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IRA CONTRIBUTION TO NIE 82-58

SUBJECT: NIE 82-58: THE OUTLOOK FOR GUATEMALA

THE PROBLEM

To estimate the outlook in Guatemala over the next few years, with special reference to political trends and prospects for Communist influence.

Review of this document by CIA has determined that

- CIA has no objection to declass
- It contains information of CIA interest that must remain classified at TS S 0
- Authority: HR 70-2
- It contains nothing of CIA interest

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DISCUSSION

I. BACKGROUND

A. The Land and the People

1. Since 1944 Guatemala has undergone major changes in the whole fabric of its national life. However, its problems continue to be affected by the traditional social, economic, and political patterns of the country. The inhabitants are racially and culturally heterogeneous; social and intellectual barriers separate the classes; an extreme disparity in opportunity and living standards exists between the upper and lower sectors of society; the wealthy class exhibits virtually no interest in the collective welfare of the nation; and many Guatemalans still prefer authoritarian rule to democratic self-expression.

2. Guatemala is a predominantly agricultural country whose area of 42,000 square miles is about equal to that of Tennessee. The population of approximately 3,500,000 is concentrated principally in the temperate highlands. Few people live in the tropical Pacific and Caribbean coastal regions, and the northern half of the country--the densely forested Petén--is virtually uninhabited. About 70% of the Guatemalans are illiterate, the bulk of them Indians who constitute over half of the population, are to a large extent non-Spanish speaking, and are virtually unassimilated in the political, social, and economic life of the rest of the populace. Almost 70% of the people reside in rural areas and over 75% of the labor force are agricultural workers.

3. The country displays most of the standard characteristics of under-development: a low level of per capita production; inadequate transportation,

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power generation, and provision for health and education; a shortage of skilled labor and of transferable savings; and an inefficient and cumbersome public administration. Moreover, Guatemala's financial status depends to a great degree on revenue derived from the export of a single commodity--coffee. Efforts to diversify the economy have been advanced during the past three years by official US financial and technical assistance, but are still hampered by the need for an expansion of transportation and power facilities. Other retarding factors are the limited internal market and the high concentration of income. The latter is illustrated by the uneven ownership of Guatemala's 9,300,000 acres of agricultural land. Approximately 60% is owned by large landholders other than the Guatemalan Government and the United Fruit Company, which hold 8% and 4% respectively. Small landholders own the remaining 28%. The large landholders, who comprise less than 2% of the total farm owners, frequently invest their profits abroad rather than in the development of the local economy.

4. Guatemala has made slow progress toward political maturity. The country has faced serious handicaps in the form of racial differences, an underdeveloped economy, and a lack of farsighted political leadership. Since the achievement of its independence in 1821, Guatemala theoretically has had a republican form of government; in actual fact, however, Guatemalans have had very little opportunity for democratic expression. There has been no broad, politically articulate electorate to guide practice and enforce political responsibility. In a potential electorate of approximately 1,000,000 voters, there are probably not over 200,000 Guatemalans who are more than marginally politically conscious. Of this group, the

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large landholders have almost never taken a role in the administration of the country other than to exercise powerful pressures toward conservatism. Only in recent years has the growing but still very small urban middle class begun to acquire a voice in the determination of affairs.

B. The Revolution of 1944

5. Pressures for significant change--political, social, and economic--culminated in the movement known as the Revolution of 1944. Until 1944 the traditional Conservative and Liberal parties tended to draw their support from the landowners and the long-established commercial groups, respectively, but when in power usually served as the personal instruments of dictators. A fairly liberal constitution was adopted and some gestures toward economic and social reform were made during the period of Liberal Party ascendancy from 1871 to 1944. However, political realities remained essentially unaltered. The Revolution of 1944 challenged the old order through a leadership that was strongly influenced by the worldwide social and economic changes of the twentieth century. This movement was led by young patriots and opportunists, some of whom accumulated their ideas as exiles in countries where change--moderate or extreme--was already in force. Their intellectual orientation, combined with the bitterness felt toward the authoritarian regime of President Jorge Ubico (1931-44), provided the stimulus for a revolutionary movement that was to go considerably beyond the superficial character of the ordinary Latin American revolution. The Revolution manifested the aspirations of Guatemalans drawn largely from urban civilian groups: students, teachers, and writers, as well as other professionals and businessmen who had little reason to respect tradition.

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These groups were imbued with the vision of a new and great Guatemala.

6. The goals of the Revolution were set out moderately in the Constitution of 1945. Like other recent constitutions in Latin America, and elsewhere, the Guatemalan charter strongly emphasized the responsibility of the State with respect to economic and social matters and asserted its concern for the welfare of the underprivileged. It formulated ambitious economic goals; it spelled out extensive social reforms; it called for a more equitable distribution of the national income. It specifically provided for the protection of labor and for land reform. The document also included many classical democratic principles. It guaranteed private property and free enterprise and it stressed the value and dignity of the individual. It was replete with guarantees in support of political democracy and it attempted to limit the power of the executive by providing for a strong legislature, broad electoral reform, and political neutralization of the army. Freedom was the watchword of the new ruling group in Guatemala.

C. The Arévalo-Arbenz Era

7. The actual political experience of Guatemala during the first decade after 1944 contrasted sharply with the promise offered by the protagonists of the Revolution and by the legislation enacted. Moderation, which would have reflected the full and balanced political participation of an enlightened electorate, was rare. Although under President Juan José Arévalo (1945-51) implementation of the revolutionary program was slow, the militant and radical elements in political life received considerable encouragement. In the administration of President Jacobo Arbenz Guzmán (1951-54) the implementation of the program was more rapid and the more extreme political leaders

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strengthened their position in the government. The most decisive indication of this trend toward extremism was the prominence achieved by Communists and Communist sympathizers in the labor and agrarian reform movements, in the progovernment political parties, in the fabric of the government itself, and in intellectual circles. Communists even operated their own party openly. This extremist development was attributable in part to widespread ignorance of the dangers of communism and in part to the political expediency and Communist orientation of highly placed national leaders.

8. Communist operations were directed by a relatively small and loosely organized group. Its material resources were limited and its outside guidance was sporadic, indirect, and informal. The Communists skillfully restricted themselves to the legal framework of the Revolution, but within that framework, in the name of "progressivism", they emphasized the more extreme aspects of the revolutionary program and gained recognition as exponents of Guatemala's national aspirations. They successfully disguised their real political objectives in the tactic of the United Front.

9. The Communists quickly identified the potential and actual loci of political power in Guatemala and then concentrated their energies and resources upon controlling or influencing these. They gave early and consistent attention to the depressed and inarticulate population groups--urban and rural. These groups, if ever completely controlled, were the long-range guarantee of final political victory in a country where there was not the counterforce of a large and united middle class. For their immediate purposes, however, the top level control which the Communists early secured in the Guatemalan labor movement was important essentially because it attracted the interest, and then gained for them the support of the Chief

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Executive, the central source of active political power.

10. The Communists appealed to and found most of their dedicated members in new intellectual and professional groups. These groups were misfits in the traditional social structure. They were without the numerical and economic resources to stand alone politically, but were sufficiently articulate to be receptive to both local and foreign impulses for change. Though many of the middle sector came to recognize Communist penetration and to reject Communist ideology, they remained susceptible to Communist propaganda couched in nationalistic and democratic terms.

11. Contrary to the spirit of the law and the original objectives of the Revolution of 1944, the most important locus of political power during the Arévalo and Arbenz regimes came to rest with the President and an inner circle of professional politicians, intellectuals, and army officers. This group, through its control of patronage and the financial resources of the government, was able to buy security from the military, and to control the executive, legislative, and judicial branches of the government; it succeeded in maintaining a democratic facade by supporting loyal political parties which were unstable and largely unrepresentative in character. By frequently circumventing or violating the law, these regimes curbed political representation of the opposition.

12. Some sectors of the population did not occupy a decisive role in policy formulation. The military, which had exerted a powerful and at times determining influence in politics prior to the Revolution of 1944, was more a potential than an active force. It assisted the revolutionary government to power in 1944 and subsequently supported it, but, on the whole,

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remained aloof from political and economic matters. Although the economic and political power of the Catholic Church was sharply reduced during the period of Liberal ascendancy after 1871, exponents of the Revolution of 1944 clearly provided in the Constitution of 1945 for the elimination of the Church from politics. Furthermore, the Church had too few priests in relation to the total population to oppose effectively the trend toward radicalism. The large landholders consistently opposed the social and economic measures of the Revolution. Similarly, commercial and industrial groups for whom the Revolution held some appeal gradually cooled toward the Arévalo and Arbenz administrations as they became Communist-influenced.

