THE PRIVATE SECTOR AND POLITICAL PARTIES: GUATEMALA, A CASE STUDY

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In this paper, I examine the relationship that exists between the private sector and political parties in Guatemala. I define the private sector as a group of business people—owners, shareholders, and business executives—who organize to promote and defend their economic activities. Compared to the private sectors of countries like Mexico and El Salvador, which have traditionally enjoyed strong links with a political party, such as Partido de Acción Nacional (PAN) and Alianza Republicana Nacionalista (ARENA), the Guatemalan private sector has not united its efforts behind an electoral project. I address the following questions: why has the private sector in Guatemala not built strong links with a political party? In the absence of a political party, how does the private sector express their interests? What other mechanisms of political influence does the private sector use?

Private sector access to government policy and the lack of a strong representative political party system with an influential leftist organization are two factors that have contributed to the lack of private sector-political party linkage in Guatemala. The private sector has unique access to government policy in economic and fiscal matters, often negotiating policies with the executive branch and holding roles within the executive cabinet at times. It is important to note that the Guatemalan private sector has had access primarily to the executive and not necessarily to the legislature.

The absence of a strong representative party system has also hindered the emergence of private sector-political party linkage in Guatemala. Politicians on the right and left alike have been unable to consolidate parties in Guatemala. Guatemalan parties are often built around the image of individual candidates, rather than

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around durable platforms. Additionally, the left has been electorally weak and has thus not posed a threat to the business sector in Guatemala. The lack of effective representation in the party system has forced the business sector to rely on other organizations, such as the Committee of Agricultural, Commercial, Industrial, and Financial Associations (CACIF) as well as the Foundation for the Development of Guatemala (FUNDESA), to defend their interests. The distance between the private sector and political parties in Guatemala emerges partly from the absence of a representative party system.

The following section discusses the methodology employed. This will be followed by a literature review that shows the dearth of scholarly work on Guatemala's private sector. In the third section, I present a set of hypotheses derived from previous work done by scholars in comparative politics. In the fourth section, I present a historical analysis of the private sector, the state, and political parties in Guatemala. I conclude by discussing potential implications of my findings for the study of private sectors and parties in Latin America, as well as directions for further research.

METHODOLOGY

This paper utilizes a qualitative approach to understand the private sector in Guatemala and why it has not given full support to a political party. Support, in this case, refers to actions such as campaign contributions, formal endorsement of a party and its political platform by businessmen and business associations, continuous collaboration with a party in non-electoral years, and business membership in a party. I provide a brief analysis of the pre-democratic period (1944–1985) to demonstrate the relationship between the private sector, parties, and the state in a non-democratic context. My primary focus lies in the period from 1985–2012, as political parties have been more dominant in the wake of the return to democracy. I draw from diverse sources such as personal interviews with prominent private sector leaders in Guatemala across sectors such as industry, commerce, and agriculture. I also utilize

secondary sources that include interviews with private sector representatives. Finally, I employ data from the Inforpress Central American Report from 2000–2012.

UNDERSTANDING PRIVATE SECTORS AND POLITICAL PARTIES

Edward Gibson's Class and Conservative Parties: Argentina in Comparative Perspective directly addresses the question of the private sector's relationship with political parties. Gibson focuses on the case of Argentina and attempts to answer why no party has captured the upper-class constituency in Argentine society. He defines conservative parties as "parties that draw their core constituencies from the upper strata of society."[2] For Gibson, there are two reasons why business sectors have not formed a political party. First, the private sector in Argentina has been traditionally divided along a regional cleavage. Gibson argues that when cleavages are national—rural versus urban, for example—conservative parties are more likely to exist. Second, he argues that the strength of the relationship between the private sector and the state determines the incentives for party formation. When the private sector has ensured its access to the state in terms of policy and influence, a political party is irrelevant to maintaining the private sector's political influence.

Gibson states that parties compete for the support of the upper classes. After Argentina's return to democracy in 1983, many conservative parties have struggled to obtain the support of the Argentine business sectors, with only the Union del Centro Democrático (UCEDE) succeeding. The major contribution of UCEDE was establishing a conservative ideology for Argentina. UCEDE successfully advanced the notion of economic liberalism in the political debate, despite not having explicit private sector support. In Gibson's view, the division of the private sector and its ability to influence government policy are the factors that explain why UCEDE did not become the representative of the private sector's interests.

Although Gibson provides a detailed account of the UCEDE as a conservative party in Argentina, I do not interpret the UCEDE as a strong example of a linkage built between economic elites and political parties. As Gibson himself shows, the UCEDE later became a catchall party that allied with the Peronists only for electoral gain. Furthermore, a decade after Gibson's study, the Peronists dominated the party system in Argentina. Even the Radical Party, formerly the major opposition group, was weakened and suffered major electoral losses. Thus, Argentina is not a good case of conservative party formation, but rather a case that shows why private sectors fail to support political parties.

Kevin Middlebrook takes a different approach to studying conservative parties in Latin America, arguing that countries in which private sectors supported a political party experienced longer periods of democracy than those countries in which the economic elites engaged in politics directly.[3] Countries like Chile, Colombia, and Venezuela have had strong conservative parties, while Argentina, Brazil, El Salvador, and Peru have not. In order to explain this variation, Middlebrook makes a path dependency argument that looks at the original relationship between the Roman Catholic Church and the state. He argues that the struggles between these two entities generated partisan conflict that later influenced the development of conservative parties. Although he shows that the existence of church-state conflict usually correlates with strong conservative parties, it can be argued that he does not prove any causal relation between the two. For example, his theoretical framework fails to explain why strong conservative parties in Venezuela virtually disappeared from politics during the last decade. In addition, he does not address why the ARENA party in El Salvador became stronger after the 1980s.

