic reforms, UN brokered and monitored Peace Accords facilitated the old oligarchy's capture of the state and its re-empowerment through privatization policies, particularly in finance, commerce, and public services. The Accords were centered almost exclusively on political arrangements and failed to address fundamental social and economic injustices. Similarly, in Chile (as explained by Timothy Clark in Chap. 2) and Guatemala (as analyzed by Simon Granovsky-Larsen in Chap. 7), challenges to elite rule eliminated some among the older elite, whether as a result of revolutionary politics or civil war, but the subsequent capture of the state by neoliberal forces channeled and reconcentrated resources in the hands of both old and new economic groups, many of which were tied to the military. In Brazil, as Simone Bohn makes clear (Chap. 3), the progressive Workers' Party (Partido dos Trabalhadores, PT) governments did not threaten the power of the national elite or landlord class; in Colombia Luís van Isschot explains (Chap. 5) how the decades of civil war reinforced the power of the military, the landed elites, and criminal organizations linked to paramiliatry groups, especially in certain economically dynamic regions of the country. Although elites did not directly penetrate government ministries and state institutions in Ecuador under the rule of the leftist *Alianza País*, its technocratic and extractivist orientation did little or nothing to transform the structures of power and economic concentration in that country (Chap. 4).

In short, Latin American governments, whatever their political color, consistently pursued policies that, intentionally or unintentionally, favored local and foreign elites in all sectors of the economy—in services, agricultural processing, mining, and others. On the whole, reformist governments did not stray far from the neoliberal script, and even seeming deviations like increased social spending, labor market regulations, and increased taxation were generally designed to be consistent with core neoliberal principles. The inability of the state (and of the organized popular movements that have supported progressive governments that gained state power) to challenge the prerogatives of local elites thus remains a major obstacle to the development and implementation of more inclusive and dynamic developmental models in the region.[5]

One clear example of this lies in the realm of taxation. The composition of tax revenues in Latin America remains comparatively regressive. Consumption taxes on goods and services represent more than 50% of all tax revenue while taxation of income and profits comprises only 22%; this latter figure is much lower than in OECD nations where taxes on income and profits represent nearly 35% of total government tax revenue (Melguizo 2016). And while tax revenues as a percentage of GDP vary considerably in the region, from a high of nearly 35% in Brazil to under 20% in the cases of Guatemala and El Salvador, the regional average is 35% lower than in the OECD (Melguizo 2016).

Low tax levels are exacerbated by tax evasion on a grand scale, as the revelations about tax havens reported in the Panama Papers illustrate with regard to not only Latin America but all parts of the world (e.g., Rusbridger 2016). According to recent estimates of the UN-ECLAC, tax evasion totaled $340 billion in lost state revenue, most of which was concentrated in avoidance of income taxes by wealthy individuals and corporations; indeed, the evasion rate for income taxes was 40% for the region and reached as high as 70% in some countries (ECLAC 2016, 100–108). The regressiveness of the tax structure and high-evasion rates, in turn, restricted the resources that states could mobilize to invest in human capital formation and economic development. Despite the election of leftist governments and the general challenge of neoliberal orthodoxy over the past 15 years, central government tax revenue as a percentage of GDP has increased only modestly since 2000, from 13% of GDP in 2002 to 15% by 2014 (ECLAC 2015) although some countries, like Ecuador, Colombia, and Brazil, have managed to do better.