13. By 1954 opposition to the Arbenz administration had become active and outspoken. Within Guatemala the government resorted to increasingly harsh measures to preserve order. Pressure was also brought to bear by exiles, particularly a group in Honduras under the leadership of Lt. Col. Carlos Castillo Armas. In June 1954 Castillo invaded Guatemala with a few hundred men--the military phase of what he termed the Liberation Movement. His force was favorably received by the citizenry, increased by several thousand volunteers, and aided by the apathetic resistance of government forces sent against him. Concerned over Communist influence in the government, top army leaders withdrew their support from Arbenz, whose regime gave way to a succession of military juntas.

D. The Castillo Regime

14. The government of President Castillo evolved from an agreement known as the Pact of San Salvador concluded on July 2, 1954 between Castillo and a representative of the junta then governing Guatemala. As a result of

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this pact, the liberation forces and the regular army were united and the junta was reorganized to include Castillo. Subsequently, he became "provisional" President of the Republic, then was confirmed as President by a plebiscite in October. In November he was inaugurated for a term which was to have lasted until March 15, 1960. A new Congress was installed on March 1, 1956, the same day that a new constitution was placed in force. Like the Constitution of 1945 after which it was basically patterned, the new organic law provided safeguards for civil rights and against a return to personalized government. It contained extensive yet to some extent less liberal provisions dealing with political, social, and economic relationships. Probably the most significant innovation was the granting to the Catholic Church of a number of privileges. These did not include the Church's desire that Catholicism be made preeminent as the State religion.

15. The Castillo administration adhered generally to a moderate course. In doing this it was beset by pressures from both the left and the right. On the left, many Guatemalans expressed a strong attachment for the democratic-nationalistic ideals of the 1944 revolution. Such sentiment existed principally among students, intellectuals, middle-class professionals, and the laboring and agrarian classes. A small number of Communists operating clandestinely exerted some influence among these elements. From the right, the administration was confronted with the strong conservative influence of the propertied classes, particularly the large landholders, and other rightist and moderately rightist groups.

16. Responding to pressures from the left, Castillo accepted the basic tenets of the Revolution of 1944 and many of the reforms which had been

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enacted by his predecessors. He found it convenient to maintain an association with the concepts of political democracy, social reform, economic progress, and nationalistic sentiment. At the same time, rightist influences were responsible for the modification of legislation such as that pertaining to labor organization and agrarian reform. Urban labor was permitted to reorganize, but its leadership was carefully screened and a central labor confederation was discouraged. The worst abuses of the Arbenz agrarian reform program were corrected and a revised system of land distribution instituted. Rightist pressures also contributed to a shift somewhat to the right of center in mid-1956 when the administration suppressed unauthorized student demonstrations and temporarily curtailed sharply the freedom of the press. By the year's end, however, Castillo had begun a campaign to correct the impression that his regime had shifted its orientation from a middle course. During the first half of 1957 he warned landholders against exploiting their labor, and his administration enacted minimum wage legislation designed to pave the way for correcting wage abuses against agrarian workers.

17. Although the Castillo administration governed more moderately than did the Arévalo and Arbenz regimes, it did not move significantly in the direction of achieving the articulate popular participation required to give reality to democratic processes. A single progovernment party, the Nationalist Democratic Movement (Movimiento Democrático Nacionalista -- MDN), dominated the country's political organization. Elections were so controlled that minority and opposition parties achieved few positions of importance. In the Congress, for example, the progovernment coalition

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controlled all the seats. Authority was concentrated largely in the hands of the President, who relied upon the armed forces for his principal support. While the right of free expression and other civil liberties were generally observed, the administration did not hesitate to employ restrictive measures, including martial law, during periods of emergency.

18. Opposition within Guatemala to the Castillo regime centered in labor, the peasantry, student groups, returned exiles, and ambitious politicians and military leaders who sought more rapid advancement. A small clandestine Communist Party also existed. While Castillo lived none of these elements displayed a capacity for offering a serious challenge to the security of his administration. Conspiracies and attempts against the government were discovered or dealt with before they assumed serious proportions. A potentially dangerous concentration of exiles including the principal Communist leaders was located in Mexico, but the activities of this group were limited by inadequate resources and close surveillance on the part of the Mexican Government. Various Communist and noncommunist exile groups were also active in Costa Rica and El Salvador; however, they were small in number, beset by factionalism, and restricted by the host governments.

19. On July 26, 1957 President Castillo was shot to death by Romero Vásquez Sanchez, a member of the presidential guard. Immediately after the assassination Vásquez tried unsuccessfully to escape, then committed suicide. Although extensive investigations have been conducted by the Guatemalan authorities, no clear motivation for the crime or connection between Vásquez and any other individual or group has been established. Vásquez appears to have been a procommunist fanatic who for many months had

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been consumed by an intense hatred of Castillo and his political policies.

E. The Interim Period

20. In accordance with the constitution, Castillo was succeeded by the First Presidential Designate, Arturo González López. His interim administration had the constitutional responsibility of arranging for the election of a new President within a four-month period. Accordingly, October 20 was designated for this purpose, as well as the regular election of deputies to replace one-half the members of Congress whose terms were expiring. During the preelectoral period, political rivalry and factionalism were greatly intensified. A resurgence of leftism including Communist activities took place. Widespread resentment existed among leftists because of the Castillo regime's moderate social and economic policies and repressive measures against opposition elements. Both noncommunist leftists and Communists expressed anew their strong interest in the democratic-nationalist goals of the Revolution of 1944. In August the leftist Revolutionary Party (Partido Revolucionario -- PR) was organized, but was denied legal status on the grounds that it was Communist-infiltrated. Incensed over this action, the PR supported rightist candidate General Miguel Ydígoras Fuentes of the National Democratic Reconciliation Party (Partido Reconciliación Democrática Nacional -- Redención). The presidency was won by Miguel Ortiz Passarelli, candidate of the government-sponsored MDN and a coalition of minor parties. This grouping also won the majority of deputy seats. After the defeat of Ydígoras, he instigated, with the help of PR elements and Communists, mob demonstrations which resulted in the intervention of the armed forces and their persuading the Congress to nullify Ortiz' election. Subsequently, the

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results of the balloting for deputies were also nullified and new elections set for January 19, 1958. Meanwhile, a military junta, which had temporarily replaced interim President González after his resignation following the October 20 balloting, gave way to the Second Presidential Designate, Col. Guillermo Flores Avendaño.

21. The interim Flores administration restored order and arranged for the holding of new elections. Although political stability was at first precarious because of factionalism among moderate parties and within the armed forces, it steadily improved as President Flores gained the confidence of civilian and military groups. He displayed firmness in dealing with crisis situations, particularly the threat of coups and of violence by PR extremists and General Ydígoras in the event the elections did not favor their cause. Toward the PR Flores adopted a conciliatory attitude. Supported by strong congressional, press, and public sentiment, he permitted the PR to register for the elections. Other actions by Flores favored the leftists generally. He authorized the return of many exiled supporters of ex-President Arbenz. Reentry was denied top Communists, but some returned illegally. Flores also relaxed the enforcement of anticommunist legislation.

22. By December three principal candidates were campaigning for the presidency: (1) Mario Mendez Montenegro of the PR; (2) Col. José Luis Cruz Salazar of the MDN; and (3) General Ydígoras of the Redención. The parties supporting these candidates, as well as several minor political organizations, also advanced slates for the congressional elections.

23. Mendez campaigned on a platform which promised the enactment of more comprehensive social and economic reform legislation. Specifically,

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this included expanding the organizational privileges of labor, accelerating the implementation of agrarian reform, and broadening the scope of secondary education. To the underprivileged classes Mendez promised housing, welfare, and other benefits. As a consequence, he attracted the support of workers who were resentful over curbs imposed upon them by the Castillo regime and the attempts of employers to reduce wages, eliminate overtime pay, and void other benefits achieved during the Arévalo-Arbenz era. Similarly, Mendez drew to the PR students, intellectuals, and professional men who were bitter over their loss of prestige and the interruption in the progress of the 1944 revolution. Moreover, as the PR gained political importance its lower echelons came to include a number of extreme leftists. Among these were some Communists and sympathizers who sought to use the PR as a front for their operations. Although aware of the presence of these elements, leaders of the PR made no attempt to expel them. At the same time, the Communists maintained their clandestine party. They covertly supported Mendez, but caused some disunity within the PR through disagreements with its basically anticommunist leadership. This divisiveness, inadequate finances, and organizational difficulties handicapped the PR considerably.