Finally, other work has attempted to explain the existence of conservative parties in specific countries. Yemile Mizrahi's work on the Partido de Acción Nacional (PAN) in Mexico shows the development of this party and how the support of business sectors was key to defeat the Partido Revolucionario Institutional (PRI).[4] Juan Pablo Luna demonstrates how the Unión Democrática Independi-

ente (UDI) in Chile was able to build a programmatic linkage with business sectors, while at the same time building a patronage-based linkage with the lower classes.[5] Neither scholar, however, provides an overall theory for why private sectors get involved in a political platform in some cases and not in others. In this paper, I attempt to answer that question by analyzing the case of Guatemala, where the private sector has never built a permanent alliance with a single political party.

UNDERSTANDING THE GUATEMALAN PRIVATE SECTOR

Most of the research done on the Guatemalan business sector has focused on intra-elite dynamics and their political influence, but nothing has been written about economic elites and political parties in Guatemala. The analysis that comes closest to doing so was conducted by Rachel McCleary on the private sector's role in returning Guatemala to democratic rule in 1993 after the auto-golpe of the president Jorge Serrano Elias. McCleary argues that the private sector was a central player in the defense of democracy. Had the private sector not supported these efforts in the struggle for democracy, the Serranazo would probably have succeeded.[6] The anthropologist Richard Adams, one of the first scholars to study the Guatemalan private sector, argues that from 1955 to 1966 the upper class, composed mainly of agrarian elites, predominated in Guatemala.[7] They organized according to their economic activity to pressure the government. Adams shows that the Guatemalan business elite, although it has experienced internal conflicts from time to time, has remained largely united. Paul J. Dosal provides a history of the industrialist elite in Guatemala from 1871–1994. He shows that while the coffee producers maintained their economic power, it was the industrialists who took leadership of the group and pushed forth a modernizing progressive ideology, especially during the 1970s.[8] Finally, Marta Casaus Arzú discusses the development of what she calls the "Guatemalan oligarchy" over time. She argues that the country's economic elites expanded their spheres of influence through family ties.[9]

Some contemporary work has also examined the role of the Guatemalan private sector after the peace agreements. Ulkire Joras looks at the influence of private sectors in solving violent conflicts. He takes Guatemala as a case study of a private sector that actively contributed to the peace accords of 1996. Joras argues that although the private sector was not fully supportive of the peace accords negotiations, it had an interest in ending the armed conflict. He further claims that the private sector was not satisfied with the outcome, but still welcomed the end of a three decade- long war in Guatemala.[10]

As I have shown, the existing literature has done little analysis of the role of the private sector in electoral politics. In this paper, I examine how the private sector has interacted with political parties and explain why it has not become fully involved with a political platform. In the next section, I outline the hypotheses that aim to explain this phenomenon.

Explanations for the lack of private sector party in Guatemala

There are a few arguments to explain the large variation in private sectors' support for political parties in Latin America. However, from empirical observations, secondary sources, and interviews I have drawn a set of potential explanations. First, I take into account Gibson's two variables to explain the Argentine case: the fragmentation of the private sector and its relationship with the government. If Gibson's research is applicable to other cases, then his variables should apply to the Guatemalan case.

My other hypothesis comes from a common argument made by the business leaders interviewed. When asked why Guatemala's private sector did not fully support a political party, even though private sectors in other countries like El Salvador did, many business leaders responded that the threat posed by insurgency in Guatemala was less imminent to that in El Salvador[11]. In El Salvador, the businessmen could either support ARENA or lose the country to the guerillas. In Guatemala, the guerrillas had been defeated by the mid-1980s, and the war was not being fought in urban areas like Guatemala City.[12]

Certainly, the threat variable is a potential explanation for

the existence of a political party supported by the private sector in Guatemala, or any other Latin American country. Nevertheless, it is important to distinguish between the types of threat that the private sector faces. One class of threat constitutes a challenge of the basic foundations of a liberal society, such as the expropriation of private property. This threat was posed in Guatemala by the Guatemalan National Revolutionary Unity (URNG) in an armed struggle that lasted from 1960 to 1996. The other type of threat is less radical and is exposed by institutional leftist parties. These parties might propose some measures such as land redistribution or increase in taxes, the creation of a welfare state, or nationalization of companies that the private sector might not support. Because these threats are different, they produce different responses. Thus, my preliminary hypotheses are the following:

H_1: the greater the fragmentation of the private sector, the less likely that the private sector as whole will support a political party. Conversely, the lower the fragmentation of the private sector, the more likely that they will become fully involved in their support for a political party.

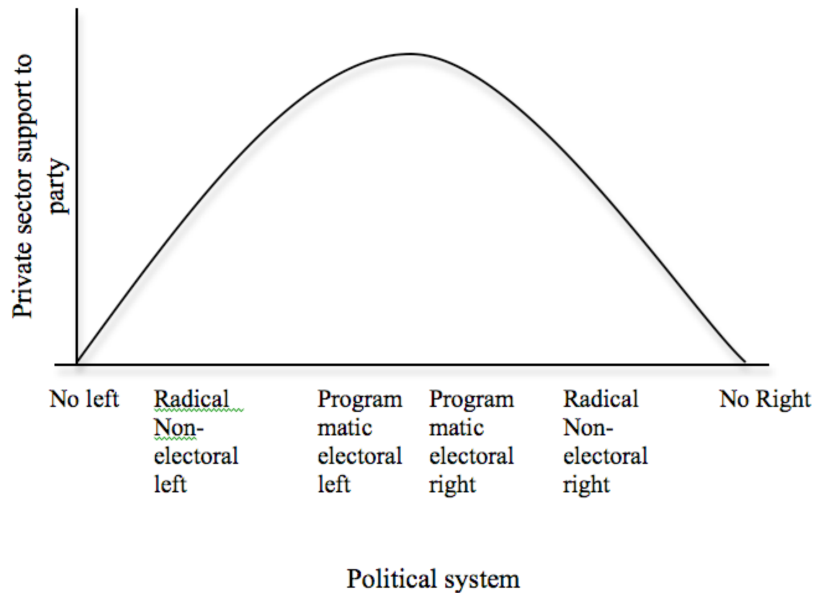
H_2: the more access and ability to influence policy the private sector has, the less likely that the private sector will support a political party. On the other hand, the less access and influence, the more likely that the private sector will make efforts to build a party.

