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Elusive Democracy: El Salvador and Oligarchic Consolidation 15 Years after the Peace Accords

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Fifteen years after the signing of the peace accords that marked the end of a twelve-year armed conflict (1980–1992), El Salvador is now well-advanced in its path toward a systematic consolidation of oligarchic rule. The "democratic dream" that should have materialized in the aftermath of the peace accords has been sabotaged by rising social injustice, increasingly skewed concentration of wealth, and a deteriorating standard of living for the majority. This process is rooted in the post-1989 period of neoliberal political economy that has been based on a structural program of privatization, dollarization, tax reform, and liberalized trade.

This current process of oligarchic consolidation involves two simultaneous and opposite developments. On the one hand, the traditional oligarchy in El Salvador has been reconstituted from an export-based force to one based on financial power and the ability to import (this is tied to the destruction of the primary export-based economy throughout the 1990s). This reconstituted oligarchy has crystallized into eight business groups dominated by just a few families that control the Salvadoran economy. On the other hand, this oligarchic consolidation has also had a wide range of negative consequences for most Salvadorans: poverty, unemployment, worsening social conditions, and forced migration have been exacerbated in the last fifteen years. In other words, the growing prosperity of the oligarchy has simultaneously produced more poverty and marginalization for the majority.

The second half of the nineteenth century saw the emergence of a coffee-growing oligarchy that not only controlled the backbone of the national economy, but also penetrated the circles of political power by alternating the presidential seat amongst members of its own exclusive clique. This oligarchy ultimately became commonly known as the "fourteen families" (*catorce familias*) and the pillar of its power was the ownership of all of the best land to develop the cash crop economy. This oligarchy controlled coffee and sugar production, commercialization, and export up to the late 1970s. This arrangement was threatened in the 1920s when revolutionary political activity amongst peasant organizations opened the door to strengthened calls for change and, in turn, heightened political tension in the coffee plantations and other centres of the export-led economy. The growing discontent, coupled with enhanced state repression and the oligarchy's refusal to bring about reforms, culminated in the 1932 peasant insurrection in the country's western coffee-growing region.

The oligarchy resorted to the military to bring back stability, and the military crushed the insurrection by killing up to 30,000 rebels, most of them indigenous peasants. This event was the turning point that transformed El Salvador into a military dictatorship and divided the concentration of authority into two well-demarcated but allied camps: the traditional oligarchy retained its economic power, and the military took over the political realm by maintaining order through generalized repression. This "strategic alliance" was in place until 1979, when progressive low-rank officers staged a *coup d'etat* against the military rulers and attempted to bring about reforms in order to curve growing popular discontent and neutralize the increasingly powerful revolutionary activities of worker, student, and peasant organizations. The failure of this attempt, compounded by the mounting state-led repression in the form of right-wing death squads and openly brutal repression of demonstrations, opened the door to the armed conflict and its eventual escalation into a full-fledged civil war between government forces and the unified revolutionary guerilla army.

During the civil war in the 1980s, the "strategic alliance" was altered when the Christian Democrats were swept into power. The Christian Democrats implemented state-led interventionist policies, such as limited land reform and the nationalization of the banking system and of coffee and sugar production, which affected the economic interests of the oligarchy and altered the reigning productive structure of the country. This configuration was preserved during the 1980s with the support of the Reagan administration in the context of the perceived security threats in its area of influence under the dynamics of the Cold War. The oligarchy responded by creating the Nationalist Republican Alliance (ARENA) party in 1982, which was associated directly with efforts to destabilize the Christian Democrats and with the creation of the infamous *escuadrones de la muerte* (death squads) who were responsible for serious human rights violations during the 1980s. ARENA won the presidential elections in 1989 with Alfredo Cristiani as its candidate, a member of one of the most influential families of the oligarchy and the architect of the neoliberal program that would eventually change the orientation of the Salvadoran economy.

