Towards a Political Economy of Weak Institutions and Strong Elites in Central America

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Abstract
A common conclusion of studies on Central America’s democracies and political economy is that the weakness of institutions and the strength of elites are a main reason for the region’s problems. Recently, a set of studies have attempted to scrutinize these elites in detail, focussing on their strategies and resources. The purpose of this article is to reflect upon what these studies can tell us about the question: what is strong when institutions are weak? I argue that in the Northern Triangle particularly the answer is elite networks and their command over and competition for the control over four sets of resources: money, means of force, information, and ideas and ideologies, including religion. A systematic study of such networks and how they interact with formal institutions may give us a more realistic view of the current state of Central American political economies. Keywords: Central America, institutions, political economy, elites, networks.

Resumen: Hacia una economía política de instituciones débiles y élites fuertes en Centroamérica

Una conclusión común a la que llegan los estudios sobre la economía política y las democracias centroamericanas es que la debilidad de las instituciones y la fuerza de las élites son una razón fundamental para los problemas de la región. Últimamente, una serie de estudios han intentado estudiar a fondo dichas élites, enfocándose en sus estrategias y recursos. El objetivo del presente artículo es reflexionar sobre lo que dichos estudios pueden aportarnos a la respuesta de la pregunta: ¿qué es fuerte cuando las instituciones son débiles? Yo sostengo que en el Triángulo Norte, en particular, la respuesta son las redes de las élites y su control, así como su competencia por dicho control, de cuatro categorías de recursos: el dinero, los medios de coerción, la información y las ideas e ideologías, incluida la religión. Un estudio sistemático de dichas redes y sobre cómo interactúan con las instituciones formales podría facilitarnos una visión más realista del estado actual de las economías políticas centroamericanas. Palabras clave: Centroamérica, instituciones, economía política, élites, redes.
Over the last two decades, Central America has gone through remarkable transformation processes: from civil war to peace, from authoritarian regimes to institutional democracies, from inward-looking development strategies to openness and global markets, and from military to civilian control of politics. However, in spite of many positive changes, security has worsened in most of the region. The Northern Triangle in particular lags behind the rest of Latin America regarding inequality and poverty reduction, education and a number of other social indicators (CEPAL, 2013). Moreover, with the exception of Nicaraguans, Central Americans are more pessimistic than other Latin Americans regarding the development of their democracies and the general path of their home countries (Latinobarómetro, 2014, pp. 22, 45).

When discussing the causes of Central America’s misery, many point to the combination of strong elites and weak institutions. For example, in the introduction to the recent Handbook of Central American Governance, Diego Sánchez-Ancochea and Salvador Martí i Puig (2014, p. 4) state that ‘The region’s problems ultimately have much to do with the perpetuation of an elite-dominated socio-political system that still concentrates wealth and political influence in a small number of people, and also with the inability of the state to secure the rule of law and provide services for all’. This view accords with an increasing consensus in the literature, that a main explanation for differences in development performance across countries over time is variation in institutions (Levitsky and Murillo, 2009; Robinson, 2012; Fukuyama, 2011). Economically prosperous countries are characterized by inclusive political institutions, meaning that they are both centralized (i.e., that institutions have ensured sufficient control over a geographical area) and pluralized (i.e., that there exists an agreed division of power) (Acemoglu and Robinson, 2012, p. 81). In contrast, when institutions place few constraints on the exercise of power by the elite, resources are extracted from society rather than employed productively.

In spite of this, studies of how elites strengthen or undermine institutions in Central America are scarce. This might be interpreted as a result of a general crisis of political economy in Latin America. Luna, Murillo and Schrank (2014) argue that while Latin American political economy has a long and proud tradition, recently the field has been too dominated by causal analysis based on large, readily available datasets collected by international institutions that have little relevance for current Latin American challenges. The crisis is even more acute in Central America where many countries fail to produce data of sufficient quality to be included even in quantitative studies. The result is that studies often conclude by diagnosing Central America with deficits and failures in comparison to fixed standards of democracy, good governance or rule of law, but without going further into the actual interplay between political and economic processes.

