

Coffee has traditionally been a major export for many Latin American countries including El Salvador. Up until two years ago, when textiles produced by sweatshops replaced the crop as the main export, it was the major source of income for this tiny Central American republic. Declining coffee prices have had a major toll in many Latin American countries, which accounts for 60% of world output.¹ Interestingly enough, however, these declining prices have affected some countries more than others. In this paper, I will show how different land relations in different countries have had different effects in the ways they respond to these declining prices. I will use El Salvador and Costa Rica, two countries with similar dependence on coffee, as case studies; feudal land relations in El Salvador have brought the downfall of the coffee elite in the country, while more capitalist land relations in Costa Rica are allowing its small farmers to cope with the problem. The paper covers the history of the land owning elite in each country and the types of land reform that have existed in each country in order to explain current land relations and the current state of the coffee industry. Finally I will propose some overall changes that El Salvador has to undergo, to cope with their overpopulation problem, given that agriculture is still so important for the daily subsistence of thousands of Salvadorans.

El Salvador has a long-lived history of feudal relations in the agricultural sector that have enabled a coffee oligarchy to control the country for over a

¹ Title: *COPING WITH CRISIS: COSTA RICAN HOUSEHOLDS AND THE INTERNATIONAL COFFEE MARKET*, By: Sick, Deborah, *Ethnology*, 00141828, Summer97, Vol. 36, Issue 3
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century. Costa Rica on the other hand has enjoyed a more democratic history with more capitalist relations. For this reason, coffee farms in Costa Rica are substantially smaller than coffee farms in El Salvador.² Large, feudal like estates have made the Salvadoran coffee industry inefficient, the coffee elite will most likely not make it past this downturn. In Costa Rica, however, the efficient farms are finding ways to cope with the world prices. It is imperative to look at the history of the landed elite and land reform in each country in order to understand the differences in land relations in each country.

The Coffee Oligarchy in El Salvador

-These coffee dynasties are cognatic descent groups that trace their lineage through both males and females to a founding male ancestor, usually the nineteenth century immigrant or colonial aristocrat who founded the family coffee enterprise. The family is invariably referred to by the surname of the male founder and can extend through both blood and marriage to large groups of descendents... These lineage groups have proved to be surprisingly resilient, providing political and social power as well as material sustenance to their members-

Jeffery M. Paige, 16

The myth of the fourteen founding families in El Salvador is not far from the truth and neither is the idea that the families have run the country to this day. Landowners in El Salvador have always been a very small portion of the population,

² Paige, Jeffery. Coffee and Power. Harvard University Press. Cambridge Massachusetts. p 60

and with coffee being the main and most lucrative export for many years, coffee growers and processors became very powerful in the country³. Deborah Sick argues that in "El Salvador[,] the density of indigenous populations and their effective lack of political rights enabled elites to enact coercive reforms that gave them cheap land and abundant labor. The result was a system of large-scale coffee plantations which have been linked to exploitation, repressive regimes, and misery for countless smallholders (Brockett 1990; North 1981)"⁴

Most of today's oligarchic families can trace their roots back to one immigrant in the nineteenth century. Parker, Wright, De Sola, Schonenberg, Hill and others are wealthy European immigrants who helped direct the country's expanding export trade. They came to join the already existing oligarchy of Creole growers such as the Regalado, Escalon, and Melendez families.⁵ These names are still prominent today not only in the agricultural sector, but also in politics and businesses.

The close link between the coffee industry and the government has been present ever since the industry became so profitable. At the beginning of the twentieth century the Melendez family was represented three different times in the presidency in less than two decades. It was not until "after the peasant

³ Barry, Tom. Roots of Rebellion: Land and Hunger in Central America. South End Press, Boston. 1987. p 50

⁴ Title: *COPING WITH CRISIS: COSTA RICAN HOUSEHOLDS AND THE INTERNATIONAL COFFEE MARKET*, By: Sick, Deborah, *Ethnology*, 00141828, Summer97, Vol. 36, Issue 3

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⁵ Barry 50

rebellion of 1932, [that] the military took direct control of the government, although members of the coffee oligarchy continued to define the country's political direction by retaining key cabinet posts"⁶.