The post-1989 neoliberal shift in political economy undertaken by ARENA has had four pillars: privatization, tax reform, dollarization, and free trade. There was a substantial change from the highly interventionist state of the 1980s, and it was the national oligarchy who benefited almost exclusively from the "self-imposed" neoliberal structural adjustment package (as opposed to primarily benefiting transnational capital). The privatization package involved the banking sector, the pensions system, the commercialization of coffee and sugar, the telecommunications system, and the distribution of electrical power. A sweeping overhaul of the tax regime eliminated property and import taxes, significantly reduced income and export taxes, and established a regressive sales tax to fill the fiscal gaps. The US dollar was adopted as the national currency in 2000, a move that was supposed to encourage foreign investment and control inflation, but in the end only raised the cost of living across the board. Finally, free trade deals have been signed with Mexico, Chile, the Dominican Republic and the United States [as part of the Central American-US Free Trade Agreement (CAFTA)].

In this context, the post-1989 political economy in El Salvador has led to the economic consolidation of the historical oligarchy that has diversified into eight entrepreneurial groups. The financial, economic, commercial and social welfare sectors of the country have almost entirely been transferred into the hands of this newly diversified, financially based oligarchy, as most of the privatization packages were absorbed by domestic oligarchic interests. The neoliberal reform also signaled a change in the political economy of the country from an export-based to a terciary, service-oriented, import economy supported by migrant remittances. As a result of dollarization, free trade policies, and pro-business tax regimes, importing rather than exporting maximizes profits. Since a dollarized economy requires a healthy flow of dollars, and taking into account the decimation of the agriculturally based export economy and the destruction of the countryside, together with the stagnation of the industrial sector, it is migrant remittances that keep the economy afloat. The deficit in the balance of payments has reached $4 billion, but remittances ($3.5 billion in 2006) fill the gap along with modest foreign loans. Therefore, the steady flow of dollars through remittances, as a vital cash flow to keep the system in place, invariably needs a steady flow of migrants to the United States, most of whom are former peasants escaping the deplorable conditions in the countryside brought about precisely by neoliberal reforms (only 9 per cent of the Salvadoran economy is now agriculturally based, as opposed to 60 per cent 16 years ago).

In other words, the post-1989 political economy of El Salvador functions within the framework of a five-stage cycle: (1) the systematic shift to a neoliberal political economy has opened the door to an import-based system, especially due to dollarization, tax reform, and state deregulation; (2) this system in turn needs the steady flow of dollars, which so far has been achieved through increasing migrant remittances, mainly from the United States; (3) this flow of cash needs the constant movement of migrants northward; (4) migration to the United States is directly related to the gradual yet clear neglect of the export economy along with the destruction of the countryside as a viable source of employment (a process that began in the early 1990s and peaked in the aftermath of dollarization in 2001); and (5) the destruction of the traditional economy, coupled with the neglect of secondary productive models, fuels the consolidation of the import-based, consumption-oriented terciary economy that has maximized profits for the oligarchy and strengthened its economic control over the country, with migrant remittances serving as its seal of guarantee.

For the majority of Salvadorans, the socioeconomic consequences of this process have been wide-ranging and detrimental. Some basic statistics tell the story: 43 per cent of Salvadorans still live in poverty; 500,000 thousand families still lack decent housing; 25 per cent of children suffer from chronic malnutrition; the industrial and agricultural minimum wage stand at US$200 and US$90 respectively, while the monthly basic nutritional needs for a family of four cost US$500; only 4 per cent of the national GDP is allocated to education and health care combined; and on average, 500 Salvadorans leave for the United States daily looking for a better life. At the same time, the 20 largest companies owned by the eight business groups controlled by the oligarchy manage a total of US$17 billion in capital and investment (which is equivalent to the country's Gross Domestic Product). In this sense, the democratic promises of inclusion and a better standard of living for the majority, as imperatives needed to address the root causes of the civil war and build a more democratic society, have gone unfulfilled in the post-war period. Again, it is important to emphasize the direct relationship between wealth and deprivation in today's El Salvador: the more the oligarchy prospers, the more the majority of Salvadorans see their future both socially and economically curtailed.

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