24. A strong supporter of the Castillo administration, Cruz advocated a continuation of its policies. These included moderate social and economic advances oriented about gradual agrarian reform, controlled labor organization, expanded rural education, and diversified industrialization. His platform also pledged to safeguard private enterprise, maintain friendly relations with the United States, and combat communism. With this middle-of-the-road approach, Cruz hoped not only to attract moderate support but also to reconcile divergent interests of the right and left. However,

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leftists regarded Cruz' objectives as too limited; rightists considered them as too liberal; and many moderates resented the past actions of the MDN. Furthermore, Cruz was handicapped by not being well-known in many parts of the country.

25. Ydígoras set forth a varied program and reflected his ability to appeal to diverse social and political groups. Propertied elements including planters, industrialists, and businessmen were attracted because of his promises to favor their interests by governing firmly, adhering to sound economic policies, dealing sternly with Communists, and suppressing labor agitators. At the same time, many among the underprivileged classes apparently were convinced by Ydígoras' statements that he was not a rightist, that he would adhere to the basic tenets of the 1944 revolution, and that he would not be an oppressive ruler of the Ubico type. These poorer people, who were acquainted with his name because of his participation in previous presidential campaigns, also respected his personal prestige, his reputation as an efficient administrator, and his symbolism as a caudillo, or strong man. Perhaps the greatest attraction that Ydígoras held for voters was his vigorous opposition to any efforts by the interim Flores administration to favor, as the preceding González regime had done, the progovernment MDN. Almost as important was the belief held by a large number of voters that Ydígoras represented the law and would restore stability.

26. During the electoral campaign the fundamental issue was the extent to which the social and economic goals of the Revolution of 1944 were to be implemented. Since the three major candidates accepted and endorsed the basic tenets of the revolution, their platforms differed more in emphasis

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than in substance. To a considerable degree, a similar situation prevailed with regard to the attitude of voters. Generally, those who desired to recover gains made during the Arévalo-Arbenz era and to implement reforms more energetically than they had been by Castillo supported Mendez and the PR; those who approved the moderate course adhered to by Castillo supported Cruz and the MDN; and conservatives who were opposed to reform and individuals of all classes who valued order above progress supported Ydígoras and the Redención.

27. In the presidential election held on January 19, 1958 the balloting proved inconclusive since no candidate received the absolute majority of votes required by the constitution. Under such circumstances, the obligation devolved by law upon the Congress to name as President either the candidate who received the plurality or his closest competitor. Accordingly, the Congress appointed a special commission of deputies to recount the ballots. The results showed that Ydígoras received 190,972 votes, or 39% of the ballots cast. In second and third places, respectively, were Cruz with 138,488 votes or 28%, and Mendez, who polled 132,824 ballots, or 27%. The remainder of the ballots were received by Col. Enrique Ardón Fernández (1%) or were declared invalid (5%). With these results before it, the Congress chose Ydígoras over Cruz by 40 to 18 votes. Seven of the 66 deputies abstained from voting and one was absent.

28. In selecting Ydígoras the Congress was influenced perhaps decisively by a pact that he had signed with Cruz on January 27, 1958. Unofficial returns received immediately after the January balloting indicated that Ydígoras had received a decisive plurality, but his election was by no means

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assured since the final decision had to be made by the Congress. In that body the large majority of deputies were members of the MDN and strongly pro-Cruz in sentiment. Legally they could have selected Cruz should their count of the ballots show that he had won second place, as seemed highly probable, but to do so would have involved the risk of violence. Ydígoras threatened to use force if he were denied the presidency, and the possibility existed that extremist PR elements and Communists might exploit an outbreak. Such an eventuality would have repeated the experience of the preceding October. Despite the fact that the January elections had been conducted in a reasonably impartial manner and without serious incident, stability subsequently remained uncertain because of intense political rivalry and factionalism within the armed forces. Thus a desire to avert civil strife, particularly on the part of Cruz, was primarily responsible for the conclusion of an agreement.

29. At the same time, other factors motivated Ydígoras and Cruz. Cruz desired, if defeated, to gain something for the MDN and his supporters. Both candidates recognized weaknesses if elected in their individual positions. Not only would each have had to face the opposition of the other, but of strongly resurgent leftist forces led principally by the PR. Neither could have been certain of strong support within the military, the key to eventual political stability. Ydígoras, furthermore, would have had to face MDN control of the Congress for at least the first two years of his administration. In view of these major considerations the two men and their party leaders agreed to respect the choice of the Congress, to form a government with the participation of centrist and rightist parties, to support free unionization in accordance with existing labor legislation, to respect the nonpolitical

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character of the armed forces, and to refrain from acts of vengeance.

Although the pact made no mention of the fact, it in effect marked the withdrawal of Cruz from the contest. The MDN deputies, therefore, were free to vote for Ydígoras.

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II. PRESENT POLITICAL SITUATION

A. Composition of the Ydígoras Government

30. President Miguel Ydígoras Fuentes has been characterized variously by relatively impartial observers, but the majority concede that he is a conservative. At the same time he is an opportunist who attempts to be all things to all people. He is vigorous and capable of displaying firmness even to the point of harshness. As an administrator he possesses ability, but is handicapped by the fact that his experience has been primarily in an area of force rather than persuasion. Born of upper-class parentage in 1895, Ydígoras has had a varied career as a soldier, statesman, and diplomat since graduating at the head of his class from the Guatemalan Military Academy in 1915. He has served in various military positions, as a departmental governor and highway director under Ubico, and as a diplomat. In 1950 he ran unsuccessfully against Arbenz for the presidency. Also a graduate in engineering from San Carlos University, Ydígoras is well read, a good but verbose conversationalist and public speaker, and speaks some English and French. He is married to Maria Teresa Laparra and has two children who are graduates of United States universities. Although a pro-Nazi during the early part of World War II, Ydígoras since 1943 apparently has been sincerely pro-United States.

31. In designating his presidential staff, Ydígoras surrounded himself with former officials of the Redención. He appointed as Secretary General of the Presidency Victor Ramiro Flores C., as Private Secretary Dávila Córdova, and as Secretary of Information Mario Zirión Lara. During the electoral campaign, Córdova, a conservative, had been Secretary General

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of the Redención, while Flores and Zirión, both moderates, had been Vice Presidents. The only nonparty appointment was that of Alejandro Micheo Alejos, an extreme leftist, to be Subsecretary.

32. Contrary to a provision of his pact with Cruz, Ydígoras did not form a conciliation government. The large majority of ministers and their subsecretaries are members of the Redención or close friends of Ydígoras. While some have no party affiliation and several are members of minor political organizations, only three appointees belong to other major parties. One minister and one subsecretary are members of the MDN; another subsecretary belongs to the PR. The political orientation of almost all these officials is conservative. Probably a majority are comparatively unknown and inexperienced in public administration, but appear to possess reasonable competence.

33. Among the conservative ministers are Arturo Paiz Bolaños, the capable highway engineer who heads the Ministry of Communications and Public Works; Dr. Mariano López Herrarte, a respected physician and Yale-educated insurance company president serving as Minister of Public Health and Social Welfare; and Col. Marco Aurelio Mérida, the well-regarded Minister of Public Education who has served as a diplomat and congressman. Other conservatives are Hernán Morales Dardón and José Guirola Leal, the Ministers of Government and Economy, respectively, who are former officials of the Ubico regime and well-respected but somewhat limited in their capacity to plan broadly. Still another conservative is Carlos González Siguí, the Minister of Labor, who is reportedly dishonest, incompetent, and lacking in a knowledge of labor matters. Col. Roberto Lorenzano Salazar, who supports

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Ydígoras but is apparently a leftist, is the temporary Minister of Defense. He showed ability in this same office under the interim Flores administration. Enrique García Salas, the Minister of Agriculture who is a member of the MDN, is an experienced and able agriculturalist. The Minister of Finance, Carlos Salazar Gatica, is a close friend of Ydígoras who also supported Castillo's Liberation Movement and served as his first Minister of Foreign Relations. He lacks ability. A moderate leftist, Carlos García Bauer, heads the Ministry of Foreign Relations. Probably the ablest member of the cabinet, García was formerly Guatemala's Permanent Representative to the United Nations, a deputy in the Congress, and a professor in the University of San Carlos. Although not a member of the cabinet, Col. Enrique Peralta Azurdia occupies a position of virtually the same importance as Director General of Agrarian Affairs. A widely popular and highly capable officer who has served as a military attaché and ambassador in several countries, Peralta is a moderate rightist who since 1944 has been mentioned frequently as a presidential possibility.