Further examples of how the inability of the state to challenge local elites has impeded development can be found in two long-standing policy objectives in the region: land reform and industrial policy. The capacity of the state to redistribute land and discipline capitalist elites to diversify and upgrade industrial and export capacity were key distinguishing features of the divergent developmental trajectories of East Asia vis-à-vis Latin America since World War II (Evans 1987; Chibber 2006). In the cases studied, only Chile (Chap. 2) underwent a significant land reform, but land was quickly reconcentrated under the market mechanisms of the military regime. The market-led 'agrarian reforms' implemented in Ecuador (Chap. 4) and Guatemala (Chap. 7) not only failed to redistribute land, they facilitated the expansion of elite access to land and mineral resources for new extractive sectors. The relative power of the capitalist elite vis-à-vis the state has not only blocked land redistribution; it has impeded governments from imposing policies to discipline local investors and upgrade into higher value-added sectors. As Palma (2009, 230) describes:

> In post-reform Latin America the capitalist elite…have managed to create a political-institutional settlement in which a new distributional coalition has succeeded in imposing a structure of property rights and incentives that have allowed them… extravagant forms of predatory capitalism, unproductive rent seeking and the economic emasculation of the state… they can perfectly well 'afford' not to make the required investment efforts for adaptation and upgrading, not to be Schumpeterian-innovative, or to take the required risks, because they can count on the fact that their (not very puritanical) share of domestic income will be so plentiful that it will compensate for their (not very Calvinistic) attitude towards trade.

As a correlate of the relative power of the capitalist elite and weakness of the state, combined with a development model that continued to rely upon primary commodities, the needs of peasants and rural workers were largely ignored, even by progressive governments. To be sure and as noted, conditional cash transfers and other social programs relieved poverty. However, traditional rural elites maintained or even increased their hold on economic and political power, often alongside mining companies that displaced Indigenous and Afro descendant rural populations whose social and political organizations remained relatively weak. For the region's more than 40 million Indigenous peoples, the rise of agro-extractivist economies and flex crops in countries like Colombia (Chap. 5) and Guatemala (Chap. 7) meant an intensification of social conflict, dispossession, and repression of protest (see Center for International Environmental Law—CEL 2016; Sanchez 2006).

In sum, the specific structural and strategic selectivity that developed in conjunction with the onset of neoliberal reforms meant that states acted as the agents, or at least as the facilitators, of the reconfiguration of the traditional elites discussed in the introductory chapter. In some cases, like that of Chile (Chap. 2), the relative autonomy of the state from civil society under the military dictatorship resulted in a deep-seated and state-led reconstruction of the elite. In other countries, such as El Salvador (Chap. 6), the local elite utilized the state as a tool to restructure and adjust to the shifting international and domestic conditions, while in Guatemala (Chap. 7) the state, the military, and the economic elite increasingly merged into a unified social formation.

It is important to highlight that while neoliberal reforms have in many ways restricted the capacity of the state, states are also the authors and enforcers of neoliberalism. It is a fact that both local and transnational elites require strong states to act as enforces and guarantors of their privileges. It is states that set the terms under which companies invest, workers labor, and goods flow. Indeed, as Carlos Velasquez argues in Chap. 6, access to political networks is the leverage used by Salvadoran elites to negotiate more favorable terms with foreign investors. Similarly, in Chile (Chap. 2) it was a relatively autonomous state that actively reconstructed the Chilean capitalist elite and neoliberal reforms were constitutionalized and embedded within the structures of the state itself. In this respect, the reader should recall that the current concentrated and inequitable pattern of land ownership arose out of the late nineteenth century privatization policies of 'modernizing' states when Indigenous communities lost their lands to large estates, in the case study countries and elsewhere in Latin America (see Burns 1980); and it is states that permit and even encourage or legalize land grabbing for the cultivation of flex crops today.

The Persistence of Structural Obstacles: International Power Structures

In addition to national historic legacies, international developments over the past two decades have further shaped state structures and elite power in Latin America. Among the most significant of these are the internationalization of the state and the rise of Free Trade Agreements

(FTAs) that cover a range of topics from tariff and nontariff barriers to trade, intellectual property rights and foreign investment, with many agreements containing provisions that allow corporations to sue governments (but not vice-versa). The 1990s and 2000s witnessed a more than sixfold increase in the number of FTAs in force, and Latin America was not immune to the trend (Gallagher 2008, 37–38). As the region liberalized trade policy and *multilatinas* expanded their operations across the region and the globe, Latin American governments pursued FTAs to open foreign markets and advance the interests of local elites. By the end of the 2000s, more than 30 countries in Latin America and the Caribbean had signed FTAs, 11 of them with the United States. Chile, the regional leader, has 21 FTAs in force covering nearly 60 countries. In addition to expanding foreign market access, these agreements constrain both the perceived and real policy options available to governments, as in the cases of El Salvador and Guatemala (described in Chaps. 6 and 7), and fuel conflicts over land and other extractive resources (as described in Chap. 5 on Colombia).