H_3: when elites face a radical threat to private property outside the electoral system, the less likely that they will create a linkage with a political party. In this case, they might invest resources in the armed struggle. On the other hand, when the threat comes from an institutionalized leftist party, the likelihood of investing in a right-wing party increases.

Graph 1 shows a basic model of the relationship between the political system and the private sector's support for parties. It is important to note that this model assumes that the existence of a programmatic leftist party will provoke the existence of a programmatic right wing party, and vice versa.[13] In other words, an institutionalized party system is necessary for the existence of a private

sector-political party linkage.

Graph 1



In the following historical analysis, I show that access to the state policymaking and the lack of an institutionalized party system are the variables that make the private sector unlikely to support a political party. In Guatemala, the private sector has historically had access to the executive, including cabinet members and ministries. Furthermore, because the party system has always been weak and fragmented, the private sector has not faced the threat of a leftist platform. Had a strong leftist party emerged after the return to democracy, the Guatemalan private sector might have supported the establishment of a conservative party in the country more intensely, thus contributing to the institutionalization of the party system. Because the party system never institutionalized, the private sector has not built permanent linkages with any one particular party. I also find that while a radical threat promotes private sector collective action, as Slater points out, this collective action does not necessarily translate into support for a political party.[14] During the armed conflict, the private sector did not make alliances with parties, precisely because it had access to the executive. Finally, the Guatemalan private sector has been united when it comes to an

external threat and, as a result, has not endorsed a political party. Instead, CACIF became the institutional vehicle for representing private sector interests vis-à-vis other actors in Guatemalan society.[15]

1944–1984

Political instability predominated from 1944 to 1984. As a result, the relationship between the private sector and the government was also unstable. While most rulers sought to obtain the favor of the private sector at the beginning of their mandate, the private sector-state relationship usually deteriorated quickly. Furthermore, the private sector never trusted political parties. The political parties in Guatemala were personalistic and lacked strong roots in society. This made the private sector seek a direct relationship with the state through the business associations that were created in this period.

Guatemala entered a period of democratization in 1944 that only lasted a decade. In 1954, a conservative movement led by Carlos Castillo Armas overthrew Jacobo Arbenz, claiming that Arbenz was taking the country in a communist direction. From 1954 to 1985, the political system was dominated mostly by the military. There were some political parties, but these were not representative of the population. Participation was restricted, and elections were in many cases fraudulent. In fact, parties like the National Democratic Movement, which ruled from 1954 to 1958, became corrupt and personalistic.[16] This made the private sector distrustful of political parties in general. The private sector came to dislike how parties and politics alike were viewed as means to move up in the social ladder.

The inability of the private sector to find and trust a political party to represent its interests led to the creation of business organizations that would deal directly with the government. In 1957, CACIF was created as an umbrella organization for the different chambers and business associations in Guatemala. CACIF was formed by the Chamber of Industry and the General Association

of Agriculturalists. Although CACIF dealt with problems affecting the business sector as a whole, each economic group created its own association to deal with the government as well. The effectiveness of the business associations in dealing with government and the instability of the party system explain the Guatemalan business sector's lack of support for a political party during this period. In effect, with the Peralta government (1963–1966)'s ascension to power, Guatemala's business elites led the economic policy of the government.

Despite the private sector's strong relationship with Peralta, the military party—the Institutional Democratic Party (PID)—failed to win the next election. A civilian, Julio Cesar Mendez Montenegro, became president of Guatemala from 1966 to 1970. He institutionalized the representation of the private sector in government bodies. For instance, the council of the state now included one representative from each of the major economic sectors: agriculture, commerce, and finance. Montenegro expected to obtain the support of the private sector in exchange for his reforms. However, the private sector failed to support the president's tax reform of 1967.

This period gave rise to the emergence of the National Liberation Movement party in Guatemala, a conservative party with a strong anticommunist agenda. Although it was never able to govern by itself, the MLN did reach the presidency in 1970 in a coalition with the PID that supported Carlos Arana Osorio. The MLN remained in the political system for almost three decades. Nevertheless, it was perceived as an exclusive party and was never able to capture the upper class or popular support. In the 1980s, the MLN would become a counterinsurgent group, leading attacks against communist organizations. Because business associations were more effective at representing their interests and as the MLN had a clear ideological bias, the private sector never supported the MLN. [17]

When Carlos Arana came to power in 1970, the private sector began to lose influence. Arana pursued a more state-led development project.[18] Furthermore, the private sector suffered from

two economic shocks in the 1970s—the collapse of the Central American Common Market, which had benefited industrialists in the Central American countries, and the oil embargo of 1973. As a result of these events, the private sector embraced an economic model based on limited government spending and tax reductions. In this period, the industrialists began to understand the advantages of free trade, while the agriculturalists wanted to maintain protectionist economic policies. Despite this lack of understanding, the business sector was still able to maintain its representation within the military regime. Certainly, political parties remained out of the picture at this time.

The relationship became more complicated in the 1980s, with the ascension of Lucas Garcia to the presidency. During Lucas's presidency, repression of the insurgency and prominent political figures reached alarming levels. The private sector began to be less supportive of the regime's actions. Even the United States withdrew its support for the Guatemalan army. Lucas's inability to rule Guatemala led to a military coup that removed him from office.