Nevertheless, a number of recent studies (including some in which I have been involved) have attempted to collect and systematize information on aspects of elites and how they interact with institutions: who the elites are, what
resources they control and what practices they employ to protect their privileges and amass wealth and influence in rapidly changing global and local contexts. The aim in this article is to reflect upon what these studies jointly can tell us about dominating practices of elites in contexts of weak institutions, and sketch an agenda for further inquiry.

What is strong when institutions are weak? Elites and their networks

The role of elites in development has received increasing attention over the past years (Amsden, Di Caprio & Robinson, 2013). A main reason is that their choices crucially strengthen or undermine institutions, particularly state institutions as the permanent institutional core of political authority upon which regimes rest and depend (Centeno, 2002, p. 2). Elite choices affect the centralization of power in the state, the ability to extract resources from society and the establishment of a monopoly on legitimate violence; all are pre-requisites for the emergence of a state that in turn can take on distributive functions and create a sense of integrated community and citizenship. These basic features are also necessary to enable the state to play an active role in development, as well as to oversee legal and contractual instruments that guarantee protection of property, set the rules of the game and reduce transaction costs.

The vast literature on the evolution of strong institutions has focused on historical ruptures (e.g., war) but also elite choices in ‘critical junctures’ (Lipset and Rokkan, 1967; Collier and Collier, 1991; Kurtz, 2013) and state-supported political settlements between different societal groups (Thelen, 2004). In Central America, the peace processes and democratization of the 1990s can be considered such a critical juncture and a window of opportunity to allow for a strengthening of institutions. The fact that it did not result in institutional strengthening may be explained by the fact that democratization was not supported by a strong democratic actor, but rather by pressure from outside and the US decision to support the removal of the armies from politics in Central America (Torres Rivas, 2014, p. 2).

However, weak institutions are not only the result of failures at critical junctures, but also a result of everyday practices. Weak institutions have in common that they fail to make democratic and legal institutions the framework for legal and legitimate action. They can be considered as resources that can be mobilized by one actor in competition against another. Weak institutions have distinct anatomies that can be considered as failed, captured, or penetrated. These characteristics are not permanent conditions but dynamic processes, maintained by everyday practices. Thus, in order to understand why and how weak or strong institutions evolve, we must also consider how key actors relate to weak institutional contexts and how the practices they apply contribute to further weakening or strengthening. In other words, we have to ask: what is strong when institutions are weak?
In order to attempt an answer to this question, we need a better understanding of who the key actors are. As argued above, elites are central among them. However, the term elites is most commonly used without being defined, and is often simply implicitly equated with the upper class, capitalists or ‘the right’. Here I will define elites as groups of individuals that, due to their control over natural, economic, political, social, organizational, symbolic (expertise/knowledge) or coercive resources, stand in a privileged position to formally or informally influence decisions and practices that have broad societal impact (for a further discussion see Bull, 2015). This definition differs from one which focusses on distinct institutional and functional elites (e.g., military elites, parliamentary elites, bureaucratic elites), since in contexts of weak institutions it is impossible to clearly distinguish among them. Instead, as evidenced in both historical and more recent studies, in Central America the main actors are the elites and the networks in which they are embedded. These networks traverse institutions, and enable elites to mobilize multiple resources that in turn further undermine institutions.

Elite networks may be defined as a set of elite actors that jointly control and share resources. Networks may be local or national and they are increasingly transnational and often tightly connected across various levels (Anonymous, 2011). Networks can penetrate institutions with their ideas and resources, becoming more important for institutions than the formal functioning of an institution in society. At its most extreme this leads to what Garay, Salcedo and de León (2010, p. 21) called a ‘co-opted reconfiguration of the State’: a process by which institutions are manipulated by such networks from the inside.