The internationalization of the state refers to a process whereby the structures and policies of national states adjust to align with global rules and norms and the perceived and real exigencies of the global economy (Cox 1987, 254). FTAs represent one of the principal mechanisms through which this process has taken place, and the costs are significant. While FTAs secured investment opportunities and foreign markets for Latin American investors and exporters and reduced the costs of many goods and services for residents, they rendered much more difficult the kind of developmental policies utilized by the late-developers in East Asia to close the gap with the developed world. FTAs—and particularly those signed with the United States—limit the capacity of Latin American states to pursue time tested developmental policies, such as infant-industry protection, subsidies, regulation of foreign investment, and relaxed intellectual property rules, a process Gallagher refers to as 'kicking away the ladder' (2008; see also North and Grinspun 2016). As our chapters on El Salvador and Guatemala demonstrate, FTAs are not the only kinds of international agreements that ensconce neoliberalism. Even the UN-sponsored peace treaties that ended civil wars in these two countries purposefully excluded socioeconomic demands and created the context in which neoliberal political and economic frameworks and elite reconfiguration could advance.

Despite the efforts of governments of many stripes to diversify the "productive matrix" and export composition of national economies, Latin American countries continued to rely heavily upon primary commodities and low-value-added manufactures. In fact, regional dependence upon primary commodities increased from just over 40% in 2000 to nearly 55% by 2010; the dependence on primary commodity exports was even higher in South America, where they accounted for more than 70% of export value in 2013 (see Zhang 2016). As discussed by Carlos Larrea and Natalia Greene in their chapter on Ecuador (Chap. 4) and by Timothy Clark on Chile (Chap. 2), the inability of progressive governments to diversity exports away from primary commodities and processed natural resources represents a significant obstacle to the development of more affluent and equitable political economies.

While the region's continued reliance upon low-productivity and primary commodity exports fed into the comparatively low levels of growth and high levels of inequality, it also accelerated environmental degradation and exhaustion. This was the case despite some gains in environmental legislation, a growing environmental consciousness among parts of the citizenry, and the corporate adoption of sustainability discourses.[6]

Two additional features that were exacerbated in many countries of the region were the historic issue of militarization and a newer phenomenon: the penetration of the state by organized crime groups. As the chapters on El Salvador and especially Guatemala make clear, the transition into a post-civil war order inscribed elements of the counterinsurgency state into the postwar state institutionality under the guidance, training, and financing of the United States; the oversight provided by well-intended United Nations peace monitoring missions was incapable of reversing these historically ingrained patterns. In Colombia (as Chap. 5 discusses), the expansion of extractive industries has tied local capitalist elites and state officials into toxic narco-paramilitary networks of 'military entrepreneurs' who clear Indigenous and Afro-Colombian peasants from the land to make way for resource extraction. These trends were exacerbated by the decade-long US-financed Plan Colombia that expanded and strengthened military forces while a blind eye was turned to their abuses and connections to extreme right wing paramilitary and drug trafficking organizations. In all three cases, moreover, armed conflict has been exploited by politicians to keep issues of socioeconomic justice and redistribution off the agenda and advance neoliberal policies, most clearly during the Uribe Presidency in Colombia and during the peace negotiations in El Salvador and Guatemala.