Rios Montt, Lucas Garcia's successor, initially had the support of the private sector. He promised to cut government spending and address corruption. With the creation of the Council of the State (1982), the private sector obtained direct access to government. Each economic sector had a representative.[19] The conflict between Rios Montt and the private sector began when the president threatened to expropriate private sector land and intensified when Rios Montt gave a controversial radio address drawing on evangelical themes, angering many business elites, many of whom were Catholic.[20] Rios Montt's antagonistic relationship with the private sector and his military colleagues provoked his removal from office in 1983.

Rios Montt's successor, Oscar Mejia Victores, tried to reestablish the relationship with the private sector, decreasing the VAT from 10 to 7 percent. Under his rule, a new constitution was drafted, which established that Congress, not the executive, would impose taxes, and that business associations had the right to appeal to the Constitutional Court when taxes were not fair. This law meant

that the private sector would now have to deal with Congress in order to advance its interests, rather than the president, who the private sector had historically had access to. On the other hand, the new option to appeal unfair tax rates gave the private sector new leverage.

International pressures for democratization as well as pressures to open the economy led the private sector to endorse the democratic project of the mid-1980s. This did not mean, however, that the private sector became more involved with political parties. Many in the private sector believed the democratic experiment would fail again and, indeed, the political parties of the time did fail to deepen their organizational strength and leadership in Guatemalan society. The number of parties increased rapidly and the system continued to be fragmented and volatile (see Tables 2 and 3). The private sector continued working through CACIF and also created a new think tank, the Foundation for the Development of Guatemala (FUNDESA), similar to the FUSADES of El Salvador.[21] Since 2003, FUNDESA has organized the National Summit of Businessmen (ENADE), where private sector leaders discuss issues such as security and economic growth. These discussions serve as the basis for the foundation's policy proposals. FUNDESA has two offices in the United States (in Miami and New Orleans) that serve as conduits for U.S. investment in Guatemala. CACIF and FUNDESA continue to function as the institutional vehicles through which the private sector expresses its political interests.

1985-2011: The transition toward democracy

The 1980s were a time of economic crisis and international pressures for democratization. The Guatemalan military accepted a transition towards a democratic regime although they it in charge of the transition. Opportunities for political participation emerged, with free and fair elections held and new political parties appearing on the scene. However, the private sector's distrust of political parties would continue. The party system remained fragmented and its roots in society were non-existent. In this context, the Guatemalan private sector maintained its traditional channels of influence

through business organizations and cabinet appointments. As with the military regimes, the relationship between the private sector and the presidents deteriorated as the latter started passing reforms that affected them directly.

By 1985 it was clear that the most powerful groups within the private sector—industry, commerce, and finance—had adopted a neoliberal agenda.[22] When Vinicio Cerezo of the Christian Democrat Party of Guatemala (DCG) became president, the private sector became concerned about the prospects of a communist party gaining strength in Guatemala.[23] The Guatemalan private sector was distrustful of Cerezo and his party after the events in El Salvador, in which the Christian Democrats passed agrarian reforms and nationalized the banking system. Cerezo, a skilled politician, reassured the private sector that he would not attempt to to pursue populist measures. Although the composition of Cerezo's cabinet was not negotiated with the private sector, some members of the private sector were included. For example, businessman Rodolfo Paiz Andrade became minister of finance,[24] while Eduardo Goizueta, another businessman, became minister of infrastructure, and Federico Linares, member of the Associations of Banks, became president of the central bank. In 1986, Cerezo organized the Concertacion Nacional, intended to be a mechanism for dialogue between the government and the private sector. These initial gestures of openness gave Cerezo some support from the private sector during the first months of his mandate.

But Cerezo too began to have conflicts with the private sector. CACIF made a public statement that while monetary stability, lowering inflation, and the liberalization of price controls in some products were positive measures that the government had achieved, it was concerned about the growing deficit, the proposal of tax reform, and the lack of action against the insurgency. Cerezo had adopted "an active neutrality" with the guerrillas, trying to negotiate the end of the conflict between the army and the insurgency. The private sector asked the government to define a well-structured economic plan, reduce the increasing size of the government, and take decisive action against the guerrillas.[25] Despite the demands

of the private sector, Cerezo and his team, led by Paiz Andrade, sent the fiscal reform proposal to the Congress.

The fiscal reform of 1987 prompted a strong reaction from the private sector, with its members claiming that Cerezo had broken his promise that he would negotiate reforms with them. Those cabinet members with ties to the private sector were against the reform, creating uncertainty within the private sector. Ultimately, the private sector did not continue negotiating.[26]

Instead, the private sector used its resources to respond to Cerezo's proposal, calling publically for rejection of an increase in taxes, organizing a general strike, and utilizing the legal precedent established in the 1985 constitution to make an appeal to the Constitutional Court to reject the new taxes. The Court declared some articles of the law unconstitutional, especially the most controversial. Finally, the private sector reduced its tax payments to the point that the fiscal burden for 1988 was only 8.1 percent. [27]

The experience of the first democratic government illustrates the relatively low importance of political parties in Guatemala. The private sector was united for the most part during this period and did not support a party. Rather, the private sector expended important resources in expressing their discontent publicly through their umbrella organization, CACIF. Although the DCG initially had a majority in Congress, it lacked cohesion, suffering from internal schisms that necessitated a search for coalition partners. The lack of an electoral programmatic threat to the private sector was important in this period. Had the DCG been a more programmatic party, the private sector would have had to take their struggle to Congress, not to the streets.

The demise of the post-transition party system: Serrano as a political outsider and the 1993 crisis

Despite his political experience in the Rios Montt government, where he served as president of the Council of the State (1982–1983), Jorge Serrano was a political outsider in the 1989 elections. Serrano and his recently formed Movimiento de Acción Solidaria (MAS) surprised everyone in Guatemala with their victory. Because Serrano's candidacy was improvised, he lacked a plan

to govern the country. He was certainly a neoliberal, but presented a weak leadership platform.