In Central America, networks necessarily include both economic and political actors, and the distinction is often blurred. A recent study of the transnational economy in Central America found that the existing large family-owned diversified business groups still dominate. As predicted in the literature, these are substitutes for strong institutions and well-functioning financial markets, as they allow for the internalization of many functions normally dependent on such institutions (Bull, Castellacci & Kasahara, 2014). In addition, business groups are embedded in larger networks of co-investors, mutual shareholders, and kinship. Thus, the economy is largely governed by different combinations of business hierarchies (within local business groups and transnational companies), formal institutions and networks (Bull et al., 2014, ch. 9). Particularly in the Northern Triangle, political-economic elite networks have emerged as the most important element providing predictability in highly volatile contexts.

These networks are based on close ties between businessmen, politicians and military actors in addition to academics, journalists and public officials. They are held together by family ties, mutual shareholder (in companies), memberships in the same organizations, joint ideas or ideologies or friendship, ranging from long term amistades to mutually agreed-upon instrumental interchanges of favours. Also ethnicity may contribute to strengthen networks, as in
the case of networks among businesses owned by individuals and families of
Arab origin (turcos) in Honduras (Euraque, 2014). Kinship has been consid-
ered the most important factor tying elite networks together historically
(Casaús Arzù, 1992), and it is still of importance in the transnational economy.

For businesses, networks serve many functions: to pool capital for invest-
ment, to solve conflicts, and to overcome formal legal constraints. These net-
works become no less important in a transationally integrated open economy.
On the contrary, there are many examples of local groups benefitting from their
role in these networks when competing or seeking to collaborate with multi-
national companies (MNCs). Only by allying with partners in local networks are
MNCs are able to fulfill formal requirements as well as overcome informal
obstacles to investments. At its most extreme, the capacity of Central American
companies in dealing with institutional weaknesses has given them their main
competitive advantage.

The resources and practices of elites

Social mobility is low in Central America and elite groups are generally diffi-
cult to penetrate by racially subaltern actors. Nevertheless, ascendance into an
elite network can be attained by achieving positions in formal institutions (the
government, a political party, the military, a company, etc.), or by attending
certain schools or universities. However, also new groups may enter into elite
networks and alternative elite networks are established. It is not only las famil-
ias de siempre that are able to accumulate wealth and power. We see the as-
cendance of individuals with no elite background that are able to penetrate into
elite groups through forming a combination of local networks and international
alliances based on the control of such resources. These groups may include the
so-called operadores políticos (political ‘fixers’) or business consultants that
are able to influence politics and accumulate wealth more through their net-
works than their formal positions.

These may become parts of elite networks through controlling four types of
resources that are of importance to the elites’ positions: The first is money.
Money is an obvious part of any ‘political economy’: having or controlling
access to money is a source of power, and ‘money talks’ in strong institutional
contexts. Thanks to a number of recent studies in Central America we do know
something about changes in accumulation of capital and thus the concentration
of monetary resources (Segovia, 2005; Robles, 2014; Palencia Prado, 2014;
Bull and Kasahara, 2014). These show a combination of strengthened, older
elite groups and the emergence of new ones, as well as new transnational con-
figurations of business elites. However, what distinguishes weak institutional
contexts is the simultaneous weak regulation of private economic transactions
and of public-private interaction. Opaque financing of political campaigns is a
well-known issue as is buying votes in congress, considered to be widespread
in Guatemala, Honduras and Nicaragua, in addition to general corruption and
bribery. Indeed, it has been argued that politics in Guatemala increasingly resemble transactions in a market place where different ‘political operators’ representing private interests are negotiating in a system of intense competition for political influence (Briscoe and Rodríguez, 2010).

It is not only private money that ensures access to public institutions, and as a result, undermines them. In spite of rhetoric on the benefits of a small state keeping business relations at arm’s length, public procurement is still a main source of income for the private sector. A government which has access to resources and issues attractive contracts is also more able to ensure the private sector’s cooperation. The importance of public wealth to ensure private sector support became particularly evident during the years of the Ortega administration in Nicaragua. Propped up by Venezuelan credits and smoothed over by business-friendly policies, the government had a cordial relationship with business in spite of the apparent existence of deep ideological differences (Spalding, 2014).