Similarly, the transitions from authoritarian regimes elsewhere in South America left in many cases legacies of state militarization. For instance in Chile, perhaps the most 'successful' case of democratic transition and consolidation, the presence of General Pinochet and the institutional power and influence of the military in the 1990s shaped the policies of the center-left coalition well into the 2000s (Weeks 2000). The national police in Chile remain a branch of the armed forces and are shielded by military courts. Meanwhile the antiterrorism law promulgated by the military junta continues to be invoked by democratic governments, particularly to repress Indigenous activists and protestors. These legacies of civil war and military rule have ensured that considerable resources are directed to the armed forces, with military spending exceeding 10% of central government expenditures in Chile and Colombia, above the global average and approximately what both countries spend on public education and health.[7]

Related to the economic transformations and elite reconfigurations of the past two decades, as noted in the chapters on Colombia, El Salvador, and Guatemala, is the troublesome rise of national and international criminal organizations that have penetrated Latin America's parliaments, ministries, and presidencies, as well as local economies, including in real estate, finance, commerce, tourism, and mining, among other sectors (Pinto 2015, 8).[8] Indeed, one analyst of the phenomenon argues that 'crimilegal orders' (*órdenes crimilegales*) have been established through the "regular patterns of exchange and social interaction" between the criminal and the legitimate/legal worlds; organized crime, in some parts of the world, has "moved from operating on the margins of political power to becoming an integral part of it" and "'crimilegality' is emerging as a central characteristic of the political and social order" (Shultze-Kraft 2016, 29, 32, 34). As our volume suggests, the infiltration of criminal elements into state institutions was even facilitated by the military in some cases, as in Colombia and Guatemala; in the latter, the economic influence of the military extended not just into land, banking, and other key economic sectors, but also the illicit drug trade and the world of organized crime.

This phenomenon is apparent in at least three of the countries discussed here, but such penetration has taken place in a more occult fashion elsewhere. For example, Ecuador is not known as a narcotics producing country, but it has become a country of transshipment and, especially after the adoption of the US dollar as its official currency in 2000, a convenient 'laundering' site for the profits of the regional cocaine trade and perhaps other illicit activities. According to Carrión (2015, 7), four international drug cartels with operations in up to 17 Latin American countries also function in Ecuador.[9] An Ecuadorean colleague who prefers to remain anonymous has used the value of seized cocaine shipments to calculate how much money enters the Ecuadorean economy from this illicit trade: on the assumption that only 5% of shipments are successfully seized, he concludes that the total amount could reach billions of US dollars per year (personal communication, December 2014). Various estimates have also been made for Colombia and Guatemala, as well as México; meanwhile remittance transfers may also hide drug profits, generally agreed to be the case in Ecuador, El Salvador, and Guatemala. In sum, an unknown but significant part of economic investment in Latin America originates in the drug trade, but it is important to point out that, out of an estimated 35.3 billion in cocaine trade profits derived from traffic to the United States in 2011, 83.5% accrued to US retailers and wholesalers (Organization of American States 2013, 20, Fig. 2).[10]

The illicit drug trade in turn fuels criminal syndicates and local criminal networks engaged in a wide range of illegal and violent activities ranging from extortion, kidnapping, and human trafficking to the arms trade. Criminal syndicates financed by drug profits in many ways fill the void and complement state institutions and national economies controlled by small elites. The corrupt and symbiotic relationships that develop between criminal syndicates, security forces, business and financial elites, and political institutions create an institutionalized incentive structure that makes combating criminal networks a near insurmountable task. Not surprisingly, Latin America is the most dangerous and violent region on the planet. Judged by the murder rate, 43 of the 50 most dangerous cities (including 19 of the top 20) in the world are found in Latin America (Gurney 2014). Homicide rates are fueled by the flow of legal and illegal arms, and gun violence accounts for 75% of all homicides in Latin America (and more than 90% in Brazil, Colombia, and Guatemala), nearly 50% above the global average (Muggah and Dudley 2015).