With MAS holding on 14 out of 116 seats in Congress, Serrano needed alliances to be able to govern the country. He partnered with the Partido de Avanzada Nacional (PAN), as well as other small parties. He also formed alliances through cabinet appointments, appointing Alvaro Arzú, the secretary general of PAN, as minister of foreign relations. Furthermore, he invited members of the private sector to participate in his government. Richard Aitkenhead, a prominent member of the business sector, became minister of economy and then minister of finance, while Federico Linares was named the president of the central bank. With access to the new government's fiscal and economic policy thus ensured, the private sector was satisfied with these appointments.

In the first years of Serrano's presidency, the private sector essentially set the government agenda. Its members hired Arnold Harberger of the University of Chicago to develop an economic program for 1991–1995. This plan included stabilizing the economy, opening the Guatemalan market to foreign investment and trade, and modernizing the state. Serrano made this plan the core of his agenda, reinforcing his links with commercial elites.

In contrast to his predecessor, Serrano did not experience open conflict with the private sector during the first years of his administration. His main obstacle to effective governance came from Congress. To win over supporters, Serrano resorted to informal negotiating mechanisms, such as paying bribes or handing out privileges to congressmen.

Despite this, Serrano sought to curb the corruption that took place in Congress and weakened his efforts at effective rule. On May 25, 1993, he announced the temporary suspension of the Constitution. Key democratic institutions such as Congress, the Supreme Court, the Constitutional Court, the Public Ministry, the Office of the Attorney General, and the Office of the Ombudsman for Human Rights were suspended. Serrano thought that the private sector would join his cause against corruption in government. But the private sector united against Serrano's self-coup, anticipat-

ing that Guatemala would be isolated from international markets. They asked him to restore constitutional order, as his actions were harming the image of the country abroad.

The international community, too, rejected Serrano's coup, with the United States threatening to impose a trade embargo. This threat to the private sector's core interests became their central incentive to mobilize against Serrano. They played an important role in the formation of the Instancia Nacional de Consenso on May 30, 1993. The Instancia gathered representatives of different sectors of Guatemalan society ranging from business leaders and unions to universities and political parties.[28] The Instancia negotiated a peaceful solution to the conflict, demanding Serrano's resignation and a return to the democratic order. Although the Instancia involved many different sectors of society, it was CACIF whose resources and organizational strength led the process.[29]

The rejection of the coup by the private sector and the military was central to the restoration of democracy in Guatemala. These two sets of actors, who had traditionally supported authoritarian forms of government, now supported democracy and the rule of law.[30] Serrano resigned as president on June 1, 1993, and vice president Gustavo Espina took his place. When the private sector asked for Espina's resignation, Congress elected Ramiro de Leon Carpio, the Human Rights Ombudsman, as the next president. Carpio would remain in office until 1996.

The events of Serrano's short term in office show the ability of the private sector to influence political processes in Guatemala. They also provide evidence of the weakness and corruption that dominated political parties at the time. Because of the fragmentation of the political system, Serrano believed that Guatemalans would support an authoritarian government. He was proven wrong: Guatemalan society united against him, demanding restoration of the democratic order. Viewing political parties as the problem instead of the solution, the private sector shied away from making alliances with parties. Furthermore, they realized that in order to solve a crisis, they did not need links with a political party, and thus could continue relying on CACIF and other forms of as-

sociation in times of political turmoil.

A right wing party? The failure in the consolidation of PAN

In 1995, Alvaro Arzú of PAN became president. Arzú, a businessman and former mayor of Guatemala City, relied heavily on urban support for carry his electoral victory. From an established and wealthy family, Arzú had notable connections with the private sector. He had built a strong party with the support of the business leaders and filled his cabinet with businessmen (See table two). PAN won a majority in Congress, allowing it to pass a series of important neoliberal reforms, including the privatization of major state companies. Because the private sector found Arzú an important government ally, CACIF's level of mobilization decreased considerably. Private sector leaders shifted their focus to economic activities.[31]

Arzú received the private sector's support during the majority of his administration. Even when he proposed minor changes to the tax system, CACIF collaborated because it had been included in the negotiation process in 1996.[32] There was certainly some conflict in 1997, when a proposal to create a tax on property was rejected not only by the private sector, but also by popular organizations. Because the tax was widely rejected, the Arzú administration had to suspend the measure in 1998. Another source of conflict was the alleged acts of corruption that took place during Arzú's government.[33] Although he was never charged, Arzú's purported participation in corrupt practices damaged his government's image. However, these conflicts took place against a broad backdrop of private sector support.

During the Arzú government, the private sector maintained its pressure mechanisms through CACIF and its different chambers. After the signing of peace agreements in 1996, the private sector enjoyed the benefits of peace and the opening of markets. However, there was a sense that the government had lost in the negotiations against the guerrillas. The peace agreements of 1996 established a broad agenda for state action, goals that the private sector believed were unrealistic. Furthermore, some business leaders feared that the left would pose a threat at the electoral level. The

UNRG was being funded, organized, and trained by European nations, particularly Norway. This potential threat explains why the private sector started becoming more involved with political parties, especially PAN, and also why the private sector became more active in its activities influencing policy.

Despite its initial support of PAN, the private sector realized that the party was a platform based on the personality and image of Arzú.[34] In the run-up to the 1999 elections, Arzú did not endorse the candidacy of his successor, Oscar Berger, and blocked the private sector's membership in the party board. These attempts at controlling the party's leadership failed: Arzú resigned from PAN. His unwillingness to endorse Oscar Berger contributed to the PAN's defeat in the 1999 elections. Apart from the weakness of PAN as a political party, the private sector realized that the left would never able to build a strong political party, despite its initial fears of a leftist electoral threat in 1997. This allowed the private sector to remain neutral in its relationships with parties, and continue pressuring through other means.