The second main resource is means of force. While money is an important resource in politics and economics, countries with the most weakly institutionalized systems are also characterized by widespread use of force. In Central America, public-private negotiations regarding the access and preservation of political power have turned to the use of violence to enforce pacts and to eliminate opposition (Argueta, 2014, p. 211). This may involve the use of threats, kidnappings, assault and murder. As documented in a number of high profile cases,1 Guatemala stands out as the country with the highest incidence of intra-elite violence. Interviews with public and private elites have also disclosed repeated threats and violence against them or their families, often by alternative elite networks. In such contexts, military and private security services are in high demand. Retired military officers have achieved key positions in elite networks, and this has also provided them with economic gain. Thus a recent publication on elite networks in Guatemala coins the term ‘military-business-strategies’ (Anonymous, 2014), resembling what Vadim Volkov calls violent entrepreneurship, defined as a set of organizational decisions and action strategies enabling the conversion of organized force (or organized violence) into money or other market resources on a permanent basis (Volkov, 2002).

The third main resource is information. What initially strikes any researcher attempting to investigate Central American political economy is the difficulty in accessing information. Information on the ownership, turnover and profits of businesses is scarce and often unreliable (see Bull et al., 2014, p. 18-19). Thus, the ability of the state to tax private actors is decreased. As argued by a former minister of finance in Guatemala: ‘It is well known that in practice, many Guatemalan companies keep three books: what they show to the SAT [the tax authority] that reflects extremely low profits or losses in order to pay low taxes; what they show to the banks to get loans, where they increase their profits to appear very successful; and the true accounts, that are secret’ (Fuentes Knight, 2012, p. 22). Indeed, systematic strategies to hinder the state’s ability to tax is
perhaps the best-documented of elite practices to undermine institutions (Schneider, 2012; Noe Pino, 2014). Public institutions also suffer from a lack of transparency. The Costa Rican initiative Estado de la Región made a heroic effort to collect data on public institutions in the region but had to leave the task uncompleted in spite of the significant amount of time and resources already invested (Vargas Cullell, 2014, p. 29-30). The reasons are almost too obvious: while strong institutions systematically collect data on their budgets, territorial presence, payrolls, and day-to-day operations, weak institutions do not.

However, information does exist. Although there is no guarantee of access to information in weakly institutionalized contexts, information is also not protected by institutional guarantees. Therefore, controlling such access or finding means to access information has become an important political and economic asset. Information circulates within networks, and those in the position to control information have become relevant nodes in a network (Garay et al., 2010, p. 27). Information is not only gathered in licit manners for legal and legitimate purposes, but also illegally through, for example, illegal wiretapping and other forms of surveillance, and this is clearly not something that only criminal groups are involved in. Legal businesses and public officials also engage in illegal information gathering to get a competitive edge over adversaries, to undermine competitors’ legitimacy, to collect evidence used in processes of blackmail, and for many other purposes. While the exchange of information is conducted secretively, media also plays an important role in information control through the use of ‘selective leakages’, placing false information, and participating in obstructing the search for accurate information by journalists and/or public officials.

The fourth main resource is ideas and ideologies, including religion. While the above presents a picture of the Central American political economy as run by individuals and networks that are largely motivated by a self-serving pursuit of wealth and power, the role played by ideas and common values in stabilizing networks and interactions within networks should not be underestimated. Elite networks control institutions aimed at influencing ideas and ideologies in society at large (i.e. media, universities, think tanks), thus framing political issues and legitimizing actions. These supply visions of society that allow elites to sustain their privileges, but often fail to explicitly recognize the influence that ideas and ideology have on their positions. Recent research shows that at least three major ‘ideological frameworks’ have deeply affected the mind-set of Central American elites in past years, with attempts to convey them to the public at large: anti-communism, neoliberalism and religion. The distinction between these three categories is often blurred. Elite networks employ a mixture of ideological frameworks in discourse as well as in the practice to mobilize action and strengthen trust within networks, while justifying exclusion and repression against outsiders.