The official end of the military dictatorships came in 1984 with the democratic election of Jose Napoleon Duarte. Duarte's international secretary was Alfonso Salaverria, "who comes from one of the country's wealthiest coffee clans."⁷ The coffee elite heavily influenced Duarte himself; his presidency saw the end of the attempt at land reform started at the beginning of the decade (this topic is later discussed thoroughly).

The year of 1989 brought Alfredo Cristiani, himself one of the largest coffee growers in the country and former head of the coffee association, to the presidency. Cristiani chose Miguel Angel Salaverria, a coffee colleague and general manager of Prieto S.A. (the eight largest processor in the country), for the "critical mission in Washington."⁸ The state and the military, despite the end of the military dictatorship era, were still very close⁹, enabling the coffee dynasties to sign the peace treaties in 1992 and to maintain power in the next elections.

Armando Calderon Sol, member of the coffee elite¹⁰ and former mayor of San Salvador, won the presidential elections in 1994. Francisco Flores became

⁶ Barry 50

⁷ Barry 52

⁸ Paige 23

⁹ President Cristiani and Eugenio Videz (head of the armed forces at the time) are both married to sisters of the Llach family (needless to say, another member of the coffee elite).

¹⁰ "In 1970-71 the Sol Millet branch of the family was the eight largest coffee exporter in El Salvador" (Paige 23)

president in 1999, and although he is not as directly tied to the coffee oligarchy as his predecessors, he comes from the same political party as Cristiani and Calderon, and the coffee families are very well represented in political positions.

The coffee oligarchy's presence in the business sector is very evident, and it is most likely for this reason that they are so present in politics (or maybe it is because of their presence in politics that they are so present in business). El Salvador's coffee elite is "the most economically powerful on the [Central American] Isthmus"¹¹. According to Paige, it was the wealth brought by export agriculture that enabled them to gain control of domestic finance, real estate, commerce tourism, and manufacturing.

Attempts at Agrarian Reform in El Salvador

-In an agrarian society, land reform is a revolution act because it redistributes the major source of wealth, social standing, and political power.

- Jeffery Paige (a), 126

The putdown of the rebellions in 1932 served as an example to keep the peasants calm for several decades. However, the standing that the coffee elite enjoyed in the country is by no means sustainable, as Barry argues, it is a "social time bomb" in rural El Salvador¹². In 1965 the fuse was lit when the *latifundistas* evicted thousands of *colonos* living on their lands; a minimum wage had just been

¹¹ Paige 23

¹² Barry 110

implemented and this was the landowners way of protesting. The landless peasantry moved across the border over to Honduras and settled there until 1969 when the Honduran leaders called for the expulsion of the Salvadorans. The following events led to "The Soccer War", which resulted in thousands of homeless Salvadorans living in shantytowns on the edges of plantations.¹³

The peasants struggled to organize associations in order to voice their discontent, but every attempt was put down by paramilitary violence led by the military. The only association to reach legal status was the Salvadoran Communal Union (UCS); their success was largely due to the fact that it was created and funded by the American Institute for Free Labor Development and AID.¹⁴

Tension in rural El Salvador mounted until President Molina announced an agrarian reform plan in 1976.

Molina considered the reform plan a form of life insurance for the oligarchy. The distribution of a small portion of underutilized land, he argued, would dissipate the growing revolutionary movement and guarantee the oligarchy's hold on national power. The project targeted less than 4% of El Salvador's agricultural land and offered generous compensation terms to the landowners.

- Tom Barry, 111

¹³ Barry 111

¹⁴ Barry 111

The proposal led to an increase in death squad violence. Under pressure from the land elite, President Molina called the whole thing off and was soon replaced by his defense minister Carlos Humberto Romero.¹⁵ This type of influence enjoyed by the oligarchy was put on hold on October 15, 1979 when a group of young military officers staged a coup against Romero.¹⁶ Scared by the threat of rural unrest and trying to avoid the socialist fate of the now Sandinista controlled Nicaragua, the young officers set up a junta that began working on reforms almost immediately. By December of that year, the junta nationalized coffee exports, and "on March 6 and 8, 1980, the military officers initiated a land reform which, if carried out fully, would have eliminated the land holdings of most of the coffee elite"¹⁷. According to Enrique Bayrola, the Salvadoran civil war started here and Jeffery Paige asserts, "Agrarian inequality was a root cause of the Salvadoran civil war... [for] the inequality in landownership that land reforms are designed to correct is a major cause of revolution"¹⁸.

