

Abstract

Since World War II the five historic Central American nations, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua, underwent a period of aggregate economic growth which was followed by a collapse of dramatic proportions. All five countries experienced an economic downturn in the latter 1970s which led to several years of declining GDP and GDP per capita, together with an economic and social disarray which is typically referred to as "la crisis" in Central American literature.

The intent of this study is to present an argument for the position that the economic collapse of the five Central American nations was due in considerable part to their failure to pursue economic development in a manner which would generate sustainable increase. Based on a conception of modern economic growth and the statistical studies of Simon Kuznets and others since the 1940s, a set of indicators was selected for the purpose of clarifying the structural transformation referred to as economic development. This formulation of economic development was then used to distinguish the process from the simple aggregate expansion known as economic growth.

The economic development indicators were also applied to the statistical records of two East Asian economies which were comparable in many respects to the Central American nations shortly after World War II. Both Taiwan and South Korea, like the nations of Central America, emerged from the 1940s as dominantly agricultural, dualistic, importers of manufactured consumer goods.

The development indicators clearly distinguish the records of the Central American nations from those of the East Asians. Whereas both Taiwan and South

Korea illustrate the expectations of structural transformation in economic development as defined by Simon Kuznets, the Central American nations obviously do not.

Conclusions are drawn that the policies which were followed by the two east Asian nations generated the complex structural transformation which characterizes an industrialized economy. The strictly market driven policies of Central America, on the other hand, generated simple aggregate growth for a number of years without a change in the structure of the economy. Thus the Central American economies were unable to maintain the growth of the earlier period.