Let us briefly review these ideological frameworks. *Anti-communism* has often blurred into anti-terrorism. The idea of being under threat from a left-
wing conspiracy unified the elite during the Cold War, but more than 20 years after its end the ‘internal enemy’ paradigm is still alive. In the 1990s, diverse social movements were given the ‘communist’ stamp, while more recently communism has been associated with Chavism and ALBA, in addition to a broad array of social movements that are currently increasingly involved in socio-environmental conflicts. In turn, ‘anti-communism’ has justified elite actions ranging from coup d’états to persecution of social movements activists. Neoliberalism unified elites from the 1990s on, and provided an ideological framework to pursue the interests of a significant segment of the business community, particularly that which was associated with transnational capital. This was no coincidence: while the local elites invested in universities and business schools, international agencies, and particularly the AID, spent large amounts of money on business associations and think tanks attempting to strengthen the support for liberalization, privatization and the conversion to non-traditional exports (Rosa, 1993; Sojo, 1992). This effort is continued today by old and new think tanks (Valdez, 2014). Although neoliberalism never actually managed to encompass the entire business-community, nor be predominantly supported in actual practices, it justified policies that in effect weakened some networks and strengthened others. Finally, religion is particularly advanced by certain evangelical and Catholic organizations. The most popular evangelical churches have a strong ‘prosperity gospel’ component that has proved attractive to both those searching for a spiritual community to endorse their individualistic world view and to others aspiring to climb the sociopolitical ladder. This particular religious affiliation has served to strengthen ties with elite groups operating in different spheres (politics, culture, business), as well as to open doors for new actors/families with financial resources to enter into elite networks. The largest evangelical churches function as large companies with international ties and may therefore also serve to form international networks. (Christensen Bjune, 2012). However, Catholic organizations such as Opus Dei remain the basis for elite networks across the region, and in Nicaragua the Catholic Church has been a more important basis for elite networks.

Concluding remarks: The study of institutions penetrated by elite networks

Studying weak institutions is a difficult task since they notoriously collect little and often unreliable information about their operations. Furthermore, as information is a precious resource that is often guarded with the use of force, doing academic research in contexts of weak institutions often goes hand in hand with great degrees of risk. The reference in this article to two studies that had to be published anonymously testifies to this. However, in order to find ways of strengthening institutions and thus improve this situation, it is necessary to understand the historical processes through which institutions came to be weak as well as how and by whom they are undermined or strengthened in day-to-
day practices today. I have suggested here that by focusing on elites, the networks they form and the resources that they command, we may come closer to an understanding of how weak institutions are kept weak or strengthened.

Studying elites is no easy task, as they are notoriously difficult to access, and are often more able to manage the information they provide than other groups. Nevertheless, attempting to systematize the pieces of information that exist on elites and the resources they control may be necessary to get the answers to the core questions of political economy: who has power/resources? How are resources deployed in the pursuit of economic, political and other goals? What are the results? And the most important: how may positive change occur?

In the Central American context characterized by a complex interplay between the economy and politics in highly transnational economies with blurred lines between illicit and licit activities, studying elites, their networks and the resources that the network-nodes command is a necessary complement to the study of formal institutions. It would also be a contribution to the debate on who supports and who undermines democracy in Central America. The left sees an all-powerful monolithic economic and political elite as the main obstacle to democracy, while the right perceives the threat as coming from the masses often associated with communism, terrorism or organized crime. Rather than such clear-cut dividing lines and polarization, we should see a diversity of shifting political alliances and constellations that break at some point when actors within a network disagree or transgress tacit agreements. Yet focusing on elites, networks and resources should never replace the study of formal organizations including political parties, state institutions, companies and business groups. Rather, by understanding how these institutions are embedded in and penetrated by networks, we can understand why they work the way they do.

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Note
1. This includes the Gerardi-case, the case against ex-president Portillo, and the plot set up by businessman Roberto Rosenberg.

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