The private sector and political parties after the Peace Agreements

PAN was not able to win a second election in 2000, and the private sector has continued to eschew links with political parties. The poor electoral performance of leftist political parties partially explains this lack of involvement. Despite the introduction of URNG as a political party, the left has not been able to pose a major threat to the private sector. In effect, the post-1996 party system became less ideological. New political parties have emerged in Guatemala, and parties such as DCG and UCN have gradually disappeared from the political arena. The private sector is still represented by its business associations, which have confronted the government during the Alfonso Portillo (2000–2004) and Alvaro Colom (2008–2011) regimes. Although the private sector lost some of its access to the executive during these governments, it did not lose its influence over government policies.

Portillo became president in 2000 and employed strong anti-private sector rhetoric from the start. He claimed that the private

sector benefited from special privileges that needed to be eliminated. In February 2000, he announced a Q200 increase to the minimum wage ($25). This measure was not well received by the private sector, who argued that this would lead to higher unemployment and more poverty. The measure established that the minimum wage would be increased every six months instead of annually. In May 2000, Portillo challenged the sugar producers, seeking to set a price ceiling on sugar. Because the producers did not comply with his demands, Portillo allowed the import of nearly 219,000 metric tons of sugar, which sugar producers claimed was almost half of the amount of sugar consumed nationally. The sugar cartels organized through the Association of Sugar Producers of Guatemala and protested against the government. After some negotiations, producers agreed to a government settlement—the government would stop importing foreign sugar in exchange for producers lowering their prices. This marked a major victory for the Portillo government.

Portillo skillfully used confrontational rhetoric against the private sector. While Portillo appointed CACIF allies like Lizardo Sosa (central bank president) and Eduardo Weyman (minister of economy) to his government, for the most part, private sector access to the cabinet was restricted. The private sector maintained representation in state councils, such as the Minimum Wage Commission, the Monetary Policy Board, and the Social Welfare Institute, but its influence of the private sector in politics was weakened overall. This led to the redoubling of organizing through CACIF, the entity that would defend the interests of the business sector.

Portillo also tried to reform Guatemala's tax code, insisting that Guatemala needed to meet the 12 percent fiscal burden goal demanded by international organizations. The private sector proposed that this goal should be met only when the rate of economic growth reached 6 percent annually. The government rejected this proposal, with Portillo proposing an increase of VAT from 10 to 12 percent. In August 2001, Congress passed the tax reform plan, which included the 2 percent hike in VAT and new penalties for tax crimes. Claiming that the new plan negatively affected the interests of the population, the private sector organized a one-day

strike. The strike took place on August 1, 2001 with the support of popular organizations and students throughout the country.

After the general strike of 2001, the relationship between Portillo and the private sector worsened, with the private sector complaining about government corruption. From 2002 onwards, the Portillo administration would be immersed in scandal after scandal. The media was also critical of the government, which by the end of its first year had an approval of 36.3 percent of the population[35]. Portillo was never able to recover his popularity, and his party lost in the next elections.

Portillo had weakened the influence in government that the private sector enjoyed under previous presidents. However, even in this scenario, the private sector did not attempt to build an alliance with a political party because they realized that the majority of threats to the private sector came from personalistic presidents. These presidents lacked strong partisan support, which implied that their proposals could be easily defeated. Furthermore, the front-runner candidates for president—Oscar Berger and Alvaro Colom—had deep ties to the private sector. Despite losing influence during the previous four years, the private sector felt assured that it would not face a major threat in the medium and long run. FRG had become isolated and fragmented after their time in government; thus, the lack of an institutional party that could pose a serious threat to the private sector is the major variable explaining why the private sector continued to be wary of linking with a political party. It had lost its historical access to government, but was able to maintain the status quo with the support of the business associations.

The weakness of the party system became an obstacle for major reform in Guatemala.[36] The coalition that allowed Berger to become president did not last long. Three parties—the Partido Patriota, the National Solidarity Party, and the Reform Movement—formed the new party Gran Alianza Nacional (GANA). Because of Berger's links with the private sector, he received GANA's support during the campaign.

In contrast with Portillo, Oscar Berger had a healthy relation-

ship with the private sector. Although his cabinet did not feature prominent private sector members, as Arzú's had done, he maintained dialogue with the business sector. His major challenge came from opposition parties, which blocked any new legislation in congress. Business leaders in Guatemala did not view Berger as acting like a statesman—his government was not able to communicate effectively with the population, something opposition parties were able to capitalize on in the next election. [37] The electorate viewed Berger as a weak president, who did not address effectively the problem of security that was becoming a major issue for Guatemalans.

During Berger's government, businessmen started investing more resources in public policy proposals. The first National Summit of Businessmen (ENADE) was celebrated in 2003. From 2003 to 2011, ENADE has drawn business leaders together to discuss and propose solutions to the major policy issues, emphasizing issues such as international competitiveness, economic development, security, and rule of law. ENADE has made proposals to the government, but as the Guatemalan business community has pointed out, these proposals are often not fully endorsed by presidents or political parties.[38] Another initiative of the business community is "Businessmen for Education," a campaign founded in 2002 whose objective is to improve the quality of education in Guatemala. These initiatives show that the private sector's involvement in policy issues has increased, although it remains outside the formal political arena.

By 2007, there was no major right wing party in Guatemala. PAN had disbanded, and its erstwhile leader Arzú founded the Unionista Party. GANA, which suffered from schisms and internal division, came third in the elections, while FRG had a weak candidate in Luis Rabbé. The election was won by Alvaro Colom of the National Unity for Hope party (UNE) over general Otto Perez Molina of the Patriota Party. Colom was a businessman who identified as a social democrat. His relationship with the private sector would be rocky in the years ahead.