The Salvadoran land reform of 1980 was a three-phase plan that would have been Latin America's largest up to date. Phase one called for break up of estates of 1200 acres or more (10-15% of the country's farmland.) Phase two, or "the heart of the reform", aimed at estates of sizes between 220 and 1200 acres. If carried out, phase two would have redistributed over 20% of the farmland and it would

¹⁵ Barry 112

¹⁶ Paige 34

¹⁷ Paige 34

¹⁸ Paige (a) 126

have dismantled the oligarchy's economic fort¹⁹. Finally, phase three allowed peasants to apply for the title of rental lands of under 17 acres.²⁰

The ambitious plan was never carried out to its completion. It redistributed approximately 20% of the Salvadoran farmland, most of it of very poor quality.²¹ By 1986, only 15% of the potential beneficiaries had been granted land through the reform. The land reform was never carried out as planned because it was never supported for the right reasons.

The military had a huge conflict of interest when it came to supporting the reform. If they supported the reform, the military would continue to receive military aid from the United States. They were also looking to pacify the countryside, and this gave them more control over the countryside. Giving titles of small landholding to the peasants would hopefully give the peasants an interest in the country and so they would support the military. However, there was "no evidence that *campesinos* welcomed the increased military presence... [the] agrarian reform quickly became synonymous with army terrorism."²²

William Stanley's studies demonstrate that around 30,000 people were killed in the first two years of the war (1980-1981)²³. You could call it the classic cold war fight between the right and the left. Roberto D'Aubuisson who was head of

¹⁹ Phase two of the land reform was quickly dropped. Barry 113

²⁰ Barry 113

²¹ When compared to its Latin American counterparts, the Land Reform of El Salvador came nowhere near fair redistribution. (Paige (a) 135)

²² Barry 116

²³ Paige 34

the armed forces at the time masterminded the death squads. He came back in 1982 to win elections and head the country over the next two years. It was D'Abuissons military experience that enabled him to take power; El Salvador was now two years into its twelve-year long civil war.

Alfredo Cristiani signed the peace treaties in Mexico on January 16, 1992. In the peace treaties, besides the creation of a civilian police force, a substantial reduction of the armed forces, and the transformation of the former guerillas into a new democratic party, was a new land reform. However as Paige argues, "the land reform has touched neither the bases of agrarian wealth and power in El Salvador nor the root cause of the civil war... [mainly because] as a practical matter, there is no more land to redistribute in El Salvador because it is politically impossible to redistribute coffee lands that constitute the core source of wealth and the backbone of the ARENA party."²⁴

The coffee elite, even though it is to a much lesser extent, continues to enjoy special treatment from the state. In August of 2000, the Legislative Assembly approved the Coffee Emergency Fund, which would have the government issue US\$80 million in bonds to support the industry.²⁵

²⁴ Paige (a) 136-37

²⁵ El Salvador: Country monitor. August 2000. Wefa, a Primark Company.

History of the Costa Rican Elite and the successful revolution

-With its stable democratic government, solid system of social services, and relatively large middle class, Costa Rica has long been considered the exception to every generalization about Central America.-

- Tom Barry 59

When the Spanish colonized Costa Rica, unlike in its counterparts on the Isthmus, they found no large native population they could use as manual labor in the fields. The settlers worked the land themselves; even the governor of the territory worked his own land.²⁶ "During the colonial period in Costa Rica, scarcity of readily exploitable natural resources and small indigenous and Spanish colonial populations helped to minimize the social, economic, and spatial separation of elites and masses that prevailed elsewhere in Central America (Hall 1985; Seligson 1980)."²⁷ The country was full of self-subsisting farmers rather than power hungry aristocrats, today's long lived democracy in the country is a direct result of the way it was colonized.