B. Supporting Groups

34. As President, Ydígoras faces the problem of heterogeneous and weak organizational support. In the 66-member Congress, the Redención controls only 16 seats and has the possible support of 12 deputies who are either independents or belong to minor parties. This weakness undoubtedly influenced Ydígoras to invite the MDN, which has 22 seats, to work with the Redención. While there has been some tendency for MDN deputies to climb on the Ydígoras bandwagon, this has not reached proportions sufficient to give the President control of the Congress.

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35. In addition to its minority position in the Congress, the Redención is not an effective organization in many places except Guatemala City. Even in the capital the Redención is favored by the traditionally conservative orientation of the electorate and the very intense feeling against the MDN. The failure thus far to make Redención an effective nationwide organization is attributable primarily to its rightist orientation, a paucity of experienced leaders, and the fact that MDN members still hold top political positions in many communities. The prospects for Redención's increasing its popular base are not bright. Some Redención leaders envision a merger with the MDN, but there is no indication that MDN leaders desire such a union and few members of the party have defected to Redención.

36. Offsetting somewhat the weak organized political support available to Ydígoras is the solid backing of rightist nonpolitical groups. Foremost among these are landowners', industrialists', and businessmen's organizations. Probably the most important is the General Association of Agriculture (Asociación General de Agricultores -- AGA), which for more than half a century has been composed principally of the economically powerful finqueros or large landowners. Since the Revolution of 1944, the AGA has expressed strong opposition to many of the social and economic measures advanced by succeeding administrations. Labor policies, in particular, have been attacked consistently. A similar reluctance to recognize the fact that the years since 1944 have wrought any basic social and economic changes in Guatemala characterizes the attitude of industrial and commercial interests. These have devoted their principal activities to securing

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protection for national products from foreign imports or seeking other special advantages. In return for supporting Ydígoras, these groups will expect his administration to adhere to a generally conservative course. The pressures which they can exert are powerful, but probably not nearly so convincing in terms of political realities as the forces which an aroused left could bring to bear.

37. Although the Catholic Church favored Cruz during the presidential campaign, it has indicated that it will support Ydígoras now that he is President. It has no sympathy for the resurgent left, which it fears might reimpose the curbs of the Arévalo-Arbenz era. Ydígoras is reportedly a strong advocate of the separation of Church and State; however, he has evidenced no intention of tampering with the present position of the Church. As a pressure organization, the Church is only slightly more influential than it was prior to the recovery of privileges during the Castillo regime.

38. The armed forces have demonstrated an increasing willingness to support Ydígoras for at least the immediate future. Prior to the January elections the military was beset by factionalism. The possibility existed that a split would occur between adherents of Ydígoras and Cruz--neither commanded a large following--in favor of the latter. While this divisiveness has not disappeared, it has abated to the point that it does not pose a serious threat to stability. Since the elections the majority of officers have shown a willingness to adopt at least an attitude of watchful waiting toward Ydígoras. This unifying trend has developed because of Ydígoras' success in winning the presidency, the tendency of the military to be responsive to public opinion, and the common opposition of both

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Ydígoras and the military to a resurgence of extreme leftism. After reviewing the army on February 28, Ydígoras made a speech in which he promised to maintain an effective military establishment. In previous statements he had indicated that he would improve the economic position of the officer corps.

C. Neutral Groups

39. Within the Congress there are a few deputies who classify themselves as independents. Almost all of these are members of minor political organizations which have very little popular support. Even collectively these deputies do not have the capability of acting as a balance of power between the Redención and the other major parties.

40. The MDN also regards itself as a neutral organization. On February 28, 1958, its leaders published a statement declaring that the party was independent and that it was in no way bound by the Cruz-Ydígoras pact. Except for the support that MDN deputies gave Ydígoras in selecting him for the presidency, the majority have tended to adhere to the party line. Thus, MDN deputies joined ranks in electing the president of the Congress and three of its other five principal officers when it was reorganized for the present one-year period. Only the first vice president is a member of Redención. Similarly, the MDN and PR deputies united against the Redención and its supporters to pass a recommendation that President Ydígoras sever diplomatic relations with the Dominican Republic. While this action was taken partly because of intervention in Guatemalan affairs by the Dominican Government, it was also motivated by the belief that Ydígoras had accepted assistance from Generalissimo Dr. Rafael Leonidas

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Trujillo during the presidential campaign and would be embarrassed no matter how he reacted to the recommendation.

41. As a political organization the MDN is declining in importance. It is losing members, particularly in rural communities, to the PR. One highly competent observer has predicted that this trend may eventually include 70% of the MDN's enrollment. Cruz himself has expressed deep concern over this development and the opinion that the majority of MDN members will join the PR. In an effort to prevent further defections and regain public confidence, leaders of the MDN in March effected some changes including the designation of a new secretary general.

D. Opposition Groups

42. Although the PR has only six deputies in the Congress, it is rapidly developing into the principal opposition force to the Ydígoras administration. The party is very strong numerically. Geographically, its membership is greatest on the coasts, in the piedmont zone, and along the railroad which connects Guatemala City with the Atlantic and Pacific. It is weakest in the predominantly Indian highlands. The heterogeneous composition of the PR includes all elements of the left ranging from the mildly socialistic to the militantly communistic. However, the majority are moderately leftist in political orientation. A large part of the PR's support comes from groups which were favorably affected by the labor and land reform programs of the Arévalo and Arbenz governments. The leaders of the PR are chiefly lawyers and other professional men who played a major role in shaping the initially moderate course of the Arévalo regime.

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43. Since the January elections the PR has made significant gains in several directions. Largely as a result of its conduct during the electoral campaign, the PR has gained the respect of probably a majority of the articulate electorate. It has been the subject of laudatory comment by the independent press, which has the largest circulation in the country, and by even conservative newspapers. The party has received substantial accretions to its membership, particularly from the MDN. Furthermore, the PR has made progress in developing close ties with organized labor. Two of its deputies, who are members of the Labor Committee of the Congress, are acting as legal advisers to labor unions of the United Fruit Company and the International Railways of Central America.

44. The principal problem facing the PR is the maintenance of internal unity. Thus far, the diverse elements comprising the party, have subordinated their individual objectives in an effort to give the resurgent left a respectable status. However, as the PR faces its first national convention in June, the extreme left sector is maneuvering to gain a place on and, if possible, control of the directorate. Meanwhile, moderates now in control of the PR are aware of this threat and are considering a purge of at least the Communist group.

45. Toward the Ydígoras administration the PR is adhering to the role of a responsible opposition which champions the interests of the masses. Leaders of the PR doubt that Ydígoras is sincere in claiming to be a moderate and are very suspicious of his rightist supporters. They fear that the regime will adopt a reactionary and dictatorial policy designed to curb the PR's growing influence. At the same time, these leaders

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realize that they must avoid rash actions in order to preserve their gains and improve the party's position for the 1959 congressional elections.

46. The principal minor political organization in opposition to the Ydígoras administration is the Guatemalan Christian Democratic Party (Partido Democracia Cristiana Guatemalteca -- DCG). While the orientation of its membership is moderate and to some extent conservative, the party stands for social reforms to which its leaders assume Ydígoras is opposed. Significantly, the DCG has nine deputies in the Congress.

E. Labor and Rural Groups

47. The Guatemalan working class was more adversely affected than any other group by the "Liberation" of June 1954. After having been favored by the government for a decade, the workers suddenly ^{found} ~~formed~~ themselves the object of official mistrust and suspicion. Under the Castillo regime organized labor was placed on the defensive by government policies restricting and controlling the workers. In response to antilabor sentiment among its backers, the administration initially denied labor a juridical position and froze union funds. Labor leaders attempting to reconstitute their unions met with administrative delays and often were discharged or even arrested. Although labor made modest gains during the latter part of the Castillo regime, many workers continued to feel that they had been better off under Arévalo and Arbenz.

48. The position of organized labor remains weak. Only about 25,000 workers belong to trade unions--less than a third of the membership which they had in 1953 and early 1954. Employers take advantage of the fact that employees no longer have the right to reinstatement, if unjustly dismissed,

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by ridding themselves of union leaders and prounion workers. Efforts to rebuild the labor movement are impeded by the virtual ban on rural labor organizations and the prohibition against unionizing government employees. As a whole, the workers are cynical and distrustful, feeling that real unions disappeared with the Arbenz regime. Moreover, the workers have little faith in the labor courts which they are convinced enforce the laws in a manner favorable to the employers. The majority of labor leaders, who have come to the fore since the fall of Arbenz, are self-appointed and speak chiefly for themselves or for the political interests which use them.