The blurring of the lines between 'legitimate' actors and institutions and illicit ones is certainly not new to students of state formation and economic development. Indeed, Tilly (1985) has argued that the core functions of the state are analogous to a protection racket and states are analogous to organized crime syndicates. This analogy takes contemporary shape in the Guatemalan state, described in Chap. 7 as a "Mafioso-criminal structure," but the same could be said of Colombia (Chap. 5) where the intertwinement of paramilitary groups and state security forces has been compared to the Italian mafia (Civico 2015). Moreover, the specific conditions under which postcolonial states were born into an already-developed world system rendered them more susceptible to militarization and criminalization, which is borne out in the cases of El Salvador (Chap. 6) and Guatemala (Chap. 7), where civil wars and state atrophy birthed some of the most brutal gangs and criminal networks in the region. The introduction of foreign capital into this toxic stew pours further fuel onto the fire. This is particularly true in the case of extractive industries such as mining where the geographical fixedness of projects and local resistance to the social and environmental effects are conducive to violent conflicts. A recent report on Canadian mining companies in Latin America, for instance, found evidence of the alleged involvement of nearly 30 companies in more than 40 deaths, 400 injuries, and 700 cases of criminalization (arrests, detentions, etc.) between 2000 and 2015 (Imai 2016).

An analysis of the specific ways in which criminal organizations have penetrated and corrupted Latin America's political and economic elite and institutions—including the police and armed forces, judicial institutions, and domestic and foreign corporations—would involve a study of the international relations between the region's countries and the connections between Latin American regional and broader international organized crime networks. Such an analysis would also require the examination of the ways in which contemporary patterns of capitalist globalization deepen inequalities within and between nations and create conditions in which organized crime can thrive (Madrueño 2016; Sánchez 2006). Finally, a more extensive assessment of the subject would involve looking at the arms trade and military assistance and training programs, particularly from the United States. While the chapters of this volume are presented as detailed and local case studies, which meant less attention was paid to international conditions, forces, and institutions, all contributing authors recognize the importance of incorporating the analysis of international relations and forms of globalization to complete our understanding of the reconfigured elites of the region. In this volume, however, the focus has remained more clearly on phenomena internal to the six Latin American included. The accumulated and contemporary impacts of US foreign policy and military assistance and training, the multifaceted interventions of the IFIs, and alliances between local elites and transnational corporations are flagged in passing rather than being systematically incorporated into the discussion of national dynamics.

Latin America After the Commodity Super-cycle

An appraisal of the advances and setbacks of the past two decades begs worrisome questions: to what degree were the advances made dependent upon a commodity bubble that is now unwinding? Did Latin America just squander a once-in-a-generation commodity super-cycle and the opportunities that favorable external conditions presented to address structural obstacles and set the region upon a more secure and sustainable developmental trajectory? Now that the commodity boom appears to have ended, will social conflict and tensions mount and will the region's political systems prove able to navigate the challenges of the next decade?

The evidence is clear that the commodity super-cycle that began in the early 2000s has begun to unwind and affect the region. As Fig. 8.1 demonstrates, primary commodity prices have fallen by more than 40% since 2014 and by around 50% since their most recent peak in 2011.