It was not always a simple, manageable situation in Costa Rica. With the coffee boom of the nineteenth century came a short-lived aristocracy that ruled the country until the revolution of 1948. During the golden age of coffee, small farmers had to cultivate 20 acres in order to gain as much as they would by earning

²⁶ Barry 59

²⁷ Title: *COPING WITH CRISIS: COSTA RICAN HOUSEHOLDS AND THE INTERNATIONAL COFFEE MARKET*, By: Sick, Deborah, *Ethnology*, 00141828, Summer97, Vol. 36, Issue 3
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a wage at one of the larger farms.²⁸ By 1800, seventy percent of rural families were landless. Three out of every four presidents that served in the years between 1821 and 1970 were direct descendants of three original settlers.²⁹

"Costa Rica did develop an oligarchy,... [yet] from its inception as a nation, the economic elite included a class of merchants and growers- another circumstance that distinguished it from other Central American countries."³⁰

The Costa Rican oligarchy was different from the one in El Salvador. One of the main differences was that the doors to the elite were open and did not require a family name to be entered. Wilhem Peters Schuster arrived in Costa Rica from Germany during the last decade of the nineteenth century. He started working at a pharmacy, then he became an estate administrator and soon enough he was part of the landowning elite. During World War II, he was forced to go back to his country and his entire wealth was expropriated. "He came back from Costa Rica penniless after the war and rebuilt his coffee empire"³¹. Success rewarded the hardest working people, regardless of their family backgrounds. Julio Sanchez Lepiz also became part of the land-owning elite through hard work. He began by buying and transporting coffee, then he started to buy some land, by 1935, he was the largest single coffee exporter in Costa Rica.³² It is evident that social mobility has existed in the country, even in the times of the coffee boom. Furthermore, "in 1948 the

²⁸ Barry 59

²⁹ Barry 60

³⁰ Barry 60

³¹ Paige 17

³² Paige 17

victorious revolution of Jose Figueres excluded the coffee elite from the direct political power that it had held since 1820."³³

The revolution of 1948 was quick and effective. The insurrection lasted less than six months and it stabilized the country. Figueres supported small producers by limiting the profit margin of processors and by encouraging the organization of small-farmer coffee-processing co-operatives (Samper 1990, 1995; Hall 1982, 1985; Paige 1987; Williams 1994; Winson 1984).³⁴ He used the high coffee prices of the time to invest in modern structure needed in the agro export and industrial sectors. It established the "groundwork for the country's extensive system of public education and social services."³⁵ Contrary to El Salvador, the Costa Rican elite responded to the workers' demands with reform and social welfare programs. "The government apparatus controlled by the major political parties is not tied to one economic sector but instead represents the collective interests of both the rural and urban bourgeoisie."³⁶

Dealing with Declining Coffee Prices

The continuing slump in the price of coffee, one of Latin America's main cash crops, is spreading misery across the region. A glut, caused partly by surging production in Vietnam but also by Brazil's dramatic recovery from

³³ Paige 22

³⁴ Sick, Deborah

³⁵ Barry 60

³⁶ Barry 61

*poor harvests in the mid-1990s, has led to two years of sliding prices, causing hardship for growers on a scale unseen for three decades.*³⁷

El Salvador's inefficient coffee industry has taken a big hit over the last decade while its Costa Rican counterpart is surviving the worldwide downturn. Because of the cost of not cutting the crop and letting the land go to waste, and sometimes because of oligarchic pride, many Salvadoran coffee growers took on the loss brought by the low coffee prices and worked their lands. As prices continue to fall(due to subsidies from the World bank to Vietnam), more and more landowners are letting their plantations go. The Costa Rican farmers are simply supplementing their coffee industry with wage work, and some are specializing in growing organic coffee, which adds a premium to the world price.³⁸ The smaller size of their farms enables Costa Rican farmers to invest in organic farming; while this investment is too large to be incurred in El Salvador because long-term expected returns are not high enough.

Both developing countries are facing an inevitable transition that comes with growth. They are moving to an industrialized economy. The coffee elite in El Salvador is now paying the price for years of an inefficient feudal system, while Costa Rica is simply losing the subsistence farming that it had before. In accordance theories of development, the labor is moving into the manufacturing and service industries; the countries are industrializing.