49. The majority of workers favor the PR, which is making a determined effort to win the support of key unions by offering them legal advice and by championing their interests in the Congress. Such an attitude on the part of labor contrasts with its hostility toward the MDN. As the dominant proadministration party during the Castillo regime, the MDN was unsuccessful in developing worker support and contributed to the disruption of the labor movement. Similarly, the ORIT accomplished little in its efforts to foster a "democratic" reorganization of trade unions. This lack of success by both the MDN and the ORIT was attributable partly to the belief of the workers that these organizations were associated with the antilabor elements responsible for the formulation of the Castillo administration's policies, and partly to the ineptness and inexperience of labor leaders.

50. Immediately after the fall of Arbenz, the Catholic Church was instrumental in the founding of a social Christian labor organization, the Autonomous Sindical Federation (Federación Autónoma Sindical -- FAS).

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Due largely to anticlerical sentiment among the workers and the ties of its leader, Luis Felipe Balcárcel, to the Castillo administration, FAS failed to attract or hold an important segment of Guatemalan labor. Today it is little more than a phantom group on the verge of liquidation as the aftermath of abortive MDN maneuvers to take over the organization. Recently Communists and sympathizers have been elected officers of the FAS.

51. In 1955 a new trade union center, the Guatemalan Union Council (Consejo Sindical de Guatemala -- CSG), was established as an ORIT affiliate. In spite of the constructive influence of ORIT, the CSG has not grown into an organization which can claim to represent a major segment of the Guatemalan working class. Nevertheless, it does represent a small group of relatively well-established trade unions possessing a moderate outlook. Although it has suffered from friction with the MDN and the late President Castillo, the CSG has so far avoided serious internal dissension or any taint of Communist influence.

52. The most important labor organization is the Railway Workers' Union (Sindicato de Acción y Mejoramiento de los Ferrocarrileros -- SAMF), which is the country's largest union with 5,000 members. The SAMF's control over the nation's most important transportation system and the controversial status of the railroad company give this union a unique political status. Having resisted the efforts of MDN agents to take it over, the SAMF is now aligned with the PR.

53. Labor is generally pessimistic over its prospects under the Ydigoras administration. Although intended to be conciliatory, the President's statements on labor policy have not been wholly reassuring to

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labor leaders. Many of his backers have adopted antilabor attitudes and expressed their beliefs that "the General" will "take no nonsense" from labor. On the other hand, Ydígoras' backers also include a number of employers who are regarded by labor as examples of enlightened management, and who express confidence that Ydígoras' social views were greatly broadened by his travels abroad.

54. The skepticism of the working classes toward Ydígoras has been increased by his selection of a poorly qualified conservative to be Minister of Labor. Moreover, labor views the efforts of Ydígoras to attract its support with less enthusiasm than might otherwise be the case because of certain actions by the interim Flores administration. The latter's sponsorship of the long-awaited Public Employee's Statute and establishment of a Council on Social Policy were favorably received by labor. Both of these measures tie Ydígoras' hands and reduce his opportunities for taking actions calculated to appear more understanding of labor's problems than were the policies of the Castillo regime. Consequently, whatever Ydígoras does for labor will be viewed largely as a continuation of Flores' policies. Further, any hesitation by Ydígoras in implementing the measures initiated by his predecessor will be construed as evidencing a lack of interest in the workers' problems.

55. Like the laboring classes, rural groups are oriented to a considerable extent toward the PR and away from the MDN and Redención. This situation results from factors analogous to those which have affected labor. Rural groups first entered the political arena through the agrarian reform program of the Arbenz regime. Peasants were settled on land which belonged

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to the government or had been expropriated from private owners, in some cases after it had been seized by landless elements. The government retained the title to this land, but gave the peasants lifetime use and their heirs priority in applying for continued use. Although these and other benefits were illusory, the program responded to a genuine rural demand and need. It also won much political support for the Arbenz regime.

56. When Castillo came to power, he yielded to pressure from the private landowners and restored their expropriated land to them. However, he was seriously concerned over the consequences of such a policy and used land relinquished by the United Fruit Company, together with US financial and technical assistance, to institute a modified agrarian reform and resettlement program. This gave the peasants small but economically sufficient plots of land in fee simple, and provided government credit for the construction of a house and operating expenses through the first harvest. It also provided agricultural experts to guide the peasants in efficient land utilization. This same program was continued by the interim administrations and Ydígoras has not indicated that he will make any changes other than to broaden its scope through a more extensive utilization of nationally owned land. While the majority of beneficiaries appear to be satisfied with the modified agrarian program, some regard it as too limited and rigid. Those peasants who are still landless are especially discontented and feel, in many instances, that they would have been taken care of if the Arbenz program had not been changed.

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F. Communism

57. The PGT contains possibly 400 members and can count upon 1,500 to 2,000 sympathizers. The party's greatest strength lies in its leadership and a cadre of about 100 dedicated, indoctrinated, and relatively well-trained militants. It has made steady, if unspectacular, progress in rebuilding at the grass roots level and has had some success in infiltrating the students' associations particularly in the schools of law and humanities at the University of San Carlos, in secondary school faculties, and in the lowest levels of the bureaucracy. There are no known Communists and only a few sympathizers who hold influential positions in the Ydigoras administration or the leadership of the legal political parties.

58. In an effort to regain an important place in the nation's life, the PGT is focusing its attention upon infiltrating labor organizations. A unique opportunity exists in this area since the labor code permits the election of Communists to union offices, and the PGT possesses a virtual monopoly of experienced labor leaders and organizers. As a rule, these leaders and organizers remain in the background and work through comparatively unknown party members and sympathizers in the unions. Several Communists and sympathizers have reached positions of influence in the FAS. They are also making steady headway in other organizations.

59. The capabilities of the Guatemalan Communists are currently limited and their importance is more potential than actual. At the present time they can do little more than capitalize upon unpopular actions of the government, exploit ultranationalist and anti-Yankee sentiment, and strive to infiltrate the much larger and politically more important noncommunist

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leftist organizations. However, in a deteriorating economic and still unstable political environment there are restless and dissatisfied groups which are receptive to Communist proposals.

60. In keeping with their capabilities, the goals of the PGT are limited. The Communists desire the establishment of a government which would permit the development of "popular and democratic forces" and the free organization of labor. The PGT leaders are agreed that the best prospect of improving their present position is to gain control of the PR and convert it into the "militant and revolutionary expression of the popular masses". This infiltration would begin at the local level and endeavor to undermine the PR's "reactionary" leadership. Success in this undertaking will depend largely upon securing control of a reorganized labor movement and effecting cooperation with the Arbencistas. The thousands of Guatemalans who were active in the labor and agrarian movements during the period 1952-54 constitute an important reservoir of potential support.

61. If thwarted in their efforts to gain a dominant position in the PR, the Communists and their allies threaten to split away its left wing and form a new party. The danger that such a party could not win legal recognition has acted as a deterrent, although the Communists have explored the possibility of converting the Revolutionary Unity Front (Frente Unidad Revolucionario -- FUR) into an independent party. At present the FUR is little more than a skeletal organization of the Communists and their sympathizers within Guatemala. A decision by the Communists to convert the FUR into a legal party would probably be made only in the event the

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moderate leadership of the PR decided to purge the party of Communists and sympathizers.

62. The Guatemalan Communists have received aid from Mexican Communist and procommunist groups as well as from the Soviet bloc missions in Mexico City. The Soviet Embassy has furnished financial assistance and arranged for trips to the Soviet Union for training and medical treatment. In addition, the USSR has granted handsome scholarships for study in Moscow to the children of Charnaud MacDonald, the most prominent Arbencista leader in Mexico. The Mexican Communists have helped the Guatemalan exiles find work and have interceded in their favor before government authorities.

63. Anticommunist legislation permits the government to take effective action against the Communists, particularly in time of emergency. The constitution prohibits the organization or functioning of political parties which advocate the Communist ideology and provides that "every Communist act ... is punishable" by law. The Preventive-Penal Law against Communism (Decree 59) outlaws communism in all its forms and enumerates a large number of specific Communist acts which are punishable by prison terms of from six months to 10 years. In addition, the constitution provides that in case of threats to the security of the State certain guarantees can be suspended and that an emergency Law of Public Order, which confers special powers upon the executive, can be invoked. The principal weakness of these measures is that they do not define communism clearly. Consequently, the courts have difficulty in reaching decisions in apparently well-documented cases. To avoid delays, the Castillo regime resorted to the exiling of Communists rather than to prosecuting them legally. Recent court rulings

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severely limit the authority of the executive to exile even Communists.