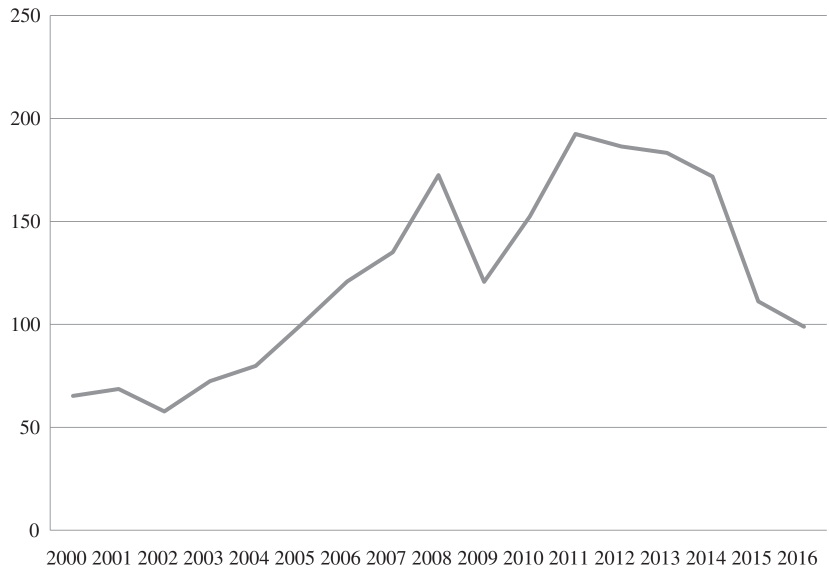

Fig. 8.1 Primary commodity prices, 2005–2015 (US$/2005 = 100)[11]

Energy prices are down nearly 60%, base metals by 50%, precious metals by 35%, and agricultural products by 25% (ECLAC 2016, 29). What is more, forecasts suggest that commodity prices will remain low and face considerable risk factors in the future, including uncertainty about Chinese economic growth, continued austerity and low-growth in the developed world, and the effects of Brexit in Europe (ECLAC 2016, 30), not to mention a protectionist wave in the United States.

The unwinding of the commodity super-cycle has begun to impact key economic and fiscal indicators. GDP fell 0.5% (1.7% GDP/PC) in 2015 and was projected to fall by 0.8% (or 2% in GDP PC) in 2016. The negative effects of declining primary commodity prices are most severe in the primary commodity exporters, with South American GDP projected to fall 2.1% in 2016 (ECLAC 2016, 15). Falling output has in turn impacted employment, with the unemployment rate in the region rising from 6% in 2014 to an estimated 8% by 2016 (ECLAC 2016, 16). Shrinking output likewise places pressures on public finances, as tax revenues fall in response to reductions of output and income. Public expenditure as a percentage of GDP is expected to fall in 2016, despite a declining denominator, at the same time that debt as a percentage of GDP rises (ECLAC 2016, 189). The persistence of lower commodity prices will continue to place pressure on governments to reduce expenditures in the coming years. In Ecuador, as Carlos Larrea and Natalia Greene demonstrate (Chap. 4), declining commodity prices have already produced increases in the rates of poverty and inequality. It is likely such trends will emerge across the case studies presented here.

As the chapters in this volume suggest, the prospects for Latin America at the end of the most recent commodity super-cycle are challenging. The region continues to be dominated by a small elite that wields extraordinary economic and political power, while much of the population lives in precarious conditions with little real capacity to shape the future of their countries. As noted earlier, the state in Latin America, despite efforts to reinvigorate it, remains ineffective and racked by corruption, and the expectations of a real ‘pink tide’ have not materialized. History shows that periods of rapid social and economic development typically follow moments of historical crisis and upheaval, in which elites are weakened and spaces open for states to enact more inclusive developmental agendas. Such was the case in North America after the Great Depression and Europe and East Asia after World War II. It remains to be seen whether crisis situations in Latin America will favor continued elite retrenchment or significant transformation.

The signals from the region have been contradictory and varied since the winding down of the commodity super-cycle. In Brazil, resurgent elites deposed the Workers' Party government in 2016; the centrist coalition that has ruled Chile during most years since the return to democracy in 1990 is under pressure from both a new left and the old elitist right; in Ecuador, the progressive government headed by President Rafael Correa has managed to maintain much of its popularity despite predictable attrition from a decade in office, but it is a government that has not challenged the power of its dominant economic groups; El Salvador and Guatemala remain largely mired in continuous and multi faceted cycles of violence, corruption, and emigration with reconfigured elites that hold back needed social and land reforms; by contrast, Colombians are hopeful for an end to a half-century of civil war and the benefits that peace might bring, even if peace does not come accompanied by the reforms that country's people need as old and new elites retain and consolidate power. Latin American elites emerged from the crisis of the 1980s arguably stronger than at any point since the 1920s; whether their dominance continues or whether macroeconomic events and mass socio-political movements provide states in the region with the kind of relative autonomy and popular foundations to implement more dynamic and inclusive developmental programs is one of the most significant questions facing the region in the twenty-first century.