From the beginning of his administration, Colom attempted

to maintain strong ties with the private sector. His cabinet had few businessmen, but his private sector ties as a former member of the board of the Chamber of Industry and the Agro Exporter Association assured the private sector that he would respect the free market model. He was aware that any reforms in Guatemala had to be negotiated. He appointed Juan Alberto Fuentes Knight as his minister of finance, a believer in fiscal reform. Fuentes Knight claims that although he received the support of the president at first, Colom's support declined as both external and internal pressures on the government began to intensify. [39] Internally, Colom had to deal with the political ambitions of his wife, Sandra Torres, who implemented a series of social programs aimed at improving her image. Torres also attempted to set up the organizational machine needed for her own potential presidential bid in 2011.

Externally, the private sector was distrustful of Colom and his party, arguing that tax reform in the midst of economic crisis would harm the economy. The private sector disliked Sandra Torres' control of the government and demanded more transparency. Colom was a weak president and gave in to pressure from his wife and his close collaborators. He tried to negotiate the reform with members of his own party, but they did not support it. When all else failed, Colom tried to gain the support of the Guatemalan teachers' union. This strategy also failed, and Colom ended his term without achieving the fiscal reform. The lack of strong parties in Guatemala again explains the inability of government to rule effectively. The private sector had maintained its influence, proving that it did not need a party to achieve its goals.

Although the fiscal reform proposals did not generate public confrontation between the private sector and the government, the assassination of lawyer Rodrigo Rosenberg on May 10, 2009 led to the worst polarization Guatemala has experienced in the last decade. In a video he recorded before his assassination, Rodrigo Rosenberg claimed that he was about to be killed by order of Colom, Torres, and Colom's personal secretary. Rosenberg was the former lawyer of Khalil Musa, who had been assassinated in April. He argued that Musa had been killed to prevent him from

revealing corruption within ANACAFE, the organization of coffee producers. Rosenberg's death prompted university students to organize strikes and protests, in which they were joined by CACIF.

Colom denied the accusations that Rosenberg made against him, asking the United Nations-sponsored International Commission against Impunity in Guatemala (CICIG) to investigate the crime. According to CICIG's findings, Colom had not been involved in Rosenberg's death. The private sector reacted to these findings with disbelief, arguing that corruption in the Colom government still needed to be investigated.

A positive result of the Rosenberg crisis was the increased participation by civil society in public affairs. In 2009, students and civil society organizations started project Guatemala Visible, which aims to make the justice system more transparent and open. Guatemala Visible received the support of FUNDESA and has influenced the election of magistrates for the Constitutional and Supreme Courts.[40] Business leaders have also supported other efforts, such as Guatemaltecos Mejoremos Guatemala (Let's Improve Guatemala), a project that focuses on economic and social development with special attention to transparency, employment, and security. Despite the many problems facing Guatemala, there is an increasing sense that civil society and especially the country's youth are becoming more involved in political issues.

After the Rosenberg incident, the government's relationship with the private sector remained fraught. Meanwhile, the Partido Patriota led an open battle against the ruling party, to justify blocking UNE's legislative proposals by arguing that the party was involved in clientelistic practices. This legislative deadlock only confirmed the private sector's decision to not offer formal support for a political party in the 2011 election.

In 2011, the rise of Manuel Baldizón, a UNE dissident, posed a threat to the private sector. Again, this threat came from a personalistic movement with no strong roots in society. Baldizon engaged the masses with populist rhetoric, promising the creation of a new bonus for workers, the dissolution of the national police, the creation of a national guard, and the instatement of the death penalty.

After Baldizón won second place in the first round of elections, the private sector began investing more resources in the campaign of Otto Perez Molina, his rival. In a close race, Otto Perez was elected president of Guatemala in November 2011.

From the beginning, the private sector was optimistic that Otto Perez would deliver his promise on improving security in Guatemala. Fiscal reforms have been approved, despite criticism coming from left of center politicians. Although Otto Perez's proposal to reform the Constitution has not been supported by the private sector, the relationship between the private sector and the state has been calm. Although the Partido Patriota holds the majority in Congress and has been able to build alliances during the first half of 2012, commentators expect that as elections approach, the political system will become more unstable and unpredictable. Rejecting the uncertainty associated with political parties, the private sector has maintained its influence through other mechanisms. It does not seem that the private sector will fully support a political party in the near future.

Conclusions

In this paper I have attempted to explain why the Guatemalan private sector has not become fully involved with a political party. I looked to a set of different variables to address this question. First, I observed the role of two factors identified by Edward Gibson: the fragmentation of the private sector and the access of the private sector to the government. When the private sector is fragmented, it will not support a political party. When the private sector has access to government, it will not support a political party. The analysis of the private sector in Guatemala from 1944 to 2012 shows that the Guatemalan private sector has remained cohesive over time. While there are different sub-sectors within the business associations, the private sector has united in moments of difficulty. Yet this unity has never been translated into support for a political party. Thus, the first hypothesis does not explain the case of Guatemala.

The second variable, the access of private sector to government, has played a clear role in Guatemala. From 1954 to 2012 the

private sector has enjoyed access to the executive through cabinet appointments, especially those with fiscal and economic portfolios. These appointments take place during the first year of the president's term. As the private sector's relationship with the executive becomes more strained, some of these cabinet members may resign. Recently, the private sector has not had as great a presence in cabinet, particularly during the Portillo and Colom governments. However, as a result, the private sector was able to make its influence felt through other means (i.e. business associations), thus contributing to the shaping of the government agenda.

In addition, I looked at threats to the private sector as incentives to support a political party. I differentiated between two types of threats: armed threat and electoral threat. When the private sector faces a radical armed threat, it is less likely that they will create linkages with a political party. In this case, they might invest resources in the armed struggle. When the threat comes from an institutionalized leftist party, it is more likely that the private sector will support a political party. The case of Guatemala shows that in the absence of an electoral threat, the private sector has not devoted its resources to a particular party platform.