64. The principal responsibility for protecting the country against Communist activities is vested in the General Office of National Security (Dirección General de Seguridad Nacional) and its subordinate agency, the Section for Defense against Communism (Sección de Defensa contra Comunismo). These agencies coordinate their operations with the National Police (Policia Nacional), the Secret Police (Guardia Judicial), and the Border Patrol (Guardia de Hacienda).

65. In discharging their duties against Communist activities, the security and police agencies often have been arbitrary, incompetent, and overzealous. They have been particularly ineffective since the abortive elections of October 1957. While this has been due partly to the consequent political instability, it has also resulted from actions of the government which have undermined public confidence in the security and police agencies. For example, the Flores administration reversed a decision by the González regime that 1,000 members of the PR were on the government's list of Communists, thus revealing that the law enforcement agencies had become mere tools of the politicians. Ydígoras is attempting to restore public confidence and improve efficiency. He has appointed new heads of several agencies, and is devising plans for a broad functional reorganization.

66. A further factor which limits the effectiveness of anticommunist legislation is an increasingly adverse public opinion. For several years Guatemalans have shown disapproval and even ridicule for the manner in which laws pertaining to communism have been enforced. Recently, there have been strong indications that a considerable sector of the population believes

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that persons accused of being Communists or sympathizers are the victims of smear tactics and, more importantly, that the country does not face a Communist problem of any significance.

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III. PRESENT ECONOMIC SITUATION

67. The Guatemalan economy includes two almost independent sectors-- one tied to international markets for Guatemalan exports and the other a subsistence economy. Agricultural production for export has prospered in the postwar period and at the same time the urban economy has undergone an expansion. A continued rise in volume and value of agricultural output contributed greatly to an 80% rise in real gross national product between 1954 and 1957, to a level estimated at about \$700 million (about \$200 per capita) in current prices. Despite this expansion, Guatemala continues to be an underdeveloped country. The market for domestically manufactured products is small even in the cities because of the high concentration of income in a limited number of households.

68. Since 1954 the Guatemalan Government has followed policies designed to speed economic development over a wide front, with encouragement to private capital as well as the use of government funds and foreign grants, loans and technical assistance. These new policies have given an impulse to many sectors of the economy, including agriculture, industry, mineral production, and transportation. Guatemala's economy is the strongest in Central America, and its prospects for future development the most promising.

69. A few key crops contribute the great proportion of total output in Guatemala's agricultural sector. In 1957 coffee, bananas, and cotton formed 95% of exports. Corn provides the chief staple of the local diet. Agricultural exports are largely produced under a plantation system. Government holdings include one-quarter of all coffee lands and produce 12% of total coffee exports. The United Fruit Company has sizable properties in

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banana areas: the company's production and its local purchases account for two-thirds of banana exports, which in turn represent 15% of total exports. Small farms typically produce foodstuffs for subsistence and local sale. The government has distributed land to 16,000 rural farmers under an agrarian reform law of January 1956. This program, and the provision of technical and financial assistance to small farmers, is helping to expand the agricultural middle class.

70. Like most raw material exporters, Guatemala has enjoyed a postwar surge in world prices for its exports. In the last dozen years it has continued to market its coffee and bananas largely in the United States and has enjoyed favorable terms of trade. Export values increased from \$37 million¹ in 1946 to \$105 million in 1954 and to about \$120 million in 1957. Coffee production reached bumper levels in 1956 and 1957, with an annual crop of about 165 million pounds, and represented three-quarters of 1957 exports. Prices for the premium-grade Guatemalan coffees, at a new peak of 73 cents per pound in 1956, receded to 51 cents in late 1957, but at that lower level were still three times 1946 prices, and substantially above cost of production. In late 1957 the government-sponsored Guatemalan membership in the Mexico City Coffee Pact, under which it plans to hold off the market coffee produced from government farms in an effort to strengthen world prices. Guatemala's other major export crops--bananas and cotton--also benefited from favorable conditions in 1956 and 1957. Corn, which is grown throughout the country on subsistence farms yielded

1. The Guatemalan quetzal is freely convertible and has been at par with the US dollar since 1924.

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bumper crops in 1956 and 1957, which were almost sufficient to cover rapidly increasing urban demand, as well as subsistence needs.

71. Though over 60% of Guatemala is forested, there has been little development of timber resources. Most of the forests are government-owned, including the entire Petén area. Under a basic forestry law passed in 1956, commercial exploitation has been almost entirely discouraged by the capital requirements involved in the size of forest zones offered for exploitation (5,000 sq km minimum), and the stipulation that a lumbering operation include the building of towns, roads, churches, and hospitals in addition to normal conservation practices. Furthermore, long outstanding claims against the government by various investors who previously attempted lumbering operations on government lands discourage both operators with Guatemalan experience as well as potential new investors. At present most of the lumbering operations are carried out on private land with products destined for local construction and fuel uses.

72. Guatemala's mineral resources have not been explored or exploited to any significant extent. In a climate favoring foreign investment since 1954, foreign companies have taken up petroleum concessions in northern Guatemala, leasing all of the Petén and portions of Verapaz and Izabal. Other foreign companies have laid plans to exploit various metal deposits, and the production of lead and zinc has already assumed some importance. The value of Guatemalan mineral resources remains to be proven and they do not offer a means of increasing exports in the near future. Over the long run, however, they promise to help increase and diversify production and exports.

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73. Industry in Guatemala is largely confined to processing agricultural commodities and producing simple consumer goods. Since 1954 industrial activity has expanded rapidly in response to favorable government policies, including tax and customs privileges. New investment has included some foreign capital, notably a tire factory. Thus far, however, the opportunities for industrial employment have not kept pace with the growth of the urban population, and the growth potential of industry remains limited by the restricted local market. If integration of the Central American economies is undertaken, an additional market for some industries may open up.

74. The development of Guatemalan resources has been hampered by inadequate transportation facilities. Until recent years the transportation of bulk commodities was largely limited to the lines owned by the International Railways of Central America (IRCA), which were built to service the needs of banana and coffee producers. Since 1954 the government, with US aid, has pushed the construction of highways begun under the Arbenz regime, and has further developed a national road network. The major links in this program have been the Inter-American Highway (Mexican border to El Salvador border), the Atlantic Highway (Guatemala City to Puerto Barrios), and the Pacific Coastal Highway (Guatemala City to the Mexican border). These routes are now passable over most of their extent on an all-weather basis. With this expansion of the highway system and the construction of feeder roads, an important step has been taken to integrate the national economy, to lower the costs of agricultural production, and to permit increase and diversification in national output.

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75. Since the war Guatemala has suffered from an increasing shortage of electric power. In Guatemala City the major source of power is the Empresa Electrica, a local subsidiary of the American and Foreign Power Company, which has survived years of public and government hostility. Government-owned facilities serve the Quezaltenango-Mazatenango area west of Guatemala City. In rural regions and small towns there is very little power available, though in some locations small municipal plants or private units service limited areas. Guatemalan Governments in the postwar period sought to limit expansion of Empresa Electrica, but since the government did not provide alternate power facilities much demand in the capital remained unsatisfied. A new concession contract was signed by the Empresa Electrica in the last days of the interim Flores administration, and if ratified by the Guatemalan Congress may provide the basis for important new investments by the company.

76. Since 1954 funds and assistance for Guatemalan development have been drawn from a variety of sources--public and private, national and foreign. They have taken the form of direct investment, loans, grant aid, and technical assistance. The Guatemalan Government in 1957 spent \$40 million of its own resources on capital improvements. US grant aid, of which about 60% was invested in highway construction, totaled over \$18 million, bringing US grant aid since 1954 to more than \$43.5 million. The IBRD disbursed over \$11 million of an \$18 million highway loan in 1956 and 1957. Guatemalan citizens increased their domestic investments sharply during the Castillo period, reversing the heavy flight of capital which took place under the Arbenz regime. Total new private foreign investments, which

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increased rapidly after 1954, reached a high level in 1957, with an estimated investment of \$12 million in that year.