Notes

1. Although environmental issues are not specifically addressed in the chapters presented here, it must be pointed out that rapid resource extraction has depleted and despoiled the natural capital and beauty of one of the world's most biologically rich and diverse regions, undermining the bases for future development.
2. In Chile, government expenditures are based on the Cyclically-Adjusted Balance (CAB), whereby expenditure and savings levels are anchored in long-term estimates of GDP growth and copper prices, and income above the estimated level is placed in a sovereign wealth fund (Marcel 2013).
3. Data drawn from the World Bank database. Available at: https://datahelpdesk.worldbank.org/knowledgebase/articles/906519.
4. Data drawn from the United Nations Development Program database. Available at: http://hdr.undp.org/en/composite/trends.

5. One of the main reasons for the incapacity of states in Latin America to develop more coherent developmental strategies is that ways in which structural power inequalities and tensions continue to be inscribed into the various state institutions. One of the core puzzles of political science relates to the nature and character of the state and its relationship to the wider society of which it is a constitutive part. Poulantzas (1978) and Jessop (1990) theorize this relationship with reference to the ways in which past social conflicts and struggles are 'inscribed' into the institutions of the state and shape the 'structural and strategic selectivity' of state agents and agencies, i.e., biases of state actors and institutions towards certain groups and the differential capacity of specific social forces to pursue their interests within the state itself. From an economic-developmental perspective, Evans (1995) defined the ideal-type relationship between state and society as one of 'embedded autonomy': where state actors and institutions have sufficient autonomy to avoid capture by particular interests but strong enough connections to civil society that the state itself does not become predatory. These prisms are useful for thinking about the contemporary state in Latin America and how obstacles to a more inclusive and dynamic developmental model are 'inscribed' into the region's institutions.
6. The accelerated extraction of mineral, forestry, aquatic, and other natural resources over the past 15 years has continued to deplete and despoil the region's natural resources, an issue of great importance to the region but beyond the scope of this volume. Unsustainable resource exploitation, moreover, is driven by and feeds back into inequalities, as the benefits of resource exploitation accrue to a small local and foreign elite while the socio-ecological fallout from environmental degradation disproportionately affects the poor and Indigenous populations: "The inequalities present in Latin America and the Caribbean are reflected in, and are a cause of, the environmental degradation that is evident throughout the region" (UNEP 2010, 60).
7. See data on military spending from the World Bank: http://data.worldbank.org/indicator/MS.MIL.XPND.ZS.
8. The great traffickers had also invested in the Caribbean, the United States, and Europe by the turn of the century: "The immense capital that the traffickers were accumulating led them to create complex organizations, employing administrators, lawyers, economists and other professionals capable of managing such enormous sums of money… the traffickers also co-opted into their service a host of architects, decorators, and even art experts" (López Restrepo and Camacho Guizado 2003, 260).
9. These are the Sinaloa Cartel (with operations in 17 Latin American countries and in the United States, Africa, Europe, Asia, and Australia),

the *Zetas* (in ten Latin American countries and in the United States and Europe), the *Rastrojos* (in four Latin American countries), and the *Urabeños* (in nine Latin American countries and Europe).

10. As for the remainder of the profits, about 5.5% was retained by international wholesalers in Mexico and the United States; approximately 9% was kept by processing and trafficking groups in transit countries; and 1% was received by Andean coca leaf farmers (Organization of American States 2013, 20, Fig. 2).
11. Compiled from data available at the International Monetary Fund website: http://www.imf.org/external/np/res/commod/index.aspx.

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L.L. North and T.D. Clark (eds.), *Dominant Elites in Latin America*, Latin American Political Economy, DOI 10.1007/978-3-319-53255-4