The left in Guatemala has not been a key player in elections since its re-introduction to the system. Although DCG, FRG and UNE have challenged the business community at various points, these parties were personalistic, lacking a long-term program and strong societal support, and were accused of corruption. After being in power, they virtually disappeared from the electoral map. The private sector has not had to contend with a leftist party that is able to implement its program for more than one term.

Therefore, I conclude that the lack of private sector support for political parties in Guatemala can be explained by the access to government policy, especially to the president and his cabinet, and the absence of an institutionalized party system featuring a strong leftist party that can motivate the private sector to invest in a conservative party. As long as parties remain relatively un-institutionalized, the private sector will not feel confident enough to invest significant resources in a party platform. Instead, they will rely on

business associations to influence policy in a way that reflects their concerns.

My theory on private sectors and political parties fits other cases in Latin America. For example, in Mexico, PAN gathered the support of medium and small sized entrepreneurs when these actors felt they were being excluded from the PRI government of the mid-1980s. In El Salvador, although many argue it was the guerrilla threat that led to the private sector supporting ARENA, the private sector became politically active when the DCG government excluded it from the decision-making process in the 1980s. The Salvadorian private sector had lost its veto power and was not able to stand in the way of land reform and the nationalization of the banks. By the end of the 1980s, the guerilla threat had become an institutional electoral challenge with the transformation of FMLN into a political party. In Guatemala, even after the left returned to the electoral game, it was not been able to establish a project with strong popular support. In the case of El Salvador, FMLN has been the second most important electoral force in the country since 1989, winning the presidency in 2009. Certainly, an important factor to consider in the case of El Salvador is that the left already had an electoral base before it allied itself with the guerrilla movement. In Guatemala, however, the left was never a strong political option, and it was outside of the system during the period of military rule. In El Salvador, a part of the left remained in the political game, which contributed to the left's stronger societal appeal. Most importantly, the threat at the electoral level forced the Salvadorian business elites to invest in a political party.

In the case of Argentina, the Peronist party has moved from labor-centered to neoliberal to social democrat. Because the private sector in Argentina is able to influence policy through a number of means, it has not invested major resources in building a political party. Finally, in Chile, the business sector faced the challenge of the leftist coalition Concertacion, which was in power for most of the democratic period. In order to have access to government, there was no other option but to support the other opposition party—the Alianza por Chile.

This analysis implies that the prospects for forming a business-supported party in Guatemala are extremely low. The degree of access to government has varied slightly according to the ideology of the president at the time but remained mainly the same over time. Most importantly, the left does not seem to have any prospects of revival in Guatemala, at least during the next decade or two. With a change in any of these two variables, the private sector will be forced to become fully involved in electoral politics. As long as the costs of investing in a political party are higher than those of investing in business associations, the private sector will stay away from political parties. Hopefully, the private sector's new interest in developing long term policies through FUNDESA and other think tanks will be translated into action, improving the lives of all Guatemalans.

To view all charts and tables, visit:
http://www.helvidius.org/2012/lemus

Endnotes

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11 Interview with Max Quirin November 16,2011; Interview with Salvador Paiz November 21,2011; Interview with Juan Luis Bosch, November 29 2011; Interview with Peter

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12 Mario Payeras, El Trueno en la Ciudad: Episodios de la Lucha Armada Urbana de 1981 en Guatemala, (Mexico: Juan Pablos, Editores, S.A. 1987).

13 Notice that the *y*-axis depicts the support of the private sector to any party; however, because of programmatic linkages, it is more likely that the support would go to a right wing party.

14 Dan Slater, Ordering Power : Contentious Politics and Authoritarian Leviathans in Southeast Asia (Cambridge ;New York: Cambridge University Press, 2010).

15 McCleary, Dictating Democracy, p. 135.

16 Dosal, Power in Transition, p. 114.

17 Carlos Montenegro Rios, Historia De Los Partidos Politicos En Guatemala. (2002).

18 Dosal, Power in Transition, p. 131.

19 Fernando Valdez and Mayra Palencia, Los Dominios Del Poder: La Encrucijada Tributaria. (Guatemala City: Facultad Latinoamericana de Ciencias Sociales, 1998), p. 48.

20 McCleary, Dictating Democracy, p. 45.

21 Salvadorean Foundation for Social and Economic Development (FUSADES) was founded in 1983 by a group of independent businessmen. Their objective was to influence policies to promote economic growth and social development (See FUSADES website).

22 McCleary, Dictating Democracy, p. 57.

23 The Christian Democrat Party of Guatemala was founded in 1955. It emerged as a right of center party with links to international Christian democrats organizations. In 1974, they presented Efrain Rios Montt as the candidate for the presidency. Although he won this election, the military performed electoral fraud. Later, the DCG would strengthen its links with social movements in Guatemala, especially with labor unions and student movements.

24 Despite coming from a traditional family, Rodolfo Paiz went against the interest of the organized private sector. They even asked for his resignation (Valdez and Palencia, 1998)

25 Valdez and Palencia, Los Dominios del Poder, pp. 134–135.

26 Valdez and Palencia, Los Dominios del Poder, pp. 148–153.

27 Valdez and Palencia, Los Dominios del Poder, p. 175.

28 McCleary, Dictating Democracy, p. 137.

29 McCleary, Dictating Democracy, p. 139

30 McCleary, Dictating Democracy, p. 135

31 Interview with Juan Luis Bosch, November 29 2011

32 Valdez and Palencia, Los Dominios del Poder, p. 363

33 Interview with Max Quirin, November 16, 2011.

34 Interview with Max Quirin, November 16, 2011.

35 Dinorah Azpuru, Juan Pablo Pira, and Mitchell Seligson, Cultura Politica De La Democracia Guatemalteca: 2006. (Guatemala City: Vanderbilt University-ASIES,2006), p.133

36 Interview with Peter Lamport, December 2, 2011.

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38 Interview with Salvador Paiz, November 21, 2011.

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