77. The three US companies that until recently accounted for virtually all US capital in Guatemala--United Fruit, IRCA, and the Empresa Electrica--invested about \$4 million in 1957. Investments by the Empresa Electrica would probably have been much larger had the Guatemalan Government adopted a policy making possible expansion of the company's service to satisfy all demand in its service area. The IRCA's expansion potential was reduced in 1957 by the competition of truck transport along the parallel Atlantic Highway. At the end of 1957 the IRCA suffered a damaging strike, and in early 1958 was sued by the interim government for special taxes assessed by the Arbenz regime. The difficulties experienced by the above US firms have not deterred other US interests from making new investments in Guatemala. These have included a tire factory, a \$3 million investment by mining companies, the establishment of a branch of the Bank of America, and expenditures on petroleum exploration beginning in 1957. Over nine million acres of land are held for petroleum exploration by major US firms such as Standard Oil of New Jersey, Standard Oil (Ohio), Tidewater, Union Oil (California), and Amerada, in addition to a number of smaller companies. By mid-1957 company expenditures were running at a rate of \$1 million a month for the initial exploratory phase, with about half this amount spent for labor, supplies and taxes in Guatemala. With the continuation of existing official policies, these expenditures are likely to increase rapidly through 1958 and 1959, until the presence of oil in commercial quantities is definitely determined. At the close of 1957 total US investments in Guatemala amounted to an estimated \$170 million.

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78. In the past three years gross national product at constant prices has risen, probably more than 2% per capita annually, reflecting the high level of investment and favorable agricultural conditions. The sectors benefiting most from the boom have been the proprietors of urban real estate, merchants, industrialists, and large farmers. Wage earners, especially the two-thirds of the labor force in rural areas, have gained little from the increasing pace of economic activity beyond fuller employment plus scattered wage raises as labor shortages developed in some areas.

79. Guatemala has avoided the problems of drastic inflation and depreciated currency common in many underdeveloped countries. The consumer price index stood at a level about 35% higher than in 1946. During the same decade the total money supply (currency plus demand deposits) increased by 136%. A notable feature of the monetary expansion has been a tripling of demand deposits, reflecting the rapid growth of the business community and the expansion of new investment. The expansion of the circulating media without a similar rise in prices was made possible by increases in real production plus an extension of the money economy into more remote areas of the country. While the money supply expanded at home, the Guatemalan quetzal remained at par with the US dollar, and the government's holdings of foreign exchange almost doubled during the Castillo administration.

80. Government revenues rose from \$35 million in 1946 to \$70 million in 1954 and to a new high of about \$91 million in 1957. This gain in revenues came without any major improvement in tax methods, which are largely tied to levies on import and export trade. Much of the revenue gain is directly due to price increases in Guatemala's exports, and the concomitant

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rise in imports. In addition to its domestic sources of revenue the government also was able to expand its operations due to the large influx of US grant aid during the Castillo administration (1954-57). In this period there was actually some decrease in domestic debt despite new and enlarged expenditures for capital improvements, education, and public health.

81. In the period 1955-57, the Guatemalan economy strengthened appreciably. Highway construction was pushed forward rapidly and is contributing to lower marketing costs, increased production from existing sources, and the opening of new sources of production. Foreign exchange reserves totaled \$75 million at the end of 1957. The government's internal debt stood at a low level of \$62 million. Propertied interests benefiting from the boom in economic activity had accumulated substantial savings. Development of new resources by foreign private capital, notably in petroleum was under way. Other foreign investment and foreign grant aid and loans were scheduled to continue at a high rate in 1958.

82. Offsetting these favorable factors has been the decline of coffee prices. Together with the fear of continued political instability, and the prospect of further price decline this has caused a pause in business activity. The price of coffee has been and continues to be of basic importance to the national economy. Earnings from coffee have traditionally provided much of the means of payment for imports, thereby affecting both the level of consumption and investment in Guatemala. Coffee export taxes, which vary with the price of coffee, have constituted about one-fifth of all government revenues in recent years. Import taxes and associated levies, which have generally responded to the level of coffee sales, account for

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another 30% of government income. Internal taxes are largely tied to domestic prosperity, which normally depends heavily on the coffee trade.

83. In the immediate future, the effect of a decline in coffee prices on economic activity and government revenues will be cushioned by continuing receipt of US grant aid, which is expected to total \$18.4 million in 1958, including \$13.6 million in ICA funds and \$4.8 million for the roadbuilding program; and by the IBRD highway loans, of which \$5 million will be spent in 1958. Moreover the high level of foreign exchange reserves can be used to finance a current trade deficit, and the government's credit standing will permit continued investment despite declines in budget receipts. Thus the economic effect of a coffee price decline will probably be limited during at least the next 12 months. It may cause a decline of \$5-10 million in government revenues. It may also mean a continuation of the lull in domestic private investment that has been noted since late 1957.

84. Over the longer term, Guatemala's problems are those associated with an expanding economy; that is, they are problems of managing and allocating relatively substantial resources in order to maintain a balanced development as well as a satisfactory rate of economic activity. Careful planning will be required to prevent urban development from becoming an incubus on the agricultural sector, as it has elsewhere in Latin America. Thus the government must encourage urban industry that will complement the agricultural sector and operate at reasonable costs as well as provide employment to the growing urban population. The need for such careful planning can be avoided only if national resources are substantially augmented, as they would be through large petroleum production.

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IV. FOREIGN RELATIONS

85. Ydígoras has indicated that the principal objectives of Guatemala's foreign policy during his administration will be: (a) to continue amicable relations with the United States; (b) to develop closer ties with neighboring republics; (c) to press for recognition of Guatemala's claim to British Honduras; and (d) to further the international prestige of Guatemala through participation in the ODECA, the OAS, and the United Nations.

86. Ydígoras professes a warm friendship for the United States, which he has visited several times. During the official visit which he paid the United States in February 1958, he was most favorably impressed by the reception tendered him. He is fully appreciative of the benefits that have accrued to Guatemala from US financial and technical assistance since 1954, but is determined not to permit Guatemala to become subservient to the United States or any other country. In February he created much good will when he visited El Salvador, Honduras, Nicaragua, Costa Rica, and Mexico.

87. The Dominican Government, which for several years has sought to enhance its prestige and influence in Guatemala, increased its efforts after the assassination of Castillo. At the beginning of the Castillo administration, Generalissimo Dr. Rafael Leonidas Trujillo offered to help the new government provided he received cooperation in extending Dominican influence to the other Central American republics. Castillo rejected this proposition and subsequent overtures by Trujillo. Upon the death of Castillo, Trujillo endeavored through offers of cash and military equipment to establish a position of influence within the Guatemalan armed forces, but apparently accomplished little if anything. Whatever progress he may

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have made was more than offset immediately after the October 1957 elections by a sharp public reaction which developed against the Dominican Republic. This resulted when the Guatemalan Foreign Minister, on the basis of strong circumstantial evidence, accused two officials of the Dominican Embassy of involvement in the murder of a Guatemalan citizen. The Guatemalan public became further incensed when the Dominican national radio sponsored broadcasts by a self-styled mistress of Castillo accusing the Foreign Minister of complicity in his assassination. A break in diplomatic relations was averted partly as a result of opposition to such a course by Guatemalan deputies who were apparently friendly to the Dominican Republic. Continuing Dominican interest in Guatemalan affairs was evident during the campaign preceding the January 1958 elections, for the Dominican Ambassador in Guatemala told an official of the American Embassy that he favored the election of Ydígoras. Subsequently, shortly before the inauguration of Ydígoras, the Dominican Ambassador was recalled by his government after the Flores administration alleged that he had sought to influence the vote of the Guatemalan Congress against Ydígoras in favor of Cruz. After the election, Ydígoras denied persistent reports--some dated back to the 1950 elections--that he had accepted financial assistance from Trujillo. Immediately afterwards, Ydígoras permitted the recalled Dominican Ambassador to resume his duties in Guatemala. This act angered the opposition in the Congress, which enacted a resolution recommending that Ydígoras sever diplomatic relations with the Dominican Republic.

88. Guatemalan-Mexican relations are outwardly cordial. There are no important differences between the two countries, although the insistence

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with which Mexico is pressing its claim to the northern tip of British Honduras is causing serious concern to a number of Guatemalan officials. Also, Mexico remains the principal sanctuary for the majority of Guatemalan Communist and Arbencista exiles, but the Mexican authorities have imposed close surveillance over them, have restrained their political activities, and have prevented large-scale arms smuggling and illegal reentry into Guatemala. Some easing of the exile problem resulted during the Flores administration when a number of the least undesirable exiles were permitted to resume their residence in Guatemala. A further easing or almost complete disappearance of the problem will in all probability result should Ydígoras carry out his announced intention of permitting the majority of exiles to return.