³⁷ **Drowning in cheap coffee. Economist, 9/29/2001, Vol. 360 Issue 8241, p43**

³⁸ Title: *GREEN, AS IN GREENBACKS* , Economist, 00130613, 2/1/97, Vol. 342, Issue 8002
Database: *Academic Search Elite*

For Costa Rica, it is only natural. Years of stable democracy and capitalist relations are bound to help the country develop. When a country develops it loses its subsistent farming and labor with marginal productivity of zero is non-existent. For this reason, low coffee prices have not had a major toll on coffee growers in Costa Rica. The country has the welfare and educational resources in place to help the coffee growers go through this transition. The development forces are acting. The small plantations do not need the whole family to cultivate them, coffee harvest last less than a fourth of the year. The workers that are not needed will go to the cities to get job (help industrialize the economy), while other farmers will specialize their crop and make coffee growing efficient. They will grow quality coffee, or organic coffee, whatever the market demands, and receive a better price for it. The industry has adapted successfully and its vertical integration with large distributors such as Starbucks, has guaranteed long-term profits. Many others will turn to the fast-growing tourism industry for revenue.

El Salvador's coffee elite is having a little bit of a harder time dealing with the industry's crisis. Democracy is finally taking shape in El Salvador and the proper fiscal policy has enabled the country to grow. Despite the tremendous earthquakes of 2001, which cost the country over half of the estimated budget for that year (\$1,000 million), the country is expected to see an annual growth in GDP of about 3% each year for the next three years.³⁹ The country has finished its

³⁹ El Salvador: Country monitor. January 2001. Wefa, a Primark Company

transition towards dollarization and according to the World Heritage Foundation, it is the 12th most open economy in the world. The low coffee prices are speeding up the process of development for El Salvador since they are helping it get rid of an inefficient industry. The feudal relations that exist in El Salvador are only hurting the country. The coffee elite may see this as a catastrophe, but in reality, it might be a blessing for the country. Urbanization is growing at an amazing pace due to unemployment in the rural areas and the presence of foreign investment due to the stable currency is providing a demand for labor.⁴⁰

The future of agriculture, altogether, however, is not doomed for El Salvador. El Salvador, and other countries in the region could benefit implementing similar policies that imitate the Costa Rican model. We already learned that giving these peasants some land ownership brings revenues to their families that are unemployed in the present. Though controversial, the government should lead a serious land reform program so peasants can start utilizing these lands that, in the present, bring no development to these rural areas. Another solution (and this could very well be accompanied with land reform mentioned previously) is investment in other substitute crops such as flowers. The market for flowers is huge and although its financial investment in physical capital is large, its returns are also great. The government could lead this transformation in the agricultural makeup of the country by financing this investment. An added gain would be the ecological

⁴⁰ Executive Report on Strategies in El Salvador. www.icongroupedition.com

benefits of maintaining trees in these areas. In addition, the area can benefit from the agricultural expertise of the Zamorano Agricultural University: one of the world's finest agronomical institutions. Zamorano University is located in neighboring Honduras and is financed by Harvard University. Its students could give these peasants insight into ways of maximizing their incomes in the long-term.

Another solution for El Salvador, one preferred by the elite unwilling to give up land ownership, is for the country to change its economic makeup. They argue that agriculture has no future in the country because of its small size and overpopulation problem. Agriculture requires economies of scale that are not found in El Salvador; perhaps these are existent in Costa Rica and other Central American countries. El Salvador has already begun and will have to increase its presence in the services industry. A hard-working and semi-educated population gives the country a comparative advantage in financial, distribution, transportation, and retail services (at least compared to its Central American counterparts). The only tangible source of production that actually has any future is textiles (all other goods, they argue, are produced more cheaply by China). Textiles, controversial as it may seem, are produced in sweatshops. These provide employment to thousands of Salvadorans displaced from the countryside for reasons mentioned above. Thousands more have migrated to the United States. Perhaps the biggest lesson to learn from El Salvador's story is that development can only be attained when people

are given an incentive, either through land ownership or appropriate remuneration for their efforts.

El Salvador and Costa Rica are the most stable countries in the region and both countries are in route to development. Their economies are industrializing with each making the appropriate changes to survive the global price downturn. El Salvador is being forced to get rid of an inefficient coffee industry and replace it with more profitable ones, or ones that will more justly reward the peasant for his work while Costa Rica is making its coffee production more efficient.

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