89. Ydígoras has indicated that he intends to press vigorously for the recognition of Guatemala's claim to British Honduras. He made this clear during his campaign and inaugural speeches, and in an address to the Guatemalan Army on February 28 he stated that British Honduras had to be recovered, if necessary by force. On his visit to the United States he included in his party Jorge García Granados, an expert on international relations, for the specific purpose of discussing the British Honduran problem with US officials. In these conversations, García revealed that Guatemala, upon securing recognition of its claim to British Honduras, would in lieu of outright annexation provide the area associated status with autonomy over its internal affairs. These would be directed by an elective Prime Minister who would be a member of the Guatemalan Cabinet. Foreign affairs and defense would be conducted by the Guatemalan Government, and

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the President of Guatemala would also be the President of British Honduras. Subsequently, Ydígoras designated García to be a special adviser to his administration on matters pertaining to British Honduras. A number of Latin American countries have supported the position taken by Ydígoras. In general, Ydígoras' attitude and statements do not represent a wholly new policy approach. As many other Guatemalan presidents have successfully done, Ydígoras is employing this perennial issue primarily to develop domestic support for his administration.

90. Since being readmitted to ODECA in 1955, Guatemala has endeavored to give the organization a permanent and useful character. It has served as host for conferences and joined in efforts to remove barriers to closer relationships among the Central American republics. Partly as a result of its ODECA membership, Guatemala has concluded trade pacts with El Salvador and Honduras and is negotiating similar arrangements with Costa Rica and Nicaragua. Also, on several occasions ODECA has supported Guatemala's claim to British Honduras, thus serving as medium for unified action by the member countries in such matters.

91. No country of the Soviet bloc has or is attempting to establish diplomatic relations with Guatemala. Currently negligible economic ties are not being expanded. Furthermore, recent bloc diplomatic, propaganda, and scientific successes have not materially benefited the Guatemalan Communist movement.

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PROBABLE FUTURE DEVELOPMENTS

92. The Ydígoras administration apparently intends to follow a moderate course. However, the sincerity of the President's expressed intentions in this regard may be viewed with skepticism because of his recent appointment of a basically conservative cabinet. Unless Ydígoras can allay fears that he is inclined to be a rightist authoritarian ruler, he will probably lose considerable moderate support to the leftist opposition. Nevertheless, the President is believed to have sufficient prestige, military backing, acquiescence from opposition groups, and security in the national economy to govern with reasonable success for the next few months.

93. Over the longer run the ability of the Ydígoras administration to survive will probably be determined by the effectiveness of the President's leadership and the general level of economic activity including foreign aid. It will be necessary for him to strengthen his rightist political organization with sufficient moderate elements to provide his government adequate support. He must also reconcile to some extent divergent interests of the right and left. Success in these areas would tend to assure the loyalty of the armed forces and would win the backing of at least some moderate deputies in the Congress. Under such circumstances, Ydígoras probably would have a little better than even chance of remaining in office for the first half of his term.

94. Should Ydígoras in the long run decide to adhere to a rightist course, he would lose much of his rather limited popular support and would have to resort to dictatorial methods to stay in power. Furthermore, moderates in the Congress would probably join leftist forces in opposition

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to Ydigoras. In such a case the left could be expected to assume an intransigent position and follow a more aggressive line. There would also be the probability that dissatisfaction might reach the point where moderate and leftist groups would attempt to overthrow Ydigoras. In the face of such an extensive loss of popular backing the armed forces would probably withdraw their support. If the Ydigoras government should fall, a protracted period of political instability could be expected. Such a development would almost inevitably lead to the formation of a military junta, and would enhance the ultimate likelihood of a leftist government coming to power. Should Ydigoras orient his administration to the right, it is considered that he would have a somewhat less than even chance of completing the first half of his term.

95. Despite the adverse effect of factionalism generated during the electoral period, the armed forces, which are essential to political stability, are apparently willing to support Ydigoras for at least the immediate future. Continuance of their support will depend upon Ydigoras' success in demonstrating that he has a substantial popular backing, and that he is willing to improve the economic position of the military. It will also be necessary for him to demonstrate that he sincerely intends to curb extreme leftism including Communist operations. Even should Ydigoras be successful in these areas, there will be in all probability plotting against his administration by ambitious officers.

96. Since the leftist political resurgence is a relatively recent development, there is a potential for rapid change in both its cohesiveness and leadership. Tensions and contradictions within the heterogeneous PR

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are likely to increase. The Communists will probably intensify their efforts to infiltrate the PR, which they may attempt to disrupt should they fail to gain substantial influence over its policies. Moreover, the leaders of the Arbenz regime, some of whom have recently returned to Guatemala from exile, may seek to gain an influential position in the PR.

97. While the leftist resurgence presents a danger of increased Communist activity, it may also afford an opportunity for the long-run containment of communism through the development of a strong noncommunist left. There is reason to believe that many leftists are more politically sophisticated and aware of the Communist danger than before 1954. Their performance in the recent campaign shows that they have learned to work effectively at the grass roots level. If so, the moderate leaders of the PR stand a good chance of winning and keeping the loyalty of the Guatemalan masses. On the other hand, should they fail and leaders who have worked closely with the Communists win the support of a significant portion of the workers and rural classes, the prospect for Communist infiltration of the leftist movement would be enhanced.

98. It is believed that the Communist threat, at least in the short term, will remain of relatively little importance. At present the Guatemalan Communists do not constitute a danger to the security of the government. They have appreciable influence among the students and organized labor, but neither alone nor in conjunction with their present or probable allies could the Communists hope to seize power in Guatemala in the foreseeable future. The Communists, whose past success was achieved from the top down, must regain a position of strength in the labor movement

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and establish an alliance with noncommunist leaders before they would be able to make a significant political comeback. This is likely to prove a slow and difficult task. Should the Ydígoras administration be succeeded by a PR government, Communist prospects could become significant only if US influence ceases to be a factor in Guatemalan politics. Even in the unlikely event that Arevalista or Arbenzista forces return to power, their leaders would probably not allow the Communists to become as influential as before 1954.

99. After 1958, with a tapering off in foreign aid and loans and the likelihood of a continued depression in coffee prices, development of new sources of production will be essential to maintain economic activity near the present rate. While the present exploration for petroleum may yield results, it remains a gamble. Improvements in agricultural technology will no doubt continue and, linked with better transportation, will mean increasing productivity in the agricultural sector. At the same time, with the improvement in agricultural methods, the problem of developing the urban economy will become more pressing as large numbers of agricultural workers move to urban centers. With an anticipated population increase of one-third, or over one million persons, in the next decade, there will be a rapid increase in urban population. Basic services, including electric power, housing, sanitation, and schools, and opportunities for employment will have to increase very sharply in order to meet the needs of a much expanded urban population.

100. Ydígoras may be expected to seek advice and assistance from the United States on many Guatemalan domestic problems and undoubtedly will

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cooperate with the United States on international questions. At the same time, in view of the traditional nationalist sentiment and the revival of the left in Guatemala, he is likely to be careful not to give the impression of excessive reliance upon the United States. As was the case with Castillo, Ydígoras' friendly relations with the United States should be a highly stable element in Guatemalan foreign affairs.

101. Under the Ydígoras administration Guatemala's relations with its Central American neighbors should continue to reflect the improvement achieved by Castillo. Despite ideological differences and possible personality conflicts, Ydígoras is unlikely to meddle in the politics of other countries unless a clearly unfriendly government comes to power in a bordering state. For the immediate future, at least, he will almost certainly be too occupied with domestic problems to concern himself with the internal affairs of other countries.

102. It seems possible that Ydígoras is obligated to Generalissimo Dr. Rafael Leonidas Trujillo, chief of the Dominican Republic, in spite of his protestations to the contrary, and may have to tolerate for the time being renewed attempts by Trujillo to find in him a friend and supporter. It is believed that Ydígoras will maintain ostensibly friendly relations with the Dominican Republic but not permit Trujillo's efforts to influence his administration.

103. With regard to the British Honduran issue, it is believed that the situation will not deteriorate to the point where extreme measures will be taken by the Guatemalan Government. An accelerated course of action short of military aggression would probably follow the discovery of oil in

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northern Guatemala, from which the most direct outlet to the Caribbean is through British Honduras. Guatemala could also be expected to press its claim more vigorously should British Honduras show indications of joining the federation of British Caribbean possessions known as The West Indies.

104. In all probability, the Ydigoras regime will adhere to the Castillo policy of furthering Guatemala's prestige in regional, hemispheric, and world affairs.

105. There is virtually no chance that diplomatic relations will be established between Guatemala and the countries of the Soviet bloc or that currently negligible economic ties will be expanded.

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